

EXECUTIVE BRIEFING

Unsustainable? Regional not-for-profit health plans face tough choices over next 2 years

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<https://www.healthscape.com/insights/unsustainable-regional-not-profit-health-plans-face-tough-choices-over-next-2-years>

Regional not-for-profit health plans offer unique value, playing a vital role in their communities. They can drive deeper integration with provider systems, enhance member access to community assets, and offer customized products to local purchasers based on a unique understanding of market nuances. But they will need to make difficult decisions over the coming months.

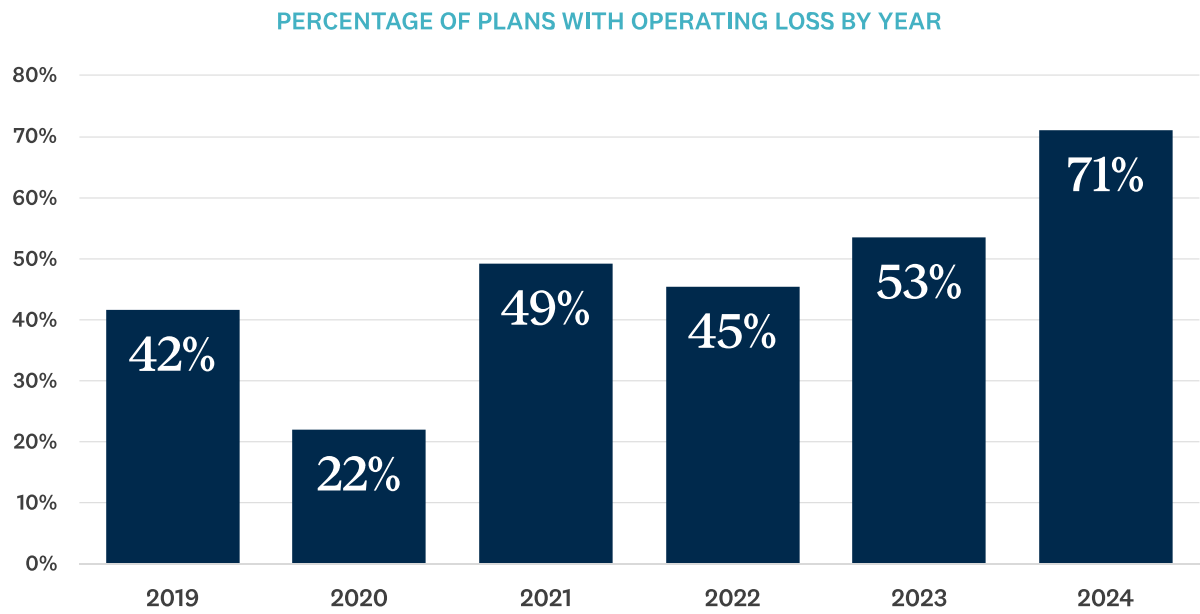
Our analysis reveals that most regional health plans are operating at a loss, and half of those have less than 2 years before triggering formal regulatory intervention. Executives and boards of directors now face the most important decision of their leadership tenures: *How do we survive?*

The recent uptick in merger and acquisition activity in this space speaks to the urgency of this question for many health plans. We examine the outlook for regional not-for-profit health plans versus other health plans and discuss key considerations for decision-makers. The time has come for swift action.

Health plans' near-term financial outlook is challenging—especially among regional not-for-profit health plans

Operating margins have steadily decreased over the last 3 years as health plans reckon with numerous headwinds: pricing pressure from purchasers, regulatory scrutiny around typical revenue enhancement levers (e.g., risk adjustment and Medicare Advantage Star ratings), and rising medical and pharmacy expenses. While many health plans have successfully navigated these challenges, the number of organizations experiencing annual losses is mounting (see Figure 1).¹

Figure 1. The number of health plans facing annual losses is mounting

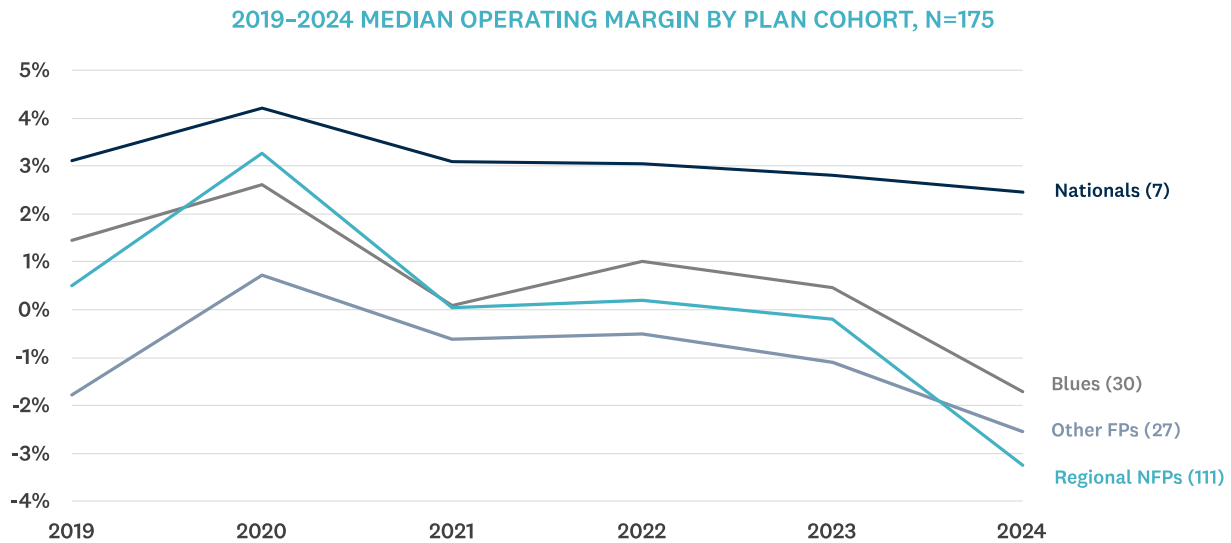


Note: Sample size grows from year to year because several plans began operations after 2019.

Source: HealthScape analysis of NAIC data via Mark Farrah and Associates

While no health plan segment is immune to these pressures, our analysis suggests regional not-for-profit health plans are in the most tenuous financial position ([see methodology](#)). And the gap is widening—especially between them and the **nationals** (see Figure 2). This is likely a reflection of the nationals' scale, diverse revenue streams, and orientation toward key performance indicators favored by Wall Street.

Figure 2. The gap is widening between nationals and other health plan cohorts



Note: Data is aggregated at the parent level and does not include plans with a “specialty” focus, based on NAIC company demographic information. Outliers were excluded from the analysis (e.g., plans with margins over 50% or under -50% for the year 2024). Operating margin is calculated at the parent level (total revenue - minus expenses/total revenue) across commercial, Medicare Advantage, and Medicaid LOBs. Select California plans (notably Kaiser) are excluded from this analysis due to the incomplete CA Department of Managed Health Care (DMHC) financial reporting.

Source: HealthScape analysis of NAIC and California DMHC Data via Mark Farrah and Associates

Downward pressures will increase, further expanding the gap

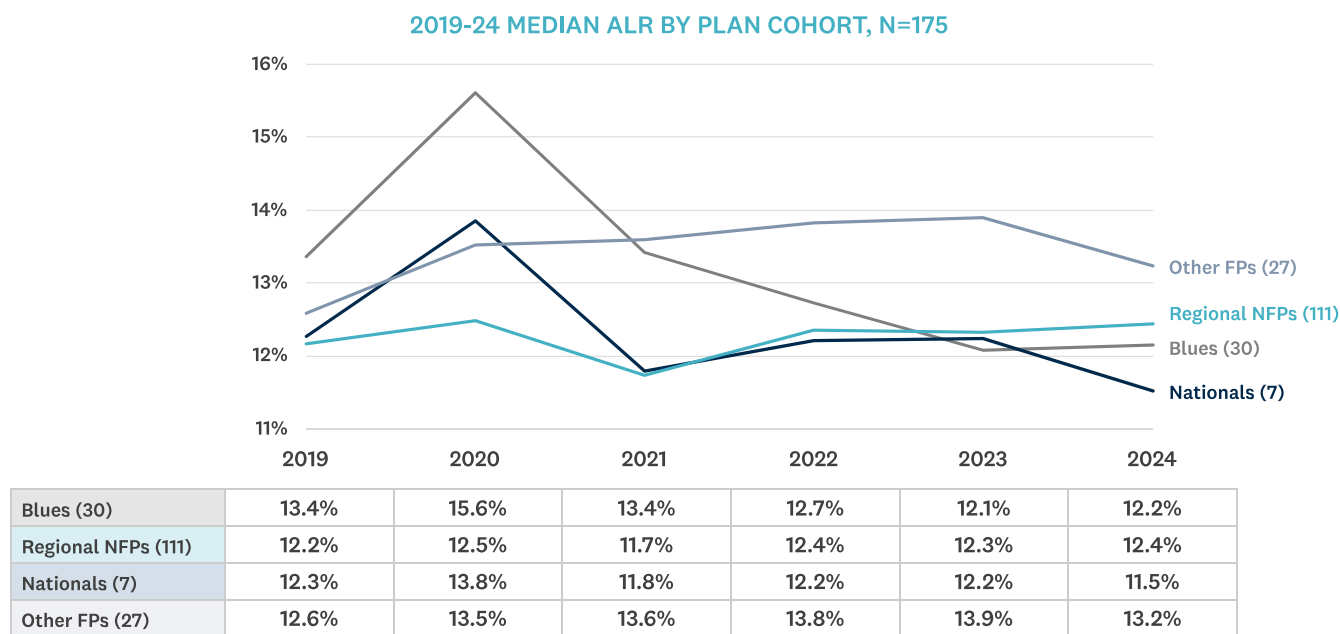
The forces causing these disproportionate operating losses will only accelerate in the days ahead.

Administrative and medical expenses are trending in the wrong direction

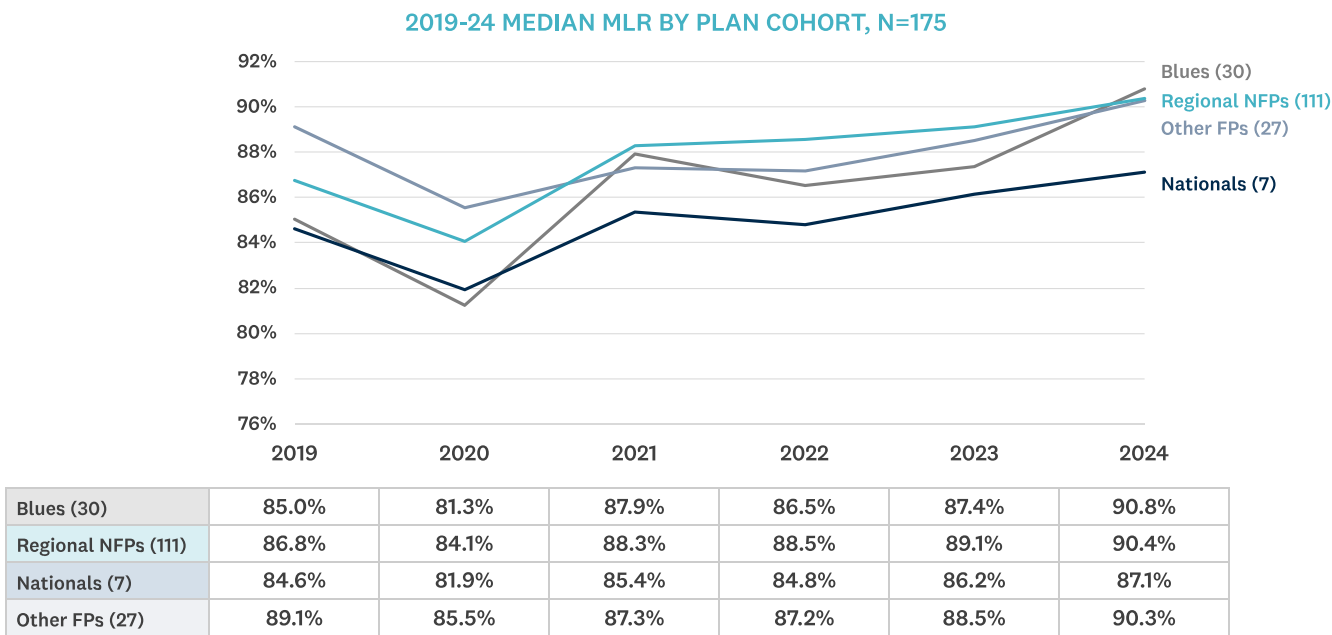
Our analysis of 2024 administrative and medical expenses shows that nationals outperformed Blues and regional not-for-profit health plans for the portion of the premium dollar spent on administrative functions, known as administrative loss ratio (ALR), and medical functions, known as medical loss ratio (MLR) (see Figure 3).

On the administrative expense side, subscale health plans still struggle to fund efforts for digitization, data and analytics, and compliance. With respect to medical expenses, all cohorts face significant upward trends. However, increases to GLP-1 usage, utilization of services, and hospital lengths of stay are creating especially acute challenges for smaller companies. They create a new level of urgency for developing thoughtful strategies to manage care.

Figure 3. Climbing median ALR and MLR for smaller health plans underscores need for action



Source: HealthScape analysis of NAIC data via Mark Farrah and Associates

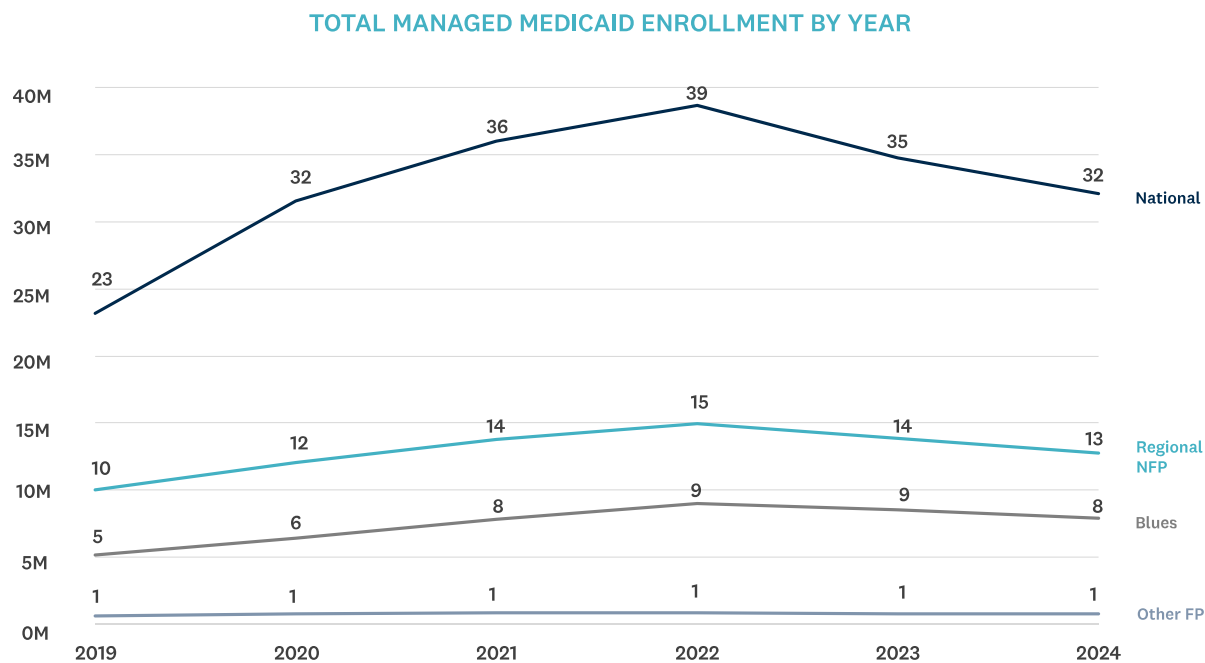


Source: HealthScape analysis of NAIC data via Mark Farrah and Associates

OBBBA headwinds will be significant for regional not-for-profit health plans

Despite the similarity in their recent performance with the Blues, regional not-for-profit health plans face additional challenges from the One Big Beautiful Bill Act (OBBBA). Interestingly, these plans have demonstrated resilience in membership through the unwinding of the COVID-era Medicaid continuous enrollment provisions (see Figure 4)—largely due to their investments in their communities and strong provider relationships. However, regionals will experience disproportionate headwinds as an estimated 7.5 million people lose their Medicaid eligibility due to OBBBA. This population is a more significant component of membership for regionals than other health plans.²

Figure 4. Medicaid contraction from OBBBA will affect regional health plans disproportionately



MEDICAID ENROLLMENT AS A PROPORTION OF TOTAL MEMBERSHIP BY SEGMENT

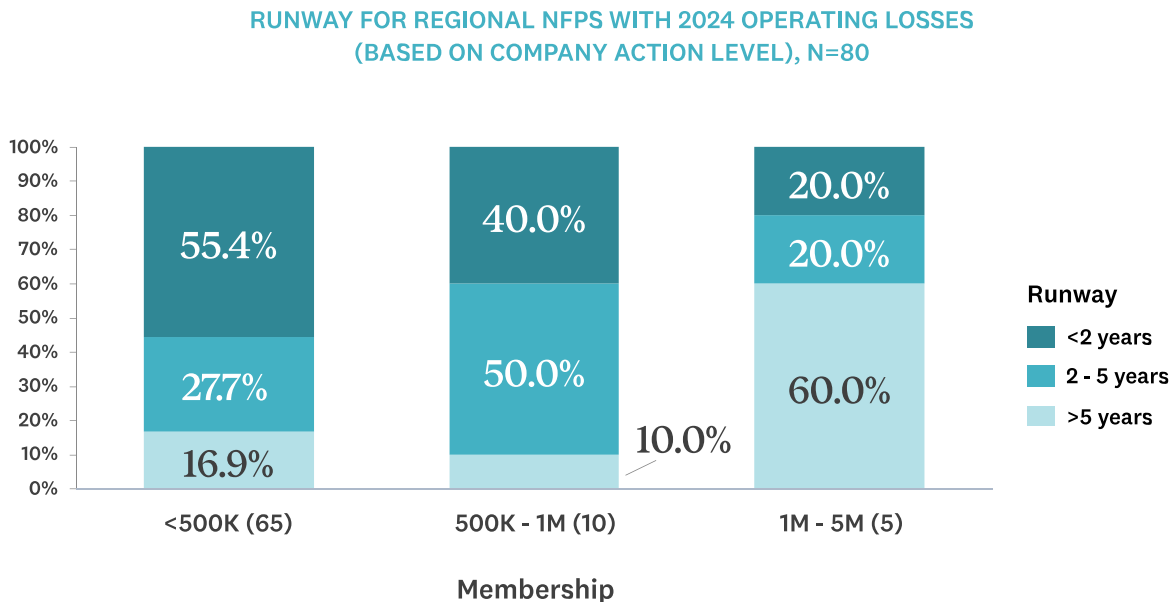
	2019	2020	2021	2022	2023	2024
Blues (30)	7.2%	8.7%	10.3%	11.5%	10.7%	9.9%
Regional NFPs (111)	45.6%	50.5%	49.4%	51.6%	49.2%	46.5%
Nationals (7)	18.1%	23.2%	25.2%	26.0%	23.0%	21.0%
Other FPs (27)	22.6%	24.8%	24.4%	19.4%	17.7%	14.8%

Time is running out for regional health plans to take action

To better illustrate the severity of the situation, we analyzed the 80 regional not-for-profit health plans in our study that experienced operating losses in 2024 (out of 111 in the cohort or 72%).

We modeled the number of years of operations that these health plans could fund before triggering a Company Action Level Event, assuming that 2024 performance remained unchanged.³ Over half (51%) of the 80 regional not-for-profit health plans that experienced a loss in 2024 have less than 2 years of runway before a Company Action Level Event—unless performance improves considerably or they secure additional sources of capital. The urgency is especially pronounced for health plans with less than 500,000 lives (see Figure 5).

Figure 5. Half of regional not-for-profit health plans that experienced a loss in 2024 have 2 years or less to replan their future course



Runway = (total capital - Company Action Level) / operating income
Company Action Level = 200% of Authorized Control Level

What regional not-for-profit health plans need to do now

With decision time upon them, most regional not-for-profit health plans are reckoning with limited options. To make the most informed decision possible, leaders must first undertake a close, in-depth analysis of the health plan's financial health. Careful scrutiny of current performance and underlying drivers is essential to any thoughtful discussion about the right path forward.

Leaders should also endeavor to deeply understand and validate their strategy across three essential dimensions:

- **Purpose in the community:** How do the organization's mission and vision, culture, and other intrinsic factors influence the outlook for future success?
- **Market context:** What changes are expected in the population, care delivery landscape, and competition that the organization will need to anticipate?
- **Unique value proposition:** What are the organization's strengths, and are they sufficiently differentiated to bring value to the community?

Health plans must consider three potential courses of action

As we are already seeing with recent health plan decisions, leaders will need to make difficult choices as they determine which course of action they must pursue:

Turn the business around. For health plans that prioritize continued independence, a major retrenching on fundamentals is critical. Material performance improvement is only achievable if the organization takes bold and decisive action.

Key tactics include:

- Work closely with board members, state regulators, and other stakeholders to garner support, communicate progress, and assist with overcoming extrinsic barriers.
- Critically evaluate the management team's capabilities and expertise to determine whether changes are needed.
- Improve cash flow and access additional capital to extend the runway and fund strategic investments.
- Where practical, acquire new capabilities and assets to accelerate the recovery trajectory and generate accretive revenue.

Sell or affiliate. Some health plans may decide that affiliating with an organization with access to capital may be the best path forward. In fact, of the 80 regional not-for-profit health plans in our analysis that experienced operating losses in 2024, several have already publicly announced their intention to sell or partner with other parties (see Figure 6).

Figure 6. Several regional health plans have already announced their intention to sell or partner

Plan	Recent deal activity (including failed attempts)
Capital District Physicians' Health Plan (CDPHP)	Announced affiliation with Lifetime Healthcare Companies (parent of Excellus BlueCross BlueShield and Univera Healthcare) in 2024.
CareOregon	Considered merging with SCAN Group but called it quits in 2024 amid concerns from regulators.
Common Ground Healthcare Cooperative	Affiliated with CareSource, effective January 1, 2025.
Commonwealth Care Alliance	Acquired by CareSource in April 2025.
Health New England	Was in the process to be acquired by Point32Health but announced in early 2025 that it would not be moving forward.
HealthTeam Advantage	Came under sole ownership of Cone Health when Cone Health purchased Novant Health's ownership in 2025.
Hometown Health	Announced acquisition of a majority interest by Kaiser Permanente in September 2025.

Health plans that opt for this path will need to carefully evaluate multiple quantitative and qualitative factors to ensure they have selected the right organization with which to affiliate. These factors may include:

- The partner's ability to meaningfully impact the health plan's financial outlook through additional capital, capabilities, and management expertise.
- Alignment between the two organizations across strategic objectives, including geographical and customer segment focus.
- Shared mission, vision, and cultural priorities.
- Combined governance structure and degree of independence.

Shutter. Finally, some health plans will come to the difficult conclusion that they have already run out of time and need to cease operations—just as Care N' Care, Carle Health, and Piedmont Community Health announced earlier this year. These health plans will need to make sure they have exhausted all available options as their decisions will likely lead to lasting repercussions in the community.

Advice from industry leaders

Work closely with state partners

"It's critical to overcommunicate with your board, the regulators, and other stakeholders. I have found that they are ready and willing to help but first need to understand the situation and what we are doing about it.

Investing time and energy in educating these critical partners on the intrinsic and extrinsic factors affecting the business, the actions being taken to improve performance, and the progress being made will enable them to provide guidance and support along the way."

- Anna Dunn, President, Health Services for Children with Special Needs

Be aggressive

“The temptation to wait and hope that performance will improve is a comforting but risky choice. We made the decision to bring in additional expertise to help us uncover our blind spots and ensure we were tackling our challenges as comprehensively and aggressively as possible.

While it may be counterintuitive to some to invest at a time like this, we found that it helped us build a more realistic turnaround plan and to execute quickly and with confidence.”

- Francoise Culley-Trotman, CEO, AlohaCare

Remember your long-term vision

“It’s easy to become short-sighted and fall into decisions that are out of sync with your overall strategy. Obviously, this environment requires that we intensify our management rigor.

For example, we’re now looking for investments to produce an ROI in the next 12–36 months, rather than the longer horizon we may have accepted in the past.

But we’re also making sure we continue to innovate and stay relevant. How we improve quality, engage with our communities, and collaborate with our providers is what makes us different. Those strengths are what helped us and our parent health system navigate the pandemic—and they are going to be critical as we navigate the current situation. ”

*- Aaron Galeener, Chief Administrative Officer, Health Plan Services,
Cook County Health & CountyCare*

Choose the path forward with confidence

For boards of directors and senior management teams of struggling regional not-for-profit health plans, the single most important decision they will ever make is upon them.

Leaders still have time to act. Starting with a clear understanding of where the business stands and why it exists will enable them to fully assess available options and their tradeoffs, illuminating the most beneficial path forward.

METHODOLOGY

COHORT	DESCRIPTION	NUMBER	MEDIAN LIVES
Nationals	For-profit, publicly traded plans that serve multiple markets. <i>Note: We include Elevance in this cohort, even though it operates Blue Cross Blue Shield plans in several markets.</i>	7	17.8M
Blues	Plans that carry the Blue Cross Blue Shield brand and serve a single state or small number of states. Many have a not-for-profit status.	30	1.7M
Regional NFPs	Plans that operate in limited geographies and are not for-profit in status based on our research. Many are sponsored by or tightly integrated with provider partners.	111	73.7K
Other FPs	Regional for-profit plans, such as Oscar Health, Alignment, Devoted, and Clover Health.	27	45K

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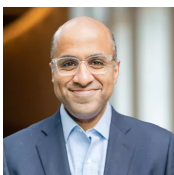
Sources

¹ HealthScape Advisors analyzed data made available by the National Association of Insurance Commissioners (NAIC) and the California Department of Managed Health Care (DMHC), via Mark Farrah & Associates.

² Edwin Park, "New CBO Health Coverage Estimates of Budget Reconciliation Law," Center for Children & Families (CCF) of the Georgetown University McCourt School of Public Policy, August 14, 2025, <https://ccf.georgetown.edu/2025/08/14/new-cbo-health-coverage-estimates-of-budget-reconciliation-law/>

³ The National Association of Insurance Commissioners (NAIC) employs a tiered action level system to determine regulatory action. For each insurer, an authorized control level (ACL) is established using an industry formula for risk-based capital requirements. When a health plan's surplus capital drops below 200% of ACL, the health plan is required to submit a corrective action plan to the insurance commission. Further capital deterioration can cause increasingly intensive action by the regulators.

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