



# Why Larger Health Plans Don't Always Mean Lower Costs

Larger health plans employ fewer people per member but pay them more. These two effects partially cancel out.

**January 2026**

## The Analysis

Larger health plans employ fewer people per member but pay them more. These two effects partially cancel out, which helps explain why economies of scale in health insurance are real but modest. In our Late October 2025 analysis, we found that 31% of administrative costs were subject to scale, with a doubling of plan size associated with costs falling to only 87% of their pre-doubling value. This Navigator examines why the effect isn't larger.

Staffing costs account for 54% of total costs at Blue Cross Blue Shield Plans and 49% at Independent/Provider-Sponsored Plans. When we decompose staffing costs into headcount (FTEs per member) and compensation (cost per FTE), a consistent pattern emerges: larger plans achieve lower staffing ratios but offset some of that savings through higher wages. The degree of offset varies by plan type and function.

## Blue Cross Blue Shield Plans

*Fewer staff, higher pay.* Among Blue Plans, 24 functional areas showed significant scale effects in staffing ratios, compared to 23 in PMPM costs. The staffing ratio slopes were generally steeper: Total staffing ratios had a BCG slope of 91.6% versus 95.5% for PMPM costs. Of the 24 functions with scale effects in PMPM costs, 17 (70.8%) also showed scale effects in staffing ratios (Figure 1).

Compensation moved in the opposite direction. Larger Blue plans paid higher wages in nearly every function, though the relationship was significant in only 9 cases. The pattern was clear in areas like Facilities, where doubling plan size was associated with per-FTE compensation

rising to 112.6% of the pre-doubling value. Of the 9 significant compensation relationships, 7 had positive slopes.

*Cost-of-living explains part of it.* When we adjusted for local cost-of-living differences using CMS hospital payment indices, the positive relationship between scale and compensation weakened. The number of significant positive-slope relationships fell from 7 to 2. For the 7 functions showing compensation diseconomies without adjustment, 6 had shallower slopes after adjustment. Facilities dropped from 112.6% to 108.7%.

Figure 1

## Scalar Effect on Mix-Adjusted Staffing Ratios and Compensation

Blue Cross Blue Shield Plans

Functions	Economies of Scale PMPM Costs	Economies of Scale in Staffing Ratios	Economies of Scale in Staffing Costs per FTE	Economies of Scale in Staffing Costs per FTE, COLA
2. Marketing	86.0%	89.2%	101.7%	97.9%
(a) Product Development and Market Research	88.5%	85.3%	107.3%	103.3%
(c) Other Marketing	77.3%	92.3%	92.3%	88.6%
3. Sales	92.3%	87.4%	104.7%	100.6%
(c) Other Sales	86.7%	78.9%	109.3%	105.0%
6. Provider Network Management and Services	92.4%	94.3%	98.7%	95.1%
(b) Provider Contracting	84.1%	86.0%	98.6%	95.0%
(2) Other Provider Contracting	94.3%	86.8%	106.9%	100.7%
(b) Case Management	129.2%	124.9%	99.4%	95.6%
(c) Disease Management	69.4%	66.5%	101.6%	99.2%
(d) Nurse Information Line	116.5%	111.3%	106.3%	106.3%
8. Enrollment / Membership / Billing	88.5%	83.8%	104.0%	100.5%
(b) BlueCard Home and Custom Par Fees	131.3%	NM	NM	NM
11. Information Systems Expenses	80.2%	84.2%	98.4%	94.7%
(b) Applications Maintenance	54.5%	57.4%	100.9%	76.1%
(1) Benefit Configuration	52.2%	56.8%	106.1%	100.0%
(2) Other Applications Maintenance	71.6%	88.2%	111.6%	104.9%
(c) Applications Acquisition and Development	74.6%	75.6%	90.6%	87.9%
(1) Applications Amortization and Licensing Expenses	70.6%	87.1%	85.9%	83.2%
(2) Pre-Planning Project Costs	52.0%	55.3%	100.8%	98.0%
(d) Security Administration and Enforcement	80.1%	77.4%	100.4%	96.6%
(b) Other Finance and Accounting	89.1%	90.4%	101.4%	97.5%
14. Corporate Services Function	86.9%	79.3%	101.4%	97.5%
(a) Human Resources	77.8%	83.3%	93.7%	90.3%
(b) Legal	85.4%	84.8%	95.6%	91.8%
(1) Compliance	78.7%	79.2%	100.5%	96.6%
(2) Government Affairs	85.2%	88.6%	94.9%	91.4%
(4) Fraud, Waste & Abuse	83.3%	85.5%	100.3%	96.4%
(5) Independent Dispute Resolution Fees	169.8%	146.6%	93.9%	92.3%
(6) All Other Legal	70.3%	83.1%	90.4%	86.4%
(c) Facilities	91.4%	61.7%	112.6%	108.7%
(e) Audit	85.7%	73.6%	105.2%	101.1%
(g) Imaging	80.6%	75.6%	100.4%	98.4%
(h) Printing and Mailroom	89.0%	77.2%	96.6%	94.7%
(i) Risk Management	69.8%	73.1%	100.7%	99.1%
Subtotal Expenses	94.4%	91.6%	100.7%	97.2%
Total Expenses	95.5%	91.6%	100.7%	97.2%

\*Shaded values are significant.

## Independent/Provider-Sponsored Plans

*Fewer scale effects overall.* IPS plans showed significant scale relationships in fewer functional areas than Blue plans. Only 10 IPS functions displayed significant PMPM cost relationships with scale, compared to 24 for Blue plans. The median unadjusted staffing cost per FTE was 11% lower for IPS plans than for Blue plans.

Where scale effects appeared, staffing ratios showed steeper declines than PMPM costs. Finance and Accounting had a BCG slope of 68.3% for staffing ratios versus 80.0% for PMPM costs. Fifteen functions displayed scale effects for staffing (9 with negative slopes), while 10 showed effects for costs (all negative). Eight functions exhibited significant effects in both measures (Figure 2).

*Larger IPS plans pay less.* Unlike Blue plans, larger IPS plans generally had lower per-FTE staffing costs. In Product Development and Market Research, doubling plan size was associated with compensation falling to 85.5% of the pre-doubling value. This reversal from the Blue pattern may reflect the smaller absolute size of even the largest IPS plans.

Cost-of-living adjustment amplified rather than damped these effects. Every significant relationship with a BCG slope over 100% became steeper after adjustment (Member and Group Communication rose from 109.5% to 113.0%), and every slope below 100% became shallower (Product Development fell from 85.5% to 88.2%).

Figure 2

### Scalar Effect on Mix-Adjusted Staffing Ratios and Compensation

Independent / Provider-Sponsored Plans

Functions	Economies of Scale PMPM Costs	Economies of Scale in Staffing Ratios	Economies of Scale in Staffing Costs per FTE	Economies of Scale in Staffing Costs per FTE, COLA
(a) Product Development and Market Research	109.1%	122.5%	85.5%	88.2%
(b) Member and Group Communication	105.4%	87.0%	109.5%	113.0%
(c) Other Sales	80.0%	91.9%	87.9%	90.8%
5. Advertising and Promotion	112.8%	216.4%	99.1%	102.1%
(a) Media and Advertising	109.9%	216.4%	99.1%	102.1%
(a) Provider Relations Services	116.6%	129.9%	86.1%	89.0%
(b) Provider Contracting	71.0%	81.1%	95.8%	98.6%
(1) Provider Configuration	66.6%	74.2%	106.8%	110.1%
(2) Other Provider Contracting	64.4%	72.7%	91.7%	94.0%
(e) Health and Wellness	105.3%	72.0%	109.8%	112.8%
(f) Quality Components	80.5%	80.9%	98.3%	101.5%
(g) Medical Informatics	117.7%	136.7%	98.9%	102.3%
(h) Utilization Review	166.8%	201.8%	90.4%	93.0%
(a) Member Services	117.0%	117.1%	102.8%	110.7%
(b) Printed Materials and Other	364.8%	376.7%	75.9%	96.3%
(c) Grievances and Appeals	55.0%	58.4%	94.2%	101.3%
11. Information Systems Expenses	86.3%	82.0%	104.6%	107.2%
(a) Operations and Support Services	77.2%	72.5%	99.9%	102.0%
(d) Security Administration and Enforcement	101.5%	73.8%	112.9%	118.6%
12. Finance and Accounting	80.0%	68.3%	99.4%	102.2%
(c) Other Finance and Accounting	75.5%	68.0%	99.5%	102.2%
13. Actuarial	76.0%	81.4%	97.3%	100.2%
(j) Other Corporate Services Function	73.4%	25.7%	69.7%	78.5%
(a) Strategic Expenses	93.9%	67.0%	131.0%	134.5%
(b) Other Corporate Executive and Governance	85.9%	103.7%	72.2%	74.6%

\*Shaded values are significant.

## Combined Universe

*More diversity, more signal.* The combined set of 26 Blue and IPS plans showed more significant relationships between scale and per-FTE compensation than either group alone. This likely reflects the broader range of plan sizes and geographies in the combined sample.

The combined universe had 15 significant scale/cost relationships, with 11 showing negative slopes (economies of scale). Sixteen functions showed significant staffing ratio relationships, 15 with negative slopes. Of these 16, 10 also displayed significant cost relationships, all negative. Staffing ratio slopes were generally steeper than cost slopes: Applications Maintenance had a BCG slope of 73.9% for staffing ratios versus 75.3% for PMPM costs (Figure 3).

*Compensation offsets persist.* The scale/compensation relationships were almost universally positive. All significant functions but one had BCG slopes above 100%. Corporate Executive and Governance showed that doubling plan size was associated with per-FTE costs rising to 110.5% of the pre-doubling value. A potential confound: the largest plans tend to be Blue Cross Blue Shield Plans, whose employees may have greater tenure.

After cost-of-living adjustment, slopes remained positive but fewer were significant. Corporate Services dropped from 106.3% to 104.9%.

Figure 3

**Scalar Effect on Mix-Adjusted Staffing Ratios and Compensation**

Blue and IPS Plans

Functions	Economies of Scale PMPM Costs	Economies of Scale in Staffing Ratios	Economies of Scale in Staffing Costs per FTE	Economies of Scale in Staffing Costs per FTE, COLA
1. Rating and Underwriting	101.4%	100.8%	104.5%	103.2%
(b) Risk Adjustment	102.0%	102.8%	105.5%	104.5%
(c) Other Rating and Underwriting	100.8%	99.7%	105.6%	105.9%
2. Marketing	96.4%	96.1%	104.7%	103.1%
(b) Member and Group Communication	101.1%	98.0%	107.1%	105.3%
3. Sales	91.8%	88.2%	104.1%	102.4%
(a) Account Services	96.4%	91.7%	106.5%	104.9%
(c) Other Sales	87.8%	84.4%	103.7%	102.0%
5. Advertising and Promotion	96.1%	120.4%	104.8%	103.2%
(a) Media and Advertising	94.4%	120.4%	104.8%	103.2%
6. Provider Network Management and Services	88.6%	92.0%	100.2%	98.7%
(b) Provider Contracting	76.8%	77.8%	102.9%	101.3%
(1) Provider Configuration	60.6%	62.0%	107.5%	108.5%
(2) Other Provider Contracting	83.0%	81.3%	105.1%	103.1%
(b) Case Management	113.8%	112.4%	101.2%	99.9%
(e) Health and Wellness	104.7%	81.3%	106.9%	105.6%
(g) Medical Informatics	97.7%	98.4%	104.0%	103.5%
8. Enrollment / Membership / Billing	97.8%	92.6%	104.5%	103.3%
(a) Member Services	103.8%	104.5%	84.3%	83.1%
10. Claim and Encounter Capture and Adjudication	115.1%	103.3%	102.9%	102.0%
(a) Coordination of Benefits (COB) and Subrogation	112.2%	99.8%	105.4%	104.2%
(e) Other Claim and Encounter Capture and Adjudication	117.7%	109.7%	101.7%	100.7%
11. Information Systems Expenses	86.6%	88.8%	102.4%	101.0%
(b) Applications Maintenance	75.3%	73.9%	104.8%	103.2%
(1) Benefit Configuration	75.7%	75.3%	106.6%	105.0%
(2) Other Applications Maintenance	95.7%	98.5%	110.4%	108.7%
(c) Applications Acquisition and Development	77.8%	72.7%	97.9%	97.1%
12. Finance and Accounting	91.0%	87.7%	102.8%	101.3%
(c) Other Finance and Accounting	87.9%	81.8%	120.8%	118.5%
13. Actuarial	85.7%	90.2%	99.9%	98.4%
14. Corporate Services Function	99.1%	94.7%	106.3%	104.9%
(3) Outside Litigation	142.5%	NM	NM	NM
(4) Fraud, Waste and Abuse	83.2%	82.7%	104.4%	102.2%
(6) All Other Legal	101.5%	157.0%	123.5%	124.1%
(c) Facilities	98.2%	95.9%	107.6%	106.3%
(e) Audit	111.6%	102.5%	105.3%	103.1%
(f) Purchasing	114.4%	111.6%	108.6%	105.3%
(j) Other Corporate Services Function	113.9%	121.9%	115.5%	111.9%
15. Corporate Executive & Governance	108.0%	90.2%	110.5%	109.8%
Subtotal Expenses	97.5%	95.6%	102.3%	101.0%

\*Shaded values are significant.

## What This Means for Plans

Plans pursuing scale-driven cost reduction should expect the benefits to come primarily through staffing ratios rather than compensation. The larger-plan premium on wages, whether driven by market positioning, employee tenure, or regional labor markets, represents a structural offset to headcount efficiencies. Plans evaluating merger or growth strategies should model both effects explicitly rather than assuming linear cost savings from membership growth.

## Methodology

Data comes from the 2025 Sherlock Benchmarks, reflecting 2024 costs and staffing from surveys of 14 Blue Cross Blue Shield Plans and 12 Independent/Provider-Sponsored Plans. Relationships were estimated by regression analysis and considered significant at  $P < 0.1$ .

The BCG slope describes the effect of doubling membership: a value below 100% indicates economies of scale (negative slope), above 100% indicates diseconomies (positive slope). Staffing ratios include outsourced activities expressed as FTEs and are adjusted for product mix. Cost-of-living adjustments use CMS hospital payment indices.

Functions were included in each figure if they were significant in any regression within that universe. A fuller description of the BCG slope methodology appears in the Late October 2025 Plan Management Navigator.

Read more at [sherlockco.com/navigator](https://sherlockco.com/navigator)