



The Limits of Scale: What Size Really Means for Health Plan Administrative Costs

Economies of scale exist in health insurance administration, but their effects are narrower and shallower than most assume.

Late-October 2025

The Analysis

Scale matters, but less than you might think. Health plans in the 2025 Sherlock Benchmarks show economies of scale in a minority of administrative functions. Where scale effects exist, doubling plan size reduces costs in those functions to roughly 83-87% of their pre-doubling levels. But scale-sensitive functions represent only 30-44% of total administrative costs, depending on plan type.

For Blue Cross Blue Shield Plans, 22 functions showed significant economies of scale, comprising 43.5% of administrative costs. Doubling membership in these functions yields costs at 83.9% of pre-doubling values. Subtotal expenses (excluding miscellaneous business taxes) also showed scale effects, with a BCG Slope of 94.4%.

For Independent/Provider-Sponsored (IPS) Plans, scale effects were more limited. Ten functions showed economies of scale, representing 30.8% of costs. Doubling membership yields 83.2% of pre-doubling costs in affected functions. Subtotal expenses did not show significant scale effects.

The combined universe of 26 plans showed 11 functions with significant scale effects, comprising 30.7% of costs. Doubling yields 87.1% of pre-doubling values in affected functions.

Applied to a \$69 PMPM administrative cost assumption (consistent with commercial insured products), scale savings from doubling plan size equal \$2.72 PMPM, or 3.9%. Because health

insurance margins are thin, this modest cost reduction translates to a 27.8% increase in operating earnings.

Figure 1

Overview of Economies of Scale

BCBS, IPS, and Combined

	Blue Cross Blue Shield Plans	Independent / Provider - Sponsored Plans	Combined Plans
Percent of Administrative Expenses Subject to Scale	43.5%	30.8%	30.7%
BCG Scale Slope of Functions Subject to Scale	83.9%	83.2%	87.1%

Blue Cross Blue Shield Results

Scale effects are significant but concentrated. Figure 2 shows regression results for the 14 Blue Cross Blue Shield Plans in this analysis, ranging from 347,000 to over 5 million members.

Of total administrative expenses, 43.5% are in functions significantly subject to economies of scale ($P<0.10$). The slopes indicate that doubling plan size reduces costs in these functions to 83.9% of their pre-doubling levels. Subtotal Expenses showed a BCG Slope of 94.4%.

Of nearly 80 functions and subfunctions analyzed, 22 exhibited economies of scale. These included Provider Configuration, Information Systems, and Corporate Services.

Two functions showed diseconomies of scale, meaning costs increased with size: Case Management, and BlueCard Home and Custom Par Fees. These represented 4.5% of total administrative expenses.



Figure 2

Scalar Effect on PMPM Costs, Mix-Adjusted

Blue Cross Blue Shield Plans

	R ²	BCG Slope	P-Value	Number of Plans
1. Rating and Underwriting	0.2%	101.5%	0.868	14
(a) Employer Group Reporting	12.8%	71.6%	0.253	12
(b) Risk Adjustment	8.1%	115.8%	0.323	14
(c) Other Rating and Underwriting	0.6%	96.2%	0.784	14
2. Marketing	32.5%	86.0%	0.033	14
(a) Product Development and Market Research	9.6%	88.5%	0.280	14
(b) Member and Group Communication	2.7%	111.5%	0.573	14
(c) Other Marketing	13.7%	77.3%	0.193	14
3. Sales	16.5%	92.3%	0.149	14
(a) Account Services	0.0%	100.4%	0.972	14
(b) Internal Sales Commissions	8.2%	92.7%	0.366	12
(c) Other Sales	19.0%	86.7%	0.119	14
4. External Broker Commissions	19.7%	117.6%	0.112	14
5. Advertising and Promotion	13.5%	89.4%	0.196	14
(a) Media and Advertising	17.5%	88.7%	0.137	14
(b) Charitable Contributions	0.1%	102.5%	0.936	14
6. Provider Network Management and Services	23.4%	92.4%	0.080	14
(a) Provider Relations Services	0.4%	98.4%	0.824	14
(b) Provider Contracting	41.0%	84.1%	0.014	14
(1) Provider Configuration	16.0%	74.6%	0.223	11
(2) Other Provider Contracting	5.3%	94.3%	0.448	13
(c) Other Provider Network Management and Services	6.0%	84.2%	0.419	13
7. Medical Management / Quality Assurance / Wellness	0.9%	101.3%	0.750	14
(a) Precertification	13.5%	84.2%	0.196	14
(b) Case Management	35.7%	129.2%	0.024	14
(c) Disease Management	20.8%	69.4%	0.101	14
(d) Nurse Information Line	10.5%	116.5%	0.331	11
(e) Health and Wellness	0.2%	98.5%	0.899	13
(f) Quality Components	2.9%	107.6%	0.558	14
(g) Medical Informatics	16.1%	89.4%	0.174	13
(h) Utilization Review	0.0%	100.9%	0.963	14
(i) Other Medical Management	13.1%	89.2%	0.203	14
8. Enrollment / Membership / Billing	34.3%	88.5%	0.028	14
9. Customer Services	3.5%	96.2%	0.522	14
(a) Member Services	1.0%	97.8%	0.740	14
(b) Printed Materials and Other	18.8%	68.6%	0.466	5
(c) Grievances and Appeals	11.1%	83.3%	0.266	13
10. Claim and Encounter Capture and Adjudication	5.1%	103.3%	0.437	14
(a) Coordination of Benefits (COB) and Subrogation	5.7%	90.7%	0.431	13
(b) BlueCard Home and Custom Par Fees	23.8%	131.3%	0.076	14
(c) Medicare Crossover Fees	0.1%	101.0%	0.929	13
(d) Payment Integrity	0.0%	100.5%	0.979	14
(e) Other Claim and Encounter Capture and Adjudication	5.3%	95.1%	0.428	14
11. Information Systems Expenses	78.6%	80.2%	0.000	14
(a) Operations and Support Services	0.3%	98.5%	0.857	14
(b) Applications Maintenance	70.2%	54.5%	0.000	14
(1) Benefit Configuration	44.3%	52.2%	0.013	13
(2) Other Applications Maintenance	25.0%	71.6%	0.082	13
(c) Applications Acquisition and Development	17.5%	74.6%	0.137	14
(1) Applications Amortization and Licensing Expenses	34.1%	70.6%	0.036	13
(2) Pre-Planning Project Costs	34.9%	52.0%	0.033	13
(d) Security Administration and Enforcement	42.6%	80.1%	0.011	14
12. Finance and Accounting	6.8%	93.3%	0.368	14
(a) Credit Card Fees	9.9%	128.7%	0.346	11
(b) Other Finance and Accounting	25.0%	89.1%	0.068	14
13. Actuarial	13.4%	91.9%	0.198	14
14. Corporate Services Function	46.1%	86.9%	0.008	14
(a) Human Resources	59.5%	77.8%	0.001	14
(b) Legal	53.0%	85.4%	0.003	14
(1) Compliance	26.3%	78.7%	0.061	14
(2) Government Affairs	21.2%	85.2%	0.114	13
(3) Outside Litigation	5.5%	93.6%	0.421	14
(4) Fraud, Waste & Abuse	39.3%	83.3%	0.016	14
(5) Independent Dispute Resolution Fees	34.4%	169.8%	0.221	6
(6) All Other Legal	60.3%	70.3%	0.001	14
(c) Facilities	14.1%	91.4%	0.186	14
(d) OPEB	1.7%	82.8%	0.760	8
(e) Audit	28.6%	85.7%	0.049	14
(f) Purchasing	0.6%	96.7%	0.796	13
(g) Imaging	10.8%	80.6%	0.272	13
(h) Printing and Mailroom	6.5%	89.0%	0.379	14
(i) Risk Management	28.2%	69.8%	0.076	12
(j) Other Corporate Services Function	0.7%	104.2%	0.771	14
15. Corporate Executive & Governance	7.5%	114.8%	0.345	14
(a) Strategic Expenses	1.1%	110.9%	0.736	13
(b) Other Corporate Executive and Governance	2.1%	107.1%	0.620	14
16. Association Dues and License/Filing Fees	8.0%	91.5%	0.327	14
Subtotal Expenses	51.8%	94.4%	0.004	14
17. Miscellaneous Business Taxes	1.9%	105.1%	0.642	14
Total Expenses	31.6%	95.5%	0.037	14



Independent/Provider-Sponsored Plan Results

Fewer scale effects, similar slopes. Figure 3 shows results for 12 IPS plans, ranging from fewer than 100,000 to 1.4 million members.

Of administrative expenses, 30.8% are in functions exhibiting economies of scale at $P<0.10$. Doubling membership yields costs at 83.2% of pre-doubling values in affected functions. Subtotal expenses were not significant, with a BCG Slope of 95.8%.

Ten functions showed economies of scale, including Provider Contracting, Information Systems, Finance and Accounting, and Actuarial. No functions showed statistically significant diseconomies of scale.



Figure 3

Scalar Effect on PMPM Costs, Mix-Adjusted

Independent / Provider-Sponsored Plans

	R ²	BCG Slope	P-Value	Number of Plans
1. Rating and Underwriting	0.7%	96.9%	0.799	12
(b) Risk Adjustment	1.6%	95.7%	0.693	12
(c) Other Rating and Underwriting	0.8%	95.2%	0.783	12
2. Marketing	0.3%	101.9%	0.864	12
(a) Product Development and Market Research	2.3%	109.1%	0.637	12
(b) Member and Group Communication	0.7%	105.4%	0.793	12
(c) Other Marketing	0.6%	109.1%	0.815	12
3. Sales	8.5%	88.2%	0.359	12
(a) Account Services	4.6%	91.5%	0.502	12
(b) Internal Sales Commissions	0.5%	95.4%	0.842	10
(c) Other Sales	10.1%	80.0%	0.313	12
4. External Broker Commissions	2.2%	104.5%	0.642	12
5. Advertising and Promotion	9.0%	112.8%	0.344	12
(a) Media and Advertising	6.1%	109.9%	0.440	12
(b) Charitable Contributions	4.4%	151.4%	0.590	9
6. Provider Network Management and Services	24.4%	85.5%	0.103	12
(a) Provider Relations Services	7.3%	116.6%	0.394	12
(b) Provider Contracting	50.5%	71.0%	0.010	12
(1) Provider Configuration	26.0%	66.6%	0.090	12
(2) Other Provider Contracting	35.0%	64.4%	0.043	12
(c) Other Provider Network Management and Services	7.0%	117.1%	0.405	12
7. Medical Management / Quality Assurance / Wellness	1.1%	103.0%	0.748	12
(a) Precertification	3.0%	92.1%	0.592	12
(b) Case Management	19.8%	120.9%	0.147	12
(c) Disease Management	0.0%	100.5%	0.994	11
(d) Nurse Information Line	51.6%	1126.5%	0.108	6
(e) Health and Wellness	0.5%	105.3%	0.834	12
(f) Quality Components	27.9%	80.5%	0.078	12
(g) Medical Informatics	14.1%	117.7%	0.229	12
(h) Utilization Review	12.2%	166.8%	0.292	11
(i) Other Medical Management	0.7%	94.7%	0.794	12
8. Enrollment / Membership / Billing	1.1%	97.2%	0.748	12
(a) Enrollment and Membership	0.7%	97.7%	0.801	12
(b) Billing	0.6%	96.9%	0.808	12
9. Customer Services	13.3%	107.6%	0.244	12
(a) Member Services	15.2%	117.0%	0.235	11
(b) Printed Materials and Other	32.4%	364.8%	0.183	7
(c) Grievances and Appeals	52.1%	55.0%	0.012	11
10. Claim and Encounter Capture and Adjudication	12.6%	111.9%	0.258	12
(a) Coordination of Benefits (COB) and Subrogation	4.4%	134.2%	0.512	12
(d) Payment Integrity	7.4%	123.1%	0.392	12
(e) Other Claim and Encounter Capture and Adjudication	2.0%	106.2%	0.662	12
11. Information Systems Expenses	51.5%	86.3%	0.009	12
(a) Operations and Support Services	30.4%	77.2%	0.063	12
(b) Applications Maintenance	0.0%	99.5%	0.985	12
(1) Benefit Configuration	4.2%	82.1%	0.570	10
(2) Other Applications Maintenance	0.0%	99.7%	0.993	10
(c) Applications Acquisition and Development	21.4%	81.8%	0.130	12
(d) Security Administration and Enforcement	0.0%	101.5%	0.983	10
12. Finance and Accounting	33.9%	80.0%	0.047	12
(a) Credit Card Fees	13.9%	68.7%	0.288	10
(b) Fund Accounting for Self-Insured Groups	22.0%	163.1%	0.531	4
(c) Other Finance and Accounting	41.3%	75.5%	0.024	12
13. Actuarial	41.3%	76.0%	0.024	12
14. Corporate Services Function	1.3%	103.8%	0.724	12
(a) Human Resources	3.8%	92.1%	0.541	12
(b) Legal	22.5%	130.2%	0.119	12
(1) Compliance	17.4%	126.4%	0.178	12
(2) Government Affairs	5.7%	88.6%	0.537	9
(3) Outside Litigation	2.3%	117.8%	0.743	7
(4) Fraud, Waste and Abuse	5.4%	78.9%	0.490	11
(6) All Other Legal	0.0%	99.6%	0.989	12
(c) Facilities	2.9%	106.4%	0.599	12
(e) Audit	0.2%	103.4%	0.889	12
(f) Purchasing	6.6%	55.8%	0.506	9
(g) Imaging	15.6%	68.2%	0.293	9
(h) Printing and Mailroom	18.1%	62.6%	0.167	12
(i) Risk Management	1.3%	79.4%	0.753	10
(j) Other Corporate Services Function	9.1%	73.4%	0.340	12
15. Corporate Executive & Governance	4.3%	90.2%	0.518	12
(a) Strategic Expenses	1.2%	93.9%	0.767	10
(b) Other Corporate Executive and Governance	10.1%	85.9%	0.315	12
16. Association Dues and License/Filing Fees	10.0%	74.2%	0.343	11
Subtotal Expenses	8.1%	95.8%	0.371	12
17. Miscellaneous Business Taxes	0.5%	96.0%	0.835	12
Total Expenses	11.5%	95.7%	0.281	12

Combined Universe Results

Larger sample, broader size range, similar story. Blue Cross Blue Shield Plans and IPS plans reflect different origins and operational philosophies. Blues tend to spend more on Information Systems; IPS plans, often owned by health systems, tend to spend more on Medical Management. Despite these differences, combining the universes increases sample size and the range of plan sizes.

Figure 4 shows results for all 26 plans, ranging from fewer than 100,000 to over 5 million members.

Of administrative expenses, 30.7% are subject to economies of scale. Doubling plan size yields costs at 87.1% of pre-doubling values in affected functions. Eleven functions showed significant scale effects, including Provider Network Management and Services, Provider Contracting, Information Systems, Finance and Accounting, and Actuarial.

Four functions showed diseconomies of scale: Case Management, Claims, Other Claims, and Outside Litigation.



Figure 4

Scalar Effect on PMPM Costs, Mix-Adjusted

Blue and IPS

	R ²	BCG Slope	P-Value	Number of Plans
1. Rating and Underwriting	0.2%	101.4%	0.816	26
(b) Risk Adjustment	0.2%	102.0%	0.826	26
(c) Other Rating and Underwriting	0.0%	100.8%	0.919	26
2. Marketing	1.9%	96.4%	0.503	26
(a) Product Development and Market Research	0.7%	103.5%	0.691	26
(b) Member and Group Communication	0.0%	101.1%	0.926	26
(c) Other Marketing	0.2%	96.5%	0.825	26
3. Sales	10.7%	91.8%	0.103	26
(a) Account Services	1.1%	96.4%	0.612	26
(b) Internal Sales Commissions	7.3%	91.7%	0.225	22
(c) Other Sales	10.1%	87.8%	0.114	26
4. External Broker Commissions	5.9%	107.4%	0.234	26
5. Advertising and Promotion	1.8%	96.1%	0.517	26
(a) Media and Advertising	3.9%	94.4%	0.333	26
(b) Charitable Contributions	1.5%	116.0%	0.574	23
6. Provider Network Management and Services	31.0%	88.6%	0.003	26
(a) Provider Relations Services	1.4%	104.1%	0.568	26
(b) Provider Contracting	54.3%	76.8%	0.000	26
(1) Provider Configuration	39.9%	60.6%	0.001	23
(2) Other Provider Contracting	13.9%	83.0%	0.066	25
(c) Other Provider Network Management and Services	0.4%	96.8%	0.778	25
7. Medical Management / Quality Assurance / Wellness	1.8%	102.3%	0.517	26
(a) Precertification	2.0%	94.3%	0.486	26
(b) Case Management	11.6%	113.8%	0.089	26
(c) Disease Management	4.0%	123.1%	0.350	24
(d) Nurse Information Line	11.6%	147.8%	0.181	17
(e) Health and Wellness	1.0%	104.7%	0.640	25
(f) Quality Components	2.2%	94.5%	0.469	26
(g) Medical Informatics	0.6%	97.7%	0.716	25
(h) Utilization Review	2.4%	114.5%	0.456	25
(i) Other Medical Management	0.3%	97.9%	0.789	26
8. Enrollment / Membership / Billing	1.1%	97.8%	0.608	26
9. Customer Services	2.4%	102.9%	0.450	26
(a) Member Services	2.3%	103.8%	0.467	25
(c) Grievances and Appeals	7.7%	85.9%	0.190	24
10. Claim and Encounter Capture and Adjudication	29.5%	115.1%	0.004	26
(a) Coordination of Benefits (COB) and Subrogation	2.2%	112.2%	0.482	25
(d) Payment Integrity	3.4%	112.2%	0.368	26
(e) Other Claim and Encounter Capture and Adjudication	23.4%	117.7%	0.012	26
11. Information Systems Expenses	49.6%	86.6%	0.000	26
(a) Operations and Support Services	5.3%	93.1%	0.256	26
(b) Applications Maintenance	19.6%	75.3%	0.024	26
(1) Benefit Configuration	9.5%	75.7%	0.152	23
(2) Other Applications Maintenance	0.4%	95.7%	0.781	23
(c) Applications Acquisition and Development	20.6%	77.8%	0.020	26
(d) Security Administration and Enforcement	0.3%	104.6%	0.800	24
12. Finance and Accounting	11.9%	91.0%	0.085	26
(a) Credit Card Fees	0.7%	106.7%	0.709	21
(c) Other Finance and Accounting	22.0%	87.9%	0.016	26
13. Actuarial	26.9%	85.7%	0.007	26
14. Corporate Services Function	0.1%	99.1%	0.855	26
(a) Human Resources	7.2%	91.5%	0.187	26
(b) Legal	2.5%	105.7%	0.436	26
(1) Compliance	6.6%	89.1%	0.204	26
(2) Government Affairs	3.8%	92.9%	0.384	22
(3) Outside Litigation	16.4%	142.5%	0.069	21
(4) Fraud, Waste and Abuse	17.6%	83.2%	0.037	25
(6) All Other Legal	0.1%	101.5%	0.905	26
(c) Facilities	0.5%	98.2%	0.731	26
(e) Audit	4.1%	111.6%	0.322	26
(f) Purchasing	1.9%	114.4%	0.538	22
(g) Imaging	1.0%	92.6%	0.658	22
(h) Printing and Mailroom	9.5%	81.2%	0.126	26
(i) Risk Management	2.9%	84.4%	0.451	22
(j) Other Corporate Services Function	3.2%	113.9%	0.381	26
15. Corporate Executive & Governance	3.0%	108.0%	0.394	26
(a) Strategic Expenses	0.2%	103.3%	0.851	23
(b) Other Corporate Executive and Governance	0.0%	100.2%	0.985	26
16. Association Dues and License/Filing Fees	0.1%	102.3%	0.861	25
Subtotal Expenses	6.8%	97.5%	0.198	26
17. Miscellaneous Business Taxes	2.9%	108.2%	0.404	26
Total Expenses	4.1%	98.2%	0.320	26



Applying the Results

Worked examples for mergers and growth scenarios. Understanding scale effects is useful when estimating costs for a growing plan, whether through organic growth or acquisition.

Doubling Through Acquisition

Figure 5 applies the combined universe results to a scenario where a plan exactly doubles in size through acquisition.

The inputs: 30.7% of administrative costs are subject to scale, with a BCG Slope of 87.1%. Total administrative costs are \$69.00 PMPM, so \$21.16 PMPM is subject to scale effects. Premium revenue is \$571 PMPM (consistent with commercial insured products).

Applying the 87.1% slope to the 3.7 percentage points of premium represented by scalable expenses yields 3.2 percentage points post-doubling. The \$21.16 PMPM falls to \$18.43 PMPM, a savings of \$2.72 PMPM.

For a combined entity of 2 million members, this equals \$65 million annually on a combined administrative expense base of about \$1.7 billion, a reduction of 3.9%.

While modest in the context of total costs, the earnings impact is substantial. Operating profits increase from \$235 million to \$300 million, a gain of 27.8%.

Figure 5

Application of Scalability

Blue Cross Blue Shield Plans' Commercial Insured Cost Values, Combined Slopes

Assumptions	Suitor	Target	Total	Effect of Scale	Combined After Scale
Members	1,000,000	1,000,000	2,000,000		2,000,000
Revenues PMPM	\$571	\$571	\$571		\$571
Health Benefit Ratio	86.2%	86.2%	86.2%		86.2%
Administration/Premium	12.1%	12.1%	12.1%	-0.5%	11.6%
Total Administration PMPM	\$69.00	\$69.00	\$69.00	-\$2.72	\$66.28
Scale Effect					87.1%
Scalable Proportion of Administration	30.7%	30.7%	30.7%		
Scalable Administration/Premium	3.7%	3.7%	3.7%		3.2%
Scalable Administration PMPM	\$21.16	\$21.16	\$21.16		\$18.43
Scalable Administration	\$253,868,627	\$253,868,627	\$507,737,254	-\$65,307,886	\$442,429,368
Non Scalable Administration/Premium	8.4%	8.4%	8.4%		8.4%
Non Scalable Administration PMPM	\$47.84	\$47.84	\$47.84		\$47.84
Non Scalable Administration	\$574,131,373	\$574,131,373	\$1,148,262,746		\$1,148,262,746
Income Statement	Suitor	Target	Total	Effect of Scale	Combined
Revenues	\$6,852,000,000	\$6,852,000,000	\$13,704,000,000	\$0	\$13,704,000,000
Health Benefits	5,906,424,000	5,906,424,000	11,812,848,000	0	11,812,848,000
Administration	828,000,000	828,000,000	1,656,000,000	-65,307,886	1,590,692,114
Operating Profits	\$117,576,000	\$117,576,000	\$235,152,000	\$65,307,886	\$300,459,886
Operating Margin	1.7%	1.7%	1.7%	0.5%	2.2%



Acquiring a Smaller Plan

The BCG Slope describes doubling, a special case. For other growth scenarios, we convert to a marginal scale effect based on the relative sizes of the acquiring and target plans.

Figure 6 shows the calculation. If a plan increases membership by 50% (a one million member plan acquiring a 500,000 member plan), the marginal scale effect is 76.8%. The calculation steps are shown in the figure.

Incidentally, applying the marginal scale approach to the doubling scenario in Figure 5 yields the same \$65 million savings, validating the method.

Figure 6

Calculation of Marginal Scale Effects

	Formula	Example	
Step 1	2^x = BCG Slope	2^x = 87.1%	Scale Effect from Figure 1
Step 2	$x = \frac{\ln(\text{BCG})}{\ln(2)}$	$x = \frac{\ln(.871)}{\ln(2)} = -0.199$	Derived Slope from BCG Slope in Figure 1
Step 3	$(1 + \text{Proportion of Target-to-Suitor})^x = \text{Target - Adjusted "BCG Slope"}$	$(1 + 0.5)^{-0.199} = 92.3\%$	
Step 4	$\text{BCG Slope Target - Adjusted} = \frac{1}{(1 + \text{Proportion of Target-to-Suitor})}$	$92.3\% - \frac{1}{(1 + 0.5)} = 0.5 / 1.5$	Marginal Scale Effect Applied to Figure 7
	Proportion of Target to Combined Health Plan		

The phrase "BCG Slope" reflects the case where the target is the same size as the suitor.

The "Target-Adjusted BCG Slope" accommodates the cases in which other sizes are contemplated.

Figure 7 applies the 76.8% marginal scale effect to the 50% growth scenario. Multiplying 76.8% by the target's \$127 million in scalable expenses yields estimated scale-related savings of \$29.5 million.

The target's administrative expenses fall by 7.1%, from \$414 million to \$385 million. Operating profits increase by 50.1%, from \$59 million to \$88 million.

Once the marginal scale framework is established, it applies to any growth scenario. This provides a useful initial approximation when detailed analysis is not feasible. For greater precision, apply individual function slopes to each functional area. Due diligence will refine these estimates further, particularly where networks overlap or operational philosophies differ.

Figure 7

Scalability For Plans of Different Sizes

BCBS Plans' Commercial Insured Cost Values, Combined Slopes

Assumptions	Suitor	Target	Effect of	Target After Scale	Combined After Scale
			Scale On Target		
Members	1,000,000	500,000		500,000	1,500,000
Revenues PMPM	\$571	\$571		\$571	\$571
Health Benefit Ratio	86.2%	86.2%		86.2%	86.2%
Administration/Premium	12.1%	12.1%	-0.9%	11.2%	11.8%
Total Administration PMPM	\$69.00	\$69.00		\$64.09	\$67.36
Scale Effect				76.8%	
Scalable Proportion of Administration	30.7%	30.7%		30.7%	29.0%
Scalable Administration/Premium	3.7%	3.7%		2.8%	3.4%
Scalable Administration PMPM*	\$21.16	\$21.16		\$16.24	\$19.52
Scalable Administration	\$253,868,627	\$126,934,314	-\$29,477,001	\$97,457,312	\$351,325,939
Non Scalable Administration/Premium	8.4%	8.4%		8.4%	8.4%
Non Scalable Administration PMPM	\$47.84	\$47.84		\$47.84	\$47.84
Non Scalable Administration	\$574,131,373	\$287,065,686		\$287,065,686	\$861,197,059
Income Statement	Suitor	Target	Effect of Scale	After Scale	Combined
Revenues	\$6,852,000,000	\$3,426,000,000	\$0	\$3,426,000,000	\$10,278,000,000
Health Benefits	5,906,424,000	2,953,212,000	0	2,953,212,000	8,859,636,000
Administration	828,000,000	414,000,000	-29,477,001	384,522,999	1,212,522,999
Operating Profits	\$117,576,000	\$58,788,000	\$29,477,001	\$88,265,001	\$205,841,001
Operating Margin	1.7%	1.7% 	0.3%	2.6%	2.0%

Why Scale Effects Are Limited

The nature of health plan work constrains scale benefits. Many expect health insurers to enjoy substantial scale economies, as manufacturers, transportation companies, and hospitals do. The actual effects are more modest.

Consider what health plans do. Many activities grow proportionally with membership: responding to customer inquiries, processing manual claims, handling enrollment transactions. Each new member requires the same services as existing members. Even functions that seem fixed, like Corporate Executive and Governance, tend to add support staff, increase compensation, and expand enterprise consulting as plans grow.

Technical economies of scale, such as claims auto-adjudication, can create savings but also generate offsetting costs. When auto-adjudication handles routine claims, the remaining manual claims are more complex. Adjudicating them requires higher-level staff with greater expertise and higher compensation. This dynamic appears across many automated functions.

The industry structure itself offers evidence. Health coverage organizations range from UnitedHealth, with 50 million members and nearly \$350 billion in annualized revenue, to plans serving tens of thousands of members. UnitedHealth's administrative expenses appeared no lower than those of Blue Cross Blue Shield Plans in calendar 2023. (This comparison excluded product mix differences, excluded products like Stand-Alone Part D and



Optum service operations, and added our estimate of UnitedHealth's medical management expenses to administration from health benefits.) The coexistence of vastly different-sized competitors in a low-margin market argues against overstating scale advantages.

Observations and Qualifications

What the data shows and doesn't show. Diseconomies of scale. Some functions showed costs increasing with size. In the Blue universe, two functions exhibited diseconomies; in the combined universe, four. We do not know the cause, but possibilities include strategic investments in growth, membership retention efforts, and challenges associated with higher market share.

Cross-sectional limitations. This study analyzes firms of various sizes at a single point in time. Each firm operates differently and in different competitive environments. Differences attributed to scale may also stem from other factors. Larger organizations may operate in service areas with competitive conditions that affect costs independently of technical and administrative economies.

Size bounds. The conclusions are most reliable within the range of plan sizes in the study. Organizations smaller than those reflected here would likely enjoy steeper cost declines as they grow, consistent with the curved nature of scale relationships when fixed and variable costs are present.

No time-series analysis. Because strategic decisions are long-term, we elected not to employ a short-duration time-series approach.

Using the Scale Calculator

Apply these findings to your own plan. The content of this study is reflected in an Economies of Scale Model on our website at sherlockco.com/benchmarks/scale-calculators.

To use the model: Enter the percent difference between your current membership and your projected long-term membership. Then enter the PMPM cost for any cluster or total value. The model returns the cost after applying the scale effect.

Expense estimates may be calculated in total or by functional clusters: Sales and Marketing, Medical and Provider Management, Account and Membership Administration, and Corporate Services.

Methodology

Data Source

This analysis uses survey results from Blue Cross Blue Shield Plans and Independent/Provider-Sponsored plans also used for the 2025 Sherlock Benchmarks. All data reflects calendar year 2024 and has undergone extensive validation by both Sherlock Company and participating plans. The 26 plans collectively served 51.8 million Americans. Blue Plan membership ranged from about 347,000 to over 5 million. IPS plan membership ranged from under 100,000 to 1.4 million.

Defining Economies of Scale

Economies of scale occur when unit costs decline as output volume increases. For health plans, volume is member months. Costs are administrative expenses classified by function, with approximately 70 functions and subfunctions reported by each plan. Unit costs are PMPM.

Controlling for Product Mix

Product mix differences complicate any scale analysis. Administering a comprehensive product for seniors costs more than one for working-age members, as administrative activities correlate with underlying health needs. To address this, each plan reports function costs segmented by product (Medicare Advantage, Commercial Insured, etc.). We reweight each plan's PMPM costs to eliminate product mix effects. Comparisons express each plan's expenses as differences from universe mean values, after reweighting by the plan's own product mix. Values above 100% indicate higher-than-average costs; below 100%, lower.

Regression Approach

We measured economies of scale by regressing costs in each function against member months. Technical and administrative economies of scale imply fixed and variable cost components, producing a curved relationship. For ease of interpretation, we converted to a linear form by regressing natural logs of percent differences from mean values against natural logs of member months.

Statistical Thresholds

A relationship is considered significant at $P < 0.10$. A P-value of 0.10 means: assuming no actual scale relationship exists, you would observe the measured difference in 10% of similar studies due to random sampling error. Lower P-values indicate more reliable results.

BCG Slope

The BCG Slope expresses scale intuitively as the percent of pre-doubling costs remaining after membership doubles. It is calculated as 2 raised to the power of the regression slope.

R-Squared

R^2 describes how much of the variation in costs is explained by scale. It is unusual for R^2 to exceed 50% in these regressions. Scale is an important factor where we identify significance, but other factors also explain cost differences between plans, including information system investment cycles and operational choices.

Note: We are indebted to the Boston Consulting Group for introducing the BCG Slope and technical aspects of estimating economies of scale. We are also grateful to Stephen R. Niezgoda, Professor in the departments of Materials Science & Engineering and Mechanical & Aerospace Engineering at The Ohio State University, for his review of our approach and insights on the underlying premises. All errors are the responsibility of Sherlock Company.

Read more at sherlockco.com/navigator

