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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Humana's Fourth Quarter 2024 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Lisa Stoner, Vice President, Investor Relations. Please go ahead.

Lisa Stoner - *Humana Inc - Vice President, Investor Relations*

Thank you, and good morning. I hope everyone had a chance to review our press release and prepared remarks, which are available on our website. We will begin this morning with brief remarks from Jim Rehtin, Humana's President and Chief Executive Officer; and Chief Financial Officer, Celeste Mellet, which will be followed by a Q&A session, where Jim and Celeste will be joined by George Renaudin, President of Humana's Insurance segment.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the detailed risk factors discussed in our latest Form 10-K, our other filings with the Securities and Exchange Commission, and our fourth quarter 2024 earnings press release, as they relate to forward-looking statements along with other risks discussed in our SEC filings. We undertake no obligation to publicly address or update any forward-looking statements and future filings or communications regarding our business or results.

Today's press release, our historical financial news releases and our filings with the SEC are all also available on our Investor Relations site. Call participants should note that today's discussion includes financial measures that are not in accordance with generally accepted accounting principles, or GAAP. Management's explanation for the use of these non-GAAP measures and reconciliations of GAAP to non-GAAP financial measures are included in today's press release. Any references to earnings per share, or EPS, made during this conference call refer to diluted earnings per common share. Finally, this call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana's website, [humana.com](https://www.humana.com), later today.

With that, I'll turn the call over to Jim Rehtin.

James Rehtin - *Humana Inc - President, Chief Executive Officer*

Thank you, Lisa, and good morning, everyone. Thank you for joining us. I have three topics today. First, we have some new members of the team to introduce. I'm going to spend a minute talking about our performance through the framework of the four levers that drive this business. Those are the levers that were introduced in the CEO letter last summer, and I'll spend a minute on industry context.

First, let me just reinforce a couple of headlines. 2024 adjusted EPS is in line with our initial guidance. This does include the investment that we made in Stars, and in growth, in the back portion of the year. We are reaffirming our 2025 outlook. We remain committed to achieving at least a 3% margin in individual MA, and we do view 2025 as a key year in that journey. And we have some management team members to help us bring fresh perspectives to that task. I'm pleased to introduce them today. I'll start with Celeste Mellet, our new Chief Financial Officer.

Celeste joins us with a lot of experience leading finance in organizations that have worked their way through difficult external headwinds. This is a good experience given the circumstances in our sector over the past couple of years and today. This includes her experience at Morgan Stanley and at Fannie Mae. You will, of course, be hearing from Celeste today, and I look forward to introducing you in a moment.

We also have Michelle O'Hara joining us as Chief Human Resources Officer. Her experience has been focused on evolving HR capabilities through periods of change. She comes to us from SAIC.

And we're introducing Japan Mehta as our new Chief Information Officer. Japan brings a wealth of experience managing large IT organizations in scale regulated industries. He also has experience using data and digital to better engage customers. This is a big part of our future, we believe. He was most recently at Citi.

Now let me turn to the four things that drive this business. The first of those four levers is product experience, which drives customer growth, retention and lifetime customer value. In this area, we feel that we are moving in the right direction, that we also believe that we're just scratching the surface of what can be done.

As a reminder, in 2024, we proved to have a good year of growth with nearly 5% membership growth, despite repricing our product to reflect the elevated medical cost trend that we began to see nearly two years ago. When we look at the most recent AEP and expectations for 2025, we are accomplishing the things we wanted to achieve. We're shedding unprofitable plans, we're resetting expectations and lower margin plans, and we are shifting our membership mix with a focus on sustainable long-term value.

The membership losses that we've experienced have largely been consistent with our strategy. The exception to this is our position in the D-SNP space. However, we are comfortable that we can quickly improve our positioning in this space. I also want to emphasize that we feel very good about the new member mix that we've been attracting.

The second lever is clinical excellence. This is the engine of the business. When we deliver better outcomes for our members and our patients, we also reduced system costs. When we reduce system costs, we improve our own product profitability. Clinical excellence starts with delivering on Star's performance. In the fourth quarter of 2024, we closed 650,000 care gaps. This is a significant improvement from where we started in September. We feel good about the progress that we made over the last quarter of the year. And the question, of course, is will these steps that we've taken, be enough to return us to an industry-leading position in 2027?

As we acknowledged back in October, it will be tight, and ultimately, it will depend on the final thresholds. Having said that, I will reemphasize that we feel good about the progress we made in the fourth quarter. We are right now putting all of our energy into measurement year 2025. That is bonus year 2028, where we have a full year of runway to drive operational savings.

Our third lever is operating with a highly efficient back office. We have made a lot of progress in this domain over the course of the last couple of years. In 2024, we improved our operating expense ratio by 40 basis points. Just to provide a few examples of what enabled this. We optimized our care model, we unified shipping activities across the enterprise. We outsourced some noncore capabilities, and we streamlined our internal distribution capability. I'd like to note that our internal distribution team performed better this year than ever, even while driving efficiency. Efficiency does not mean a decline in performance levels when we do it the right way, it is important for our team to note this and for our investors to recognize it. Despite the good progress over the past few years, we believe there is more to do and we expect to communicate a path towards additional efficiencies in the upcoming months.

Finally, let me touch on the last lever, which is capital allocation and growth. We feel good about the opportunities we found to expand our primary care footprint in the second half of 2024. We also feel good about the continued expansion of Medicaid organically. However, in the near future, we will need to strike a balance.

Priority number 1 is recovering in a margin, as we have repeatedly said. This will require us being prudent with our balance sheet as we navigate the Stars recovery. And we must continue to grow our earnings capacity through organic reinvestment and through acquisitions. This is clearly a second priority, but it is a priority nonetheless. Both CenterWell and Medicaid are important enablers of our long-term strategy. We will be thoughtful in identifying opportunities that make sense in our current environment that allow us to continue to grow our earnings capacity while being prudent with our balance sheet.

Now let me spend just a moment on the insurance industry and on Medicare Advantage. It's been a volatile couple of years and more so it's been a volatile few months. The US healthcare system is complicated, it's fragmented and it's expensive. I think all of that has been pretty well established. Americans understandably, want high-quality affordable care that is easy to navigate. Too often, that is not what they are receiving today. There is no one company and there is no one sector that is responsible for this. It is a system challenge. It is the challenge of our American healthcare system.

Still, as I mentioned in my CEO letter last summer, Medicare Advantage plays an important role. Medicare Advantage delivers better outcomes in original Medicare. If you need evidence of this, look at the steady improvement in HEDIS performance that has been driven by MA programs. Medicare Advantage operates more efficiently than original Medicare. This can be demonstrated in our recently published value-based care report, or through the work done jointly with Harvard University, looking at value-based primary care which operates inside of the Medicare Advantage system.

Medicare Advantage also enables more affordable healthcare access to seniors. There is a reason that more than 50% of eligible Americans choose Medicare Advantage. It is of good value, it makes healthcare more affordable and easier to access. And of course, the Medicare Advantage program can be improved, and we are open to partnering with anyone interested in engaging constructively to do that.

In the meantime, there are things that we Humana can do on our own. While we cannot fix the entire healthcare system on our own, we can make it easier for our patients and our members to navigate. We can make it easier to understand what our members will have to pay when they see a doctor or require a procedure. We can do more to support our members with reminders to do preventative care to manage their chronic illnesses. We can take complicated healthcare topics and we can communicate about them more clearly and simply to our members. We can provide them better service every time they call us with a question or concern. Those are the things that we can do, that is our intent, and that is the work that is underway within Humana.

With that, I will turn it over to Celeste for her to share a few words on her first month at Humana. Celeste?

Celeste Mellet - Humana Inc - Chief Financial Officer

Thank you, Jim. I'll start by echoing your belief in Humana's value proposition. This is a great company with a long successful history, strong DNA and differentiated capabilities, that has demonstrated it can improve outcomes for members and patients while driving significant value for shareholders.

While our long-term potential remains strong, our industry is in transition, facing significant regulatory and other headwinds. I have had the opportunity to lead companies in regulated industries through similar periods of volatility. It is incumbent upon us to evolve how we serve our members and operate the business to be more nimble, better able to absorb fluctuations and more consistently deliver compelling financial performance and shareholder value. As we execute on the four levers Jim has articulated, we will be stronger and better.

I am thrilled to join an incredible team that will guide Humana through this transition. I have enjoyed getting to know my team and many of my colleagues over the last several weeks. It has been great to see how talented and committed the company is to serving our members and patients. I am energized by the opportunity to bring a fresh perspective and challenge the organization to rethink our norms so we are constantly improving, while at the same time, ensuring the aspects of our culture that have been so critical to our past successes are retained, and enabling long-term profitable, sustainable growth. And I look forward to working with many of the participants on this call over the coming months.

With that, I will turn the call back to Lisa to start the Q&A.

Lisa Stoner - Humana Inc - Vice President, Investor Relations

Great. Thank you, Celeste. Before starting the Q&A, just a quick reminder that fairness in those waiting in the queue, we ask that you please limit yourself to one question. So operator, with that, please introduce the first caller.

QUESTIONS AND ANSWERS

Operator

Ann Hynes, Mizuho.

Ann Hynes - Mizuho Securities USA, LLC - Analyst

I just want to focus on 2025 MLR guidance. Can you just break down the levers of the increase, what is -- what base you're assuming? What's the overall cost trend? How much is driven by IRA changes and what the impact of the greater-than-expected loss of D-SNP and MLR, that would be great.

Celeste Mellet - Humana Inc - Chief Financial Officer

Ann, it's Celeste. Thanks for your question. So to give you some additional color on top of what we included in our prepared remarks. First, I'll give you the drivers of the decreases in the ratio, which are improving the ratio.

First, the majority of the improvement is driven from the MA plan exit, which all had very high benefit ratios. We also made other adjustments to our benefits in our remaining plans, which also improved the ratio. And then finally, the favorable calendar in 2025, given both how the days fall and the extra day in 2024 due to leap year.

Second, the increases to the ratio, which are a drag. First, business mix changes given Medicaid is growing. Medicaid carries a higher benefit ratio versus MA, as you know. Second, the IRA impact, which increases the benefit ratio given increased revenue with offsetting increases in claims. And third, incremental investments, which are important to the long term, but increase the benefit ratio in the near term.

The arrows we provided in our prepared remarks are in order of size. And we gave you the puts and takes, but we'll leave the modeling to you in terms of the impact overall.

Operator

Justin Lake, Wolfe Research.

Justin Lake - Wolfe Research, LLC - Analyst

As you might expect, people are trying to look through -- now that you give us '25, trying to look through '26 and understand the moving parts there. Maybe you could just -- I assume you're going to give us a lot more at the Investor Day once you have the outcome of the appeal.

But maybe you could just frame for us, if you think about it in two buckets. One, the core business. Last year, you said before the rates came out disappointing, the company could grow \$6 to \$10 of earnings. Rates seem to be coming in better. Is that a reasonable framework ex the Stars? And then how would you think about Stars relative to that to give us an idea of how 2026 kind of moving parts might shape up?

James Rehtin - Humana Inc - President, Chief Executive Officer

Thanks, Justin. Let me just start by acknowledging that we typically do not provide guidance that far out all the way out to 2026. And really, that is driven by several of the factors that you just outlined. There's a bunch of unknowns that we're still navigating. The Stars litigation is a big piece of that. The final funding for MA is a big piece of that. Obviously, the preliminary notice is out. Things can change between the preliminary notice and the final rate notice. And so we'll be waiting to see how that plays out.

What I can tell you is that what we are focused on differentially is how do we drive operating performance. And so what are the things that we can do, fully under our control, to get better at managing the business. When we do that, that leads us to a place where we can get to a sustainable, compelling competitive position in the market and then look at some level, pricing and benefits become easier and they take care of themselves that we're nailing that underlying operating performance.

And so that's really where the orientation is right now on 2026. And when we talk about operating performance, what are we talking about? We're talking about that second and the third lever. It's clinical excellence and all the components that go into it, and it is driving an efficient back office. Those two things more than anything else is really the focus for 2026, but we're not yet ready to provide guidance around that.

Operator

Sarah James, Cantor Fitzgerald.

Sarah James - Cantor Fitzgerald Europe - Analyst

How do you think about the path to 3% margin? Does that assume any sort of Stars improvement needed to get there? How does that balance against what you're doing on cost and pricing? Do you think the book has to shrink further to get there? And then should we think about that as being ratable or back-end loaded?

James Rehtin - Humana Inc - President, Chief Executive Officer

Yes. The way to think about Stars -- or I'm sorry, the way to think about the 3% margin is, yes, you would need to have a competitive Stars position. And I'm going to go a little bit back to where I was before. You need to have a reasonably normalized rate environment, and then you need to have optimal operating performance on the levers that I just described on clinical excellence, which again is Stars. It is accurately understanding our patients' needs and doing the follow-up care that goes with that, all of which then positively impacts both quality and medical trend.

And then you need to optimize G&A. You need to be at a competitive place on G&A. When you get those things right, you have the financial capacity to price your benefits competitively in the market and achieve 3%. So Stars is absolutely a part of that. But that's -- those are the operating levers that we are super, super, super focused on because those are what give you the freedom to price the right way in the market.

And look, we feel like we have opportunities in every one of those, and that's -- that is what we're driving right now. Some of those will hit in '26. Some of those will hit after '26, but it will be a steady march.

Celeste Mellet - Humana Inc - Chief Financial Officer

Jim, if I can add to that. One of the things you've talked a lot about in the past, I think, to this audience is we need to get better at multiyear planning, including getting better out looking around corners and looking ahead. We have to be a lot more proactive in our decision making and planning to be much more flexible to react more quickly, and we need to be better at making trade-offs really creating the capacity, as you called out, for the most important things. We need to be ruthless about stopping things that are not driving better outcomes for our members and better returns for our shareholders. And again, really focusing on creating capacity, to do the things we really want to do and creating the most long-term value.

As part of this, we'll continue to assess how to balance the aspects of our cost structure that are fixed versus variable, and how we evolve to over the longer period of time, become more variable in our cost structure. I really believe there's an opportunity here, which will allow us to absorb change faster and drive more consistent results. Along with Stars, this is one of our top priorities.

Operator

Joshua Raskin, Nephron Research.

Joshua Raskin - Nephron Research LLC - Analyst

You spoke to a few hundred million of investments that are sort of offsetting the underlying earnings growth in 2025. Can you just give some details on like the major buckets of those few hundred million? And then are those going to be ongoing each year? Or are those truly onetime in nature?

And then obviously, the last one, maybe more of a follow-up even on the prior discussion. But should we think of 2025 as a floor EPS number? Or do you need to win the appeal on Stars for that to happen?

Celeste Mellet - Humana Inc - Chief Financial Officer

Thanks for your question. So just to be clear, we make investments in our business every year. What we've called out and what's included in our guidance are incremental investments of a few hundred million. It's across a set of initiatives designed to improve our operating performance. So we're focused on Stars, of course. We're investing in clinical excellence, membership strategies in other areas, and we'll share more detail as the year progresses as to where this -- the ratios, they hit either the operating cost ratio or the benefit ratio, and we'll leave it at that.

Operator

A.J. Rice, UBS.

A.J. Rice - *UBS Equities - Analyst*

Good luck, Celeste, for the new position. Look forward to working together. Let me maybe just come back to Stars commentary. Obviously, for '26 paying a year, a lot of riding on the appeal and so forth. But I noticed in your prepared remarks, the way you're describing, and I know this is out there, but we're also trying to just think about the earnings power of the company going forward. There's discussion about '27 payment year, it sounds sort of cautious about that, but then '28 sounds like the year where you think the investments you're making will bear fruit and pay off.

I'm trying to understand the issues around '26 Stars seem to be totally different than what you're highlighting, or quite different than what you're highlighting for '27, and maybe that's some of the underlying way in which Stars calculations are changing. I wonder if you could speak a little more to why there's a little bit of caution on and whether a favorable appeal in '26 makes any difference for '27? And the '28 seems like the year where you really think you'll -- the ore payment years obviously really be back to normalize Stars rating level?

James Rehtin - *Humana Inc - President, Chief Executive Officer*

Yes. A.J., this is Jim. Let me take this one. First of all, let me just start by saying we are not trying to communicate anything different about '27 than what we communicated back in October. So we are trying to hit the same tone. If anything, I think what we'd say is we feel good about the operating progress that we made in the fourth quarter of the year. So that actually is a positive. We communicated that there would be uncertainty because of threshold movement back in October, and we are simply reiterating that, that still remains the case, right. Like there's just a bunch of uncertainty around the thresholds. And we want to be clear and transparent about that. But that is not different.

The 20 -- so now let me try to tease apart the different pieces here real quick. So 2026, again, not much we can say about the litigation, it's progressing as you would expect. It is unrelated to 2027. So whatever happens in 2026, with the litigation does not impact performance in 2027. In 2027, I'm just going to reiterate it one more time, we feel good about the progress we made operationally in the fourth quarter. I think we told everybody -- I know we told everybody back in October, that the thresholds that came out last year represented a different level of performance than what we had anticipated at the time. We were resetting our targets in the fourth quarter to reflect that, and we were on a sprint. We did sprint. We made a lot of progress. We feel good about the progress. And we don't know what the thresholds are going to look like next year, like it's kind of that plain and simple.

And then as we move into the current measurement year, so think about the activities that we're doing right now in 2025 that influence 2028. We have a whole year of runway now and we have the ability to layer in more buffer or more cushion to our targets. And so we feel better entering the new year with a full year's worth of runway. And that's really what we're trying to convey to everybody.

George, is there anything -- I was worried there --

George Renaudin - *Humana Inc - President, Insurance*

No, that's okay, Jim. I would just add to that, A.J., that we saw that a lot of the new things we tested in the fourth quarter of last year delivered the results we were looking for. We saw great progress from the outreach we did to our members. We saw great progress of our teams working with our providers through various means to help our providers close gaps in care. And we also have seen great progress in our working with our vendor relationships.

So on every front that we talked about back in October, even before that, when we had our Stars call, we have made significant progress and feel very good about that progress. As Jim said, though, we are taking a very prudent approach to how we think about setting our thresholds and targets in the future and have set them in a way to have them be a significant stretch to our organization to push them to continue to excel. And

so that's the reason for some of the caution you're hearing and that we are pushing our teams. We've seen great progress and feel good about where we stand right now.

Operator

Ben Hendrix, RBC Capital Markets.

Ben Hendrix - *RBC Capital Markets Wealth Management - Analyst*

You discussed in your prepared remarks higher than expected. D-SNP attrition for the year and caution around change in SEP rules. And I was wondering if you could provide some more detail around how you're thinking about the range of outcomes there? And then by extension, how is the attrition you saw in the SEP in that population kind of impacting or informing your MCR guidance range?

George Renaudin - *Humana Inc - President, Insurance*

I'll start, and then maybe Celeste can add on the benefit ratio. So look, first of all, we are pleased with the outcomes of our AEP given the members we gained versus those we lost. We have seen that our pricing strategy worked and that we are retaining members that are on path to necessary margin recovery and expansion that is critical to the point that Jim made before. We are seeing members that have a shift to higher lifetime value segments in membership. We're seeing strong performance to date in markets with a strong concentration of our best value-based partners, including states like Florida, Illinois and Texas. We are seeing higher than historical percentage of our non-SNP, our core members, sales coming from member switching from our competitor MA plans. And as Jim mentioned, we're seeing continued shift to our higher-value distribution channels. So all those things feel good in our pricing strategy.

However, as you point out, we retained fewer members than we expected in our dual products. There's a lot to be learned there and we are learning from that. We have a number of pilots in the AEP that will help us progress towards our strategies moving forward and helping our D-SNP repricing, as Jim has called out. I would also add that when you think about the dual product, don't disconnect that from the very exciting success we've had in Medicaid RFPs. With the recent wins we've had in Georgia and Texas, that takes us to 13 states. And as I think you all are aware, the connection between Medicare and Medicaid is growing stronger and the integration of the rules that are coming out. And so having a larger Medicaid footprint successfully implementing those states will also help us going into the future. So while we've retained fewer members than we expected, we feel good about how we're set up for the future.

Celeste Mellet - *Humana Inc - Chief Financial Officer*

Thanks, George. Just to come back to what I had said earlier on the benefit ratio. So the majority of the improvement that the underlying improvement is from plan exits. But if you recall, we deliberately exited unprofitable plans. So additional D-SNP losses helps on the margin, but most of the underlying benefit improvement was something we did very intentionally. And then we also made some adjustments to benefits in our remaining plans. So the improvements are very intentional. Just one thing I wanted to add to George's comments on D-SNP is 30,000 of the D-SNP losses were due to redeterminations. As you know, the way each state did what varies from state to state. So about 30,000 was included in that number.

Operator

Whit Mayo, Leerink Partners.

Whit Mayo - *Leerink Partners LLC - Analyst*

I may have missed this, but just wanted to get an update on expectations for Part D seasonality this year, given all the changes this year and the higher deductibles that we see in the market. So just any observations would be helpful.

George Renaudin - *Humana Inc - President, Insurance*

Whit, it's George. So as we think about our PDP strategy, we are pricing for margin given the additional risk of IRA. And we've taken a very disciplined approach to how we're pricing that given that increased planned liability. As you know, we're participating in the premium stabilization demonstration, and we are expecting to see growth of roughly 200,000 members versus our prior expectation of flat. There are a number of competitive dynamics that are driving that increase, including a number of plans available in '25. Of course, the premium stabilization demonstration has an impact on that. And we've maintained strong relationships with our brokers.

We feel good, though, about the way we price the product. While we price for margin, we're taking a measured approach in our assumptions to our guidance, given the IRA changes and given the uncertainty there. We are monitoring throughout the year. The most recent data given that Part D and MAPD does complete more quickly in the drug space. We don't see any problems there at this point. We see that the current data supports our pricing strategy and tactics that we've taken.

Celeste Mellet - *Humana Inc - Chief Financial Officer*

Yes. And just to add to that in terms of seasonality, and I'll address the seasonality in our guidance in general since the IRA is the biggest piece of it.

So first, to remind you, our -- we expect 60% to 65% of our earnings in the first quarter which is a significant shift from last year and prior periods. And there are really four key drivers of that.

First, are the IRI changes, which shift more responsibility to the plan but seasonality also changes because members are working through their MOOP earlier in the year and planned liability increases as the year progress -- progresses versus CMS reinsurance kicking in, in the back half of the year like in 2024.

Second is planned benefit design changes, including the addition of deductibles that were made in line with the focus of driving sustainable long-term membership growth. In both the cases of the first and the second, the member bears more expense in the beginning of the year, and we bear more expense in the end of the year, shifting earnings more towards the front of the year.

There are two more drivers, which are less impactful. One, and I called this out earlier, is the change in the number of days and how they fall on the calendar, including the leap year in 2024. And then finally, the timing of when we expect to make the investments we mentioned previously.

Operator

Erin Wright, Morgan Stanley.

Erin Wilson - *Morgan Stanley Co. LLC - Analyst*

You touched on this a few times during the call, so I want to circle back in terms of digging into a little bit more. But in light of that CMS push for further integration, across Medicare and Medicaid and to service that D-SNP population by 2030. There are some certain requirements by 2027 as well. How do you think about your positioning at this point?

And kind of in that spirit of being proactive and looking ahead, how do you think about that in light of your Medicaid strategy? And do any of these efforts, whether it's Stars litigation cost savings, other initiatives detract at all from your efforts on that front?

James Rehtin - Humana Inc - President, Chief Executive Officer

Erin, thank you for the question. As we think about the further integration of Medicare and Medicaid, as I said, the impressive win rate that our Medicaid team has had and increasing our footprint is really in line with our plans as we go out as we think towards 2030. As we've talked about before, we have a five-year plan that we started last year that carries us almost to that same period. And we are progressing very nicely along the trajectory that we expected in warning Medicaid states and increasing that footprint for that future integration.

Do keep in mind, though, that the integration applies only to those states who have moved forward with HIDE and FIDE SNPs. And so when you think about that, that is almost half the states are in that bucket. So just keep that in mind as you're thinking about the Medicaid and Medicare integration rules and how they apply.

One of the things we're paying a lot of attention to as we are selectively choosing which states to participate in what states to submit RFP responses, is we're making sure that we are looking at where our current duals are not just where our dual SNP members are, but also where duals exist in our core underlining products, you have to look at both. And as we're doing so, we are making sure and we're ensuring that we are prioritizing those states and that we will continue to cover the dual membership that is necessary to protect our margins and depict our growth going forward.

Celeste Mellet - Humana Inc - Chief Financial Officer

Yes, I just want to come back to your question about creating capacity and the way I think about it, and these are all tied together in terms of our ability to deliver for shareholders, is we need to do better on the clinical side and reduce operating cost to, one, invest in our membership. So we continue to grow profitable long-term membership. Two, invest in Stars and they're not in any particular order. Three, invest in our Medicaid growth, as you probably read in our prepared remarks, there is a J-curve associated with the business. There are -- the initial years, we are -- they are a drag on our earnings. So we need to make sure that we can do that. And then four, is to invest in growth in CenterWell, which we believe is better for our members.

All of these things are better for our members. So we really need to think about are the things we are doing getting us to one of those four things. And they're tied to Jim's levers as well.

Operator

Scott Fidel, Stephens.

Scott Fidel - Stephens Inc. - Analyst

I was hoping to get maybe a little more visibility or insight just into the Medicaid margin trajectory and sort of how that's flowing from '24 into '25. I know that you were expecting Medicaid margins to be at a loss in '24. Just curious, maybe you could give us a little more pinpointing on sort of where that sort of negative pretax margin percentage was in '25?

And then how you're thinking about -- I think in the prepared remarks, you commented on some incremental improvement, but curious on whether you think the business will get to profitability in '25 or still stay in that negative margin area?

And then if I could just sneak a quick follow-up in as well. Just would love an update just on sort of what you saw in the fourth quarter as it relates to specialty Rx trends. I know that's been sort of a key area of pressure. And specifically, just around the oncology drugs, which I know have been a key area of focus. Sort of how you saw that playing out exiting the fourth quarter?

George Renaudin - Humana Inc - President, Insurance

Scott. So I'll start with the Medicaid and then others can add in. Jim, I think we'll pick up from there.

Look, the Medicaid business, given all these wins and the strength of our progress there, Medicaid is emerging as a strong scale business with meaningful earnings potential as we look forward. 2024, as you mentioned, did come in line with our expectations, and we feel good about how we ended 2024. What we're seeing as you think about '25 is we are going to see roughly 175,000, to 250,000 member growth in the Medicaid block of business. That's going to come. Split, if you think about it that way, between Virginia, which is a new state that we're implementing in the summer of this year, at least that's when we're expected to, given the state's recent discussions with us. And then we also are expecting an additional allocation of members from Kentucky.

So with that, we do expect some modest improvements in margin. But as we've talked about and as Celeste mentioned the J-curve, currently, 45% of our members in 2025 are in states with less than three years of experience. So there's still maturity to do there, and we are making good progress down that maturation line as you think about our margin recoveries in that line of business.

Our most mature state, Florida is performing the expected margin that we would have for this business. So we have a proof point that not only is it our longest, but actually, it's our largest membership as well, has matured and is in the place that we expect it to be from a margin standpoint.

The 2025 rates, roughly 75% of our revenue, we now know exactly what those rates will be for '25. There's an additional 25% that are in what is called the pre-draft state that we do not have total clarity to. So overall, we're feeling good about where we are. The states have been very collaborative in helping to ensure that rates meet the acuity of the membership and that -- those discussions are ongoing and are progressing well.

James Rehtin - Humana Inc - President, Chief Executive Officer

Yes, let me just hit the specialty drugs. This will be quick. The specialty drug spend, it looks very much the way it has looked for the last couple of quarters. It is elevated, it is relatively stable. We're going to talking about specialty drugs. My guess is for a long time in the industry, but we feel like where we have priced and forecasted is the right place given what we're seeing. So yes, elevated, stable and kind of within the range of expectations that we had.

Operator

Joanna Gajuk, Bank of America.

Joanna Gajuk - BofA Global Research (US) - Analyst

Maybe just a couple of follow-ups. One question on the 2025 guidance. Can you give us either a numerical or qualitative, I guess, commentary about specifically the trend outlook for '25 and how does it compare to what you had experienced in '24?

And I guess the other piece of this equation waiting order. So I understand you want to see the final rate update there. But would you assume in your guidance? Do you assume something in that range of preliminary notice? Because I guess, historically, most of the time, final rate is embedded in proposal, but just kind of what are you assuming in your guidance for those two elements would be helpful.

James Rehtin - Humana Inc - President, Chief Executive Officer

Yes. Let me try to tackle both of those real quick. On trends, we're really forecasting expecting kind of normalized trend in 2025, coming off of what was elevated trend in 2024. That's, I think, the kind of easiest and simplest way to describe it. And as of right now, it's obviously very early in the year. We're not seeing anything inconsistent with that. And -- but a lot of data will come in over the course of the next 60, 90 days.

On the rate notice. We're not going to do a lot of commentary on the rate notice at this time outside of the commentary that we submit to CMS. What I will simply note is that, yes, the rate notice can change from the preliminary to the final. That's part of the reason we don't want to spend a lot of time commenting on it. And when we look at the preliminary that is out there, we would say the retrospective portion of that notice reflects what we all saw in the industry over the course of the last year, 1.5 years, and the forward-looking is still an open question.

There's a forward-looking component that, I think it's a forecast, but I think we would say it probably underestimates what forward-looking trend is likely to be. And so we are -- that's kind of how we think about it right now, and there's a lot more to develop over the course of the next few months.

Operator

George Hill, Deutsche Bank.

George Hill - Deutsche Bank Securities Inc. - Analyst

You guys have kind of gotten to a lot of the big picture stuff. I think I have a follow-up on Part D, which is, I guess, Jim, early, given that it's really near, are you seeing anything that's kind of changed your margin outlook, or expectation for Part D in '25?

And then kind of a follow-up is, are you guys doing anything more aggressive to manage the drug benefit in the B space, like trying to shift B drugs to de-coverage, such that you can do -- like shift financial responsibility a little bit to the government and to the manufacturers, and whether or not you're seeing any success there?

George Renaudin - Humana Inc - President, Insurance

Hey, George. It's George. I'll take this. So the -- as I've mentioned, the early data that we have on our claims for Part D, which do process more quickly, seem to confirm our expectations for utilization that we would have with the pricing. Things look sustained on the specialty side, as Jim mentioned, and on the traditional pharmacy side, things are moving along just as we would have expected. So again, it's confirming our strategy and our tactics and how we price the product and how we priced our bids for this year. We feel good about where we are.

As far as a B2B strategy, that's not a level of detail that we'll go into. But we continue to look forward to the Part D product within our MAPD, and we're seeing good progress in the PDP realm.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - TD Securities, Inc. - Analyst

You talked about margin pressure on group MA. Maybe just a little bit more detail there on what's specifically driving that? Is that more your strategy, competitor dynamics? And then I guess, how do we think about -- or how do you think about margin improvement in the group versus

the slope of where you think you can get to an individual kind of into 2027 and beyond. And then just what is kind of included in guidance for 2025 on the group?

George Renaudin - Humana Inc - President, Insurance

Sure. I'll start, Ryan. The group product, we have roughly 0.5 million members there, slightly over that. In the group MA market, what I would say as opposed to the individual market is somewhat less mature as an industry. There was a period of time, not very long ago that we're still living in where the industry was continuing to evolve and mature and offered rate guarantee contracts for multiple years. Historically, those contracts, or the long-term contracts, were in place. That is beginning to change. We're seeing change in the industry. We're seeing change in the way plans are responding to RFPs coming from large groups, especially when you think about large jumbo groups. And that's changing, but that will take some time to flow through the financials.

We do expect margin improvement in 2026 through pricing actions as those long-term contracts come up for renewal. But we will see some more pressure in '25 that's built into our guidance for 25%.

Operator

Andrew Mok, Barclays.

Andrew Mok - UBS Securities LLC - Analyst

Can you share the splits of the incremental Stars investments across the MLR and OpEx line? And secondly, do you have any updates on the Stars mitigation effort for 2026 in the event of an unfavorable lawsuit? I know you've discussed the possibility of crosswalking the group contract, but I don't think you've committed to that plan. So any clear actions that you can point us to on the mitigation front would be helpful?

Celeste Mellet - Humana Inc - Chief Financial Officer

Andrew, it's Celeste. On the investments, we'll provide more color as the year progresses, both in terms of the -- where in the income statement will flow and the impact to the ratios. But we'll do that as the year progresses, depending on various tests and things like that, they may fall. That may move throughout the course of the year in terms of where they come in.

James Rehtin - Humana Inc - President, Chief Executive Officer

Yes. On the group book, I'll hit that real quick. We are still assessing that. So we have not made a decision. That's not a decision that we need to make until really late summer or even early autumn. And so we have time. And depending on how a number of things play out, that could influence the final decision. So once we have gotten there, we'll be clear with folks, but we are not there yet.

Let me just shift to saying thank you to everybody for joining us this morning and for your interest in Humana. I also just want to thank the 65,000 associates that we have who are serving our members and patients every day. When we help our members and our patients get the right care at the right place with the right outcomes, everybody wins. And that is what we are working to do every day, and that is what our 65,000 associates are working to do every day. We appreciate your support, and we hope you have a great day. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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