



Transcript

Core Cost Growth Modestly Accelerated for Medicaid Plans in 2025

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Introduction

Thank you for attending our presentation of the Sherlock Benchmarks for Medicaid-focused plans, reflecting 2025 results.

Twelve plans serving 8.4 million members in comprehensive products participated this year. They serve 5.2 million Medicaid HMO and CHIP members, 62% of their combined membership. Before we begin, I want to thank the participants in the benchmarking study and our contacts within these firms. This presentation reflects many hours of their work, which indirectly improves performance for the industry as a whole.

These are the topics and the appendices. I will not read through them. The deck, this text and a recording will be posted on our website within a day or so.

Background on Medicaid

I want to begin by offering a little background on the Medicaid program. This is the Census Bureau's count of health insurance coverage by type, from 2013, the year before the Affordable Care Act's coverage expansion, through 2025, which the Bureau published two weeks ago. Medicaid grew by 12%, by 6.7 million people to 61.7 million in the first year of the ACA, 2014, followed by an increase to 62.4 million in 2015. After that, Medicaid membership declined or was flat through 2019.

It then rose in each year from 2020 to 2023, to its peak of 62.7 million as the public health emergency suspended eligibility redeterminations. Redeterminations resumed in 2023: Medicaid coverage was 59.2 million in 2024, as the Census Bureau has re-estimated it, and fell by a further 1.4 million in 2025 to 57.8 million, 17% of the population.



Two things to take from the table. First, of the 15.1 million net decline in the uninsured since 2013, the 2.9 million additions to Medicaid explain 19%, compared with 31% a year earlier; over the same period employer coverage grew by 6.3 million and Medicare by 18.9 million. Second, the uninsured rate has been 8% or 9% every year since 2015. This trend is a classic Keynesian countercyclical pattern. Medicaid has likely been integral to reducing uninsured even though its penetration is lower than before the Affordable Care Act.

Long-Term Trends in Administrative Expenses

This is what the long-term cost trends look like, in median changes. The dark line is Core administrative cost per member among continuously participating plans, holding product mix constant. Core excludes Sales and Marketing, which is small for Medicaid plans and also volatile. In 2025 Core costs grew by 5.6%, after 5.0% in 2024. That is the fastest median growth since 2020 and above the fourteen-year average of 3.7%.

The light line is Account and Membership Administration, the largest expense cluster. It grew by 6.8% in 2025, after 6.6% in 2024, its fastest growth since 2019 and above its average of 4.3%. So the largest cluster's acceleration trends are increasing Core expenses as a whole.

Cost Trends by Cluster

Here are the same trends by cluster, as reported and with product mix held constant. The constant-mix columns on the right are the ones I chiefly rely on: Core growth of 5.6% and Total growth of 2.8%. Account and Membership Administration grew by 6.8%. Medical and Provider Management and Corporate Services were both essentially flat, each down 0.3%, after growth of 7.1% and 4.1% in the prior year. Sales and Marketing declined by 1.8%.

As reported, before adjusting for mix, Core grew by 2.6%, compared with 8.3% the year before, and Total by 2.6%, compared with 8.5%.

Note that the as-reported median growth is below the constant-mix median this year. As discussed later, there was a shift in favor of higher cost products which would be expected to result in as reported expense growth exceeding that of constant mix. That is the case in three of the four clusters – Medical and Provider, Corporate Services and Sales and Marketing. I'll explain this counterintuitive result in the next two slides.

Changes in Product Mix

This slide shows the growth rates of products offered by continuously participating health plans. Products to the right of the red line cost more than the median plan's total



to administer; products to the left cost less. Expensive to administer products tended to grow faster than lower cost to administer products.

Medicaid HMO membership, a product costing \$39.23 per member per month to administer, declined at a median of 3.5% among the nine continuous plans, though less than the declines of 2024. The Medicaid share of their membership fell by about two percentage points. Commercial Insured grew by 9.4% among the five plans reporting it, Medicare Advantage, costing \$128.49 PMPM, increased by 7.7% among seven plans, and CHIP grew by 8.8% among the five with that product. Commercial ASO was essentially flat.

As an aside, Comprehensive membership as a whole declined at a median of 0.5% which, because of operating leverage, may have contributed to growth in costs per member. Because some administrative expenses are sticky in the short term, declines in membership can also raise costs per member; our Short-Term Scale model, found on our website models how this occurs.

Medians and Averages

Again, overall continuously participating health plans shifted toward higher cost products which, as I mentioned in the previous slide, adds to reported costs per member. This was evident in three of the four clusters.

The reason why it was not the case overall was because we used median growth rates (i.e., midpoint growth rates). While we prefer medians because they mute the effects of outliers, occasionally counterintuitive results ensue, as shown in Figure 3. We excerpted from that slide, with the median changes, on the left side of this slide. Total and Core Constant Mix growth exceeded As Reported. However, when we use averages, the results are more intuitive – the as reported growth exceeded the constant mix growth as higher cost to administer membership growth was greater than lower cost membership. This is shown in the analysis to the right, a more intuitive result.

Also, plan by plan, as-reported Core growth was higher than constant-mix growth at seven of the nine continuous plans, so for most plans the shift in product mix added to reported costs per member. The exceptions to this were two plans where low cost products grew faster. In other words, the effect of shifts between high and low cost products is consistent across all plans, regardless of the direction, meaning that the use of medians is the source of this quirky result.

Sources of Cost Change on a Constant-Mix Basis

This slide summarizes the sources of the constant-mix change. For each cluster, the middle column names the function with the greatest percent change and the right



column shows the function with the highest weight, which is the one whose change was largest in dollars.

Account and Membership Administration grew by 6.8%, and Claim and Encounter Capture and Adjudication was both the fastest growing function and the most important, up double digits, on a surge in Payment Integrity. Medical and Provider Management was flat: Provider Network Management and Services grew at near double digits, but Medical Management, the larger function, declined by low single digits. Corporate Services was flat as well: Corporate Executive and Governance grew by low double digits, but the Corporate Services Function, the largest change in dollars, declined by mid single digits. Sales and Marketing declined on Advertising and Promotion, down by low double digits. For Core and for Total, Claims is the source of growth on both measures.

Sources of As-Reported Cost Change

This is a similar table to the constant mix changes, except it shows as reported. For the most part, the changes are similar. Claims is again the greatest change and the highest weight for Account and Membership Administration, Core and Total. The differences are in the smaller clusters: Provider Network Management leads Medical and Provider Management on both columns as reported; Actuarial, up nearly 10% as reported against low single digits at constant mix, is the greatest change in the Corporate Services cluster; and growth in External Broker Commissions displaced the decline in Advertising and Promotion in both the greatest change and highest weight: Medicare Sales and Marketing is much greater than that of Medicaid.

Per Member Per Month Costs

This shows levels of expenses in 2025. These are the median PMPMs of all twelve participating plans, not just the nine continuous ones. The column to the right shows last year's medians. Five plans that participated last year did not return and three joined, so nine of the twelve are the same, and the difference between the two years reflects the change in the universe and in product mix as well as the cost trends.

Median Total expenses were \$55.37 per member per month, 5.7% higher than the \$52.40 published last year. Core expenses were \$47.40, 6.5% above last year's \$44.49. Account and Membership Administration, the largest cluster, was \$24.61, 6.5% higher than \$23.10. There is only a limited relationship between the cost growth among continuous plans and the changes shown here.

Dispersion widened: the coefficient of variation of Total expenses rose by four percentage points to 25%. The dispersion in Core expenses increased similarly. The gap



between the 75th and 25th percentiles widened by \$4.46 to \$16.28. That increase for Core was \$4.06 PMPM.

Cost by Product

PMPMs vary by product. Medicaid HMO was \$39.23 and CHIP \$31.44. Medicare products are relatively high cost, at \$245.40 for SNP and \$128.49 for Medicare Advantage; ten of the twelve plans offer one or both of these products. Commercial Insured products, at \$62.45, are above the comprehensive median of \$55.37, and Commercial ASO, at \$32.37, costs about half as much as Commercial Insured.

The note at the foot of the figure shows Core expenses for the Medicaid products: \$37.21 for Medicaid as a whole, \$37.14 for Medicaid HMO and \$28.02 for CHIP. The difference between the note and the body of the figure, about \$1.90 for Medicaid as a whole, relates to the Sales and Marketing expense associated with the product.

Much of the differences between the products can be explained by differences in Sales and Marketing and difference in administration associated with health care needs of the population served. ASO differences from insured reflect low distribution costs, while the low administrative costs of Medicaid reflect that they are mostly young.

Percent of Premiums and Equivalents

Percents cluster more than PMPMs because administrative expenses often track with health care costs. At a median, administrative costs of comprehensive products were 8.1% of premiums. Medicaid HMO, at 7.4%, and CHIP, at 8.9%, were on either side of that median, though both were well below it on a PMPM basis. Medicare SNP, the highest cost product per member, was 12.2% of premiums, and Medicare Advantage 10.7%, close to Commercial HMO's 10.9%. Medicare Supplement, below the comprehensive median per member, was 14.9% of premiums, the highest ratio in the universe, reflecting its role as a secondary payer. Commercial ASO was 5.1% of premium equivalents, lower than insured, since sales and marketing costs are spread across more self-insured members.

By cluster, Total expenses were 8.1% of premiums, 1.1 percentage points lower than last year, and Core expenses were 6.3%, 1.5 points lower than 7.8%. The key reason is likely the denominator: among the continuous plans, premiums and premium equivalents per member grew at a median of 13.8%, as reported, while Core costs per member grew at a median of 2.6% as reported. There were directionally similar but smaller changes on a constant mix basis. Account and Membership Administration was 3.5% of premiums, 0.7 percentage points lower; Medical and Provider Management was 1.7%, 0.5 points lower; Corporate Services 1.3%, little changed; and Sales and Marketing 1.3%, 0.5 points lower.



Premium Growth

The increase in premiums was widespread among the continuously participating plans. Medicaid HMO premiums per member increased at a median rate of 16.1%, Medicare Advantage by 10.5%, Commercial Insured by 5.7% and Commercial ASO by 33.0%. We have not explored the reasons but they can arise from responses to changes in the competitive environment or from higher health care costs. Commercial ASO, whose premium equivalents include the health benefits of the self-insured groups, is a clear example of the latter. Higher health care costs may also stem from a change in the typical health status of the population served: if healthier Medicaid beneficiaries leave the pool, the sicker beneficiaries are charged commensurate with their heightened intensity of health needs.

Medicaid HMO Costs Across Universes

Medicaid HMO is offered in the other Sherlock Benchmarks universes as well, so this slide compares the product across the Medicaid-focused plans, the Independent / Provider-Sponsored plans and the Blue Cross Blue Shield plans that offer it and are not participants in this universe. The three sets are mutually exclusive, and together they serve 6.6 million Medicaid HMO members, 11% of the 57.8 million people the Census Bureau counted with Medicaid coverage in 2025.

On Core costs, the Medicaid-focused plans' \$37.14 was \$3.88 higher than the Blues' \$33.26 and \$0.57 lower than the IPS plans' \$37.71. On Total costs, the Medicaid-focused plans' \$39.23 was \$1.04 higher than the Blues' \$38.19 and \$1.31 lower than the IPS plans' \$40.54.

As a percent of premiums the order reverses: the Blues' Core Medicaid expenses of 9.1% were 2.4 points higher than the Medicaid-focused plans' 6.7%, and their Total of 10.4% was 3.0 points higher than 7.4%. The IPS plans' ratios were narrowly higher than the Medicaid-focused plans' on both bases, by 0.4 and 0.2 percentage points.

Conclusion

To summarize, holding universe and product mix constant, Core costs grew by 5.6% in 2025 after 5.0% in 2024, the fastest since 2020. I touched on the effect of the use of medians.

As reported, Core grew by 2.6%, down from 8.3%. Total expenses grew by 2.8% at constant mix basis and 2.6% as reported. Actual median PMPM costs were \$55.37 against \$52.40 last year, on a different universe and mix.



I did not mention this in the body of the presentation but the expense drivers help to understand changes in costs. Across all functions: the staffing ratio was 27 per 10,000 members and declined by 6.1% at constant mix, while compensation per FTE of about \$120,000 reflected growth of 7.2%. Non-Labor Costs per FTE of about \$95,000 grew by 10.5%. Outsourcing rose by about one percentage point of combined FTEs.

By cluster, Account and Membership Administration grew fastest, 6.8%, on Claims, up double digits on Payment Integrity. Medical and Provider Management and Corporate Services were each essentially flat, and Sales and Marketing declined by 1.8%. Premiums grew by 13.8% as reported, and by 16.1% for Medicaid HMO, so Total costs fell to 8.1% of premiums from 9.2%.

Appendices

Appendix A shows last year's cluster values per member per month, as published in the October 2025 Navigator.

Appendix B shows last year's cluster values as a percent of premiums.

Appendix C lists the functions in each cluster, which is the classification used throughout this presentation.

Appendix D describes our quality assurance. The point I would draw out is the practice effect: 75% of the Medicaid plans participating this year also participated last year, and the definitions have been developed with participants over many years.

Appendix E summarizes the reports and the Common Guidelines that participants use.

Appendix F describes the network. The Sherlock Benchmarks is in its 29th consecutive year, and 29 organizations serving 53 million members participated in 2026.

Thank you. I am happy to take questions.