Best-in-Class Blue Cross Blue Shield Plans: Factors of Performance

Mid-December 2026

Conclusions on Tactical Expenses

This is a brief summary of our analysis of "Best-in-Class" Blue Cross Blue Shield (Blue) Plans compared with their Blue Peers; the complete analysis was provided to our participants. It is based on the 2026 edition of the *Sherlock Benchmarks* reflecting year-ended 2025 financials. The 2026 edition is the 29th annual edition of the *Sherlock Benchmarks*. Best-in-Class Plans are those with lower costs than their peers.

Figure 1

Blue Cross Blue Shield Best-in-Class Plans Summary

*Sources of Tactical Variances, Mix-Adjusted**

	Non-Labor Costs per FTE	+ Staffing Costs Per FTE	= Total Costs Per FTE	× FTEs Per 10k Members	= Costs PMPM
Best-in-Class Plans	$107,726	$126,130	$233,856	13.16	$25.65
Peer Plans	$95,523	$133,047	$228,570	17.49	$33.32
Dollar Variance	$12,203	($6,917)	$5,286	(4.33)	($7.67)
Percent Variance	12.8%	-5.2%	2.3%	-24.8%	-23.0%
Percent of Total Variance	-20.3%	11.5%	-8.8%	108.8%	100.0%
PMPM Dollar Variance	$1.56	($0.88)	$0.68	($8.35)	($7.67)

**Tactical expenses exclude Miscellaneous Business Taxes, the Sales and Marketing cluster and Medical Management expenses.*

Best-in-Class Plans had Tactical expenses that were lower by $7.67 PMPM, or by 23%. By "Tactical", we mean all health plan administrative costs for comprehensive products except Miscellaneous Business Taxes, the Sales and Marketing cluster of expenses and Medical Management expenses.

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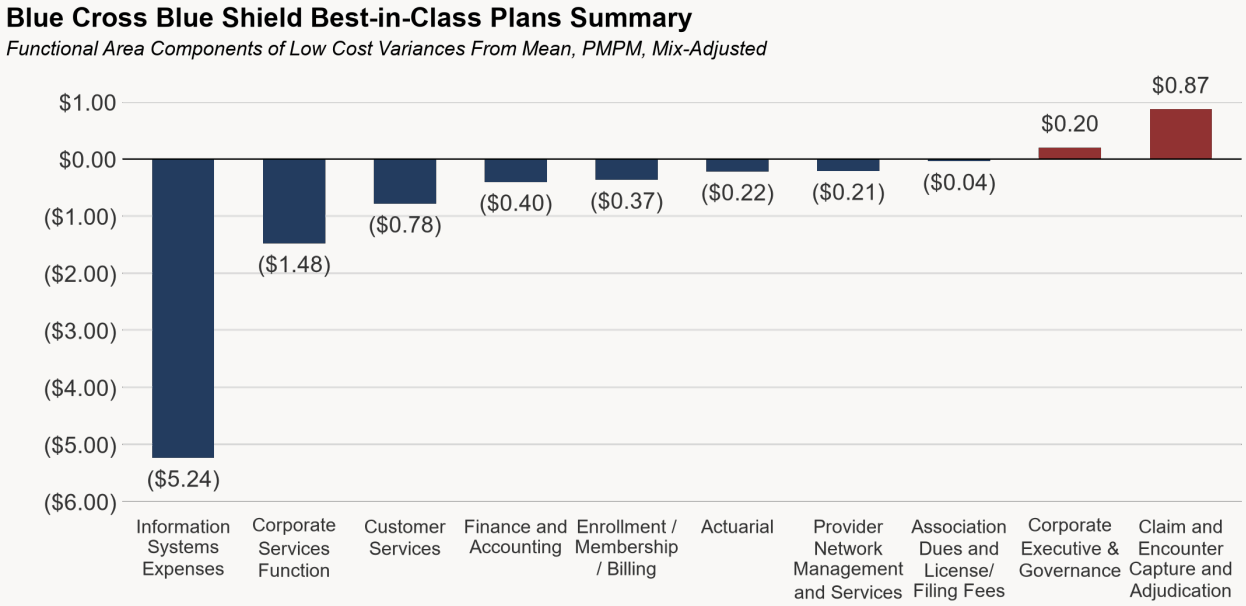
Their mean costs were $25.65 PMPM compared to $33.32 for the Peer Plans.[1] The Best-in-Class Staffing Ratio was mainly responsible for the lower costs, at 13 FTEs per 10,000 members, compared to Peer Plans at 17 FTEs per 10,000 members (Figure 1).

Best-in-Class Plans' Staffing Costs per FTE were approximately $126,000, lower than the Peer Plans' Staffing Costs of $133,000, or by 5%. Non-Labor Costs per FTE (e.g., especially prominent in Information Systems and Facilities) were 13% *higher* for Best-in-Class Plans at $108,000 compared to $96,000 for Peer Plans.

It appears that Best-in-Class Plans operate in a culture of conservative administrative expenses since every cluster of Tactical expense was lower than its peers. Also, almost every Tactical functional area was lower than the Peer Plans (Figure 2). The exceptions were Claim and Encounter Capture and Adjudication and Corporate Executive and Governance, which were higher for the Best-in-Class Plans. The function contributing the most to superior performance was Information Systems.

Low Information Systems costs were responsible for 68% of the overall Tactical advantage. The Corporate Services function, Customer Services, and Finance and Accounting followed, contributing 19%, 10%, and 5%, respectively, to overall low Tactical costs.

Figure 2



Strategic Expenses were Slightly Higher

For Strategic expenses, Best-in-Class Plans had mixed results. Costs were higher in the Sales and Marketing cluster and lower in the Medical Management function. Overall, Strategic costs were higher by $0.25 PMPM.

[1] Costs are standardized for member months (i.e., PMPM) even if not stated.

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The Sales and Marketing cluster of expenses was higher by 13% for Best-in-Class Plans. External Broker Commissions, higher by 40%, was the largest contributor to high Sales and Marketing cluster expenses, followed by Rating and Underwriting. Advertising and Promotion and Sales, both lower for Best-in-Class Plans, were the largest offsets to higher costs.

Despite higher Sales and Marketing costs, Best-in-Class Plans lagged Peer Plans in membership growth. Comprehensive membership for the Best-in-Class Plans declined by a median rate of 1.0%, while Peer Plans *grew* by a median of 1.0%. The average decline for Best-in-Class Plans was 0.7%, compared to a 0.2% decline for Peer Plans. At the product mix of the Best-in-Class Plans, the Peer Plans' median and average membership both declined by 0.3%.

Best-in-Class Plans had Medical Management costs that were lower by 18%. Six of the nine subfunctions of Medical Management were lower than those of the Peer Plans. Health and Wellness, 54% higher, was the most notable exception.

Median gross profit margin for insured products were lower for Best-in-Class Plans. Margins were 1% for Best-in-Class Plans compared with 11% for Peer Plans. Peer Plans' median margin was 12% when reweighted at the mix of Best-in-Class Plans. (Gross profit margins are premiums less health benefits divided by premiums.) Insured products are Commercial Insured, Medicare Supplement, FEP, Medicare and Medicaid.

Possible Extraneous Characteristics

It is possible that unrelated characteristics of the sets of Blue Plans, aside from their actual performance, could contribute to the superior metrics of the Best-in-Class Plans. The five we identified were the effects of scale, cost of living, outsourcing, product mix, and strategic investments in Sales and Marketing and Medical Management.

Economies of Scale

Economies of scale may have played a role. The median membership size for Best-in-Class Plans was 213% greater than the Peer Plans, at 4.7 million versus 1.5 million.

Based on results of Sherlock Company's 2026 Scale Study, 58% of Blue Cross Blue Shield Plan Tactical administrative expenses show a statistically significant relationship to scale. These subject-to-scale expenses have a BCG slope of 72%. That is, doubling the size of the enterprise would be expected to lead to expenses subject to scale falling to 72% of their pre-doubling value. Using these findings as a basis for a cost model, we estimate that, if the Peer Plans were the same size as the Best-in-Class Plans, their Tactical costs of $33.32 PMPM would be expected to be lower by $5.49 PMPM, or 72% of the $7.67 measured difference between the two sets of Plans.

Cost of Living

Local cost of living differences may have conferred a small advantage on the Best-in-Class Plans: the mean wage index for Best-in-Class Plans was 2% lower compared to their Peer Plans, and the median was 3% lower. (We employ the Hospital Wage Index used by CMS.)

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Outsourcing Differences

Outsourcing may be associated favorable comparisons, though we cannot know whether outsourcing necessarily leads to lower costs. Best-in-Class Plans outsourced Tactical activities at higher proportions than their Peer Plans. The mean percent of Tactical FTEs outsourced was 25% among the Best-in-Class Plans and 15% among the Peer Plans, while the medians were 30% compared to 12%.

Product Mix Differences

The Best-in-Class Plans had a greater mix of low-cost ASO and Medicaid members. However, our comparisons were adjusted to eliminate the effect of product mix differences. We describe this method in the next section of this *Navigator*.

Strategic Investments

The strategic investments (Sales and Marketing and Medical Management) could not have affected comparisons because they were excluded. We touched upon their results earlier.

How We Performed this Analysis

First, we separated Tactical from Strategic expenses in each Plan. "Tactical" costs are costs of Comprehensive products other than those in the Sales and Marketing cluster and Medical Management function, which we refer to as "Strategic." In making Strategic costs less of a focus of this analysis, we are recognizing that they have impacts outside of current period administrative costs. They may have costs most readily associated with longer-term objectives such as increasing membership and market share and reducing health care costs.

We then ranked the Plans to identify those whose Tactical expenses are Best-in-Class. We define "Best-in-Class" Plans as those whose Tactical costs are in the lowest 25th percentile. Plans not in the Best-in-Class subset are referred to as "Peer" Plans. To do this, we eliminated the potentially distorting effect of product mix differences on the cost comparisons. Since function costs are reported by product by the Plans, we compared each Plan against its universe by reweighting the product costs for each function of the Blue Cross Blue Shield universe to match the mix of each Plan. Plans were then ranked by the differences between their expenses and each of their re-weighted Blue Cross Blue Shield universe costs. We selected the lowest cost Blue Plans as the 25% with the most favorable cost comparisons.

Because each of the Plans included in the dataset and in each of the subsets differs in product mix, we employed a composite approach to summarize the characteristics of each subset. To compare the two sets, we used the Best-in-Class product mix to weight the products.

We then isolated and measured the specific contributing functional cost differences to overall Tactical performance. In this way, we identified differences in total, by cluster and by function.

Since Total Costs per FTE and PMPM costs together imply a mix-adjusted staffing ratio, we were also able to infer the effect of differences in staffing ratios on costs. Outsourced FTEs were included and were inferred from payments to outsourcers. Each subset staffing ratios were

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drawn from the Best-in-Class and Peer Plans respectively, and each subset reflects the same reweighting of Plan staffing ratio values, using the same process as for costs.

Our approach may enable health plans to identify areas where their performance can emulate those of Best-in-Class. Notwithstanding our referring to low-cost Plans as Best-in-Class, we recognize that a health plan's long-term objective is cost levels that are *optimal* for its corporate objectives. The implication of this notion of performance is that high-cost functions would demonstrate the value of their higher costs through other objective metrics of superior performance. Put a different way, the differences between a plan's costs and those of its Best-in-Class peers, if intended to achieve the plan's corporate goals, represent a form of investment upon which an ROI should be expected.

Contact

This analysis of Best-in-Class Plans has the virtue of being mutually exclusive and collectively exhaustive. Because we have polled the Plans to develop this analysis, the data is subject to controls for quality and comparability. While the results are relatively objective and strongly emphasize the quantitative, the process is complex. We hope that you feel free to address any questions to:

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Invitation to the 2027 Sherlock Benchmarking Study

The *Sherlock Benchmarks* are the health plan industry's metrics informing the management of administrative activities. They are based on validated surveys of 29 health plans serving 53 million Americans and provide costs and their drivers on key administrative activities. The Benchmarks are reported in multiple universes of health plans: Larger Plans, Blue Cross Blue Shield, Independent / Provider-Sponsored, Medicare and Medicaid.

The *Sherlock Benchmarks* are the "gold standard" of health plan administrative cost benchmarks. Health plans use them to determine whether their administrative costs are competitive, to prioritize for improvement among numerous specific activities and to identify cost drivers such as staffing ratios that, overall and within functions, can help implement those improvements.

The 2027 study will mark the 30th consecutive year of the *Sherlock Benchmarks*, reflecting the cumulative experience of nearly 1,100 health plan years.

Since June 2023, the *Sherlock Benchmarks* have been used by health plans serving, without duplication, 200 million insured Americans. Twelve U.S.-based Blue Cross Blue Shield primary licensees, serving approximately 41.2 million people, participate in this year's Sherlock

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Benchmarking Study for Blue Cross Blue Shield Plans. Together, these Plans serve 58% of all Blue Cross Blue Shield Plan members not served by publicly traded Plans.

Participation is similarly broad among the Independent / Provider – Sponsored universe. Health plans serving 53% of the members served by the Alliance of Community Health Plans (excluding ACHP's staff model plans) participate in this year's *Sherlock Benchmarks*, as do health plans serving 58% of the members served by the Health Plan Alliance.

Report publication is expected to begin in late June 2027, with timing varying by universe. Because actionable outputs require granular inputs, participation does call for some effort on the part of plans. The cost, however, is relatively modest.

The *Sherlock Benchmarks* are also available to license. Please reach out to Douglas Sherlock at sherlock@sherlockco.com or 215-628-2289 if you are interested in either participation or licensing. *You will be among good company*.

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