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# Humana Inc. (HUM)

Q1 2026 Earnings Call

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**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

**George Renaudin**

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**Justin Lake**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and thank you for standing by. Welcome to Humana's first quarter earnings call. At this time all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

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

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### Lisa Stoner

*Vice President-Investor Relations, Humana Inc.*

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. Following these remarks, we will host a question-and-answer session where Jim and Celeste will be joined by George Renaudin, Humana's President of Insurance Segment and Dr. Sanjay Shetty, President of CenterWell.

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 risk and uncertainty. 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 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 in 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 reconciliation 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 will turn the call over to Jim.

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### James A. Rehtin

*President, Chief Executive Officer & Director, Humana Inc.*

Thank you, Lisa, and good morning, everyone. Thank you for joining us today. We have a few headlines. Let me start with we are pleased with our first quarter, and that is because we are where we expected to be. And I'm just going to repeat that for emphasis. We are pleased with our first quarter because we are where we expected to be.

And right now, second headline, we are turning our attention to bids. And we are approaching bids with a focus on returning to a sustainable margin of at least 3% in 2028 and making progress against that in 2027. We know that

we need to make some progress against that in 2027. Those are the commitments we laid out in June of last year at Investor Day, and we stand by those commitments. The primary headline here is that we believe that we're on track to meet our commitments from Investor Day, and we're doing the things to follow through on that.

So as usual, I will frame my comments today around the four drivers of our business. First is product and experience, which drive customer retention and growth. Second is clinical excellence, which delivers clinical outcomes and medical margin. Third, highly efficient operations; and fourth, capital allocation and growth in both CenterWell and Medicaid.

So let's start with product and experience, where there are three things that I want you to take away. First of all, our member growth trajectory is on track. Now we will, and we have, and we will continue to manage distribution and growth dynamically if things change. But our growth trajectory is on track. Second, I want to emphasize that membership, both new and returning, is performing as expected three months into the year.

Now, as we turn our attention to bids for the 2027 plan year, I want to express appreciation for CMS's engagement on the improved rate notice. This helps promote more stability in the industry as a whole, and it has a positive impact on the health of our seniors.

Nevertheless, medical cost trend continues to outpace program funding, and so our third takeaway, which is something we have noted previously, is that we will adjust benefits to remain on track to deliver our 2028 commitment of returning to a sustainable margin of at least 3%. And again, we expect to make the necessary progress towards that goal in 2027. We are very aware that we need to make some progress in 2027.

So, turning to clinical excellence, our outlook on BY 2028 Stars has not changed. We continue to be confident that we're on the right track to return to top quartile Stars results in BY 2028. Our performance on the Stars compensation metric, as disclosed in our proxy, is a good indicator of our progress. However, as you know, we don't know industry thresholds. And so while we feel good about our progress, we cannot guarantee an outcome in October. We will share more about our progress in the Q2 earnings call once the hybrid season is complete.

For BY 2029 Stars we are seeing a strong early start. We have early engagement efforts. These are new efforts, early engagement efforts which are translating into improved member activation and improved outcomes.

To provide just one example, we're identifying certain chronic conditions among new members faster than we have in the past. What this allows us to do is to better target our gap closure efforts, and as a result, at the end of Q1, we are about 5% ahead of last year's gap closure pace on a per-member basis on certain key HEDIS metrics.

Now, regarding highly efficient operations, we continue to make progress on our operating model changes. This includes centralizing certain teams, expanding outsourcing, and increased automation of processes. All of these things are increasing efficiencies.

And then finally, on capital allocation, we recently completed the acquisition of MaxHealth. This is a Florida-based primary care organization that will expand CenterWell's reach into new critical markets. We also saw Medicaid membership grow by approximately 50,000 lives. And this is largely driven by the January start of programs in Michigan, Illinois, and South Carolina.

So in conclusion, we expect to double individual MA margin in 2026, adjusted for Stars. We expect to double individual MA margin. We continue to feel good about the way our member growth is setting us up for this year

and subsequent years. We are making good progress on Stars. We will continue to be disciplined in pricing with a focus on unlocking the earnings power of the business by 2028.

As a final note, before I turn it over to Celeste, I want to share an update on the Insurance leadership transition that we announced in December. George Renaudin, Insurance segment president, will retire effective June 29, 2026. Until then, he will focus primarily on the annual MA bid process, and he will continue to serve as a strategic advisor through at least the end of 2026.

Aaron Martin, who is currently President of Medicare Advantage, will begin leading the day-to-day management of the Insurance segment now. He will continue to report to George, and he will formally assume the role of Insurance Segment President when George retires.

John Barger, a 30-year industry veteran with more than a decade in Medicare Advantage, will lead MA operations effective immediately, and will formally assume the role of President of Medicare Advantage when Aaron transitions. I want to personally thank George for his nearly three decades of service to Humana and his instrumental impact on growing the Medicare Advantage business.

And with that, I will turn it to Celeste for a few remarks before we go to Q&A.

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## Celeste Mellet

*Chief Financial Officer, Humana Inc.*

Thank you, Jim. There are a couple of items I will briefly address before we begin Q&A. First, we are pleased that available information to-date suggests that our Medicare Advantage members, both new and existing, are performing in line to better than our guidance even after adjusting for a more subdued flu season and the winter storms.

This data, including what we continue to monitor in April, includes risk scores, hospital admits per thousand or APTs, pharmacy claims and initial medical claims, which are continuing to complete for the first quarter. And we continue to enhance our claims and cost trend monitoring practices, including anomaly detection to identify and react to claims and payment trends faster as well as to improve first time payment accuracy. This important work improves visibility into cost trends and further strengthens payment integrity.

Turning to capital deployment and the balance sheet. In the first quarter of last year, I posited that there was a real opportunity to increase the efficiency and resiliency of our balance sheet. Over the last 12 months, we have made considerable progress towards this end. Our efforts include bolstering liquidity and addressing future funding needs with rating-agency-friendly instruments, such as the \$1 billion junior subordinated notes we completed in March, which is expected to fund 2027 maturities.

In addition, we executed on several initiatives to optimize the balance sheet, including deploying subsidiary reinsurance and augmenting legal entity structures, successfully mitigating over \$3 billion in capital contribution requirements for 2026.

We are maintaining dividend levels and limiting share repurchases to amounts necessary to offset dilution from employee stock compensation, though intend to increase both when our cash flows and funding capacity grow with the execution of the plan laid out at our Investor Day.

And we are pursuing non-core asset divestitures to help fund strategic acquisitions and expect to share more news with you on this front over the next several months. All-in, we are pleased with the results of our balance sheet

enhancements and are comfortable with our capital levels, which provide a prudent buffer above regulatory and rating agency requirements. Consistent with this disciplined approach, we continue to evaluate a pipeline of initiatives to further strengthen the balance sheet.

Lastly, let me reiterate the key messages that Jim highlighted. We are pleased with the solid start to 2026 and believe our expanded membership base, relentless focus on returning to Top Quartile Stars and pricing discipline position us well to deliver a stable and compelling MA margin and unlock the earnings potential of the business by 2028 as laid out at our Investor Day last year. We remain committed to taking appropriate action to meet the commitments we have made to you.

I will now turn the call back to Lisa to start the Q&A.

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## Lisa Stoner

*Vice President-Investor Relations, Humana Inc.*

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

With that, operator, please introduce the first caller.

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# QUESTION AND ANSWER SECTION

**Operator:** Our first question comes from Ann Hynes with Mizuho.

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## Ann Hynes

*Analyst, Mizuho Securities USA LLC*

Q

Great. Good morning. Thank you. I would just like to dig into DCP and IBNR a bit. From the press release, it looks like IBNR grew about 35% sequentially and this is versus a 22% membership growth when looking at just total Medicare Advantage. Could you provide some insights into the drivers of this elevated IBNR growth relative to the membership growth and also relative to your expectations coming in line, if it came in line with your expectations? And is this conservatism on your part? Anything would be great. Any more details would be great. Thank you.

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## Celeste Mellet

*Chief Financial Officer, Humana Inc.*

A

Hi, Ann. Thanks for your question. So, consistent with the prudent assumptions we embedded in our guidance at the beginning of the year, which we are maintaining, we did take a prudent approach to claims reserves for the quarter, given how early it is in the year and given the membership growth. So, you are right, IBNR was up 35%, well above the growth in membership. We typically point you to looking at membership growth to understand how IBNR should flow. So, we believe we are prudently reserved coming out of the first quarter, just given the year ahead.

I want to reiterate that we feel very good about what we saw in the first quarter and through the end of April in terms of all of the early indicators and completed claims. And what we're seeing in April so far is fairly consistent with what we saw in the first quarter.

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**Operator:** Our next question comes from Andrew Mok with Barclays.

**Andrew Mok**

*Analyst, Barclays Capital, Inc.*

Q

Hi. Good morning. Wanted to ask about the Welsh, Carson put/call options given some near-term exercise windows. First, do you plan to exercise your June call options for the first two clinic cohorts?

And second, if Welsh, Carson were to exercise the full amount of its put options, what would the total cash obligation look like in 2027 and 2028? Thanks.

**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

A

Hi, Andrew. It's Celeste. So, we need to make a decision on the put/call option in the middle of this year. We will, obviously, be mindful of all of the other things that are going on and our cash position and our balance sheet. I would say that Welsh, Carson has been an amazing partner to us and we're proud of what we've built together in leading – in a leading primary care business for seniors and continue to see structural value in this type of relationship.

In terms of if they put to us next year, so next year would be the beginning of the first put, it would be about \$1 billion to \$1.5 billion in 2027. And to be clear, they can only put the 2025 cohort to us in 2027. But both would be about \$1 billion to \$1.5 billion. And we have included any outflows related to puts or calls in our funding plan.

**Operator:** Our next question comes from Justin Lake with Wolfe Research.

**Justin Lake**

*Analyst, Wolfe Research LLC*

Q

Thanks. Good morning. I wanted to talk a little bit more about your 2027 bidding strategy. I appreciate your prepared remarks around rates and trend for 2027 and how you'll be reducing benefits to bridge the delta between those two numbers and protect margins. But I want to ask your thoughts about protecting margins beyond that.

Specifically, the reality that the full cost profile of your members probably won't be known for a couple months, combined with the fact that your and my confidence that you're going to get your Stars back for 2028 will reduce your TBC for 2028. So, I want to ask how investors should think about the potential that the company might add some cushion to bids above and beyond that rate trend differential you talked about to reflect this new member uncertainty in the 2028 TBC reality in order to protect 2027 margins. Thanks.

**James A. Rehtin**

*President, Chief Executive Officer & Director, Humana Inc.*

A

Yeah. Hey, Justin, thanks for the question. I'll start and then George will probably jump in here as well. So let me just be clear about how we're thinking about bids as we go into the year. Obviously, there's only so much detail that we can get into, but we can certainly share kind of philosophically what our principles are as we approach the bid.

So number one is the focus on being back to a normalized margin of at least 3% in 2028. And so to be there in 2028, we have to look at 2027. And we have to be mindful of the progress that we need to make in order to be on track for 2028. That certainly takes into account TBC considerations. It takes into account what we do and what

we don't know about the current cohort. All of those things have to be accounted for in our bid strategy this year. Like that is priority number one.

Priority number two is within the constraints of priority number one. And I'm just going to – again, I'm going to emphasize that one more time. Within the constraints of priority number one, we want to provide as much stability as we can, reasonably, to our members so that we retain them. So retention is priority number two; retention, retention, retention.

And the way that you do that is you have to understand the different segments of your customers. You have to understand what their needs are. And to the extent that you make adjustments to benefits, you do it in a way where it has the least impact on the things that are most important to them. It doesn't mean you don't make adjustments. It means you do it in a way that is thoughtful to your members.

And then what the third priority is, is growth. And that's a distant third priority. If we happen to grow some, great. But the priority is not growth. The priority is, number one, being on track for 2028. And number two, retaining the members that we have because again, churn is expensive, and we want to minimize churn the most we can. George, what would you add to that?

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**George Renaudin**

*President-Insurance, Humana Inc.*

A

Yeah. Thanks, Jim. Justin, the other thing just to consider is that as we're looking through this, we are going market by market. So it's not just a matter of taking a look at the various benefits and paying a lot of attention to those that Jim mentioned our members care about most. And it also helped drive better health outcomes and better Stars results.

But it's also looking at it market by market, understanding the environment we're in with various providers, and going through each one of those geographies, because it's not just a matter of benefit changes. You also have to look at geographies and make sure that every geography is going to be supportive to the long-term trajectory of what we're trying to accomplish to get to our 2028 targets. And we'll make a lot of progress in 2027.

We also do have fairly good amount of information now about the new cohort. It is not perfect information by any means. But as Celeste has mentioned, all the key indicators of both our new and concurrent members we have, and those are lining up according to our expectations; our APTs, our authorizations, pharmacy, MRA. All those things are lining up the way that we were expecting as Celeste mentioned in her opening comments.

And the other thing, just to emphasize here is one of the things that we are seeing in the industry today is that the industry is taking, it appears to be anyway, a more measured approach, given the funding environment, medical trend. The help we receive from CMS is helpful, but it is not, as Jim said, keeping up with medical trend. So we and others are having to make benefit adjustments, geographic adjustments in line with those expectations to continue to make progress towards our 2028 goals.

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**Operator:** Our next question comes from Jason Cassorla with Guggenheim Partners.

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**Jason Cassorla**

*Analyst, Guggenheim Securities LLC*

Q

Great. Thanks. Good morning. Maybe just a quick one on earnings seasonality. You got a 2Q MLR slightly above 91%. It represents a deceleration in the year-over-year step up in MLR compared to this first quarter. I guess with

your significant new member growth and the Stars headwind, maybe can you just help bridge us to that MLR expectation for the second quarter? That would be helpful. Thanks.

**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

A

Yeah. Hey, so the first quarter to second quarter change this year versus last year is very much affected by the levels of PPD. So a year ago we had higher PPD in the first quarter. If you recall, we've talked about how we reserve fairly conservatively at the end of 2024, given the regulatory uncertainty. We were in a more regular position at the end of 2025. So we released more PPD in the first quarter of 2025 than the first quarter of 2026, so the seasonality from the first quarter to the second quarter is less pronounced than it was last year.

**Operator:** Our next question comes from Stephen Baxter with Wells Fargo.

**Stephen Baxter**

*Analyst, Wells Fargo Securities LLC*

Q

Yeah. Hi. Thanks. I was hoping you could maybe expand a little bit on trend dynamics in the quarter. I guess maybe speaking ideally to how much of a benefit you think you might have seen from flu and weather in the quarter. And then also potentially whether there's any difference in trend dynamics if you were to focus maybe more on the retained membership you had in the MA book. Thank you.

**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

A

Hi. Yeah. Thanks for your question. So first of all, if you recall, we reported our fourth quarter and gave our guidance for the year in early February. So we already had a pretty good understanding of flu, and we had captured the more beneficial flu season in our guidance. It was very, very modestly better than we had expected, but de minimis.

As it relates to weather it's fairly easy to isolate the impact, and if you think about where we are most concentrated from a plan perspective, it's in areas that were less affected by weather. So we're able to strip out the impact of weather. And we're still seeing favorability running in line to ahead on all of the indicators that I mentioned to you.

**Operator:** Our next question comes from David Windley with Jefferies.

**David Windley**

*Analyst, Jefferies LLC*

Q

Thanks. Thanks for taking my question. Good morning. I wanted to switch to CenterWell and the operating cost ratio there, which ran a little higher than we were expecting. I wondered how much of that might be a result of the acquisitions and onboarding those. And then for the consolidated relatedly, the operating cost ratio seems to need to have a flatter trajectory through the year than would be normal for you. And how are you planning to execute that and wondering if those two are related. Thanks.

**Sanjay K. Shetty**

*President-CenterWell, Humana Inc.*

A

Great. Well, this is Sanjay. Thanks for the question. So first off, just stepping back and looking at CenterWell more broadly for the quarter, I would say we're really pleased with the solid growth across each of our lines of business

in the first quarter. We're seeing that both because of the growth in Humana's membership, as well as our continued agnostic expansion.

And so you can kind of see that across each of the three businesses. Starting with pharmacy, we continue to see industry-leading mail order penetration for our Medicare members, and have seen really nice uptake by new members in 2026. We're also continuing to expand our agnostic volume across specialty, direct to consumer, and direct to employer, including looking forward to the new Cost Plus partnership that we announced earlier this week.

Second, in primary care, we're seeing really nice patient growth year to date, so sequentially 110,000 patients or 22.5% sequential growth. And that's both through organic growth as well as through our recent acquisition of MaxHealth. And in the home, we're seeing solid growth in CenterWell Home Health and within OneHome, and that includes through the launch of the next phase of our skilled nursing facility value based care model, now covering an additional 2 million patients. So all in, we're really pleased with the growth and execution across CenterWell.

I think one of the things you may have noticed is that in the first quarter, we did have a handful of items that will not repeat, and in some cases will actually will reverse later in the year. And so I think that's what you're getting at. A couple of examples of what those are include the skin substitutes in our ACO reach program in the primary care organization. That's both current year and continued run out from the prior year for which CMS will hold us harmless.

Second, some timing related items related to The Villages Health acquisition, that as we continue to integrate, we'll see improvement for the rest of the year. And finally, some transaction and integration costs associated with the MaxHealth acquisition that were not previously contemplated in our Q1 guidance.

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### Celeste Mellet

*Chief Financial Officer, Humana Inc.*

A

Hey, thanks, Sanjay. I'm just going to add to that. Oops, sorry. Sanjay, I'm just going to add to that, first, if you're comparing to the first quarter of last year, particularly in CenterWell, it is a tough comparison. If you recall, we did mention one time positivity, particularly in specialty pharmacy, which was driven by better-than-expected drug mix. And we also had some favorability in 1Q 2025 in PCO. If you take a look at the OCR in CenterWell, it does actually tie to your question. In 1Q 2025 it was well below the rest of 2025. This year, we are going to have a more normalized OCR level throughout the year rather than the ramp that we saw in 1Q 2025 through the rest of the year.

And just generally in CenterWell, I would look to 2024 for seasonality. We had about 20% of our earnings in CenterWell in the first quarter of 2024. We expect about the same in 2026. And then, just taking a step back to the consolidated OCR, yes, the first quarter was impacted by some of the noise in the comparisons in CenterWell. Our expectations for the year are in line with where we laid out in our guidance. And if you look towards the Insurance business, you can see really nice progress there on the OCR. But we are still expecting a significant pick-up in the OCR this year – or improvement, I should say, not pick-up.

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**Operator:** Our next question comes from A.J. Rice with UBS.

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### A.J. Rice

*Analyst, UBS Securities LLC*

Q

Hi, everybody. Maybe just going back to the MA side of things. I appreciate the comments about all the metrics you're tracking and they're tracking well. I think historically there's always been this view that and what reality has shown out is the second quarter claims experience really tells you whether you've got a problem or not.

It sounds like some of these metrics are things you just normally would have tracked in prior years, but maybe some are new that you've done because of your initiatives. And I wondered if you could just give us a flavor for how much incremental information, given the initiatives you have, that you feel like you have to sort of get ahead of what normally shows up in the second quarter.

And just to follow up on one of the previous discussions about the bids, if your expectation and a lot of what you're gearing for is the earnings power in 2028, understanding the restrictions on TBC from year to year and understanding the desire to hold benefits constant, does that cause you to lean in to making sure you hold onto membership because you're going to get this big lift on Stars next year and maybe in a normal year, you go for more margin improvement next year? But because you know Stars and some of the other things happening for 2028 are going to be positive, you'd sort of be willing to slow that progression just to hold on or even grow membership. Any thoughts on that aspect of your bid strategy.

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**James A. Rehtin**

*President, Chief Executive Officer & Director, Humana Inc.*

A

Hey, A.J., let me start. First of all, there's a lot in there. I'm going to try to tease it apart and hit the different components of it. I'll start. I'm sure either Celeste or George will want to weigh in as well.

So, let me just start with kind of the leading indicators. I think the way to think about our understanding of trend as it progresses through the year is that each incremental month is narrowing the range of possibilities of what you might see then for the balance of the year.

So, of course, you don't have perfect information at the end of March. You don't have perfect information at the end of April. You don't even have perfect information, frankly, at the end of June. But each of those months is narrowing the range of outcomes that you might see for the rest of the year.

And so, we're obviously looking at the first quarter. And as Celeste indicated, we have also taken an early look at April as it's coming in. And all of the indicators look as expected in that period of time. And then, what I would say is it's not so much that we're looking at new and more indicators. It's more – the way I would describe it is we are being more disciplined in looking at them on a regular basis and a regular cadence so that we understand that trend even more in real time than we have in the past. I mean, that's the way I describe it.

So, are we feeling better each month? Yes. Do we also want to see what happens at the end of the second quarter? Of course. Clearly, we want to see what happens at the end of the second quarter. And clearly we will feel better then than we feel now. So, that's kind of how we think about that.

On the second part, which I'm going to now blank on is the bids. Oh, yeah, bids in 2028. Look, the way that we have thought about this, including last year, including this year, including next year, is that we have a margin expectation that is kind of consistent with, over time, being at a place that provides a sustainable, attractive margin for the business and a good return on capital. And that during this period of time where we have the Stars challenges, we are making adjustments so that we can protect the business through that period of time while also making progress against margin.

And so, we're starting with where does our margin need to be each year? We did that this year. We started with where does our margin need to be this year? We don't start with, hey, how much do we want to grow? We start with where does our margin need to be to be on track to 2028 and back to a sustainable and durable long-term margin? That is the first principle that we started with.

That is the same thing we started with a year ago, frankly. And so, yes, we have an idea of the various scenarios that may play out in 2028. Obviously, we don't know what 2028 is going to look like, but we can kind of hone in on this four or five different scenarios that might play out. And we need to plan for 2027 in a way that puts us in a situation where we can accommodate each of those scenarios.

And when I talk about multiyear planning, which I've done a lot of over the course of the last few years, that's what we're talking about. We should always be looking out two to three years and trying to understand how the external environment might evolve and making sure that we are putting in place plans and contingency plans that can accommodate the unknown across that period of time. And that's really what we're doing.

So let me open it up to Celeste or George to add.

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**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

A

Thanks. I just want to add on the claims work. We're doing a lot more, both in the front – particularly on the front end of claims where we are looking for anomalies and differences in terms of regional, provider, DRGs, just looking for things that might indicate that something which would normally be identified down the pike, something is different than our expectations. And we're also spending a lot more time looking at the inventory, what's in there, and some of the drivers of that.

And then on the back end, we're going deeper on the new member components than we typically would as well as the overall, but breaking down in much more depth and more grain some of the things that we would look at so we are – we can identify hotspots faster if they exist. And as I said previously, the early indicators and then the ongoing claims that we see are running in line to better than our expectations.

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**George Renaudin**

*President-Insurance, Humana Inc.*

A

Hey, it's George, thanks. Look, I'll just add two quick things. One is, we've talked in the past about how much progress we're making in interoperability and the work we're doing in Stars where we're getting out ahead. Jim mentioned all the things we've done to be able to reach out on the front end to our members as they're coming in, our new members. That also is helping inform where we are. So that's yet one more indicator.

And then on – I want to be very direct on your question about TBC. We're very well aware of the TBC limitations. We're very well aware of what happens when TBC comes back, when, with our expectations, what we're going to recover in Stars. And so that is very much part of our planning process as we go into the 2027 bids.

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**Operator:** Our next question comes from Kevin Fischbeck with Bank of America.

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**Kevin Fischbeck**

*Analyst, BofA Securities, Inc.*

Q

Great. Thanks. I guess I really do like the commentary around focusing on margins first and foremost. But I just wanted to understand a little bit because – this commentary, because this year, you expect to double margins on

an MA basis. And now you're saying next year you're willing to cut benefits, even though this year you were able to do that without – with a relatively stable benefit design.

So are you saying that the funding shortfall for 2027 is bigger than the funding shortfall for 2026 as far as Humana goes? Or is there something else around the timing of some of the cost cutting initiatives on the G&A side that make next year potentially more reliant on benefits? I'm just trying to understand the little bit of a change in tone here about margins and cutting benefits if necessary to achieve margin improvement. Thanks.

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**James A. Rehtin**

*President, Chief Executive Officer & Director, Humana Inc.*

A

Yeah. Hey, again, I'll kick off. Anybody that wants to add, feel free to add. The short answer is yes. The gap between funding and medical cost trend is larger going into this bid season than it was a year ago. Like it just – it's very clearly larger than it was a year ago. And that is really what is driving our thinking.

And we're still on track on our plans around cost management. We're still – the other components that go into our margin that we laid out last year in June, they are all largely on track. The difference right now is the funding environment relative to medical cost trend. And that's mostly the funding environment. Medical cost trend has been relatively stable now for two years. So.

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**George Renaudin**

*President-Insurance, Humana Inc.*

A

If I could just add one other piece to that, Kevin. And that is that, while we appreciate what CMS has done to create a more stable environment, as we've said, the funding still doesn't keep up. And we will, this year, as we have in past years, make the appropriate adjustments. Just as a reminder, we were having to adjust benefits for two years, and we made those adjustments earlier than most of our competitors did. And so we continue to take a very disciplined approach as we go into this bid cycle. And you can expect that going forward.

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**Operator:** Our next question comes from Scott Fidel with Goldman Sachs.

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**Scott Fidel**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thanks. Good morning. Wanted to ask just two more targeted questions within two of the Medicare lines of business and just around the themes in terms of the monitoring and sort of early utilization trends. First would be just on individual MA, how you're seeing sort of those trends, and on the new members in particular, maybe playing out between HMO and PPO.

And then also we really haven't talked much on PDP yet where you have had pretty substantial growth. So curious around how the PDP line of business appears to be performing, from a utilization perspective relative to the margin targets that you laid out in your guidance. Thanks.

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**James A. Rehtin**

*President, Chief Executive Officer & Director, Humana Inc.*

A

Hey, let me just hit PPO and HMO here for a second, and then I'll hand it off to the others to handle PDP and add to the commentary on PPO and HMO. Look, the short answer is our portfolio as a whole is performing the way we expected it to perform. Right? That's the headline. But I think more importantly, I just want to continue to reinforce a message that we have delivered now for a couple of quarters, which is there is nothing inherently good or bad about any type of product. There's nothing inherently – there's nothing inherent in the product that doesn't work. It

is all about how do you price the product and how do you structure the product to target the right segments in the right way?

And if you kind of look back in time, because I know there's all this talk about hey, PPO's bad. PPO's not good. Look, if you look back in time, we had a number of years where the industry priced PPO aggressively, and we, the industry, were using PPO as a growth engine, pricing aggressively. And you saw disproportionate growth in PPO, and you saw that happen at the expense of margin in that product.

We spent two years repricing our PPO product. We spent two years repricing our PPO product. And most of the industry either did it with us or followed suit shortly thereafter. And the result that you're seeing is that growth is rebalancing back to being more equal between HMO and PPO, across the industry, we believe. And again, that is a result of the industry taking a different approach to how they price that product. And when we do that, that product can perform financially. And we see that product performing financially.

Now look, every year we're going to step back and we're going to look at our whole portfolio, and we're going to say, hey, are there pieces? Are there geographies? Are there pieces that we need to reconsider based on new information? But the practical reality is all product, if priced appropriately, is good product. And right now, when we look at our portfolio, our portfolio is performing.

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**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

A

And just to add quickly, while we don't get into cohorts beyond new and concurrent members, as we called out our – what we're seeing from a claims perspective and an early indicator perspective on both new and concurrent members are running in line to better than expected.

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**George Renaudin**

*President-Insurance, Humana Inc.*

A

Hey. And then it's George. Scott, you also asked a question about the PDP. Just as we look at our PDP business today, it's still – it's online with our expectations. The membership mix, the pharmacy trends we're seeing, and member behavior in line with their expectations, so we remain confident in our 2026 pricing. And if you remember, our guidance is right along the same lines as our guidance for 2025. So relatively flat. But what we're seeing so far looks fairly good.

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**Operator:** Our next question comes from Erin Wright with Morgan Stanley.

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**Erin Wilson Wright**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thanks. So, sorry, excuse me. Operating leverage still stands as a meaningful contributor to that 2028 bridge. Just can you remind us on the progress on addressing some of the operating costs? Was there any timing dynamics to call out in the quarter or anything we should think about for the year? I guess, can you remind us of some of those components of the cost levers embedded in 2026 guidance, and what are some of the longer term opportunities, the progress relative to what you were thinking maybe a year ago at the Investor Day, and just have there been any changes or surprises on that front in terms of those levers near and longer term? Thanks.

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**Celeste Mellet**

*Chief Financial Officer, Humana Inc.*

A

Yeah. Hi. Thanks for your question. So, we are making great progress against our operating cost targets. In terms of the particular quarter, as I mentioned earlier, there's a little bit of noise just given the tough comparison, to last year in CenterWell versus some of the less favorable one-time noise in CenterWell this year. But our expectations for the year are on track for what we had guided to you, or at the beginning – on our fourth quarter call.

As it relates to the cost cutting, both tactical and strategic, we are making really excellent progress there. So in terms of the tactical cost cutting measures that we talked about, Jim announced the early retirement program last year. We're continuing to see those employees exit. The last of them will leave at the end of the second quarter. That gives an opportunity to folks who've been here for a really long time to, if they'd like to go do something else or sail off into the sunset and enjoy their lives outside of Humana, they can do that.

We've been optimizing our internal policies. They squeeze out differences. They also, in some cases get us more in line with corporate best practices. We've been improving productivity and increasing volume discounts while also improving payment terms with vendors. And we've been consolidating our supplier base to drive better supplier relationships. Those are some of the more tactical things.

Some of the more strategic long term, some of which are running through 2026, are changing and expanding our outsourcing capabilities. What 2026 you'll see, where we're seeing the improvements is really in some of our corporate functions where we were well below industry benchmarks in terms of outsourcing percentages. We're getting closer to those benchmarks. So in finance, for example, and HR recently made some changes there as well.

Over the longer term, we see significant opportunities to consolidate our relationships and increase service and quality for our membership and our patients. At the same time, it will also reduce costs. Continuing to standardize and simplify our processes while leveraging technology to use more automation and create efficiency.

And Jim talked about our operating model changes. There are some components that have shifted already. We've been really focused on centralizing the things that make sense to centralize. We believe it makes sense for us strategically, but it also does have – is beneficial to our costs and I think provides better and more consistent experiences for our members and our patients across the country.

So, those are just a few examples. And again, we are very confident in the progress that we're making this year and the targets we laid out for you for 2028.

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**Operator:** Our next question comes from Ben Hendrix with RBC Capital Markets.

**Ben Hendrix**

*Analyst, RBC Capital Markets LLC*

Q

Thank you very much. Just wanted to follow up on some of the CenterWell commentary. I'm just hoping to get any early observations within CenterWell on trend. Anything to call out on patient profiles or patient behavior that you've observed across your expanded Medicare membership versus the growth that you're seeing in the carrier agnostic population. Thanks.

**Sanjay K. Shetty**

*President-CenterWell, Humana Inc.*

A

So, this is Sanjay. Thank you for the question. So, broadly speaking, for CenterWell, the growth in Humana is definitely a tailwind to the business across those three businesses. We see that within the pharmacy business,

through the mail-order penetration that we have in our Medicare business. We see that within the home solutions segment, both in CenterWell Home Health as well as within OneHome, which, as a reminder, is our post-acute value-based convener. And specifically within the primary care organization, that growth has been helped by the growth of Humana.

Broadly speaking, what we're seeing in that population is in line with what the plan is seeing as we enter the new year, although it is very, very early for us in the year. So, I think we will continue to monitor that. As an early indicator though, some of the things that we track are engagement of those new patients and those are tracking very much in line with expectations.

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**Operator:** Our next question comes from Lance Wilkes with Bernstein.

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**Lance Wilkes**

*Analyst, Bernstein Institutional Services LLC*

Q

Great. Just wondering if you could help us understand some of the management processes that you've put in place in order to drive the large number of key initiatives you've got. And so, the first key question I had was, just with Stars, with the integration in value-based care of the acquisitions, Medicaid rollout, the PBM initiatives and outsourcing initiatives, are those things that are being done sort of within each of the units? Or are you setting up kind of flex, corporate staff that are getting injected into those? And how are you monitoring and managing that?

And a kind of comparable question is, you commented on how you're looking at cost trends, other key operating metrics. And just interested in how you're doing that more and faster. Is that an AI thing? Is it merely you're just putting more staff to look at things more frequently? Or have you had any other sort of adjustments to some of the financial systems and clinical systems that enable you to do some of this? Thanks.

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**James A. Rehtin**

*President, Chief Executive Officer & Director, Humana Inc.*

A

Yeah. Hey, let me go ahead and touch on kind of management process around all the initiatives that we have. We actually did stand up a Transformation Office, probably 15 to 17 months ago. We have staffed that with a combination of hiring some people from the outside and we've moved some legacy teammates into that organization as well. And the way to think about it is they do two things. One is, they're helping to kind of track initiatives. Just make sure that we're on track and making the progress that we expect, flagging issues or problems and escalating those to the appropriate place so they can get resolved.

And then, the second thing that they're doing is they're providing surge resources to the business, is kind of the way to think about it, where there are temporary need for surge resources. Sometimes that surge resource is extra analytical horsepower. Sometimes, it's the arms and legs to get things done. But the primary owner and driver of the change is the business. It's the individual functions and teams that need to work differently over time for this to be sustainable change.

What the Transformation Office is, is an enabler and accelerator more than it is the entity that is making the change happen itself. The change has to occur in the base business. And the base business appropriately needs help sometimes getting that done. And so, that really is what we put in place.

Look, realistically, again, I think it was probably about 17 months ago that we put this in place. It took three, four, maybe even five months for it to get up and running the way we wanted it to run. These things, when you start them off, they're always a little bit bumpy. Everybody's trying to figure out how to work together.

Right now, it's working quite well and you're getting good feedback from the business in terms of the support they're getting. And the Transformation Office is kind of picking up momentum as we go. So, that's the way I would describe it. Again, if others have anything they want to add.

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**George Renaudin**

*President-Insurance, Humana Inc.*

A

Jim, one thing I would just add is one of the things that the Transformation Office has added that's really helpful to us as operators is that, as we are tracking towards our five-year plan, which we talked about at Investor Day, and as we're talking about returning to our margin 2028, one of the things the Transformation Office helps us ensure we do at the business level is it keeps our eyes on the horizon where we're trying to go. And so that's one of the major inputs that the Transformation Office is doing beyond the surge help that Jim talked about.

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**Operator:** Our final question comes from Michael Ha with Baird.

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**Michael Ha**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Great. Thank you. I wanted to reframe, Justin, A.J., and I guess Kevin's question a little differently about the 2027 margin setup. So if I were to use 2025, a year with flat rates, poor funding environment where Humana was still able to drive individual MA margin improvement I believe doubling it to around 1% as sort of a comparison year. The setup for 2027, stronger rate notice, stronger year-to-year Star ratings improvement, granted, your Stars in payment year 2025 were higher overall, but you're diversification efforts are driving a stronger year-to-year improvement into 2027. And now a potentially similar conservative posture and benefits and pricing. Would it be fair to make this comparison and say the year-to-year setup into 2027 actually feels even better than 2025 when it comes to your ability to drive MA margin improvement?

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**James A. Rehtin**

*President, Chief Executive Officer & Director, Humana Inc.*

A

So, here's kind of the way that I would characterize it is, as we're heading into 2027 bids, our transformation efforts are more mature. Well, frankly, they're stood up. They're more mature. They're giving us more tailwind operationally in a whole bunch of different areas: G&A cost management, clinical cost management, et cetera. And because of that, we do have a broader array of other levers that can help us achieve the target margin that we're trying to achieve next year.

And so every year we are looking at, what is the funding gap or surplus relative to medical cost trend? What are the things that we can do operationally to close a gap or increase a surplus in a way that then minimizes the impact that we have to have on our members? But then ultimately, you still have to come back and say, okay, but what are the changes that you have to make to benefits in order to get to your target margin, in order to get to a sustainable, durable, attractive, long-term margin that gives us an appropriate return on capital?

That's the logic you're going through each and every year. And again, what I would say is, I do think we have more momentum on the transformation side that is giving us other levers, giving us more levers outside of benefits than we had two years ago. But you're going to have to look at both. At the end of the day, you're going to have to look at both.

## James A. Rehtin

*President, Chief Executive Officer & Director, Humana Inc.*

So, look, with that, let me just move to close real quick. I want to thank everybody for joining us this morning and for your interest in Humana. We very much appreciate that. And I also want to say thank you to our 65,000 associates who serve our members and our patients every day. It's the work that those associates do that makes things happen here. And we appreciate your support, we appreciate their support, and we hope you have a great day. Thanks.

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

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