



When Membership Swings, Costs Are Slow to Follow

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Late-November 2025

The Analysis

Health plans that grow faster see their per-member administrative costs decline, at least in the short term. Among 23 plans in the Sherlock Benchmarks universe, a one percentage point increase in membership growth was associated with a 0.89 percentage point decline in per-member cost growth ($P=0.003$, $R^2=35.4\%$). Five of sixteen functional areas showed statistically significant relationships, all favoring plans with faster membership growth.

This matters now because membership trends have diverged sharply across segments. Medicare Advantage enrollment growth slowed from 7% to 4% between 2024 and 2025, while Medicaid MCOs lost 12% to 15% of members as redeterminations resumed.¹ When membership shifts quickly, costs often cannot adjust at the same pace. Understanding the short-term cost dynamics helps plans anticipate the financial impact of these swings.

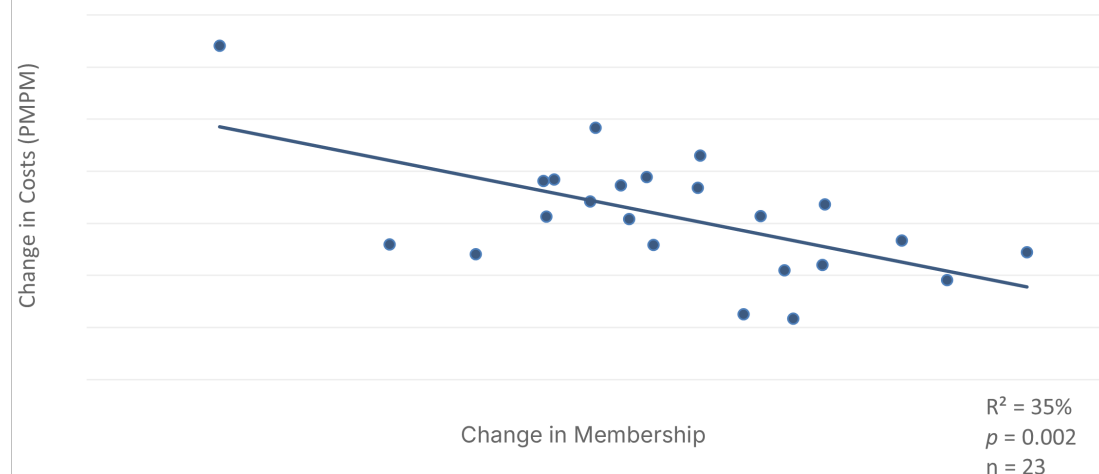
Faster Growth, Lower Per-Member Costs

Figure 1 shows the overall relationship between membership growth and administrative cost growth for Subtotal expenses (all administrative costs except Miscellaneous Business Taxes). The slope of negative 0.89 means that for every percentage point increase in membership growth, cost growth per member declines by 0.89 percentage points. The relationship is statistically significant ($P=0.003$) and explains about a third of the variation ($R^2=35.4\%$).

Figure 1

Change in Membership vs. Change in Costs

Total Functions



To illustrate: a plan with \$50.00 PMPM costs and flat membership that then experiences 1% membership growth would expect costs to decline to roughly \$49.55 PMPM, calculated as $\$50.00 \times (1 + (0.01 - 0.00) \times -0.89)$. More generally: $\text{PMPM}(Y2) = \text{PMPM}(Y1) \times (1 + (\text{Rate}(Y2) - \text{Rate}(Y1)) \times \text{Slope})$.

Not All Functions Respond Equally

Administrative expenses group into four clusters. Two clusters showed statistically significant short-term scale effects; two did not. Figure 2 summarizes these relationships.

Figure 2

Membership Growth vs. Cost Growth

By Cluster

Function	R ²	Slope	P-Value	Number of Plans
Sales and Marketing	27%	-1.11	0.012	23
Medical and Provider Management	0%	0.13	0.825	23
Account and Membership Administration	32%	-1.28	0.005	23
Corporate Services	2%	-0.65	0.494	23
Total	35%	-0.89	0.003	23

Account and Membership Administration showed the strongest effect ($P=0.005$, $R^2=32.3\%$). This cluster, which includes Enrollment/Membership/Billing, Customer Services, Claims, and Information Systems, exhibited a slope of negative 1.28: a 1 percentage point increase in

membership growth corresponded to a 1.28 percentage point decline in expense growth. Customer Services and Information Systems drove the significance within this cluster.

Sales and Marketing followed ($P=0.012$, $R^2=26.6\%$), with a slope of negative 1.11. Marketing, Sales, and External Broker Commissions all contributed significant individual relationships.

Corporate Services had a negative slope of 0.65 but was not statistically significant ($P=0.494$, $R^2=2.3\%$). Medical and Provider Management showed essentially no relationship ($P=0.825$, $R^2=0.2\%$), with costs actually increasing slightly (slope of positive 0.13) as membership grew.

Five Functions with Significant Effects

Of sixteen functional areas analyzed, five showed statistically significant relationships with membership growth: Marketing, Sales, External Broker Commissions, Customer Services, and Information Systems. Figure 3 summarizes all function-level results.

Figure 3

Membership Growth vs. Cost Growth

By Function

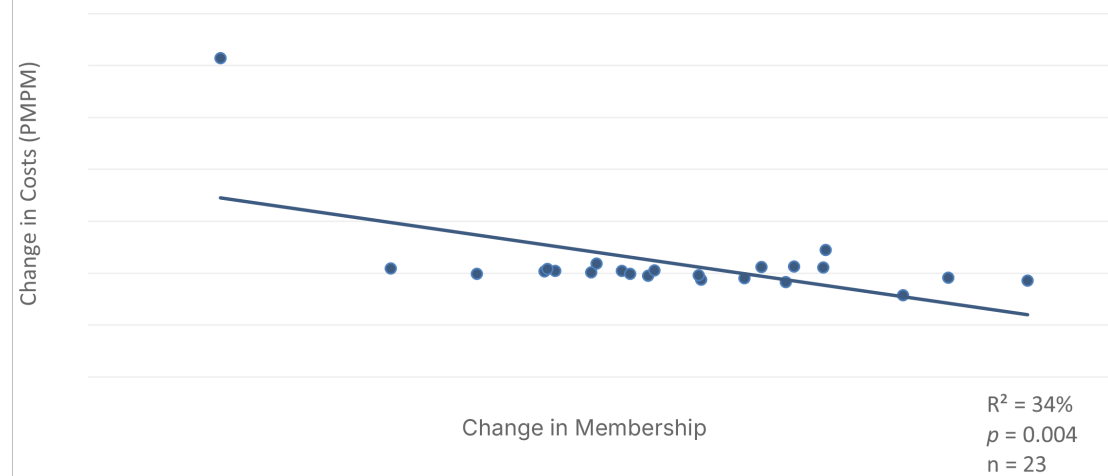
Function	R ²	Slope	P-Value	Number of Plans
1. Rating and Underwriting	0%	-0.03	0.976	23
2. Marketing	33%	-12.97	0.004	23
3. Sales	16%	-1.60	0.060	23
4. External Broker Commissions	16%	-0.52	0.055	23
5. Advertising and Promotion	3%	2.22	0.399	23
6. Provider Network Management and Services	0%	-0.11	0.927	23
7. Medical Management / Quality Assurance / Wellnes	1%	0.26	0.686	23
8. Enrollment / Membership / Billing	3%	-1.03	0.429	23
9. Customer Services	15%	-1.42	0.066	23
10. Claim and Encounter Capture and Adjudication	4%	-0.67	0.357	23
11. Information Systems Expenses	31%	-1.53	0.005	23
12. Finance and Accounting	2%	-0.78	0.477	23
13. Actuarial	7%	-1.24	0.235	23
14. Corporate Services Function	6%	-1.08	0.277	23
15. Corporate Executive & Governance	0%	1.64	0.816	23
16. Association Dues and License/Filing Fees	1%	0.57	0.705	22
Total	35%	-0.89	0.003	23

Marketing showed the strongest function-level relationship ($P=0.004$, $R^2=33.5\%$), with a slope of negative 12.97. This unusually steep slope reflects the narrow range of cost changes observed; the relationship remains significant when three outliers are removed. See Figure 4.

Figure 4

Change in Membership vs. Change in Costs

Marketing

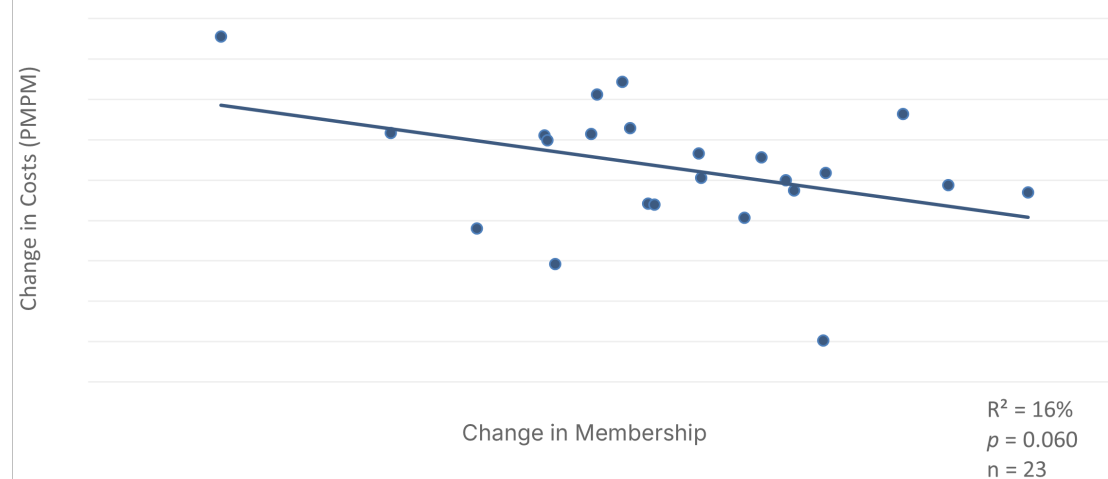


Sales exhibited a slope of negative 1.60 ($P=0.060$, $R^2=15.8\%$), meaning cost growth declined by 1.60 percentage points for each percentage point increase in membership growth. See Figure 5.

Figure 5

Change in Membership vs. Change in Costs

Sales

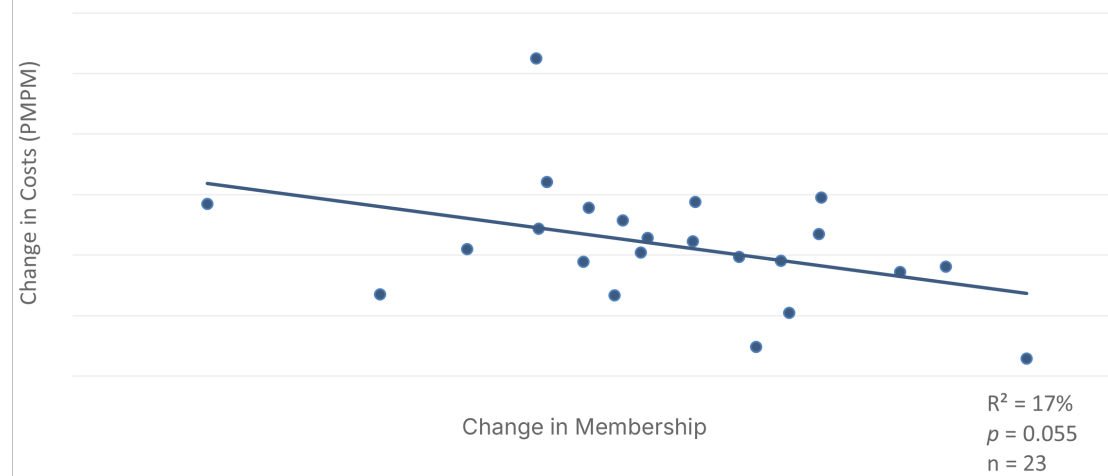


External Broker Commissions had a slope of negative 0.52 ($P=0.055$, $R^2=16.5\%$). See Figure 6.

Figure 6

Change in Membership vs. Change in Costs

Broker Commissions

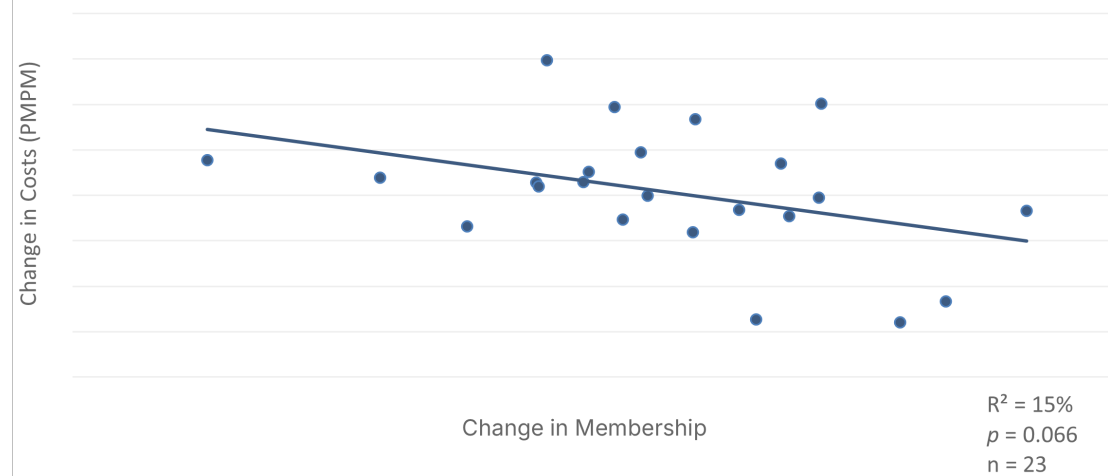


Customer Services showed a slope of negative 1.42 ($P=0.066$, $R^2=15.2\%$). See Figure 7.

Figure 7

Change in Membership vs. Change in Costs

Customer Services

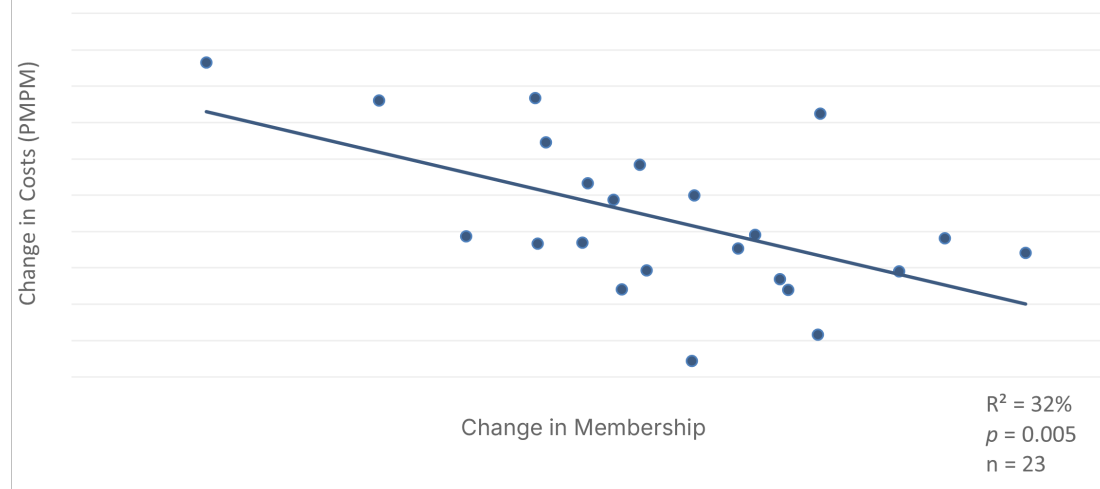


Information Systems had the second-strongest function-level relationship ($P=0.005$, $R^2=31.5\%$), with a slope of negative 1.53. See Figure 8.

Figure 8

Change in Membership vs. Change in Costs

Information Systems



Several functions showed negative slopes that did not reach statistical significance, including Rating and Underwriting, Provider Network, Enrollment, Claims, Finance and Accounting, Actuarial, and Corporate Services. A few functions showed positive slopes (costs rising with membership growth): Advertising and Promotion, Medical Management, Corporate Executive & Governance, and Association Dues and License Filing Fees. None of these positive relationships were significant.

What This Means for Plans

For plans experiencing rapid membership growth, particularly through acquisition or market expansion, these findings suggest that administrative cost efficiencies can materialize quickly. The Account and Membership Administration cluster, which includes some of the most operationally intensive functions, showed the largest scale benefit. Plans may gain breathing room to integrate operations and pursue longer-term efficiencies.

Conversely, plans experiencing membership decline face the reverse dynamic: per-member costs tend to rise as fixed costs spread over fewer members. The Medicaid redetermination-driven declines of 12% to 15% would, by this model, translate to meaningful upward pressure on per-member administrative costs.

The absence of significant effects in Medical and Provider Management suggests that these functions do not yield short-term scale benefits. Health benefit cost management may require sustained investment regardless of membership fluctuations.

An online Short-Term Scale Calculator applying these relationships is available at sherlockco.com/sts-calculator.

Methodology

This is a time-series study of 23 health plans that participated in both the 2024 and 2025 Sherlock Benchmark cycles, drawn from the combined Blue Cross Blue Shield and Independent/Provider-Sponsored universes. We regressed one-year changes in per-member costs against one-year changes in membership for total costs, four expense clusters, and sixteen principal functions.

Plan sizes ranged from high tens of thousands to millions of members, excluding start-ups and their associated high costs and explosive growth. We use a 10% significance threshold ($P < 0.10$) to cast a wide net for potential scale effects. The R^2 values reported here indicate how much of the variation in cost growth the membership-growth relationship explains; the remainder reflects other factors.

Unlike our long-term economies of scale studies, we did not adjust for product mix differences. While plans differ substantially in product mix, any given plan's mix changes modestly year-over-year, making adjustment less critical for this short-term analysis.

The sixteen functional areas group into four clusters as shown in Appendix A. Miscellaneous Business Taxes and sub-functions are excluded from this analysis.

¹ Nancy Ochieng, Meredith Freed, Jeannie Fuglesten Biniek, Anthony Damico, and Tricia Neuman. "Medicare Advantage in 2025: Enrollment Update and Key Trends." KFF, August 11, 2025.

Appendix A: Short-Term vs. Long-Term Economies of Scale

Economies of scale describe the relationship between volume and unit costs. Industries with high fixed costs and low variable costs experience strong scale effects: at a given price, additional volume yields sharply increased profits because most costs do not rise with volume.

The time horizon matters. Nearly all costs are variable over twenty years; nearly all are fixed over one day. For health plans, roughly half of administrative costs are staffing, which can be adjusted relatively quickly but not instantly.

In the late October 2025 Plan Management Navigator, we examined long-term economies of scale by comparing plans of different sizes at a single point in time. That analysis found that

31% to 44% of health plan administrative expenses exhibited scale effects, with doubling plan size yielding costs 83% to 87% of the pre-doubling PMPM for functions subject to economies of scale. That approach ignores the effect of growth itself on costs.

This Navigator takes the complementary short-term view: how do changes in membership growth within individual plans affect changes in cost growth? A plan could display short-term scale benefits during rapid growth without exhibiting long-term economies of scale, and vice versa. Costs that are variable over the intermediate term may behave like fixed costs in the short term when management cannot adjust quickly enough.

Appendix B: Functions Included in Each Administrative Expense Cluster

The 16 main functional areas of administrative expenses used in our benchmarking study are grouped into four clusters to gain an overall perspective. Most of the functions have sub-functions. When totaled, there are 70 functions and subfunctions into which each plan segments administrative costs. They are grouped as shown below. Miscellaneous Business Taxes are excluded from the Corporate Services cluster for the purposes of this analysis. Subcategories of functions are also omitted.

Sales and Marketing: Rating and Underwriting; Marketing; Sales; External Broker Commissions; Advertising and Promotion

Medical and Provider Management: Provider Network Management and Services; Medical Management / Quality Assurance / Wellness

Account and Membership Administration: Enrollment / Membership / Billing; Customer Services; Claim and Encounter Capture and Adjudication; Information Systems Expenses

Corporate Services Cluster: Finance and Accounting; Actuarial; Corporate Services Function; Corporate Executive and Governance; Association Dues and License/Filing Fees

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