

Key Takeaways: Navigating the Expansion of Provider-Sponsored Health Plans

Health System Pressures and Strategic Response

- Health systems are operating in an increasingly volatile financial environment. Fee-for-service margins are under sustained pressure from site-neutral payment reforms, rising labor and debt costs, and persistent payer rate constraints. These headwinds are prompting many systems to revisit how they manage risk, revenue, and relevance in their local markets.
- Against this backdrop, provider-sponsored health plans (PSHPs) have come into focus as a potential strategic lever to stabilize the enterprise. By capturing premium dollars, health systems can build more predictable revenue streams and smooth out the volatility of traditional provider income. PSHPs also allow systems to align financial and clinical incentives under a single structure—rewarding prevention, coordination, and value, rather than sheer volume of services. When positioned and operated effectively, PSHPs can serve as both a strategic asset and a growth vehicle, helping systems expand their influence across the care continuum and strengthen their foothold in increasingly competitive markets. Yet, they are also subject to many of the same market and environmental pressures facing health plans nationally—rising medical loss ratios, shifting membership mixes, and intensifying cost dynamics—all of which can challenge their ability to perform as intended. These realities are forcing PSHPs and other risk-bearing entities to ask hard questions about how to scale sustainably, balance opportunity with risk, and define a long-term model that can endure amid continued market volatility.

Market and Regulatory Dynamics

- The external environment is also shifting in ways that make PSHP participation a key strategic consideration. The Trump administration has announced a 5.06% increase in Medicare Advantage payments for 2026, providing near-term relief for plan operators. Broader policy signals point toward a more permissive regulatory climate, with likely easing around supplemental benefits, marketing, and network design.
- At the same time, MA and Medicaid managed care enrollment continues to expand, creating larger populations and more accessible markets for provider-sponsored models. While oversight of fraud and utilization management will remain firm, the overall tone suggests a supportive environment for systems that are willing to assume and manage risk thoughtfully. However, this confluence of financial, policy, and demographic tailwinds underscores both the strategic potential and the operational complexity of PSHP participation in the years ahead.

Considerations When Entering into a Partnership with a PSHP

- **Strategic Alignment:** Entering or expanding a PSHP should advance the system's broader mission — defending margins, aligning financing with care delivery, and maintaining relevance in payer-dominated markets.
- **Selectivity and Structure:** Choose partnership models that match the system's risk tolerance, control preferences, and capabilities. Joint ventures can share risk and capital, but require clear governance and aligned incentives.
- **Market Position:** Assess local dynamics — payer consolidation, new entrants, and the rise of narrow networks — to determine whether a PSHP strengthens the system's competitive position.
- **Capabilities and Readiness:** Success depends on scale, capital reserves, and integrated data infrastructure, supported by leadership and physician alignment to manage risk effectively.

Strategic Pathways for Health Systems

- **Joint Ventures:** Joint ventures allow systems to share capital, risk, and operational expertise with partners. Success depends on pre-negotiating key terms—capital calls, downside sharing, dispute resolution, and data access—and ensuring governance alignment.
 - **Provider-to-Provider JVs:** Two or more health systems collaborate to pool resources, expand geographic reach, and achieve scale. These models preserve provider control but require cultural compatibility and disciplined governance to avoid decision gridlock.
 - **Provider-to-Payer JVs:** Health systems partner with payers to leverage infrastructure, capital, and management experience. They accelerate market entry but demand clear governance and aligned incentives to prevent strategic tension.
 - **De Novo Development:** Building a plan from the ground up offers maximum control and alignment but carries high capital, regulatory, and operational demands. Best suited for systems with strong balance sheets and long-term strategic commitment.
 - **Plan Acquisition:** Acquiring an existing plan provides immediate infrastructure and membership, but integration and network realignment often take years. Works best when acquired members already utilize the system's providers.
 - **Co-Branded Products:** Low-risk partnerships that extend brand visibility and patient retention without ownership or capital exposure. Useful as an entry point or interim strategy for systems testing the plan space.
 - **Exit or Wind-Down:** Some systems choose to exit due to sustained losses, misalignment with core strategy, or scale limitations. Exits can include sales, wind-downs, or transitions to partnership models—each requiring careful planning and communication to preserve relationships and enterprise stability.

Success Factors and Common Pitfalls

- **Governance and Alignment:** High-performing PSHPs operate as core businesses, not side projects. Success depends on clear governance, disciplined decision-making, and alignment between leadership, physicians, and board priorities.
- **Capital and Scale:** Systems often underestimate the capital required to sustain a plan. Adequate risk-based reserves, access to growth capital, and a scalable membership base are essential to reach financial viability.
- **Operational Expertise:** Running a health plan demands specialized capabilities — pricing accuracy, risk adjustment, and benefit design. Health systems must recognize the steep learning curve and build or partner for these competencies.
- **Realistic Expectations:** **Overestimating** brand power or internal network draw can lead to underperformance. Systems must assess market demand and network adequacy with objectivity.
- **Joint Venture Dynamics:** In partnership models, success hinges on pre-defined governance roles, aligned incentives, and clear performance metrics. Misaligned priorities or unclear accountability often derail even well-structured ventures.

Decision Framework: Enter, Exit, or Partner

- **Strategic Fit:** Begin with mission alignment. A PSHP strategy should clearly advance the health system's long-term goals — whether defending margins, advancing population health, or strengthening market relevance. If the link isn't clear, pause before proceeding.
- **Capabilities and Capacity:** Evaluate whether the system has the scale, capital reserves, and infrastructure to manage risk. Success requires integrated data, care management, and sustained leadership commitment — not just enthusiasm for the concept.
- **Market Context:** Assess competitive dynamics and payer concentration. In some markets, joint ventures or co-branded models may offer a more practical entry point than a standalone plan.
- **Alternatives and Timing:** Use a “best alternative” mindset — if not now, when and with whom? Some systems may find that partnership or exit creates greater long-term value than owning a plan outright.
- **Clear-eyed Decision-making:** Above all, ensure governance and advisors are empowered to provide candid counsel, not confirmation. Successful systems make deliberate, evidence-based choices — not reactive ones.

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