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Humana Inc. (HUM)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to Humana's Second Quarter 2026 Earnings Conference 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.

Lisa Stoner

Vice President-Investor Relations, Humana Inc.

Thank you, and good morning. We will begin this morning with brief remarks from Jim Rechtin, Humana's President and Chief Executive Officer; and Chief Financial Officer, Celeste Mellet. Following these remarks, we will host a question-and-answer session with industry analysts.

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 second quarter 2026 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 and posted remarks, 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 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, later today.

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

James A. Rechtin

President, Chief Executive Officer & Director, Humana Inc.

Thanks, Lisa. Good morning, everyone, and thank you for joining us. Today's headlines are: we are pleased with our year-to-date performance and we continue to be tracking to expectations. We expect that our approach to 2027 MA bids will drive solid progress against our goal of delivering a sustainable pre-tax margin of at least 3% in 2028.

We believe we are on track to meet our Investor Day commitments, including our Stars commitments, and we will host a virtual investor update on December 10 to discuss the meaningful progress we have made towards those

commitments. At that point, we will have full visibility into Bonus Year 2028 Stars and some preliminary insights into 2027 membership expectations.

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

So, let's start with product and experience. Our 2026 member growth trajectory is on track and our membership, both the new and returning membership, is performing as expected. As we look ahead to 2027, our number one priority in MA bids was to make the necessary margin progression to remain on track to deliver our 2028 commitment of returning to a sustainable margin of at least 3%.

We must drive sustainable earnings and appropriate returns to be able to provide excellent health outcomes and service for our members and our patients.

We expect our targeted margin expansion in 2027 to be driven by our ongoing focus on clinical excellence and operating efficiency work combined with adjustments to our plan mix and benefits, which Celeste will touch on in a moment.

Turning to clinical excellence, our outlook on Bonus Year 2028, or BY2028 Stars remains unchanged. We continue to be confident we're on the right track to return to Top Quartile Stars results in BY2028.

I want to remind everybody that at our Investor Day, we defined Top Quartile Stars results as per-member-per-month Stars revenue that is 10% above our peer group median. Stars revenue PMPM considers the quality bonus and the percentage of rebate retained at each Star level.

We use this metric because Stars revenue PMPM is what is important from a competitive perspective. As a result, going forward, you will [ph] hear us (00:05:19) focus on Stars revenue PMPM instead of solely on the percent of members in four-plus Star plans.

Now, turning to our Stars performance. Over the last 18 months, we have said that we were making strong operational progress. I'm truly proud of how our Stars organization and the broader enterprise has risen to this challenge.

Now that the measurement period for BY2028 is complete, we're pleased to be able to share some tangible examples to demonstrate the progress. I would point you to Appendix A within our posted remarks. This slide shows the rate of improvement achieved in BY2028 as compared to the previous four years for a selection of 12 HEDIS and Patient Safety metrics. We have de-identified the metrics for competitive reasons.

What I want you to take away from this slide is that our rate of improvement outpaced, and in many places meaningfully outpaced the historical CAGR across the 11 of the 12 measures. And while we do not intend to share this detail every year, we wanted to share today as it demonstrates that the operational changes and the investments we have made in our Stars program over the last year-and-a-half are driving the intended results. We are driven by our North Star to improve health outcomes for our members with the goal of achieving top quartile results on a sustainable basis.

Finally, as you know, we don't know industry thresholds. So while we feel good about our substantial progress, we cannot guarantee an outcome in October. And as a reminder, we will go into our annual Stars blackout period as

soon as we receive the plan preview information from CMS beginning in August until the final data is released by CMS in October.

For BY2029 Stars, we have maintained momentum with our member engagement efforts. Consistent with Q1, we remain 5% ahead of last year's quality improvement rate on a per-member basis in key HEDIS metrics at the end of Q2.

Regarding our new members, we continue to remain encouraged by their performance to-date as their engagement levels remain in line and on some measures higher than renewing members.

Now, let me turn to highly efficient operations. I mentioned last quarter that we were making good progress on our operating model changes. Our goals have been threefold: first, to be simpler, leaner, and faster, so driving efficiencies while reducing friction for our customers; second, to lead on innovation, leveraging automation and AI and the best performing vendors; and third, to attract the best talent and ensure effective performance management.

Let me provide examples to bring these changes to life. We're centralizing certain operations to simplify process and reduce variability in outcomes. One example is utilization management, where we centralized 11 markets into one team. This is driving G&A savings, but it is also creating more consistent experience for providers and members.

We're also expanding outsourcing while improving vendor performance. This year we increased outsourcing in our finance and HR functions while we also continue to advance vendor optimization efforts in IT. We're also in the early stages of transforming select other vendor relationships from tactical labor-based engagements into strategic partnerships that can deliver greater business value and capabilities.

Finally, we integrated our CarePlus operations. CarePlus is a legacy health plan acquisition that we integrated into our core platforms to eliminate redundancy, which drives greater value and scale while maintaining our reputable CarePlus brand in Florida.

All in, we have made considerable progress in the first half of the year. Our operating model efforts have yielded hundreds of millions of dollars in value so far in 2026.

Finally, let me turn to capital allocation. As we have previously noted, we have been pursuing non-core asset divestitures. We recently announced an agreement to divest our minority interest in Gentiva, which is valued at approximately $900 million. This divestiture will largely fund our recent acquisition of MaxHealth.

We also continue to expand our Medicaid platform with the recent award of a statewide Illinois Medicaid managed care contract. That contract is set to go live in January of 2027. And I'd like to note that Humana was the only new entrant awarded along with five incumbents.

So, in conclusion, we're performing as expected in 2026. Our member growth is expected to further fuel our ability to unlock the earnings potential of the business. We're making good progress on Stars. We expect to make meaningful progress on MA margin expansion in 2027 and we remain on track to hit our Investor Day commitments in 2028.

Before I turn it over to Celeste, I would like to highlight our announcement this morning that Paul Smith and Fred Crawford will join Humana's board of directors.

Paul is the Chief Commercial Officer at Anthropic, where he leads commercial strategy and global go-to-market operations. Paul brings over 30 years of experience leading global organizations through major technology transitions.

Fred has deep financial and operational experience, having spent more than 30 years in the insurance and banking industries. Fred was the Chief Financial Officer of three publicly traded insurers and most recently served as the President and Chief Operating Officer at Aflac until his retirement in 2024.

Paul and Fred will complement our board's expertise well, bringing a unique perspective that will be invaluable as we advance along our journey of becoming a consumer healthcare company.

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

Celeste Mellet

Chief Financial Officer, Humana Inc.

Thank you, Jim. I will start with our comments on our 2026 performance and 2027 MA bid approach before touching on continued progress on balance sheet efficiency and capital optimization.

Starting with 2026, based on available information to-date, cost trends are in line with our expectations for both new and existing members. As a reminder, we assumed 2026 cost trends would be in the high single-digit range, or 7% to 8%, inclusive of both medical and pharmacy.

There are certain areas where we have seen slight favorability, particularly in the inpatient space. Based on approximately four months of completed claims data, favorability has been more heavily concentrated in members engaged with value-based providers. While the risk-sharing nature of these agreements limits the favorability that flows through to our financials, it is positive for our provider partners and we believe an additional proof point of broader stabilization in the MA trend environment.

And as Jim described, our transformation and operating model work is driving the intended result. Our 2Q consolidated operating cost ratio is down 120 basis points year-over-year. We continue to expect a full year reduction of approximately 150 basis points. Taken together, we're executing and delivering results in line with expectations and remain on track to double our individual MA pre-tax margin this year, excluding the Stars headwind.

I will now touch on our 2027 MA bids. As Jim mentioned, our number one priority was to make the necessary progress to remain on track to deliver on our 2028 commitment of returning to a sustainable margin of at least 3%.

We expect meaningful progress toward our 2028 margin goal next year with actual 2027 results shaped by our final membership size and composition. Our expected margin expansion in 2027 will benefit from our ongoing clinical excellence and operating efficiency work as well as benefit adjustments and targeted plan exits.

While it remains too early to provide many specifics regarding our bid strategy, let me provide some perspective on our approach to plan exits. To reduce benefit disruption, we will use plan exits to prioritize higher performing plans, including those with greater value-based care penetration.

This approach is aligned with bid priority number two, which is to retain as many members as possible while making the changes necessary to drive the intended margin expansion. For 2027, we anticipate these plan exits will impact approximately 600,000 members, though we will work to recapture a significant portion of that volume as we did in 2025.

Turning to capital deployment and balance sheet, we have continued our efforts to increase the efficiency of our balance sheet and fortify our foundation, including the establishment of $1.5 billion in contingent capital facilities utilizing pre-capitalized trust securities, or P-Caps, enhancing our access to low-cost long-term liquidity. We are the first in the health payer space to utilize this innovative product.

We have also maintained a prudent capital deployment approach, including pursuing non-core asset divestitures. As Jim mentioned, we recently announced an agreement to divest our minority interest in Gentiva, which is valued at approximately $900 million and expected to close in the fourth quarter.

More broadly, our capital and balance sheet efficiency efforts are delivering results and we continue to evaluate a pipeline of initiatives that further strengthen the balance sheet and improve our capital efficiency.

Before going to Q&A, let me reiterate what Jim started with: we are pleased with our year-to-date performance; we expect to make meaningful progress on margin expansion in 2027; and we are executing on our Investor Day commitments and delivering on the earnings power and value of the company.

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

Lisa Stoner

Vice President-Investor Relations, Humana Inc.

Thank you, Celeste. Before starting 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. Operator, please introduce the first caller.

QUESTION AND ANSWER SECTION

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

Justin Lake
Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Appreciate all your comments here. Want to make sure I understand your 2027 bid posture. My impression is that your individual MA margins are about break even this year and you need to get to a little over 2% by 2028 via product design and bids, and then Stars gets you all the way to 3% and plus.

So, if you need to get 2%-plus margin improvement over the next couple of years from your bids, should I read your statement in your remarks to indicate you expect to get more than half of that in 2027 via your bids?

And then can you talk about your trend assumptions that you build in the bids and any potential conservatism layer you might have added there? Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Yeah, Justin. We're not going to comment on the specific progress from 2026 to 2027, in part because ultimately where we land will be driven by the membership size and composition. As you know, we have a portfolio; there are some products with higher margin, some with mid margin. But we do expect to make significant progress in 2027 versus 2026 and be well on our path to 2028.

In terms of what is embedded in our bids, we continue to assume trends in line with what we're seeing this year. Although as you know, the drug trend continues to be high and will tick modestly higher next year based on current expectations, given the health technology pipeline or the new drugs that will be released.

And then, of course, as we always do, we build in effectively contingency into our bids because we're doing it well in advance – six months before the next year and you have a whole year to get through to account for things moving in any direction. So, we believe we're well positioned to make significant progress and look forward to this year's AEP.

Justin Lake
Analyst, Wolfe Research LLC

Q

Thanks.

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

Jason Cassorla
Analyst, Guggenheim Partners

Q

Great. Thanks. Good morning. Maybe if you could discuss a little bit more on what you're seeing on cost trend and your comments around inpatient. Maybe just anything else on what's driving that, and could you remind us of your site of service initiatives, how you're focusing on pushing appropriate care to lower cost settings. And maybe help give a sense on how those efforts have offset underlying trend versus sort of the broader kind of industry movement due to the inpatient only list wind-down? Just any help there would be great. Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Yeah. So as a reminder, our all-in trend assumption for this year is high-single-digits, or 7% to 8%. So a little bit lower on the medical cost and then in the double-digit on drug costs. As we called out, things are within the range, though we're seeing favorability, particularly on inpatient, and we're seeing both lower admits per thousand and lower unit costs on those admits. So it's both the P and the Q on inpatient costs that are down.

And I'll turn it over to Jim on site of service.

James A. Rechtin
President, Chief Executive Officer & Director, Humana Inc.

A

Yeah. So site of service is absolutely one of many initiatives around medical cost management that we are focused on. And the beauty of site of service is you're actually helping members move to sites of care that have higher quality as well as lower costs. And so, we're very much focused on both of those things.

The types of things that we're doing range from rethinking how we do our contracting in local markets to make sure that we have access to the right sites of care, to make sure that we have aligned incentives and using appropriate sites of care, as well as thinking through how we design benefits in a way that creates a financial incentive for our members to also use the right sites of care.

So, we've got a number of initiatives going on there as well as initiatives around how you nudge or educate our members around how to make those decisions. So, there's a lot going on. We're not going to share specific numbers at this time. This is one of many different initiatives that are focused on helping our members move to higher quality and lower cost care options. But we've got – we do have quite a bit of work there and we've seen progress over the last year. We expect to see more progress over the next year or two.

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

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Hi, thanks. I wanted to ask about the Stars color you provided. So, appreciate the commentary and the progress you're making.

For these metrics that you provided, I believe this is a subset of HEDIS and Patient Safety measures. Could you expand a little bit on how these metrics were selected and kind of how confident we can be this is representative of the broader performance?

And then, if there was going to be a line on this chart for your peer group average, which is what you're ultimately trying to outperform, what would the trends look like in that context. Would you still have outperformance versus the peer group average that ultimately is going to dictate the [ph] cut points (00:22:19)? Thank you.

James A. Rechtin
President, Chief Executive Officer & Director, Humana Inc.

A

Yes, happy to tackle that question. And I'm going to kind of step back and hit a few things around Stars and then I'll answer the question that you posed there directly.

So, the first thing I want to say is, I just want to emphasize that there's no change in our tone this quarter versus the last quarter, the quarter before that, or frankly our tone dating all the way back to the Investor Day. We feel good about our operational progress and we have the inherent unknown of thresholds that we all have to wrestle with.

What we're trying to do here is simply provide a little bit more nuance or color so that you understand why our tone has been what it is. There are two things that are driving us as an organization. You could think of it as twin North Stars in a way.

The first is we should be closing every single gap we possibly can because it's the right thing for our members, and that is the motivation that drives our teams every day. And the second is that we need, at a minimum, to be hitting Top Quartile Stars results because that is what's required to be competitive in the marketplace. And I want to re-emphasize that we were very deliberate a year-and-a-half or a year ago, back in June of 2025 at our Investor Day, around defining what top quartile means.

Top quartile is measured on a per-member-per-month basis. It is Stars revenue taking into account each of the different Star ratings. The reason that that is important is because when you then look at the operational performance that we've had, what – we know that there's going to be some variation in thresholds. We know that some are going to end up a little bit higher than we expect; some are going to end up a little bit lower than we expect.

That metric does two things: one, you look back historically and you know that if you hit that metric, which is 10% above the median player among the top – our top five competitors, that you hit that, you know historically that says, hey, you're competitive in the marketplace. And this type of operational progress gives us confidence that even if we are off on some thresholds, we have multiple paths to get to that PMPM number that we need to get to, there are multiple ways to get there.

And so there is inherently some threshold uncertainty, but we walk away with confidence that we can navigate that uncertainty because of the metric we know we need to hit and because of the operational progress that you're seeing. Specifically, the question around why these metrics? The answer honestly is very simple. These are the metrics that we have clear longitudinal data over the last five years to be able to compare. So there's some metric that simply came in or out of the program during that 5-year period. We don't have consistent operational data. There is some data where we don't have hard data at this point. We don't – really the survey data is held by CMS. We don't have the same level of visibility.

We have some metrics where, frankly, we're even getting an early read from CMS and we're not going to share that data because that data is private between us and CMS at this point. And so there's no magic to these numbers other than these are the metrics that we have good longitudinal data on and can share. We do believe they're representative, like, when you look at the program broadly, we believe that these metrics are representative of our performance broadly. And again, based on everything that we know today, there are obviously some things that we don't know, but based on everything we know today, we feel good that this is a pretty representative sample.

And to your last question around thresholds, we're not going to share our internal estimates around thresholds, but I would point back to the comment that I made earlier. We have looked at thresholds a number of different ways. And we do believe that this operational progress puts us in a good place that even if we have some surprises on thresholds, which inevitably we will have some, we will be able to – we will have navigated to a place that is consistent with our commitment.

Now, of course, we can't guarantee that. Everybody knows that. But we feel pretty good. We feel confident that we have put ourselves in a position to land where we need to land. So, that's how we're thinking about it and that's why we wanted to share this data. And again, I hit two last things. We're not going to share this data every year. I just want to be clear, but we have put so much time, energy, investment, this is so important to the business right now that we thought it was important that we give you this color. And second, we are about to walk into the blackout period. So as soon as we do get plan preview data from CMS, I just want to remind everybody, we're going to go dark until the final results are actually released by CMS. So, that's where we're at on Stars.

Operator: The next question comes from Ann Hynes with Mizuho.

Ann Hynes
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for the question. Last quarter, you provided some color in your prepared remarks on the sequential IBNR growth for Q1. And I didn't see it this quarter. Can you provide any directional or similar directional update on IBNR and how it's trending coming out of Q2? I think last quarter you noted that it increased 35% versus your membership growth of 22%. Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Yeah. Hi, Ann. Thanks. Yeah, it will be out in our Q this afternoon. And what you'll see is that the IBNR remained basically flat from last quarter. We view this as still very prudent because if you think about it, IBNR should be going down as the year progresses, all else equal, because there are more pharmacy claims given the MOOP as we progress through the year that are processed more quickly and they do not require IBNR. We are up significantly year-over-year and versus the beginning of the year in terms of both IBNR and, more importantly, more so than our membership.

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

Ben Hendrix
Analyst, RBC Capital Markets LLC

Q

Hey, thank you very much. I was just wondering if you could provide some more color on the strategy behind the formation of the contingent Pre-Capitalized Trust. Any thoughts you can give on what kind of drove the decision to form that? Are there trend observations that you're seeing or anything with how you're positioned with 2027 bids that made that more of an appropriate type vehicle? Any thoughts there? Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Hey, thanks for the question. So, we really like this product. So, you're able to increase your liquidity without increasing balance sheet or increasing leverage unless you draw on them. At this point, we do not anticipate using them or drawing on the P-Caps in the near- to medium-term. It really diversifies contingent liquidity sources at a relatively low cost.

In addition, you don't have counterparty risk because this is with fixed-income investors. The cash is already in a pool that is holding securities. That's how they make their yield and then we pay a small premium on top of that. And it offers extended duration. So, this is 10-year and 30-year duration relative to the typical revolver duration.

Ours right now is 5 years. Often you'll see revolvers 1 year. So, really great source. Continues to provide flexibility, durability, strength in our balance sheet. And we're really excited about it.

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

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Great. Thanks. [ph] Can you talk just a (00:31:10) little bit more about the bidding strategy for next year? Obviously, this year you guys kept benefits stable. But for next year, you're talking about exiting markets. So, why that change in exiting markets next year versus not doing it this year? And is there anything related to Stars as far as how you chose what markets you'd be exiting and the membership losses that would be there or, then I guess just a little more color on what it means to be targeting kind of high-value plans. Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Yeah. So, as we've talked about in the past, we have a multi-year approach to membership and benefits [ph] and think (00:31:52) across several years. But more importantly, from year-to-year and over the longer term, we look at specific underwriting margin targets at the plan level and continuously monitor benefit designs, costs, and the revenue to drive profitability. So, funding is really important.

And increasingly we're very much focused on the capital returns of the plan. So, it would take into account that certain states have much higher capital rates. Value-based care has lower capital associated with it; while fee-for-service has higher capital, obviously you're going to adjust pricing to generate the return.

And as you know, markets have been super dynamic in the last year. So, we look at this every year. We did push harder on this, this year, to let us make the margin progress that we need to and to protect our highest-value plans. So, I would think about it as the plans with the highest return. So, rather than cut more uniformly across the board, really remove or cut off the lower tail of profitability and returns to ensure we can protect and retain the members and the benefits associated with our high-value plans.

As I called out, we expect to capture a similar portion as we did in 2025. If you remember, it was just over 40%. The majority of the plan exits were in plans with 3.5 or lower ratings for BY 2027, but I wouldn't really think about this as a Stars item. As you know, we are focused on returning to Top Quartile Stars on a sustainable basis. So, this isn't really a Stars item.

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

A.J. Rice
Analyst, UBS Securities LLC

Q

Hi, everybody. Just two things on the MA book. First, and I know this is hard to compare. But your commentary about the 7% to 8% cost trend and being relatively in line with little favorability on the hospital side. It seems like your peers, a number of the other companies were saying they also anticipate a 7% to 8% trend. But they seem to be seeing a little more favorability. I don't know if you have any view on that. Is it because of all the new members that that's having some mitigating impact? It sounds like those are tracking more or less in line, but I wondered if you had any perspective on that.

And then as you talk about the margin step-up for next year, I wonder if there's any way to sort of talk about things like lower commission, risk coding, your own things you control like medical cost initiatives? And how much natural margin lift you have versus how much is just going to be dependent on the cost trend and what the competitive landscape looks like, et cetera?

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Hey. Appreciate the question. So, we did guide to 7% to 8% cost trends. My understanding is that some of our peers guided to significantly higher cost trends. I can't speak to what they're seeing, other than we are in line with the range with some favorability. We also continue to build prudent reserves. We continue to be prudently reserved, especially versus the beginning of the year we have built significant reserves this year. We have a lot of data. We continue to look at data through the end of July. In fact, it's fairly consistent. And our goal is to deliver on our commitment to you in terms of our 2026 results and, more importantly, continue to make progress on our 2028 commitments, really focused on the long term. Obviously, we need to deliver on the short term to do that.

In terms of margin progression next year, we're not going to get into a lot of specifics around the bids; as we talked about, ultimately where we land will depend on the membership size and composition. We are working on reducing cost of care more broadly. Jim talked extensively about site of care, really focused on clinical innovation. We continue to drive our transformation, which gives us nice lift. We obviously made adjustments to the benefits. And we talked about the plan exit. We do get a natural lift in terms of what we call accurate diagnosis. There isn't anything unusual in terms of what we're doing. We're obviously working to mitigate the chart review item that was included in the rate notice and we're making good progress there, but otherwise nothing unusual from a MRA perspective.

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

Lance Wilkes
Analyst, Bernstein Institutional Services LLC

Q

Great. Thanks so much. Could you talk a little bit about value-based care and in looking at it from the two ways you can look at it? From a contracting perspective, if you could just give a little perspective on the trend differences you see fee-for-service contracting versus some of the positive things you're seeing with your value-based care contracting? And are you looking at making any sort of contracting changes in 2027, either expanding that further or contracting? And then as an operator in CenterWell, if you could just talk a little about the performance differences you're seeing with the de novo versus wholly owned versus IPA styles of business and then obviously the business that's coming in from Welsh Carson as well. Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Yeah, so there's a lot in there. So, with value-based care – so we guided to 7% to 8% trend. We're doing within the better end of that range. And value-based care is slightly better than the fee-for-service. So, all within the range, but value-based care is doing even better, which makes sense if you think about it. Value-based providers are focused on managing the health of our members, their patients, trying to drive better health outcomes, again, ensuring that people aren't hospitalized or readmitted if they don't need to be, ensuring they're taking their meds, et cetera.

In terms of contracting, we have been very focused on driving more consistency with our contracting, driving aligned incentives between us and our providers. They are obviously very important partners to us. Ensuring in

the bids – it's been a big focus ensuring we understand the impact of our benefit changes on them. But this has been something we've been working on for the last – probably I guess since Jim got here, two years. And we continue to make very good progress and are pleased with the results we're seeing.

As it relates to CenterWell, it is performing across the board sort of in line with broader trends. We have very strong patient growth this year driven by both organic growth as well as the acquisitions that we made. We're not going to get into the detail across the various sub-segments of the CenterWell members, other than to say, as you know, the de novo which often overlap with the Welsh Carson are still working through the J-curve, but we're making progress there.

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

Scott Fidel
Analyst, Goldman Sachs & Co. LLC

Q

Hi, thanks. Good morning. Was hoping you could maybe toggle over and give us an update on the Part D business and talk about how underwriting performance in the Part D plans have been trending this year. And then, I mean obviously the timing is a little bit tight here, granted with it just coming out last night, but just with the announcement from CMS around sunsetting the premium stabilization program at the end of this year, did you have any visibility into that or was that something that was considered in your bids for 2027? Just curious around that program and the timing of CMS announcing it here after the bids have been submitted earlier. Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Hey, Scott, I'll take the first part and then Jim will take the second part. So, on Part D membership mix drug trends, for which, as you know, we have high visibility, and member behavior are in line to slightly better than our expectations to-date. We continue to operate as expected and remain confident in our pricing strategy for this year.

And I'd just say, for the purpose of 2027 bids, we have focused also on margin here. And given the health technology pipeline, we are very focused on ensuring we're pricing for that risk. Jim?

James A. Rechtin
President, Chief Executive Officer & Director, Humana Inc.

A

Yeah, and on the policy side with both the demo and the rebate data that has come out, I would just say nothing in there is outside of kind of the band of expectations we had. We knew there was a chance that the demo might get cancelled. We took that into account as we were submitting our bids. And look, the reality of the demo going away has a greater impact for better or worse – for worse on members more than it has on us.

And again, the tension that I think policymakers are wrestling with, and I've said this many times, is we have a lot of fiscal pressure and we have a popular program and they're trying to figure out how to balance those things. And I think this is another example of policymakers trying to balance those two things. But the impact is unfortunately going to be more on our members who we'll try to protect the best we can, than it is on us. And we certainly planned for this possibility in our bid process. And similarly, the rebate information that has come back to us is kind of within our planning scenarios. It doesn't really change anything about our outlook on bids or plans for next year.

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

Andrew Mok
Analyst, Barclays Capital, Inc.

Q

Hi, good morning. Appreciate all the comments on your own Stars performance, but would love to hear your perspective on the recent litigation outcomes around the MA Stars program, how that impacts your view of the program, competitive landscape, and required investment. Thanks.

James A. Rechtin
President, Chief Executive Officer & Director, Humana Inc.

A

Yeah, the recent litigation, we're not going to comment speculatively on the litigation itself. There's obviously a whole bunch of decisions that have to get made that we don't have control over, and we don't feel that speculating on that does much for anybody. What I would say is and just kind of reinforce for investors, is this program is important, and it's important – meaning the Stars program, it's an important part of the broader Medicare Advantage program.

It is important in driving quality. It is important in driving experience for members. Our view is that we need this program to be stable and that doesn't mean that it doesn't need to evolve, that there aren't opportunities to improve it, there certainly are. We want to be a partner in making that happen, but our North Star as we make decisions around this is how do we help reinforce a stable, positive program that benefits members, that works for the MA program more broadly, and how do we be a good partner to CMS in making that happen? And that really is the guiding light as we kind of navigate through these things and make our decisions. And that's where we're at, beyond that, we're going to have to let events play out as they may.

Operator: Our next question comes from Ryan Langston with TD Cowen.

Ryan Langston
Analyst, TD Cowen

Q

Thanks. Good morning. In the prepared remarks, you mentioned medical and RX trends in line for new and existing members. Can you give us a sense how that trended for your duals and non-duals membership? And then on the 2027 bid strategy, was there any particular consideration on prioritizing capture or recapture of duals versus non-duals in your bids? Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

So the duals performance looked fairly consistent with the rest of the book. In relation to getting into subsegments of our bids, retaining members remains a very important priority for us on both duals and non-duals. And we're very much focused on prioritizing the benefits that the members care about the most. We've done a lot of research on that and we're not going to get into how we're positioning ourselves, particularly as we believe our competitors are listening to this call.

James A. Rechtin
President, Chief Executive Officer & Director, Humana Inc.

A

Yeah, the only thing I would add to that is, we do believe that we are one of the better-positioned companies to be able to serve duals effectively and that is important to us, and so we think we're good at it. We think it's important for the healthcare community to be providing very good services there and so they continue to be a priority, but not in any way that is new or different from past years.

Operator: Our next question comes from Whit Mayo with Leerink Partners.

Whit Mayo
Analyst, Leerink Partners LLC

Q

Thanks. Celeste, I know that you're not giving specifics for next year on margins and targets, but just maybe remind us what the margin growth is that you'd historically expect to see from this year's new members to Humana next year, not what you expect for 2027, but just again historically what that lift has been?

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Hey. We'll just talk about the – what would drive margin improvement from the first year to the second year. You have, one, the – as we get to know the members better, we are better able to diagnose and manage their care. So typically, if they're properly diagnosed or paid appropriately for their acuity, and then we typically get better at managing that. So that gives you a lift on the underwriting margin.

Second, as you know, the year one all-in marketing and acquisition costs co-op marketing, et cetera, onboarding costs are 2x what the second year is. So to the extent you're retaining those members, that falls away. So ultimately how that plays out would be dependent on the membership, the retention is super important to us. We think this drives a ton of value. It's just – and the overall size of the book and the mix of the book.

Operator: Our next question comes from the line of Elizabeth Anderson with Evercore ISI.

Elizabeth Anderson
Analyst, Evercore ISI

Q

Hi guys. Thanks so much for the question. Celeste, I was wondering if you could help update us on sort of the cost-cutting progression. Obviously, a sort of multi-year effort, but sort of where are we on that? Like is it changing in composition or any changed assumptions on that?

And then as an offshoot of that, can you also talk about sort of your expectations for the December Investor Day? Obviously, you're on your plan to 2028, but could you just update us on sort of what you hope to communicate to the broader investor community on that date? Thanks.

Celeste Mellet
Chief Financial Officer, Humana Inc.

A

Yeah. I'll hit that and then I think Jim will jump in. Jim called out upfront that we're making significant progress on our cost-cutting efforts. We've talked a lot about – a lot of the progress we made last year was more tactical. So that's figuring out where there was frankly fat or we could do things more efficiently.

So pushing on contracting, consolidating vendors, et cetera. This year, much more of the progress is really on the transformational side. Jim mentioned the outsourcing. That is really important both in terms of increasing that in our support functions in finance and HR. But as we talked about last year at the Investor Day, we had very, very many outsourcing partners across the company.

A lot of the relationships weren't strategic; we're consolidating those. And what you get from that is it does help improve service. It improves consistency. And generally, if you're consolidating relationships, you have a lot more pricing power. But it's – the primary driver is really improving the quality of service. We are a consumer healthcare company. Who we outsource to, particularly if it touches our members and our patients, is really important.

Jim also talked about the operating model work more broadly, the centralization of many functions. Reason number one to do it is to improve the services that we deliver. For example, on utilization management, providing consistency across markets and across plans really matters. It also saves G&A costs.

So, making continued progress. We're really happy and excited about what we've seen. We're not reflecting big benefits yet from technology over time. We think there's an opportunity there, but really making good progress and I think doing it in a way that creates value in the near-term, but also ensures that the changes we're making are really sustainable.

James A. Rechtin

President, Chief Executive Officer & Director, Humana Inc.

A

Yeah. Hey, and Celeste said it well. I'm just going to reinforce one thing. A lot of the cost management effort is about making this business simpler. It's about simplifying our infrastructure. It's about simplifying how we're organized. It's about simplifying accountabilities. The more that you do that – it is about simplifying processes, simplifying our data management. The more that we do that, the lower our cost of running the business is and the better our service is – the better our service is.

We respond to the needs of our members and our provider network more consistently and better. And that's the journey that we're on. And while we've made progress here over the last year, 1.5 years, and we feel good about that progress, we also know that there's a clear roadmap over multiple years for us to continue to push on this and so that's what we will continue to do. So, what, oh back to Investor Day, yes. Thank you, I forgot about that.

Hey, on the Investor Day or investor update front, look, we're – in December, we are a 1.5 years from the Investor Day that we had last year. We'll be on the other side of BY2028 Stars results. At that point, we'll have pretty good visibility, as I noted earlier, in AEP and, kind of membership trends heading into 2027 we obviously won't have perfect information on that by any means, but we'll have very good leading indicators and it feels like it is the right time to come back to you and give you an update on exactly where we think we're at.

We do not have any intention of announcing a change in strategy, a change of direction. We feel good about the direction that we're in. We don't anticipate changing any of the goalposts that we set out for you. This really is about us saying, hey, we're halfway-ish through a three-year period of time, and it's time for us to pull up and give you a more comprehensive update. And that is it. And so, that is the plan on – in December. And we're excited to be at that point where we can do that and we look forward to having that meeting.

Celeste Mellet

Chief Financial Officer, Humana Inc.

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I would describe it as a mark-to-market. We're marking to market our commitment to the Street.

James A. Rechtin

President, Chief Executive Officer & Director, Humana Inc.

So with that, I am going to wrap up, and so I want to thank everybody for joining us this morning and for your interest in Humana. And I also want to thank, as we always do, the 65,000 associates who make this place work, who serve our members, who serve our patients each and every day. We appreciate what they do and we appreciate your support and we hope you have a great day. So, thank you.

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