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Insights for health plans at a critical crossroad

The choices health plan leadership makes over the next 6 to 12 months could determine whether plans return to sustainable profitability and growth or face untenable independence.

WHY IS THIS MOMENT DIFFERENT?

Health plans are confronting a "perfect storm" of challenges that go beyond a typical down cycle that potentially jeopardizes their long-term viability:

Escalating margin pressures across all lines of business (LOBs). Rising utilization and medical/specialty drug trends keep pushing medical loss ratio (MLR) up while selling, general, and administrative expenses (SG&A) efficiency has plateaued

Evolving regulatory and government program landscape. Government programs, which have been a source of membership and margin growth in recent years, face multiple headwinds. Meanwhile, plans must also adapt to evolving federal and state regulatory requirements

Compounding capital disadvantages. Plans with previously limited excess reserves have little capital to invest in needed transformation with some on a 12-to-24-month runway, absent action

Well-capitalized competitors raising the bar. Nationals and larger health plans are diversifying (e.g., pharmacy, health services), deepening provider partnerships, and re-platforming operations, raising the bar for plans in terms of capabilities, costs, and consumer and employer expectations

FIVE DECISIONS ON THE PATH FORWARD

Health plan leaders should focus on addressing several strategic questions in the next 6 to 12 months to map their path forward including:

1. **Margin restoration:** What is our plan to restore sustainable margins in the next 12 to 18 months while protecting long-term growth? Do we have the right key performance indicators (KPIs) and decision points to stay on track?
2. **Capital stewardship and investment:** Do we have the capital and liquidity to absorb near-term pressure and fund capability improvements—and if not, who should we partner with and on what terms?
3. **Market focus and scale:** Which products and geographies are core to our long-term strategy, and do we have the scale to win in each as Medicare, Medicaid, and commercial lines become increasingly complex?
4. **Capability sourcing:** Which capabilities are better sourced or monetized via partnership/joint venture (JV) (specialty pharmacy, care management, analytics, admin platform) versus built in-house?
5. **Inorganic growth orientation:** Amid industry disruption and rising M&A activity, are we positioned to be first movers, opportunistic players, observers, or even potential acquisition targets ourselves?

Over the next 6 to 12 months, we expect leading health plans to help you align to one of our archetypes based on…

GROWTH CATALYSTS

Deploying financial strength to scale through acquisitions and diversification

Common attributes:
- Positive, sustainable margin across LOBs
- Competitive actual loss ratio (ALR)
- Excess capital for long-term investments

Potential actions:
- Diversification beyond insurance (e.g., services)
- Partner for care delivery
- Plan acquisition(s) into new markets/segments

VALUE RESTORERS

Turning around loss drivers to reinvest in capabilities and opportunistic growth

Common attributes:
- Significant margin variation across LOBs
- Some MLR challenges
- Limited excess capital for capability enhancements

Potential actions:
- Portfolio realignment for products/markets
- MLR investments with near-term return on investment
- Opportunistic exploring of adjacent plan acquisitions

ALLIANCE BUILDERS

Partnering to transform capabilities and improve administrative cost structures

Common attributes:
- Close to break-even operating margins
- High ALR and costs
- Limited excess capital for capability enhancements

Potential actions:
- Selective growth or right-pricing to optimal scale
- AI-driven cost take-outs (e.g., Contact Center)
- Platform-sharing with like-minded plans

ENTERPRISE STEWARDS

Safeguarding long-term viability through capital discipline and responsible management

Common attributes:
- Multi-year negative op. margins across LOBs
- ALR and MLR challenges
- Impaired or limited risk-based capital (RBC), liquidity risk with inaction

Potential actions:
- Exit/divest one or more markets or LOBs
- Intensive board and regulatory engagement
- Explore range of long-term partnership options

Our specialists can help. Let's connect.

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