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HUM.N - Q1 2025 Humana Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

**James Rechten** *Humana Inc - President and CEO*

**Celeste Mellet** *Humana Inc - Chief Financial Officer*

**George Renaudin** *Humana Inc - President, Insurance*

## CONFERENCE CALL PARTICIPANTS

**Sarah James** *Cantor Fitzgerald - Analyst*

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

**Justin Lake** *Wolfe Research - Analyst*

**Andrew Mok** *Barclays - Analyst*

**Stephen Baxter** *Wells Fargo - Analyst*

**AJ Rice** *UBS - Analyst*

**Joshua Raskin** *Nephron Research - Analyst*

**Joanna Gajuk** *BofA Global Research - Analyst*

**Lance Wilkes** *Bernstein - Analyst*

**Erin Wright** *Morgan Stanley - Analyst*

**Lisa Gill** *JPMorgan - Analyst*

**Michael Ha** *Robert W. Baird & Co., Inc - Analyst*

**David Windley** *Jefferies - Analyst*

**George Hill** *Deutsche Bank - Analyst*

**Ann Hynes** *Mizuho Securities USA - Analyst*

## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to Humana's first quarter 2025 earnings call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

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### 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 Rechten, 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 first quarter 2025 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 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](http://humana.com), later today.

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

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**James Rehtin** - Humana Inc - President and CEO

Thanks, Lisa. Good morning, everyone, and thanks for joining us. We are pleased with our start to 2025. We are reaffirming our full-year guidance. We came in ahead of plan for Q1. And I will note that some of the outperformance in the quarter is timing related. It is also still early in the year, so we are continuing to monitor trends. This includes changes in consumer behavior due to the IRA.

There's nothing new on our litigation related to CMS' 2026 star ratings. We are still waiting on a ruling. I think the best way to describe where we are at at this moment is that while there are still challenges to navigate, there are no surprises. The external environment is evolving as we expected, and we are executing against the things we control.

We have scheduled an investor conference on June 16. We have three objectives: one, provide a clearer picture of the earnings power of the business; two, explain what it will take to unlock that earnings power; and three, give you clarity on how to track our progress.

Now I will briefly describe the progress we are making operationally. And as usual, I will frame my comments today around the four basic drivers of our business. That is product and experience, which drive customer growth; clinical excellence, which delivers clinical outcomes and medical margin; a highly efficient back office and capital allocation; and growth in CenterWell and Medicaid.

Regarding our Medicare product and experience, there are no changes to our membership guidance for 2025. We had strong performance in OEP, and the early outlook for the rest of the year is trending positively. As we head into the bid cycle, we believe the rate notice better reflects the trend environment and should enable greater industry stability.

Regarding clinical excellence, operationally, we continue to make progress on Stars. We are closing gaps in care and driving both quality and experience for our customers. For example, through recent partnerships, we are better engaging members who don't have a primary care provider. We are doing this by pairing in-person home visits with virtual health. We expect this work will close gaps in care by 25% year over year.

Another effort is through our medication adherence campaigns in which we are seeing 30% to 50% reduction year over year in members with late refills.

Regarding a highly efficient back office, our G&A costs for the quarter were slightly better than expectations. This was largely due to the timing of costs that will be incurred in the second and third quarter. However, we are also seeing good progress in our cost management efforts. One example is increased use of AI in our contact centers. This technology quickly surfaces complex information to our representatives can have more impactful interactions with our members while reducing call times.

Regarding capital allocation and growth in our CenterWell and Medicaid businesses, we're seeing robust patient and membership growth in Primary Care and Medicaid, continued growth in our value-based models in home health, and volume growth in specialty pharmacy. Over the last year, we've added 30 new centers through acquisition and partnership, which are helping to fuel our growth in Primary Care. We received an intent to award notice from Illinois for their new Dual-Eligible Special Needs program. And CenterWell Pharmacy has started its work as the fulfillment center for NovoCare's weight loss medication directed to cash pay customers. As you may have seen in the news yesterday, we have also reached fulfillment agreements with three other companies in the past few days.

All in, I am encouraged by our recent performance and growth. And with that, I will turn it over to Celeste for a few remarks before we go to Q&A.

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**Celeste Mellet** - Humana Inc - Chief Financial Officer

Thank you, Jim. I would reinforce that while it remains early, we've had a solid start to the year. The underlying fundamentals of the business, including membership and patient growth, revenue and medical cost trends are developing as expected. And we have been doing substantial work around operating efficiencies with a focus on increasing flexibility and operating leverage while also making incremental investments to improve member and patient outcomes and support operational excellence, positioning the company for long-term success.

The EPS outperformance in the quarter was largely driven by a shift in the expected timing of certain expenses. As a result, we are pleased to reaffirm our full-year outlook, including adjusted EPS guidance of approximately \$16.25 and expected insurance segment benefit ratio of 90.1% to 90.5%.

Looking ahead, we remain focused on managing the levers within our control, expanding margins, and realizing the earnings potential of the business. These levers include quality with a focus on delivering industry-leading Stars results on a sustainable basis, clinical excellence, operating efficiencies and continued maturity of our Medicaid and CenterWell businesses through their respective J curves.

I'm also spending time ensuring every dollar of the balance sheet drives value. Given my background, this is something that has been a major focus for me in prior roles, and I see a real opportunity to continue to increase the efficiency of our balance sheet.

All in, we believe there is substantial value to be unlocked at Humana over the mid and longer term, and we look forward to sharing more at our investor conference in June.

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

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

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

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## QUESTIONS AND ANSWERS

**Operator**

Sarah James, Cantor Fitzgerald.

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**Sarah James** - Cantor Fitzgerald - Analyst

Thank you. I was wondering if you could help us with how much of your investments moved out of 1Q. Did it move into 2Q? And outside of the timing of that, did 1Q come in in line with your expectations?

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**Celeste Mellet** - Humana Inc - Chief Financial Officer

So when we gave guidance for several hundred million dollars in investments earlier in the year, we said that the timing would be unclear. Most of the impact of the incremental investments flowed through the MLR in the first quarter was only about 10 basis points. That was in large part because many of the Stars investments that Jim spoke about ramped later in the quarter, and we would expect them to be higher in the second through the fourth. So still the same expectations for the level of investments in the year just later in the year versus the first quarter.

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**Operator**

Ben Hendrix, RBC Capital Markets.

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

Thank you very much. I was wondering if you could give us an update on your thoughts around the past to the 3% MA margin target? Clearly, the Stars ruling will have a big impact there. But just anything changing on kind of the overall investment focus, investment targets, and then kind of the impact you're thinking against this better-than-expected MA rate update we're seeing for 2026? Thank you.

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**James Rehtin** - Humana Inc - President and CEO

Yeah. Largely, we would describe things as we're in the same place that we've been. We're focused on getting back to a 3% margin. As you noted, the exact timing is tied to the outcome on Stars. It's very much where we are focused, but there's no meaningful change or update from what we've communicated in the past.

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**Operator**

Justin Lake, Wolf Research.

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**Justin Lake** - Wolfe Research - Analyst

Thanks. Just sticking on Stars for a second. I was hoping to see if you had any update on timing. How you are expecting to handle bids, or how we should think you're going to handle it if you don't get an answer by the time you have to submit?

And then most importantly, I remember last quarter, you talked about the fact that you had made some real progress coming out of 2024 on your Stars initiatives for 2026 Stars, right, that will come out in October. I'm just curious, I know it's impossible to say where you end up, obviously, given all the volatility and the cut points. But I was wondering if you could tell us, if the cut points don't change, do you feel like you made enough progress that ex cut points, you're going to see enough underlying Star performance improvement to get your Stars back, right, or to be 4 Stars and predominantly in 2026?

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**James Rehtin** - Humana Inc - President and CEO

Yeah. This is Jim. Let me hit a few things at a high level, and then I'll hand it off to George as well. There were multiple questions in there, so I'm going to try to hit each of them. Stars litigation, we really do not have insight into the timing. It really is the legal system that dictates what that timing is, and we do not have any more visibility than you do. I will let George touch on bids here in a second.

And then on the outlook on Stars, I'm going to continue to reiterate that we felt good about the progress we made in the fourth quarter of last year, and we feel good about the progress we're making this year. What we're really not going to do is speculate on what exactly that means and

what the cut points of this or that. That's a level of speculation that we're just not really going to entertain. But we do feel good about the progress operationally. I think that's the most important message.

And George, do you want to talk about the bids?

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**George Renaudin** - *Humana Inc - President, Insurance*

Sure. Sure. Thanks, Jim. Justin, the places where we are right now in bids is actually, they're ongoing right now. We're actively working through the Stars strategy. And as we've talked about before, work through the mitigation, diversification strategy really with the idea of reducing the amount of concentration we have on certain contracts.

As we've talked about, that's going to be a multiyear process as we work that through. We're currently working through that diversification. We're working through the bids. Given the competitive nature of the bids, we're not going to share our pricing strategy for competitive reasons, obviously, and we're not going to give any specifics there. But I will tell you that what we're looking to do is balance membership and margins, focusing on maximizing long-term earnings power of the business, and we have to keep that in mind for the future as well. So that's our take going into it.

With regard to some of the targets, as we've talked about before, we've set internal targets, contemplating an appropriate buffer as we have our internal teams working towards ever-increasing performance. And so that's the take we're going to have there and that we have to have in order to make sure that we return to industry-leading Stars results.

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**Operator**

Andrew Mok, Barclays.

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**Andrew Mok** - *Barclays - Analyst*

Can you provide more color on your experience in Part D relative to expectations? And specifically, can you comment on the pace that seniors are tracking into the catastrophic phase? And are there any early indications for how senior behavior or manufacturer behavior is changing this year? Thanks.

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**Celeste Mellet** - *Humana Inc - Chief Financial Officer*

A few things. One, generally, trends across our business are trending in line and consistent with our expectations. Our guidance contemplated on the medical side, mid-single-digit growth in trend, and that's consistent with what we're seeing. And on the pharmacy side, low double digits growth, and that is also consistent with what we're seeing.

We have seen some of the dynamics that have been called out, including higher trends in oncology. We did see that last year, and again, contemplated in our guidance, everything is tracking in line, generally in line with our expectations.

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**Operator**

Stephen Baxter, Wells Fargo.

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**Stephen Baxter** - Wells Fargo - Analyst

Thanks. Just obviously, there's been a lot of membership change on the individual side of the business in particular. I guess, can you walk us through your visibility on risk adjustment at this point in the year and whether that needs to be thought about differently from a visibility point of view versus maybe the recent few years?

And then I imagine you've gone back and probably done some diligence on group MA in light of some of the industry commentary over the past couple of weeks. Can you just give a better sense of kind of maybe what you've looked at on the group MA side? And obviously, the PMPMs are up there, a decent amount more than the individual books. Just trying to make sure that you don't feel like you're seeing some kind of behavioral response to that. Thank you.

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**George Renaudin** - Humana Inc - President, Insurance

It's George. Thanks for the question. So I'll talk a little bit about the membership shifts we're seeing, and I'll hit on group MA real briefly.

With regard to the membership shifts we're seeing, we're pleased with our membership changes to date, given the members that we gained versus those we exited. We are focused on the long-term earnings power of the business, and what we're seeing is a shift to higher lifetime value segments and membership. We're seeing strong year-to-date performance in markets with a high concentration of members in our best-performing markets, including markets such as Florida, Illinois, and Texas. We're seeing a higher than historical percentage of our non-D-SNP members coming from other plans, which has some good implications for the MRA question that you asked.

We want members with sustainable margins. They're pleased with the progress we've made there. So on the individual side, we're very pleased with our strategy thus far, and that's playing out as we had desired.

On the group MA side, group MA is performing as expected to date. Revenue medical cost trends develop in line with our expectations. You may recall that in the past quarters, we've talked about the fact that the group segment is one that has had historical multiyear rate change -- guarantees, and that has led to some degradation as we have expected in our earnings guidance. We remain focused on improving those MA margins through renewal cycles. And what I can say today is that we've not seen any changes in behavior concerning trends due to that repricing activity.

So we're happy with where we are with group MA and that it is in line with our expectations.

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**Celeste Mellet** - Humana Inc - Chief Financial Officer

And if I could add just to clarify, everything is in line with our expectations to date for both the health plan and CenterWell as it relates to MRA and revenue. The v28 impact is as expected as it was for 2024. And as a reminder, we did call out a pretty significant Humana health plan impact from v28 last year. We called out about 160 basis point impact for 2025, and that is playing out as expected.

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**Operator**

AJ Rice, UBS.

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**AJ Rice** - UBS - Analyst

Thanks for the comments so far. I guess I'm just trying to think through. You have reiterated that you still have a long-term target of 3% pretax margin in MA. There's a lot of moving parts. Obviously, the open Stars litigation, the Part D changes and how that may play out next year depending on how they do the demonstration projects, et cetera. But you do have a better-than-expected rate update.

When you throw all that and everything else into the mix, the trajectory that you're on, is your -- I know you'll give more detail at the Investor Day, but is there any high-level comments you can make about whether the trajectories change your optimism about the progression you can make in '26, '27, and '28 back towards your target margins?

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**James Rehtin** - *Humana Inc - President and CEO*

Yeah. AJ, it's Jim. I'll start off here, and then we'll see if there's anything to add. The headline is, if you set Stars aside, we feel good about the underlying progress of the business. And then the challenge, of course, is then to reconcile that with the Stars outcomes that are unknown.

And so we do feel good about the underlying progress of the business. And to your point, one of our objectives at the investor conference is to be able to provide a little bit more color into what does that mean and how can you see it. You hit all of the many variables that are largely external that we're having to navigate. And yes, there's a whole bunch of puts and takes in there. The rate notice does better reflect trend, and there are regulatory headwinds that we're still navigating. You know what they all are. They're not new. And we expect that to continue. There's going to be puts and takes in the external environment.

What we are really focused on are what are the things that we can control. And there are things that we can control around medical cost, around G&A, around, obviously, Stars. And that really is differentially where we're focused, and that's where we're going to spend most of our time when we get to the investor conference.

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**Operator**

Joshua Raskin, Nephron Research.

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**Joshua Raskin** - *Nephron Research - Analyst*

Thanks. Could you provide an overview of the integration strategies you have between the Insurance segment and CenterWell? And within that, can you share performance trends on some of the cohorts and how those have been moving through CenterWell in recent years? I'm really just looking for an update on sort of levels of success you're having in these TBC arrangements and maybe how you plan to accelerate or not accelerate that in the future.

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**George Renaudin** - *Humana Inc - President, Insurance*

Want to start?

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**James Rehtin** - *Humana Inc - President and CEO*

Yes, I'll start, and then George may add some pieces on the integration component of the question. At the highest level, what I would again say is we're seeing strong patient growth. We're seeing that both because we're adding clinics, and we're seeing it within clinics. So we're seeing it on both sides. So that's a positive.

The member growth within maturing clinics is largely in line with where we have been modeling it and expecting it and forecasting it. And so again, we feel good about that. The v28 mitigation efforts are continuing to take hold, and the v28 impact is not really much different at all from what we modeled a couple of years ago. It's almost spot on.

And so in total, we feel very good about the Primary Care business in the direction it's headed in. Obviously, the J curves are multiyear. It takes time to work through those like this is an investment that you have to have some patience around. But we feel very good about the nature of the

investment and where it's headed. And you're seeing each tranche of new centers performing pretty consistently in the J curve as you would hope or expect. And so that's kind of where we're at broadly.

And then I'm going to make one comment on integration. Then I'm going to let George jump in. The main message across CenterWell, so this is not just Primary Care, this is across all three pieces of CenterWell, is that all three of those businesses have positive contributions to our Stars performance within the plan to our accurate diagnosis and follow-up of preventative care and the impact that that has on the plan and with retention of members. And so when you really think about, hey, how does that business help? It helps us with the core parts of how you deliver care effectively to MA members, and that's good for the plan. Like that is it in a nutshell.

With that, I'm going to hand it to George. He can give you a couple of specific examples.

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**George Renaudin** - *Humana Inc - President, Insurance*

Jim, thanks. So we're seeing a growing share of our members with CenterWell PCO, with our Primary Care organization, which is a big positive. And in line with that, you also see the interaction with our CenterWell Pharmacy and CenterWell Home. And the general thing that we see there is better health outcomes, for example, reduced ER visits, better care and all sorts of medical adherence measures, better care as far as screenings go, and frankly, just more interactions with the patient and our member, which is all very positive, which leads to the Stars results that Jim just mentioned being positive and higher retention.

So all in all, the continuing and the interaction between the insurance side of the business and CenterWell side of the business is very integrated. We are constantly figuring out how we can work better together to deliver better results for our members and their patients.

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**Operator**

Joanna Gajuk, Bank of America.

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**Joanna Gajuk** - *BofA Global Research - Analyst*

Thank you for taking the questions. So on CenterWell, actually, one question there. What drove outperformance in that segment earnings? You said something in the release along the lines of there's some timing. So I guess before, you were talking about some shift in timing around the investments you were making around Stars, but was there something else that was maybe different in CenterWell? So can you talk about the results in the quarter? Thank you.

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**Celeste Mellet** - *Humana Inc - Chief Financial Officer*

It's Celeste. So about a third of our beat in the quarter was driven by CenterWell. And so that beat was driven predominantly by PCO and pharmacy. So some is timing related in terms of admin expense, but there is a portion that could be durable, such as favorable pharmacy drug mix. Specifically, we saw favorability on the specialty side, including better-than-expected mix and strong agnostic sales. And then on the PCO side, we did have higher-than-expected patient growth. And then there was some PPD favorability, which we don't expect to repeat. So this could be durable, but it's early in the year, and we're keeping an eye on that.

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**Operator**

Lance Wilkes, Bernstein.

**Lance Wilkes** - *Bernstein - Analyst*

Great. Again, on CenterWell, can you talk a little bit about how the individual businesses within CenterWell are performing relative to your '25 and long-term kind of target margin expectations? And within Primary Care, can you talk a little bit about what drove the external revenue growth there? And in general, maybe just a little color on the puts and takes on internal versus external patient growth. Thanks.

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**Celeste Mellet** - *Humana Inc - Chief Financial Officer*

It's Celeste. So as I had called out, about a third of our beat in the quarter was driven by CenterWell. Home was in line. PCO was ahead of expectations. Pharmacy was ahead of expectations. As I called out, some of the pharmacy and PCO components that -- specifically the specialty mix and the patient growth could be durable for the year and drive higher results for the year, but it's too early to call out, or it's too early to call on that.

In terms of -- hopefully, I'm answering your question the right way. The growth, revenue growth in CenterWell was driven by a combination of the patient growth, the higher-than-expected patient growth, as well as some favorable PPD. So the patient growth could sustain itself, the PPD would not typically higher in the first quarter. Because of the outperformance in CenterWell, we did have variability in our benefit ratio in the quarter.

Over the course of the year, we would expect the benefit ratio for insurance and the consolidated to be consistent. In this case, the consolidated was lower because of that outperformance, and that's really driven by intercompany eliminations.

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**Operator**

Erin Wright, Morgan Stanley.

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**Erin Wright** - *Morgan Stanley - Analyst*

Great. Thanks. On the Medicaid side of the business, how are you thinking now in terms of visibility into that state rate mismatch and how that's progressing now and your confidence in terms of as we go into the second half and resolution of that? And anything in terms of calling out in terms of utilization across that business? Thanks.

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**George Renaudin** - *Humana Inc - President, Insurance*

It's George. I'll take this one. So Medicaid is emerging, as we've talked about. It's a pretty strong scaled business with a lot of potential earnings contribution as we go forward. Right now, what we're seeing is Medicaid is performing in line with our expectations for the quarter, and we are prouder and prouder every day to serve an ever growing group of Medicaid members working with our, say, partners.

The Medicaid success is something that we're very proud of. We're presenting a fresh new face on Medicaid through our company through the Healthy Horizons product that we have, and we're excited about the success we've had there. We continue to have strong growth. We've had approximately 100,000 growth year-to-date, in line with the 175,000 to 250,000 growth we expected for the year. We're very excited about ending -- starting to get to a footprint of 13 states.

Georgia declined to rebid the contract, which we're glad to see. And we were selected, as Jim talked about in his opening remarks, for new Illinois contracts for the FIDE and LTSS business. That's pretty exciting because it opens up access to 450,000 duals in Illinois, which is a major win for us, and we're very excited about that. The expansion population continues to grow for us. Virginia implementation is on track and going well. And what we're seeing is modest improvement in margins in '25 as our rates are just to reflect recent trend experience.

So overall, we're happy with where we are. We're growing it as we've expected, and we're seeing trends in line with our expectations.

**James Rehtin** - Humana Inc - President and CEO

I'm going to add just one thing. You had asked about visibility into kind of state-level rate adjustments. One of the benefits of having now expanded into more states and more programs is that while you're not going to get every state right every year, the broader this program grows, the more you can forecast it across states. And so we did not get every single state right this last cycle, and I'm sure we will not get every state right in the next cycle.

But across the states, it actually was, once again, pretty close to where we expected it to be. And we think we've built in pretty reasonable expectations for the back half of this year and the adjustments that we'll see there as well.

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**George Renaudin** - Humana Inc - President, Insurance

Yeah, that's fair, Jim. And I'll also add that our state partners have been very collaborative in working with us on those rates. And we do have visibility now to 76% of our rate for this year. So again, we feel very good about where we are in our projections.

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**Operator**

Lisa Gill, JPMorgan.

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**Lisa Gill** - JPMorgan - Analyst

Thanks very much. Celeste, I want to go back to your comment around mid-single-digit trend that you're seeing on the medical side. Can you maybe just talk about the level of visibility you have? And did you see any variability as you were exiting the quarter? And then just secondly, I just want to make sure I understand the cadence of earnings. I think that you noted that 60% to 65% of Part D is coming in Q1 because of the changes under IRA. Is there anything else we should be aware of as we think about the cadence of earnings throughout 2025?

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**Celeste Mellet** - Humana Inc - Chief Financial Officer

Yeah. So as I called out, '25 trends are generally developing as expectations. As you know, the first-quarter flu season was heavy. We did anticipate that because it started later. It didn't scale up in the fourth quarter as it normally would. And we also were in the middle of the spike when we gave our guidance.

Beyond the flu, based on the data we have to date, trends are developing as expected. We have data through the end of April, and nothing that we've seen gives us pause. So, so far, in line with our expectations and what's built into our guidance range.

In terms of the cadence of earnings, to your question, our earnings will be front loaded, predominantly driven by IRA. So higher in the first, lower in the second, lower in the third, lower in the fourth. You can see the opposite move, so lower in the first, higher in the second, higher in the third, higher in the fourth in terms of the benefit ratio. One other thing to consider as it relates to the end of the year is that our guidance does anticipate a doc fix in late in the third quarter or in the fourth quarter.

And the impact of that, typically, a full year is -- you get a full-year impact, which you have to recognize in a very short period of time. That would be reflected possibly just in the fourth quarter, depending on when it comes through. So that would put pressure on the end of the year, but it's contemplated within our guidance.

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**Operator**

Michael Ha, Baird.

**Michael Ha** - *Robert W. Baird & Co., Inc - Analyst*

Thank you. Just a quick clarification from your prepared remarks. You mentioned remaining committed to individual MA margins of at least 3% over time. That change in wording from '27 to over time, anything to read into there? Is that implying '27 is still the target?

And I understand your '25 adjusted EPS guide unchanged, but GAAP EPS revised lever of about \$1.20 or 8%, there's like there's a pretty large (inaudible) valuation adjustment made for your CenterWell Primary Care centers. Are you marking down the fair value of those centers? Curious if you could talk us through that.

And I know, Jim, you mentioned your confidence on v28 mitigation efforts, CenterWell. I just wanted to clearly ask, is there any change at all in the post v28 world and your thinking, your viewpoint on the expected J curve of these primary general overall cohort maturation story value-based care, meaning all of your most mature cohorts are still expected to do the same targeted margin going forward as you had targeted for v28? So basically, no structural impairment at all to value-based care because of v28?

**James Rehtin** - *Humana Inc - President and CEO*

Yeah. There are a bunch of pieces in there. I will try to hit a few and then see if the team wants to hit any of the others. Let me start with the 3%. I was not intending to make any change from past commentary. So we are still targeting '27. We don't see any reason that we would not be back to normalized margins in '27 at this point in time. And obviously, it's 2027. But no change from what we've said historically on that front.

And then going back to the J curves and the CenterWell business, no structural impairment to the performance of those businesses. So once again, we have operationalized or are in the process of operationalizing things that will offset the impact of v28. We expect those J curves to mature as we would before. And the team is doing really, really good work to make sure that that happens.

**Celeste Mellet** - *Humana Inc - Chief Financial Officer*

It's Celeste. Just to add, first, the ability to hit the MA margin will be partially dependent on Stars. So that will be a big important piece for 2027. Second, as it relates to the move in the put-call, it's a pretty -- it's a very complicated calculation.

There is no implication that we are writing down those assets, that's unrelated to v28. It's just that there is a lot of ins and outs in that calculation. There's nothing to read into the adjustment in the GAAP EPS guidance.

**George Renaudin** - *Humana Inc - President, Insurance*

And can I just add as well that the disproportionate impact of v28 for high-acuity patients was something that was well understood and considered in our forecast, the bid work we've done, the bid work we're doing now. And we have shared in the past, as Celeste said, I think, early on in the call, that bid impact on both the health plan and CenterWell side was very well understood, and it's trending as we've expected. As a reminder, we called out very early the significant health plan impact versus the industry, where we had a higher impact because of a greater share of members with high-performing value-based providers. And that's been continuing to be true and is in line with our expectations.

**Operator**

David Windley, Jefferies.

**David Windley** - Jefferies - Analyst

Thanks for taking my questions. I believe -- and I want to focus on membership, please. Included in the membership decline this year was, I think, about 140,000 duals. I'm wondering if you could comment on the magnitude of margin help you get this year from exiting that particular block of business. Would you aspire to try to get those back in future years? And does 2026 contemplate any more additional exits? Or is that completely done? I think you said that in the past, but I don't remember your answer.

**Celeste Mellet** - Humana Inc - Chief Financial Officer

We have said without specifically getting into member cohorts, that's a 100,000 level, is that we saw a material -- we targeted and have seen a material improvement in our margins through the plans and the markets that we exited, and we're not going to get on some more specifics.

As it relates to duals, to the extent that the -- pursuing those members drive sustainable long-term value for us, we will target them, but we are not going to chase growth for growth's sake if it does not drive sustainable long-term value.

**George Renaudin** - Humana Inc - President, Insurance

The only thing I would add to that, Celeste, is that the additional recent wins we've had in Medicaid really is setting us up for a good grounding as we are preparing ourselves for success in that marketplace, which opens up many dual markets, just as the example I gave regarding Illinois earlier.

**James Rehtin** - Humana Inc - President and CEO

And I'm going to add one more thing. I believe you asked how are we thinking about exits in 2026. Every year, there's some puts and takes on places where you're adding plans and stepping away from plans, but we expect it to be a normal year. We're not expecting an outsized level of exits the way that we did this past year. This past year, largely did what we wanted and needed it to do. And so again, we're looking at kind of the normal puts and takes you would see in most years as we head into 2026.

**Operator**

George Hill, Deutsche Bank.

**George Hill** - Deutsche Bank - Analyst

Thanks for taking my questions. I wanted to follow up on the visibility to cost trend. So as you said, you had data through the end of April. I assume that you meant that was for pharmacy and not for core medical. So I'd be interested in your comments on kind of core medical visibility, where you are here and where you think you are from the end of the year?

And then I kind of wanted to follow quickly on Dave's question on membership acuity. And I guess if you look at the total individual book, we know that you lost about the 140,000 duals members. I guess I would just like macro comments on how much member acuity of the entire book came down and comments on how you think about that as it relates to profitability. And are you seeing -- do you feel like you're seeing better member profitability pursuing a lower acuity book of business or a higher acuity book of business? Thank you.

**Celeste Mellet** - Humana Inc - Chief Financial Officer

So in terms of data, we have authorization data, claims data, as well as insights from our CenterWell assets, including SNF insights from OneHome, drug pipeline and authorizations from our pharmacy, which can be a very, very early indicator of challenges if they are rising, patient utilization

from PCO, and we also spent a lot of time with other provider and vendor partners. And nothing we're seeing through the end of April suggest trends outside of our guidance.

In terms of complete claims, we have fully completed claims, mostly fully completed claims through the end of February, but significant data through the end of April.

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**George Renaudin** - *Humana Inc - President, Insurance*

And then last, with regard to your other question about member acuity, I'll just repeat what I said before regarding we're seeing a shift to higher lifetime value segments. We have strong in-year performance in markets where we have very good performing value-based partners like Florida and Illinois and Texas. And we continue to see that develop as we would like it to as this year goes on. And we're also seeing an interesting thing that we're seeing right now is higher overall member bounce back rates in OEP than we are expecting, which is all very positive to our projections.

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**Operator**

Ann Hynes, Mizuho.

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**Ann Hynes** - *Mizuho Securities USA - Analyst*

Thank you. What is the v28 headwind in 2026 to MA rate versus the 160 bps in 2025? Thanks.

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**George Renaudin** - *Humana Inc - President, Insurance*

Yeah. I'm not sure exactly where that question -- how to answer it other than to say that v28 was phased in over three years. And so when we gave our guidance and when we talked about what we thought the impact was going to be for v28, it is exactly in line with what we talked about at the time. We called out that significant impact versus the industry at CMS release in their note, and we're seeing it develop just as we said, where, for us, it's about 160 basis points higher than what CMS has said the industry impact would be.

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**James Rehtin** - *Humana Inc - President and CEO*

Okay. I want to thank everybody for joining us today, and I want to thank you for your interest in Humana. I also want to thank our 65,000 associates who serve our members and patients every day. We appreciate everybody's support, and we hope you have a great day. Thank you.

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**Operator**

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

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