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HUM.N - Q2 2025 Humana Inc Earnings Call

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**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

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

**James Rechtin** *Humana Inc - President, Chief Executive Officer, Director*

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

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

## CONFERENCE CALL PARTICIPANTS

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**Kevin Fischbeck** *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

**Andrew Mok** *Barclays Services Corp - Analyst*

**Stephen Baxter** *Wells Fargo Securities LLC - Analyst*

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

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

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

**AJ Rice** *UBS AG - Analyst*

**Ben Hendrix** *RBC Capital Markets Inc - Assistant Vice President*

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

**David Windley** *Jefferies LLC - Equity Analyst*

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**Sarah James** *Cantor Fitzgerald LP - Research Analyst*

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

## PRESENTATION

**Operator**

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

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

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

Thank you, and good morning. I hope everyone had a chance to review our press release and prepared remarks, which are both available on our website.

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 where Jim and Celeste will be joined by George Renaudin, President of Humana's Insurance segment.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially.

Investors are advised to read the detailed risk factors discussed in our latest Form 10-K, our other filings with the Securities and Exchange Commission, and our second-quarter 2025 earnings press release as they relate to forward-looking statements along with other risks discussed in our SEC filings.

We undertake no obligation to publicly address or update any forward-looking statements and future filings or communications regarding our business or results. Today's press release, our historical financial news releases, and our filings with the SEC are also available on our Investor Relations site.

Call participants should note that today's discussion includes financial measures that are not in accordance with generally accepted accounting principles or GAAP. Management's explanation for the use of these non-GAAP measures and reconciliations of GAAP to non-GAAP financial measures are included in today's press release. Any references to earnings per share or EPS made during this conference call refer to diluted earnings per common share.

Finally, the 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 will turn the call over to Jim Rechtin.

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**James Rechtin** *- Humana Inc - President, Chief Executive Officer, Director*

Thank you, Lisa. Good morning, everyone, and thank you for joining us. As you've already seen, we delivered a good second quarter and first half relative to our expectations. The outperformance was driven primarily by CenterWell Pharmacy as well as better-than-expected individual MA membership.

Our second-quarter medical cost trends were in line with expectations. And given these results in our solid first quarter, we are raising our full-year 2025 EPS outlook from approximately $16.25 to approximately $17. While we still have challenges to navigate, the external environment this year continues to evolve largely in line with our expectations, and we are executing against our plan.

There's actually a lot happening, and I have a great deal to cover today. So let me just remind everybody that I'll frame my comments as I typically do around the four basic drivers of our business.

The first driver is MA product and experience, which drive customer growth and retention. Second is clinical excellence, which delivers clinical outcomes and medical margin. Third is delivering a highly efficient back office. And fourth is capital allocation and growth in both CenterWell and Medicaid.

Let me start with our Medicare product and experience. Individual MA membership, as I mentioned before, has declined less than we expected. Part of this improvement is that we've seen more bounce back members.

So these are members who chose another plan last autumn during AEP, but have come back to us during OEP and ROY. These members typically have better year one economics because we know them, and we can provide better clinical care.

As you may remember from Investor Day, our retention strategy is an important lever for us on our path to a more sustainable and reliable margins. And so we're excited to see these members returning to Humana. We are also taking aggressive steps to continue to improve the experience for our members in an effort to build upon this performance.

There's a couple of examples. The first is, last week, Humana announced new actions to simplify and streamline the prior authorization process. This builds on the recent commitments made by multiple health plans, including Humana, that were announced by AHIP and June.

Humana's actions, which go even further than our initial commitment through AHIP will help ensure our members get the right care in a timely manner, while also reducing administrative burdens for physicians as well as improving the experience for our members.

I think it's important that we remind everyone that we believe that prior authorization is an important check and balance to ensure appropriate care. It's just that it should be invisible to our members.

In another example of our focus on experience, we have entered into a new partnership with the health care software company, Epic. This partnership makes Humana the first health insurer to integrate health plan information directly into MyChart accounts.

Why is this important? This brings health plan coverage information into the same place where members frequently go to manage their care decisions. In essence, it provides increased transparency to the cost of care. We know that visibility into the cost of care when care decisions are being made is a big deal for our members, and we want to do everything we can to provide that visibility and transparency.

Now let me turn to clinical excellence. We are going to focus today almost exclusively on Stars. We'll hit BY '27 and '28 along with the Stars litigation. I'll start with the Stars litigation.

The court dismissed our case a couple of weeks ago on administrative grounds. They did this because we had not exhausted the optional appeals process with CMS when we originally filed our lawsuit. The appeals process with CMS is now over, and so we have refiled our Stars case in the same court.

As we wait for a new ruling, our path forward remains the same. We are continuing to press ahead with urgency on BY '27 and BY '28. Operationally, we are continuing to make strong progress. We are closing gaps in care and driving both quality and experience for our customers. And so there's no change in our message or our tone here today.

As a reminder, for BY' '27 results, we will be entering a quiet period when we receive planned preview data. So after today's call, we will not be discussing BY '27 Stars until the final results are released by CMS in October.

Shifting to the area of a highly efficient back office. We have a lot of activity happening in this area right now. During Investor Day, we shared that we were focused on transforming the organization, transforming the organization to enable scalable growth, and drive operating leverage.

This is a multi-year transformation. And it will include both near-term tactical cost programs, but also longer-term efforts to change how we operate through increased automation and use of technology.

This week, we notified eligible employees of an early retirement program to help accelerate efforts with our operating model and to streamline cost. In the next few months, we will also be expanding our efforts to contract out additional aspects of our shared services functions.

We are doing this in an effort to streamline and optimize outsourcing capabilities. We will also be evolving some of our employee benefits to bring them in line with industry standards.

I really want to emphasize that while these changes will reduce cost, the intent is to enable our broader strategy. This will be a multi-year transformation. It will be taken at a measured pace. And the objective is to create a more nimble technology-enabled organization that can respond more quickly to consumer needs and expectations.

Now let me turn to capital allocation and the growth of our Medicaid and CenterWell businesses. We're seeing exciting progress in both businesses right now.

Strategic expansion of Medicaid continues with the launch of the Virginia contract. This brings our active footprint to 10 states with three more states awarded and pending.

I know there's been a lot of curiosity about the impact of the Big Beautiful Bill. Our footprint in Medicaid is largely in non-expansion states, and it tends to be skewed towards the LTSS, or long-term support services population.

These geographies in this population are less impacted by the bill. So while the bill will certainly have some impact, we expect it to be more muted for us versus Medicaid broadly. We remain committed to our Medicaid strategy and the assumptions we made at Investor Day about margin progression.

Finally, we are encouraged by our CenterWell Pharmacy outperformance year to date. This has been driven by two things. We've seen higher direct-to-consumer volume, and we have seen favorability in specialty pharmacy which is seeing higher volumes and more favorable drug mix than expected.

So to conclude, all in, we are pleased with our solid performance year to date and our improved full-year 2025 outlook. As we look ahead, we remain focused on delivering a more stable and compelling MA margin. We continue to have conviction that the strong core fundamentals and growth outlook for MA will allow us to deliver compelling shareholder value over the long term.

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** - *Humana Inc - Chief Financial Officer*

Thank you, Jim. Our second-quarter results reflect solid execution across the enterprise as we focus on returning the business to its full earnings power. And while we remain appropriately prudent in our assumptions heading into the back half of the year, to date, the underlying fundamentals of the business, including membership and patient growth, revenue, and medical cost trends, are developing in line to better than expected.

We are pleased that our performance and outlook support our improved full-year adjusted EPS outlook of approximately $17. And it is important to note that this outlook contemplates an additional approximately $100 million in incremental investments to improve member and patient outcomes and support operational excellence.

The additional investments are focused in areas where we have seen strong returns to date, such as pairing in-home visits with virtual health to better engage members who don't have a primary care provider and closing gaps in care.

Turning to the balance sheet and capital deployment. We continue to execute on our efforts to increase the efficiency of our balance sheet and fortify our foundation. And we're making the progress on the sale of non-core assets and optimizing our capital requirements. We will share more on these efforts that plans finalize in the coming months.

With respect to capital deployment, we will remain prudent in our near-term approach, taking a balanced view to evaluating capital investments and returns. As I shared with you at our recent Investor Day, we intend to focus on maximizing shareholder value by executing on share buybacks to offset dilution from stock-based compensation, growing individual -- growing dividends in line with earnings as they recover; and over the long term, executing on accretive M&A for which we have a proven track record.

Accordingly, we completed approximately $100 million of share repurchases in the second quarter to offset dilution from employee issuance and do not have additional repurchases contemplated for 2025. During the quarter, we also opportunistically bought back approximately $200 million of debt due in 2027 using the proceeds from our bond issuance earlier this year.

Looking ahead, we will continue to manage the levers within our control, focused on delivering best-in-class clinical excellence, transforming the company to enable scalable growth, and driving enhanced operating leverage. We believe that these efforts will allow us to expand margin and realize the earnings potential of the business while driving better outcomes for our members, patients, and associates.

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

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

Great. Thank you, Celeste and Jim. Before starting the Q&A, just a quick reminder. For fairness to those waiting in the queue, which we do have a long list in the queue, we ask that you please limit yourself to one question.

So operator, with that, if you'll please introduce the first caller.

## QUESTIONS AND ANSWERS

**Operator**

Ann Hynes, Mizuho.

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

In your prepared remarks, you highlighted that cost trends were in line or better than your expectations. Can you talk about what cost trend is actually better than your expectations? And within that, can you just talk about how Medicaid is doing since some of your peers are having some trend problems in that book of business?

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

Yeah. We called out that our -- the results we are seeing generally are in line to better than our expectations. So on the revenue side, we are seeing better-than-expected performance. In CenterWell, we saw higher-than-expected patient growth earlier in the year. And as Jim called out, we have seen better-than-expected revenue growth near term on the pharmacy side of things.

On the insurance side, membership growth also, as Jim called out, well, it's going to be better than expected. Our guidance now assumes membership decline of around 500,000 -- up to 500,000 versus 550,000 before. That is driving higher revenue with an in-line MLR.

In terms of our overall medical and operating costs, with the exception of the investments we called out earlier, the -- those are trending in line or within the range of our expectations -- in some cases, on the better end of our expectations.

And then to your last question on Medicaid, Jim talked a bit -- and I'll turn it over to George about the states we're in and the programs that we're in, which is really allowing our business to deliver on what we expected for the year. I'll turn it over to George to talk more about that.

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

Yeah. So as you think about our Medicaid business, as Jim said, you talked about the footprint. But there are really a few reasons why you can't extrapolate across the whole industry that the Medicaid performance. And really, that's a result of three significant differences that you have to think about with Medicaid.

One is the products that we're in. And so as Jim said, we're much more oriented towards the LTSS population than the traditional Medicaid population. So that's one factor that you have to think about.

The second is the state footprint. And as you think about the state footprint and where we are, we are in states that -- we have worked very well with the states on the rate development and things are moving well there.

Now one of the things you may say is, well, you're large in Florida. I think that one of our competitors did acknowledge that their Florida problem was really specific to a population that we don't have exposure to. So again, you have to think about product first. You have to think about the state footprint.

And then the third part that is really important to think about with Medicaid is the network structure. And we believe that our network structure with our heavy emphasis on value-based care creates a differentiator versus where we are elsewhere.

So with regard to Medicaid, we're really proud of the development we've had and the expansion we've had into now 10 full states and three more coming online.

One thing that we should also mention is, for example, we now have a new Illinois contract that will be coming on. It's a big opportunity for us that emphasizes our prioritization of Medicaid, where we're focusing very hard in states that are linked -- where the Medicaid and D-SNPs are linked and where Humana has an outsized dual membership to protect. So we feel good about development we've seen in Medicaid to date.

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

Yeah. I think just to sum it up for you, Ann, Medicaid is running in line with our expectations. We're continuing to make progress on new states, and we feel good about where we are.

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**Operator**

Kevin Fischbeck, Bank of America.

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**Kevin Fischbeck** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Great. I was wondering if you could talk a bit more about the Part D performance and then any comments you have on the CMS regulations that were just released a couple of days ago, how you're thinking about that for 2026.

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

I will talk about performance to date, and then I'll turn it over to George to talk about the recent CMS announcement.

So first, not a lot to say about Part D. The member mix and Rx trends are tracking in line with our expectations today. If you recall, we did have -- we were expecting low double-digit trend on the Rx side of things, and it's in line with our expectations.

We haven't seen any unexpected behavioral changes to date, and members are hitting their MOOP so far in line with the expectations. So the ramp over the course of the year as members work through that.

And I'll turn it over to George on additional comments.

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

Yeah, Celeste. There's not a lot more to say other than we did consider the IRA changes in our bid strategy and then how we set our guidance. Especially, drug trend is high. I mean, let's just say that it is because it is. And -- but that's as expected. And that's the good news is developing as we expected.

We're confident in the pricing strategy that we've seen. Our co-pay versus co-insurance structure is working out the way we intended. So this year, we're seeing PDP develop as we expected, as Celeste said. Members are moving through the corridors as we expected. So that's good.

On the pharmacy for next year and on some of the things that you're seeing in the -- for example, CMS released the recent rules and the national average bid, et cetera. Given the uncertainty of the IRA for '26, we did bid back in conservatively given the changes in the risk corridors.

It's come in the way the risk corridors work and the way that the national average bid has worked. It's a little bit better than we expected, which is positive from what we are seeing in direct subsidy. The industry Part D appears to be more consistent next year and within the range of our expectations to slightly better.

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**Operator**

Andrew Mok, Barclays.

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**Andrew Mok** - *Barclays Services Corp - Analyst*

One of your peers noted a pretty meaningful pullback in the individual PPO market next year. Just curious how you're thinking about the implications of that to your own membership growth and margins for next year.

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**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yeah, let me make a couple of quick comments, and then I'm going to hand off to George to walk you through some of the specifics.

The -- first of all, big question I know for the entire industry right now given all the discussions that are out there. And there's really, I think, two questions underneath the question. One is, we recognize that there's a lot of talk about.

Hey, is there an unattractive population from a risk standpoint that tends to bounce around from plan to plan? And then second, why do we seem to feel good about where we're at as we -- both this year and as we head into next year?

And the high-level response to that is -- and we try to convey this at the Investor Day -- is we don't see bad membership. We see bad benefit packages and products.

And so if your product and your benefit structure is in the right place, all members can be good, profitable, attractive membership. And we feel like we have taken good steps in the last two years to put our product in a good place.

And again, we feel good about that. We're seeing that this year. We feel good about the trajectory into next year.

And to the extent that others in the industry did not take similar steps in the past or taking it now, we think that's good for everybody. We think that's good for the sector. We think that's good for the industry. We think that is a positive thing.

And that at the highest level is how we're thinking about it, but let me let George walk through some of the detail behind that. George?

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

Yeah. As Jim said, I understand why everyone is thinking about this question. But let me start by reminding you of the market dynamics that we've played out over the last few years.

We were transparent almost two years ago now in discussing utilization trends we are seeing and the impact of v28, and we made adjustments each year since then. We are -- the only plan's to reduce benefits in any way in '24, and we reduced more benefits and more significantly than just about all of our competitors in '25.

In addition to that, we executed on the combination of plan and benefit county exits, impacting 560,000 members. Given these two rounds of significant benefit cuts, we have a significant gap to peers benefit value while some peers held their benefits stable or even invested more in their benefits.

Now it's important to look at the granular MACVAT data. I know a lot of you had pulled that Milliman MACVAT information, but you have to isolate the growth plans. Because if you simply look at the averages without taking out the legacy plans that no one is really selling anymore, you'll get an inaccurate view of how the plans compare.

However, if you evaluate the growth plans, those plans you actually see growth on over the last couple of years, you will see a significant gap to our peers that has resulted from the two years of benefit reductions we've implemented.

And additionally, we also did plan county exits for 2025 that impacted 560,000 members. We've recaptured 40% of those members in other MA offerings.

Our goal, if you will recall, was 50%. And we would have been happy with even more recapture because those plans, we feel confident are being priced correctly. So keep in mind, this 40% recapturing of these exited members, as you hear the 2025 trends that we're saying today, are tracking in line with expectations.

To reiterate, when members rejoined us in plans that were priced appropriately, considering the funding and medical cost trends, we're tracking in line with expectations that we set out in our guidance. We have also specifically evaluated how those recaptured members and plans are performing, and we feel good about our benefit structure and the members we recaptured where we price them for the long-term value.

And for 2026, our benefits are largely stable. In some places, we may have invested a little bit; and in others we may have pulled back some. But even with the significant cut by peers, if they do that for '26, we still anticipate having a gap to the next richest benefit in the market based upon an in-depth analysis of our competitors' opportunities under the various bid rules, including the TBC rules.

So the point is we continue to feel good about the current run rate of our plans and are confident that our plans are priced appropriately given the funding environment cost trends that we're all experiencing, even should we have greater growth.

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**Operator**

Stephen Baxter, Wells Fargo.

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**Stephen Baxter** - *Wells Fargo Securities LLC - Analyst*

I was hoping you could speak to what you saw in terms of in-patient utilization trends in Medicare Advantage during the second quarter. For context, one of your competitors spoke to an accelerating trend in the second quarter. So it would be good to get your perspective on your data that you have to date.

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

Yeah. So on the in-patient side of things, things are trending in line to -- on the better end of our expectations when you take into account of admissions and the cost per unit. So we're not seeing an acceleration of anything,.

If anything, in the beginning of the year, because of the timing of the flu season, it was a little bit higher, but in line with our expectations. So where --- things are trending as we sail along.

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**Operator**

Justin Lake, Wolfe Research.

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

I thought I'd take a shot at getting the latest on Stars. I understand you're going to go quiet, and I know you don't have the cut points yet. So there's no way to know what your Stars are specifically going to do.

But I do believe that planned preview one has gone out. And so you have a decent idea or at least a starting point in terms of how your own performance looks. And if you might expect, there's a lot of focus on this.

So I would love to know if you could share with us here how your own performance has been in Stars. Do you feel like you've taken -- when we see the final data, regardless of how the cut points end up and therefore, how your stars end up, will investors be able to see a pretty strong step forward in terms of underlying performance in your Star metrics?

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**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yeah. Planned preview one data is not out. And honestly, if it was, we would not be talking about BY 27 at all. So it is not out at this point. And so we do not have any -- or if it is, we're not aware; but I don't think it's out. And so we don't have any additional visibility.

Look, what I'd say -- and this is going to be consistent with what I've said in the past. We were behind where we needed to be back in September -- late September, early October last year. We have made really good operational progress. We genuinely feel good about it.

And you will see the underlying metric performance -- you will see improvement in the underlying metric performance. Meaning, if you go metric by metric, our performance has gotten better. It really is a question of how much has the industry improved along with us and therefore, where are the cut points.

And at this point, with the lack of PP1 data, we just don't have visibility into that, which again is why we will enter a quiet period here over the next couple of months as that data does become available.

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**Operator**

Erin Wright, Morgan Stanley.

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

Great. I was wondering if you could talk a little bit more about the specialty pharmacy strength and what was driving that and some of the Part D dynamics that flow through there from an IRA perspective. And how is that playing out relative to your expectations at this point?

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

So on the specialty pharma and I would just say in the CenterWell pharmacy business in general, part of what's driving our outperformance this year is strategic changes to how we're organizing and marketing that business. So we've invested a lot in building a strong partnership with pharma companies, and that's done a couple of things for us.

One, it's creating new opportunities through this direct-to-consumer model. That's the Novo partnership we have. That -- we've also partnered with Ro and Weight Watchers to sell some GLP-1s. We expect to see more of this type of business over time. We're excited about the progress this year. It's coming ahead of our expectations.

The second piece that's driving outperformance -- I should say the second piece is, generally, there's broader outperformance from what we understand in specialty in the industry this year. But our specific performance is further boosted by winning additional access to multiple limited distribution drugs that we previously wouldn't have been able to access.

So this is really driven by the partnerships I called out. In the past, other pharmacies have gotten them and we have been excluded from that. And now, we are included. So really excited about some of the progress and the momentum in that business.

In terms of the PDP trends in general, as I called out earlier, the member mix and the Rx trends are tracking in line with our expectations. And there haven't been any unexpected behavioral changes.

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**Operator**

Joshua Raskin, Nephron Research.

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

Last quarter, you spoke about, I think, a couple of hundred million of additional investments that were mitigating upside to the guidance. And I believe last I heard you say, there was another $100 million. I want to confirm that's incremental spend that is in addition to the couple of hundred from 1Q. And then I'm curious why not invest more instead of letting it flow through the guidance this quarter?

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

I did think you might ask that question. So look, we -- that is right. We are confirming your question. It is an incremental $100 million.

We see a lot of opportunity to invest across the business, really focusing on our transformation, where we have incremental investments in some of our member retention work, AI, general operational efficiencies, a little bit on Stars where we're seeing high performance.

The -- we are looking at where it makes sense to spend money. We don't want to just spend money to spend it. We're not going to spend it where there aren't good returns.

Will we continue to look for additional opportunities? Absolutely. And -- but we are spending that $100 million where we think we can really drive a return and accelerate some of our transformation work and potential upside in Stars.

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**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yes. The one thing I would just add to that is we pulled some investment forward. So things we thought we were going to do next year got pulled into this year. But ultimately, you run into just a limit on how much of that you can do.

How much can you operationally absorb in any given period of time? We'd love to be pulling more forward. But right now, we're digesting the investments that we're making, and that's a big part of it as well.

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**Operator**

AJ Rice, UBS.

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**AJ Rice** - *UBS AG - Analyst*

Just wanted to ask about two quick things related to CenterWell. You continue to grow that membership on the value-based primary care side and seem to be hitting your metrics there. I wonder -- one thing you emphasized is that you're member agnostic, where maybe some of your other peers in that space are more focused on the medically complex. Is that part of why you're seemingly doing better?

And then I just would, also in CenterWell ask, do you have any update on home health rule? I know you're moving that to more value-based as well. But I think you're still one of the biggest fee-for-service providers and the proposed rules challenging.

It's just hard to know how much that's likely to impact the overall enterprise, given it's still -- even though you're big in that space -- relatively small in terms of the entire enterprise.

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

Yeah. So let me -- on your first question on patient growth, it's really -- we've opened more clinics. Those clinics are ramping. They're doing well. It's a combination of word of mouth and marketing.

There isn't a particular kind of patients that's driving higher-than-expected growth. We're pleased with what we're seeing. And even with the higher payment growth, trends and our expectations for that business are consistent with what we would have thought.

In terms of home health, yeah, we're disappointed by the proposed 6%-plus net rate reduction. We really don't think it's reflective of the wage and other inflation that the industry is experiencing. Labor makes up almost 75% of that rate, and the rate is supposed to be tied to that.

We also had anticipated that CMS would eventually implement a behavioral adjustment. We did not anticipate that it would be as high as proposed. It also said the data is supposed to be collected through the end of '26 and then analyze then.

So data is still being collected. So we believe it's early to make this adjustment. We're continuing to advocate and educate the administration on the need for reasonable home health reimbursement, and we're evaluating the impact on our home health businesses as proposed.

But we do have a natural hedge in our insurance business. It wouldn't fully offset any -- if this is implemented as proposed, it wouldn't fully offset it. But we believe we have other levers at the enterprise level that can absorb the headwind that isn't naturally offset by insurance.

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**Operator**

Ben Hendrix, RBC Capital Markets.

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**Ben Hendrix** - *RBC Capital Markets Inc - Assistant Vice President*

Just wanted to go back to the commentary you made on MA benefit actions in '24 and '25 in a more conservative approach you've taken versus some peers. To what extent could that put you at a disadvantage from a member experience perspective ahead of Stars? And maybe you can remind us what types of investments you're making right now that could mitigate some of that and lend some confidence in reaching that -- your targets for the '28 bonus year.

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**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yeah, great question. We are monitoring this closely is where I would start. Certainly, any time that you take benefit actions, it does create some abrasion with members.

We have been extremely active and diligent in essentially taking offsetting operating actions. So making sure that we're being very clear in how we communicate and explain the changes to our members, making sure that we're responsive to their concerns, et cetera.

And all in all, we feel pretty good about where we are at on that specific item, meaning member experience related to cuts and benefits last year. But yes, I mean, every time you go through a set of cuts, there is some member abrasion and you have to take that into account in your operations and adjust for it.

George, is there anything that you would add to that?

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

Yeah, Jim. I would just add that there are a number of things that we follow there. We monitor NPS on a regular basis. On every call [right to] that's taken, we try to monitor NPS we're mentoring. We are -- sorry, monitoring both the NPSR, which is the NPS for relationship; and NPST, which is the NPS with each transaction each time we get a call from a member and every time we interact with the member.

And we're not seeing anything concerning in that data. We also, of course, are doing a cap surveys. If you think about the surveys that CMS does every year, we do those to monitor what's happening. We're not seeing anything very alarming there at all. In fact, things are looking fairly good.

And keep in mind, some of the other things that we are doing here actually impact and help the member experience. Jim mentioned the Epic MyChart, where we're the first plan to try to integrate what members interact with their provider and have them have their provider and payer show up in one spot to improve that member experience.

And they can see all their information about their plan, while at the same time, checking on their next appointment. And the number of the activities of the millions of dollars that you've heard Jim and Celeste talk about that we're investing in are investing very much in the member experience itself.

And so the activities that we're taking in Stars, yes, they improve health outcomes and they improve our stars. But the reason for that is predominantly because we're also improving the member experience, making sure that our members are getting the care that they need.

And ultimately, what they're looking for is that they can get the care they need, that they are being proactively outreached to get care that's appropriate for them, and also doing so in a way that is affordable. And we believe that the actions we've taken -- we've talked about the cuts we made before and how we're very, very -- we use a lot of analysis to make those decisions got what benefits cuts we make to ensure care remains affordable.

So all the actions we've taken have very much had that member experience in mind. One of the things that I love about some of the teammate changes we've had in the company over the past year or two is that we brought in other expertise, such as David Dintenfass who works on the ELT with us and is making sure that we're very focused on that consumer experience.

So there are a whole host of actions that I can point to where we're actually trying to improve the member experience while at the same time taking prudent actions in our benefit designs.

**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yeah, let me pull it back to just point out two things. One, the bounce-back membership that we are seeing this year, I think, actually is proof that a bunch of those measures are working.

And so again, we look at the bounce back, the degree of bounce back, membership that is coming through OEP and ROY. And it makes us feel very good that we're doing the right things to adjust to the benefit changes that we made last year.

And then the second thing is -- this is really what you're driving at is, are we taking this into account in our Stars calculations? And do we still feel good about our overall Stars performance and the direction that it's headed even when you account for this?

And the answer to that is yes. We're certainly taking it into account. And even when you think about some of that member of raising that comes from reduced benefits. We feel good about the direction we're headed in. We feel good about the trajectory for BY '28.

**Operator**

George Hill, Deutsche Bank.

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

Jim, you just spoke about this, but could you provide a little bit more color on what's driving the bounce back on the members that are returning to Humana intra year? Where are those guys coming from? And what do you think from a benefits perspective that's bringing those people back?

**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yes, happy to hit that. The -- so first of all, it is disproportional in places where we saw loss membership, which I don't think will surprise anybody. But within the regions where we've seen lost membership, it's pretty broad-based. There's no specific pattern across those regions.

And generally, what we see is that when somebody makes a decision to leave Humana and then bounces back, more times than not, it's because they were surprised by what they were getting when they made the change. And the surprise might be that they didn't really understand the benefit package.

The surprise might be something around customer service. But typically, they were surprised. And then they come back to Humana where they have experience, where they know what they're getting from an experience standpoint from -- and again, this is why we want to be so clear about the benefit packages.

The more clear we are and the more that they feel informed, the more comfortable they are with the decisions that we have to make even when they're hard decisions. And I think that is part of what you're seeing.

Again, I'll just -- George, anything you would add or anything -- any other color there?

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

No, Jim. I think you're right. It's about the product and services and whether or not they got what they expected when they left us to go somewhere else. And they were the empty they know we have good services.

As we talked about at Investor Day, we're known for our service, and we're known for the way we approach our membership. So I think that all just plays into it.

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**Operator**

David Windley, Jefferies.

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**David Windley** - *Jefferies LLC - Equity Analyst*

I wondered if you could remind us what your assumptions for trend were this year in light of your comments about costs developing in line with those? I know Celeste referenced the low double digit for pharmacy. Just curious to get the other components. And then what are you assuming for trend in '26 relative to what you were experiencing in '25, please?

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

So yes, we -- as we said, on pharmacy, we were expecting low double digits. We continue to expect low double digits into next year. And then on the medical cost side, our expectations were for mid to high single digits, and our expectations for next year are consistent with that.

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**Operator**

Whit Mayo, Leerink Partners.

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**Whit Mayo** - *Leerink Partners LLC - Analyst*

I know the lawsuit that you have probably colors your answer, but just any updated thoughts on RADV, whether you have to make assumptions and bids around prospective CMS clawbacks on premium payments that they actually make it through the 2019 audit.

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**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yeah, there's really not a lot of color that we have to provide on this one. Partially, yes, with the litigation, there's a limit to what we can say. But partially, there's just a lot of unknowns, to be frank. And so very little color to add on this particular topic.

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

Jim, if I could just add one thing, in just we have long supported the offering of the contracts. As long as it takes into account the actuarial equivalence between MA and fee-for-service.

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**Operator**

Sarah James, Cantor.

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**Sarah James** - *Cantor Fitzgerald LP - Research Analyst*

I was hoping you could clarify the moving pieces in the guide based. If I take about a third of the 1Q beat that was described to CenterWell and all the 2Q beat run rate just for the investment spend, I get pretty close to the boost about $0.06 below.

Is that the right way to think about it that the guide lease is primarily run rating the CenterWell outperformance year to date? Or are there other main pieces? And can we think about the CenterWell strength as being sustainable beyond 2025?

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

That is right. We are assuming some of the outperformance will continue through the year, particularly on the CenterWell PCO growth. So that will continue into this year and into next year. And then the performance on pharmacy side of things, the specialty outperformance, and then the direct-to-consumer momentum that we have.

We also, as we called out, have better-than-expected membership. So our guidance for the year is up to 500,000 loss versus 550,000 previously. So that will run through the year and into next year. There were some things in the first quarter in particular, that were timing of one-timers in nature, and we're not run rating those.

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**Operator**

Michael Ha, Baird.

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

I understand you feel strongly about your benefit richness and confident in attracting good profitable membership. I'm curious though. Is there any level of membership growth percentage that you think if growth starts tracking to like 15%, 20%, 25%, where it could begin to potentially compromise earnings next year and if you were to get early sense of that through AEP, would you work to tap that growth if necessary?

And then also, I understand plan preview one data is not out yet, but I believe plans have already received the raw results for cost center metrics earlier this month. Any ability to comment on how those results look out to your expectations, especially since there's such high sensitivity of even missing one single quality Star rating?

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**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Yeah. So we are not going to comment on any of the data that we've received from CMS. And again, we'll -- we're headed in that quiet period, and we really will not be commenting again until we reach October.

The -- I've now lost track. What was the first question? Membership. Yeah, yeah. Here's basically how we think about it.

So first of all, we feel good about the product, and we feel good that the membership that we're going to be receiving will be good at whatever level it is. Is there a certain level where operationally, it could, in theory, become challenging? Sure.

Do we anticipate that, that is likely to happen? No. Will we monitor it and make adjustments as we need to? Yes. To the degree that we can operationally absorb the growth, then the real question I think then you're asking is, hey, is there a year one drag that we're worried about heading into next year?

If it's good growth and good membership, we will be focused on long-term value. And we will explain that to you and we will continue to grow. We will be very clear, and we'll be very transparent. Again, when we look at it, do we think the likelihood that we're in that situation is very high?

No, not really. Is it theoretically possible? It is. But the main question we will ask is, can we operationally absorb it, not are we afraid of year one economics and therefore, turn off growth? Does that -- hopefully, that answers the question.

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

Yeah. Maybe if I can add a much less strategic and more tactical. That timing of when membership growth matters a lot. So the AEP numbers that you have a full year to absorb the marketing. But if you pick up a member late in the year -- so if we picked the members late this year, late next year, they tend to come with a headwind because you don't really have a lot of revenue associated with them, and you have a lot of marketing up. We do have all of our expectations for any back-end growth in '25 reflected in our guidance as we go.

**James Rechtin** - *Humana Inc - President, Chief Executive Officer, Director*

Hey, with that, I just want to thank everybody for joining us this morning. And I want to thank everybody for your interest in Humana. And finally, I want to thank our 65,000 associates who serve our members and patients every day. We appreciate your 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.