



# 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

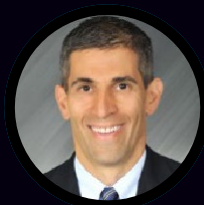
**Common attributes:**

- 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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