Transcript

Independent / Provider-Sponsored Plans Cost Growth Decelerated Again in 2025

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Introduction

Thank you so much for participating in today's call. My name is Doug Sherlock. I want to welcome you to the discussion of the 24th Annual Independent / Provider-Sponsored Plan Benchmarking Study. It is also the 29th year of benchmarking studies of health plans overall.

I want to thank the organizations that participated in the study, especially our contacts within those organizations. I also want to thank my colleagues Chris de Garay, Erin Ottolini, John Park, whom participants may particularly recall, and Andrew Sherlock, who were all involved in various aspects of this benchmarking study.

Executive Summary

The themes we are seeing this year include a continued decline in the rate of cost growth. Product-mix changes generally worked to accelerate reported growth relative to the truer constant-mix growth, though our use of medians reversed this relationship for total expenses.

Sales and Marketing costs declined, the first outright decline for that cluster in at least five years. The fastest growth this year was in Claim and Encounter Capture and Adjudication, Finance and Accounting, and Actuarial. Corporate Services was the fastest-growing cluster. Staffing ratios declined while compensation grew well above inflation.

Long-Term Expense Growth Trends

This shows rates of expense growth per member per month over a 10-year period. In any given comparison year, we do not change the plans. It is also constant mix: we reweight the prior year so that it matches the product mix of the current year.

The dark blue line, Total Administration, decelerated again in 2025, to 5.3% from 6.2% in 2024. The light blue line, Account and Membership Administration, shows a 6.4% increase, down from 7.6%. The two track together, which is not surprising because Account and Membership Administration is roughly 37% of the total.

This is the second consecutive year of deceleration from the 2023 peak. Both measures were modestly above their trailing 10-year averages, which are 5.0% for Total Administration and 5.9% for Account and Membership Administration. Both trends were nevertheless the lowest since 2021.

Recent Expense Growth

I want to focus on the recent years. Again, expenses grew by 5.3% overall and by 6.4% in Account and Membership Administration on a constant-mix, constant-universe basis. Sales and Marketing declined by 3.5% on this basis, compared with a 1.5% increase last year. Medical and Provider Management decelerated sharply, to 0.6% from 7.6%. Corporate Services accelerated, to 7.1% from 5.9%, and became the fastest-growing cluster.

Total growth on an as-reported basis - the same plans, but not adjusted for mix - was 4.0%, below the constant-mix growth of 5.3%. When Medicare increases relative to other products, the relationship normally runs the other way: the mix change makes as-reported growth look faster.

It is important to remember that these are median changes, meaning the middle value of the reweighted increases. Measured by the average rather than the median, the relationship is the more familiar one. The average Total increase was 3.8% on a constant-mix basis versus 5.4% as reported, more typical of a shift toward more expensive products. Put differently, notwithstanding the median changes in this chart, the as-reported increase was greater than the constant-mix increase in six of the nine continuing plans.

For the individual clusters other than Account and Membership Administration, reported growth exceeded constant-mix growth, consistent with plans' shift toward Medicare Advantage. Sales and Marketing shows the largest reweighting effect, a 3.9 percentage-point difference from a 3.5% decline on a constant-mix basis to a 0.4%

increase as reported. Medical and Provider Management was a close second, with a 3.6 percentage-point difference.

Product-Mix Changes

I want to explain why the two cost trends differ. The products are combined into six groups ranked by per member per month cost. The all-products average is $59.60. That is all administrative expenses divided by all member months for Comprehensive products. Everything to the right of the red line is a higher-cost product per member per month, and everything to the left is lower.

Among plans reporting in both years, median Medicare Advantage membership grew by 7.7%, while Medicaid, combining Medicaid HMO and CHIP, declined by 1.7%. Total Commercial Insured membership declined by 2.0%, Medicare SNP declined by 2.3%, Commercial ASO declined by 0.6%, and Medicare Supplement increased by 1.7%.

The key mix shifts were that high-cost Medicare Advantage grew while Medicaid declined. As the proportion of higher-cost-to-administer products increases, the apparent, or as-reported, increase is normally amplified.

Sources of Cost Change on a Constant-Mix Basis

Here are the sources of this real growth. Again, this is a constant universe, with the prior year reweighted to match the current year's product mix. For each cluster, the table shows the function with the greatest change and the function with the highest weight. I will return to the factors behind these changes - staffing ratios, compensation, and non-labor costs - in a moment.

Account and Membership Administration. Claim and Encounter Capture and Adjudication had the fastest change in Total expenses. In fact, its median increase was the fastest growth of any function in at least five years. Its outsourcing of FTEs increased by 5.8 percentage points, the largest increase of any function, and Payment Integrity was an especially fast-growing sub-function. Claims was also the most important cause of the cluster's and Total increase; that is, it had the greatest weight.

Information Systems grew below the overall trend, in line with recent trends, but because of its size it remains among the most important contributors to overall growth. Customer Services, which was the fastest-growing function a year ago, slowed to nominal growth; its staffing ratio and outsourcing both declined. As a whole, the PMPM increase in Account and Membership Administration was 6.4%.

Sales and Marketing. Uniquely among the clusters, Sales and Marketing declined, by 3.5%. Advertising and Promotion declined by almost 10%, its second consecutive

PMPM decline, and Marketing declined by nearly as much. Rating and Underwriting, which the plans had emphasized a year ago, declined by mid-single digits, with Risk Adjustment costs down at most plans.

Medical and Provider Management. Medical and Provider Management has only two functions: Medical Management and Provider Network Management and Services. This year, Provider Network was the faster-growing of the two, accelerating to near double digits, while Medical Management grew by mid-single digits. Medical Management is a much larger function than Provider Network, so it contributed more to the cost increase.

There were differences among the plans' strategies, so median function trends are not consistent with the growth we saw in the cluster as a whole. Within Medical Management, Medical Informatics growth generally seemed to be a priority of the plans this year. The cluster's staffing ratios declined modestly while compensation growth exceeded inflation.

Corporate Services. The Corporate Services cluster - and I apologize again for using the same name for the cluster and the function - accelerated to 7.1% and led all clusters. Finance and Accounting grew by double digits, with an increasing staffing ratio and double-digit growth in non-labor costs per FTE. Actuarial also grew in double digits. Its staffing ratio increased at a double-digit rate, unique among the major functions.

The Corporate Services function itself - Human Resources, Facilities, Legal, and so forth - was relatively flat, with staffing ratios down almost 10%. The most important source of the increase in the cluster was Corporate Executive and Governance, but that growth was almost entirely due to a surge in Strategic Expenses. Compensation per FTE in this cluster grew in the low double digits, faster than in any other cluster.

As-Reported Growth

This slide shows the sources of reported growth. I do not think of this as being quite as important as the mix-adjusted values, so I will speak mainly about the items that differ from the prior slide. Overall, expenses grew at a median rate of 4.0%, versus 5.3% on a constant-mix basis.

External Broker Commissions grew far more rapidly on this basis than on a mix-adjusted basis and became the most important change in Sales and Marketing. The declines in Rating and Underwriting, Advertising and Promotion, and Marketing were within 0.8 percentage points of one another. The growth in Medicare Advantage may be the source of the high growth in Broker Commissions.

Actuarial and Finance and Accounting grew faster on an as-reported basis and were similar in growth. Finance and Accounting displaced Corporate Executive and Governance as the key source of expense growth in this cluster. Again, Claims led in its rate of growth and its importance to the overall increase.

Staffing, Compensation, and Non-Labor Costs

I touched on staffing and compensation in discussing the functions, so let me expand on that. Changes in per member per month costs can be explained as the result of changes in the staffing ratio, changes in staffing costs per FTE, and changes in non-labor costs per FTE.

The percent changes here are averages for the continuing plans - the math works better with averages than with medians - and they exclude the effects of Pharmacy and Behavioral Health administration. On that basis, Total cost grew by 3.8% per member per month. Coincidentally, this is also the average growth in PMPM expenses when Pharmacy and Behavioral Health administration are included.

The staffing ratio declined by 5.4%. Across all 13 plans, the median staffing ratio is 28.3 combined FTEs per 10,000 members. To be clear, combined includes outsourced FTEs. The equivalent staffing ratio for Commercial Insured is 27.8 FTEs per 10,000 members.

Staffing costs per FTE, which include all benefits, increased by 10.2%. The median compensation level across all plans is about $122,000. Growth was well above inflation and roughly double last year's pace. Non-labor costs per FTE were essentially flat, down by 0.5%, at a median for all plans of about $118,000. On a PMPM basis, after excluding the effect of lower staffing ratios, non-labor costs declined by 5.9%.

The propensity to outsource increased by 0.9 percentage points. The median outsourced share of Total FTEs is 14.5%. The picture is fewer people paid considerably more.

This year saw significant changes among the continuing plans. Outsourcing appeared to accelerate cost trends in Claims. Four of the nine continuing plans increased outsourcing, notably in Payment Integrity, Other Claims, and Coordination of Benefits. However, most of those plans had declines or near-zero growth in Information Systems.

Areas with declines in staffing often had sharp increases in compensation. Examples include Enrollment, Sales, and Corporate Services, especially the Human Resources and Legal sub-functions. In other words, what may be occurring is that higher-level employees are retained as staffing ratios decline.

Some relatively low-compensated functions, such as Provider Network and Enrollment, posted sizable declines in staffing, so this effect also crossed functions. It was somewhat

offset by declines in staffing in normally highly compensated functions, such as Sales and Information Systems, particularly the Information Systems Operations and Support areas. On the other hand, staffing ratios tended to increase in some highly compensated areas, such as Finance and Actuarial.

Expense Analysis by Cluster

Here is what the expenses look like by cluster. It is hard to compare this with the rates of change we have been showing because it is a different panel with a different set of products. Seventy-five percent of the plans that participated in 2024 also participated in the 2025 cycle.

Costs were $59.60, compared with $55.67 in the prior year, or 7.1% greater. This compares with 5.3% median real growth in Total per member per month expenses.

Sales and Marketing, at $16.42 PMPM, was up 13.9% over last year's median even though it declined at the median continuous plan. This is a good illustration of why the constant-plan changes are the better measure of trend. Medical and Provider Management, at $11.24 PMPM, was up 17.4%, compared with the modest growth in the constant-plan analysis. Account and Membership Administration was little changed at $22.23 PMPM. Corporate Services, at $8.05 PMPM, was higher by 9.3%.

Product Cost Analysis

Total administrative costs were again $59.60 PMPM, but product costs are very different. The highest-cost product was Medicare SNP at $164.09 PMPM, while Medicaid CHIP was $29.76 PMPM.

Our mix adjustment is intended to eliminate factors other than true cost trends. Those factors, extraneous to true trend, include changes in population needs, distribution-system needs stemming from characteristics of the plan sponsor, and the scope of benefits.

Medicare Advantage members cost $129.32 PMPM. The most similar Commercial product is HMO at $71.31 PMPM, so Medicare Advantage costs are about 1.8 times HMO, mainly because of the vastly different health care needs of the populations served.

Commercial Insured administration is $71.03 PMPM, while Commercial ASO is $35.55 PMPM, so Commercial Insured is almost exactly twice ASO. Most of the difference is from Sales and Marketing expenses. A group large enough to accept health care cost variance can spread distribution costs over more members.

Medicare Supplement, at $41.02 PMPM, covers a population similar to Medicare Advantage, but its scope of benefits is far more limited. It is a secondary payer, so its administrative costs are only about one-third, or 32%, of Medicare Advantage.

Product Costs as a Percent of Premium Equivalents

Here is the same product-cost segmentation expressed as a percent of premium equivalents. Calculated this way, the effect of population all but disappears. Medicare Advantage at 10.8% is essentially identical to Commercial HMO at 10.8%, compared with the 1.8-times difference on a PMPM basis.

The distribution effect remains similar. Commercial Insured administrative expenses are twice those of ASO on a PMPM basis, versus 1.7 times on a percent basis. The effect of scope flips. Medicare Supplement was a low-cost product on a PMPM basis but is by far the highest-cost Comprehensive product at 22.7% of premium equivalents. A similar effect is visible in the Dental product.

Expense Analysis as a Percent of Premium Equivalents

Earlier, we showed the clusters on a PMPM basis. This shows the same thing as a percent of premium equivalents. Total expenses were 9.8% of premiums, 0.5 percentage points higher than last year's median. Even so, most clusters declined as a percent of premiums, most notably Sales and Marketing, which went to 2.1% from 2.6%.

Corporate Services was the sole exception. Its PMPM growth uniquely accelerated on a constant-mix basis. There is generally little relationship between changes in percents and mix-adjusted expense growth, which is unsurprising because both the universe and product mixes changed.

Conclusion

Independent / Provider-Sponsored Plan administrative costs were $59.60 PMPM, compared with $55.67 last year. Holding the universe and product mix constant, cost growth declined to 5.3% from 6.2%, the second consecutive deceleration. As-reported expenses decelerated to 4.0% from 9.5%.

Unusually, median constant-mix growth exceeded as-reported growth despite the growth in Medicare Advantage. However, measured by averages, the relationship was the usual one. The average Total increase was 3.8% on a constant-mix basis versus 5.4% on an as-reported basis, a more intuitive result.

Corporate Services grew faster than any other cluster, led by Finance and Accounting and Actuarial, with Corporate Executive Strategic Expenses being particularly

important on a constant-mix basis. Account and Membership Administration was the second-fastest-growing cluster. Claims Adjudication grew fastest of all functions and was the most impactful this year.

Medical and Provider Management decelerated sharply, with Provider Network outgrowing the more heavily weighted Medical Management function. Sales and Marketing costs declined on a constant-mix basis. Advertising and Promotion, Marketing, and Rating and Underwriting all declined, and Commissions was the only increase.

Staffing ratios declined as compensation rose well above inflation, while outsourcing increased by 0.9 percentage points, notably in Claims and Enrollment but down in Information Systems. Based on the patterns in the functions affected, the changes within the functions, and the outsourcing patterns, perhaps higher-level people were retained as staffing levels declined.

Benchmark Quality and Resources

Before closing, I want to draw your attention to the appendices that follow. They show prior-year PMPMs, percent-of-premium equivalents, our quality assurance process, a summary of reports available to participants and licensees, cost classifications, and the functions in each cluster.

The Sherlock Benchmarks are in their 29th consecutive year, and our cumulative experience approaches 1,100 health plan-years. The 2026 edition is based on validated surveys of approximately 30 plans serving more than 52 million Americans.

Since June 2023, plans serving nearly 200 million insured Americans have used the Benchmarks, including most Blue Cross Blue Shield plans, the largest Independent / Provider-Sponsored plans, public companies, and others. There is a strong practice effect. Seventy-five percent of IPS plans that participated last year also participated this year. Seventy-seven percent of participants have done so for five or more years, and the average plan has 11.3 years of experience. They collectively serve 23 states from sea to shining sea.

If you have an interest in the kind of work we do, I encourage you to visit our website, look at the tables of contents, and try the Test Drive application. You can populate it with your own product mix and see what we would expect your administrative expenses to cost.

Closing Remarks

If there are no questions, I thank you for the implied compliment of the completeness of our work here. In any case, thank you for participating. Please accept my thanks again to the panel of participants. They worked very hard to participate and do so to inform health plan strategic and budget efforts.

A side effect of this is the very high-quality information shared throughout the industry, which probably contributes to improved performance for the industry as a whole. Thank you again for participating in today's web conference. Have a great day.