LONG VIEW
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Re-Membering the Member

How Federal Budget Cuts Could Spark the Insurer of Tomorrow

By Munzoor Shaikh and Scott Wilkerson

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Thriving Rather Than Surviving In The Environment of Uncertain Budget Cuts

Key Learnings

- Federal budget cuts pose a formidable challenge for small and midsize insurers, yet they also create a unique chance to innovate. By adopting a "re-membering" approach—where fragmented member experiences are unified—insurers can deepen customer trust and favorably impact both quality and cost of care.
- Budgetary pressures will inevitably reduce total administrative resources causing a reallocation review. Insurers should not double down on traditional cost cutting models (e.g., staff reductions), rather, insurers should prioritize member centric innovation to remedy today's "dis-membered" experience. Member facing operations such as care management, customer service and prior authorizations should remain a source of differentiation while other aspects of operations should be considered for outsourcing to achieve better value. In other words, change focus from "membership" to individual members and personalized coverage.
- With member confidence at an all-time low, trust has never been more essential. By refining operations, and nurturing deeper engagement, insurers can weather today's budget pressures while building healthier communities and enduring partnerships over the long run.

Federal Budget Cuts – Where Things Stand Now

Congress is currently weighing an $880 billion reduction in federal healthcare spending, with Medicaid funding—serving 72 million people—at greatest risk. While some legislators assert that Medicare may also face cuts, its widespread popularity makes it a less likely target. As a result, Medicaid could end up taking the bulk of the hit, potentially compelling states to make difficult choices.

These proposed reductions are tied to a broader budget strategy of reducing the size and scope of the federal government. If enacted, states might have to eliminate optional Medicaid benefits or coverage. Though typical cost cutting measures could save the federal government a portion of the proposed reduction, more aggressive action is likely to achieve the $880 billion goal.

For states determined to preserve benefits while not raising taxes, difficult trade-offs remain, such as lowering payments to providers or tightening prior auth processes—potentially forcing hospitals to close—or redirecting funds from other areas, like education. Whichever route is chosen, states, healthcare providers, and beneficiaries alike will face significant hurdles in the months ahead.

An Existential Threat – and a Chance to Innovate

From our perspective, the federal budget cuts threaten the very survival of small and midsize insurers. Yet these insurers can still stand out and play a pivotal role in improving health outcomes for both their members and communities. As noted earlier, Medicaid is likely to be hit hardest, though Medicare may also see impacts. Any reductions in these programs will inevitably spill over into employer-sponsored plans and ripple through the broader healthcare system, affecting patients and providers alike.

Whether or not these cuts materialize, the pressure to control healthcare costs remains intense. Although the industry is working hard to find solutions, we believe one critical stakeholder—namely, the member—has yet to take center stage. It's for this reason that, despite looming threats, insurers should recommit to their core mission: delivering superior service and results for their members in ways they haven't before. Members currently contend with a fragmented, or "dis-membered," experience when navigating insurers and the care delivery system, which hinders positive health outcomes. By personalizing and integrating each member's care—a process we call "re-membering"—small and midsize insurers can not only survive but potentially thrive in the face of these existential challenges.

Four Areas of Impact from Potential Cuts

Let's first understand what impacts might materialize from budgetary cuts. The primary goal of proposed federal reductions is to trim overall spending, rather than focusing on per-service costs or utilization rates alone. To understand how cuts might take shape, consider this simplified formula for total cost (or total premium revenue) in each program:

Total Premium Revenue
= "**Premium Revenue**" Per Member Per Month * **Total Member Months**
Where Premium Revenue =
Medical Cost (Cost per unit of Service * Utilization of Services/1000 Members * No. of Members in 1000's)
+ **Administrative Cost**
+ **Profit Margin**

Using this formula, several strategies emerge to reduce total spending or premium revenue:

1. **Lower Premiums or Alter Cost-Sharing**
   One straightforward—albeit blunt—method is to cut per-unit revenue across the board. For Medicaid, this could be reducing the federal government share. For plans offered through health exchanges, this could mean scaling back subsidies or cost-sharing arrangements. With federal subsidies currently covering over three-quarters of exchange costs, slashing these supports would risk widespread coverage losses.

2. **Decrease Total Member Months**
   By narrowing eligibility criteria or reducing covered benefits, regulators could reduce the number of members and their months of coverage, i.e., member months. For instance, targeting Medicaid expansion would result in fewer individuals receiving coverage and eliminating the associated program costs in total.

3. **Curb Medical Costs**
   Regulators might reduce rates paid to providers (cost per unit of service) by renegotiating network contracts or presume lower utilization (utilization/1000) based on expected clinical improvements. This scenario would push insurers to find innovative approaches for care management and cost control.

4. **Cut Administrative Costs and Profit Margins**
   Finally, administrative expenses and profit allowances in premium calculations could be tightened, requiring insurers to do more with fewer resources.

How Should Insurers "Re-Member" the Member?

To counter the risks posed by budget cuts, insurers should concentrate on their most important stakeholder: the member. By shifting attention away from administrative tasks and investing in deeper, long-term member relationships, they can address the fact that the average membership tenure today is just over two years. Extending this timeframe involves bringing together the fragmented—or "dis-membered"—aspects of a member's journey across insurers and health systems. Below is a set of potential tactics that can help insurers with member-centric innovation and be better prepared for potential budgetary challenges.

Tactic	Enrollment Changes	Medical Cost Reductions	Admin + Profit Improvement
Member Facing			
1. Implement Value-Based Care Models to keep providers and members engaged		✓	✓
2. Enhance UM and Care Coordination		✓	
3. Promote preventive care to identify risks earlier		✓	
4. Improve management of redetermination processes	✓		
5. Use new era marketing tools to identify enrollees for remaining programs	✓		
6. Improve customer service operations			✓
Technology and Analytics			
7. Leverage technology and AI to streamline administrative services	✓	✓	✓
8. Evaluate outsourcing options to improve margins		✓	✓
9. Enhance data analytics to identify opportunities for improvement		✓	✓
Network and Other			
10. Identify high cost, low value providers and cull from network		✓	
11. Optimize drug formularies to drive value		✓	
12. Assess transfer pricing agreements, if applicable		✓	✓
13. Assess value of any optional services provided		✓	✓

Will Commercial Programs Feel an "Inductive" Effect?

Reductions in Medicaid and Medicare funding can trigger an "inductive" effect on commercial insurance markets. As the number of uninsured or underinsured individuals rises, providers face higher charity care costs, prompting them to shift these expenses toward commercial payers through increased efforts to achieve higher reimbursement rates and appeal more prior authorization denials.

In response, employers—eager to manage the increased risk of cost shifting—may adopt tactics resembling those used in public programs. Potential strategies include:

- Negotiating drug costs more aggressively or introducing at-purchase transparency, a proven approach to reducing reliance on high-priced medications.
- Shouldering less of the premium burden, effectively passing more of the cost on to employees.

- Increasing both the prevalence of high-deductible plans and higher deductibles.
- Demanding that traditional insurers rein in care costs or exploring innovative provider-sponsored plans that share the responsibility of cost reduction.
- Innovating around access to primary care, including virtual primary care, onsite care etc.

One unintended consequence of these approaches could be worsening future health and healthcare costs due to benefits being reduced, providers not being in-network or reduction in medical cost management efforts. For example, lower use of preventive care can worsen disease conditions such as later stages of cancer which will increase overall healthcare costs in later years. While the aftereffects of any cuts to Medicare and Medicaid might take time to emerge, they could ultimately exacerbate conditions in the commercial sector and the population at large.

Key Considerations to Move Forward

Despite the existential challenge of federal budget cuts, small and midsize insurers have a unique opportunity to reinvent themselves as the insurers of tomorrow. Their agility and closer ties to local members can be powerful advantages in a shifting market. Our team has compiled a practical playbook that can be customized to individual insurers. To improve both preparedness and competitiveness—and to thrive even if cuts don't materialize—consider focusing on the following key next step:

1. Select and manage the right portfolio of vendors and solution partners, while keeping member facing services close at hand
2. Transform your provider networks (eliminating low-value providers, deepen high-value partnerships) and prepare for a new round of rate negotiations
3. Enhance care coordination by integrating care delivery systems and social care
4. Transform the operations of UM and prior authorizations
5. Bring disruptive innovation to marketing and sales with a focus on personalization

The Long View

One of the most critical assets for insurers to cultivate is customer trust—now at an all-time low in the industry. By fully embracing the "re-membering" approach and centering every aspect of healthcare on the individual, insurers can begin to rebuild that trust. In the long view, strengthening these bonds will become the foundation for truly transformative healthcare partnerships and healthier communities.

About the Authors

Munzoor Shaikh, MBA, is Founder and CEO of Long Game Health works with health plans, health systems and supporting organizations to optimize their performance and bring their missions to fruition. His expertise includes case management, population health, finance transformation, value-based care, artificial intelligence and healthcare private equity. For any questions, contact mshaikh@longgame.com.

Scott Wilkerson is a seasoned healthcare leader with over 30 years of experience, including 20+ years of P&L accountability. He has served in executive roles across hospitals, payors, and providers, including as a regional health plan CEO and SVP of business development for a children's hospital. Scott has expertise in leadership development, strategic planning, and financial management, having also worked at a big four accounting firm. For any questions, contact swilkerson@longgame.com.