

# Q3 2025 Insights: Elevance Health

Earnings Call Competitive Intelligence Report



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## Why This Report

As Medicare Advantage competition intensifies, staying informed isn't optional, it's a strategic advantage. That's why HealthworksAI is curating rapid-turn summaries of earnings calls from key MA players, started with Humana. In a matter of minutes, you'll get the key themes and what it all means for your 2026 plan design, provider alignment, and market positioning.

This is part of our CI (Competitive Intelligence) Beta Series—insightful, fast, and focused on helping MA leaders to strategize.

## Executive Summary

### Critical Finding

Medicaid margins turning significantly negative (-50 bps in 2025), with at least 125 bps further deterioration expected in 2026 - positioning 2026 as the “trough year.”

### Strategic Pivot

Disciplined Medicare footprint optimization: exiting ~150K members, focusing on HMO/D-SNP. Stars improving: 55% of MA members in 4+ Star contracts for PY2027 (vs 40% PY2026).

**Bottom Line:**

Elevance delivered Q3 results aligned with revised expectations (adjusted EPS \$6.30 vs guidance ~\$30 for full year), but laid bare the magnitude of Medicaid pressure while setting conservative 2026 expectations. Leadership framed 2026 as a “repositioning year” with disciplined investments (\$100M+ in AI/digital, Carillon scaling, Stars improvement) that will pressure near-term earnings but position for 2027 recovery.

The call revealed a fundamental shift from growth-at-all-costs to margin discipline: Medicare exits in unprofitable markets, Medicaid state partnership renegotiations including benefit redesign discussions, and commercial focus on fee-based integrated models rather than pure enrollment expansion. ACA marketplace posed significant uncertainty with enhanced subsidy expiration potentially causing “material contraction.”

## What Changed vs. Q2 2025

### 1. Medicaid Outlook Deteriorated Significantly

#### Q2 Position:

Expected Medicaid margins to remain under pressure, acknowledged redetermination impacts and acuity shifts.

#### Q3 Position:

**Quantified the damage:** Full-year 2025 Medicaid operating margin now expected to be **modestly negative (~-50 bps)**, with **at least 125 bps further decline in 2026**. Explicitly declared 2026 as “the low point” with sequential improvement expected in 2027.



“We now expect the full year 2025 Medicaid operating margin to be modestly negative, establishing a baseline from which we anticipate a decline of at least 125 basis points in 2026, as rates continue to lag acuity and utilization trends remain elevated.”

**Key Quote - CFO Mark Kaye**

**Context:** This represents a dramatic shift from the 2-4% target margin range, driven by “evenly split” factors: (1) rates lagging elevated acuity from state reverifications and (2) persistently elevated utilization above historical norms.

## 2. Medicare Strategy Sharpened: Quality Over Quantity

### Q2 Position:

Referenced “disciplined approach” to 2026 bids and footprint evaluation.

### Q3 Position:

Concrete actions disclosed: Exiting plans impacting **~150K members**, pulling back from PPO products, doubling down on **HMO and D-SNP** in core markets. **Stars trajectory improving**: 55% of MA members in 4+ Star contracts for PY2027 vs 40% for PY2026.



“PPO has never really been a strong product focus for Elevance Health. It’s our expectation to be able to manage the conditions of our members effectively, and PPO certainly doesn’t allow us to do that the same way that our HMO and D-SNP portfolio allows us to do.”

**Key Quote - President Felicia Norwood**

## 3. ACA Risk Elevated - Enhanced Subsidy Cliff Looming

### New Risk Factor:

Enhanced APTC expiration at year-end could cause “material contraction” in ACA marketplace. Q3 performance “somewhat favorable” to prudent expectations, but leadership anticipates higher utilization in Q4 as members maximize benefits before potential coverage changes. Full-year ACA margin expected down high single digits.

### Implication:

If subsidies expire without extension, expect smaller, more acute risk pool in 2026 - driving premium increases and potential adverse selection spiral. Elevance filed rates reflecting this scenario.

## 4. Investment Cycle: Front-Loading Expenses for Long-Term Positioning

### 2026 Investment Spike:

Announced “several hundred million dollars” (~\$1 EPS impact) of incremental investments across three buckets:

- **Technology/AI adoption:** Clinical workflows, roster automation, core system modernization
- **Carillon scaling:** New client onboarding, pharmacy capabilities (home delivery, infusion, specialty)
- **Quality/Stars improvements:** Member engagement initiatives



“By year end, more than 10 million members will have access to our AI-enabled virtual assistant... We’ve reduced prior authorization requests over the last two years and providers on our HealthOS platform benefit from aligned data sharing, faster approvals and reduced administrative burden.”

**Key Quote - CEO Gail Boudreaux**

## Executive Intent & Strategic Priorities

### Challenge: Medicaid Sustainability Crisis

#### Objective:

Return Medicaid to 2-4% target margin range by 2027 through rate alignment, benefit redesign partnerships with states, and aggressive cost management.

#### Specific Actions:

- **State partnership on benefit redesign:** Working with states to implement program changes (e.g., ABA limits, GLP-1 restrictions) aligned with January or July contract years
- **Care management intensification:** Targeting highest cost categories - LTSS, behavioral health, specialty pharmacy
- **Exit optionality:** Willing to exit states where rate adequacy cannot be achieved



“States are certainly more receptive to ways that can help reduce the overall cost of the Medicaid program and improve affordability... If a state isn’t going to deliver the expectations that we need from a financial perspective, we will certainly consider exiting that business if we can’t deliver on the long term.”

**Key Quote - President Felicia Norwood**

### Challenge: Medicare Margin Compression

#### Objective:

Return Medicare to 3-5% target operating margin through geographic/product rationalization and

Stars improvement.

#### Targets Disclosed:

- **Stars trajectory:** 55% of MA members in 4+ Star contracts by PY2027 (vs 40% PY2026) including three 5-Star contracts
- **Membership impact:** ~150K member exits from unprofitable service areas
- **Product mix:** De-emphasizing PPO, focusing capital on HMO and D-SNP where value-based care integration is strongest

#### Strategic Rationale:

Leadership explicitly stated 2026 MA margin will show “slight improvement” from 2025 levels (still below target range) but positioned 2026 actions as necessary foundation for sustainable profitability.

### Challenge: Commercial Differentiation in Competitive Market

#### Objective:

Expand fee-based commercial relationships through integrated medical-pharmacy model and Carillon’s differentiated capabilities.

#### Growth Drivers Highlighted:

- **CarillonRx:** +20% YoY revenue growth, “strong selling season” for 2026 with national account wins and high retention
- **Carillon Services:** +50% YoY growth, “trending toward high end of guidance range”
- **Commercial retention:** “Industry-leading Net Promoter Scores” reflecting employer trust

#### Caveat Disclosed:

“Enrollment dynamics in health benefits will create a directional headwind for Carillon next year” - meaning Medicaid/ACA membership losses will partially offset external growth momentum.

### Compliance & Quality: Provider Coding Integrity

#### Issue Flagged:

Elevated coding intensity from providers identified as contributing to Medicaid margin pressure.

#### Response:

“Taking meaningful steps to improve oversight” including enhanced clinical documentation

review, vendor oversight, and ensuring accuracy/compliance in how neighborhood conditions are documented.



“Our focus remains on working with providers to ensure accuracy, compliance, and sustainability [in] how those neighborhood conditions are documented.”

**Key Quote - CFO Mark Kaye**

## 2026 Bid & Stars Strategy Implications

### Geographic Footprint

- Service area exits impacting ~150K members - focused on unprofitable markets
- Deeper penetration in core markets aligned with Medicaid footprint
- D-SNP expansion where Medicaid + MA overlap creates integrated care opportunities

### Product Mix Strategy

- PPO de-emphasis: “Never really been a strong product focus” - continuing pullback
- HMO focus: Better aligns with value-based care capabilities and Carillon integration
- D-SNP priority: “Aligns very well with our Medicaid footprint and Carillon’s ability to manage complex conditions”

### Pricing & Benefits Discipline

#### Medicare Advantage:

“Took a disciplined and thoughtful approach to 2026 bids, prioritizing plans that deliver attractive value to members while producing sustainable financial performance.” Translation: Benefits likely rationalized, focusing on core medical/Rx rather than rich supplemental benefits.

#### ACA Marketplace:

“Filings designed to reflect higher acuity” and “prepared for a range of policy outcomes.” Rates filed conservatively assuming subsidy expiration scenario - expect premium increases to support improved margins (targeting high single digit margin recovery).

**Competitive Intel:**

Leadership emphasized “disciplined approach to pricing” across all lines - signal that Elevance won’t chase unprofitable growth. Commercial large group pricing reflecting elevated trends but maintaining retention through integrated model rather than price concessions.

**Stars Performance Trajectory****PY2027 Performance (announced Q3 2025):**

- 55% of MA members in 4+ Star contracts (up from 40% PY2026)
- Three 5-Star contracts achieved
- “Demonstrating steady improvement... and strong returns on investments we’ve made”

**Investment Commitment:**

Portion of the “several hundred million” 2026 investment explicitly allocated to “operational and quality initiatives” including “further improvements in star ratings and deeper member engagement.”

**Strategic Implication:**

Stars improvement is a **multi-year capital allocation priority**, not just operational tuning. Expect continued quality measure investments through 2026 AEP cycle to drive PY2028+ performance.

## Q3 2025 Financial Performance

Adjusted Diluted EPS

**\$6.03**

vs \$4.95 consensus  
(+21.8% surprise)

Total Revenue

**\$50.1B**

+12% YoY,  
+1.5% vs consensus

Consolidated BER

**90.0%**

In line with expectations

**Membership**

Total Medical Members:

45.4M

Medicaid:

Declining (reverification ongoing)

Medicare Advantage:

Growing, ~150K exit planned

## Policy & Regulatory Watch

### CRITICAL: Enhanced ACA Subsidies Expiration

- **Issue:** Enhanced APTCs expire December 31, 2025 without Congressional action.
- **Impact if expired:** “Material contraction” in ACA marketplace - CBO estimates indicate significantly lower enrollment and higher morbidity risk pool.
- **Elevance Position:** Filed rates reflecting expiration scenario. “If extended, we’ll work quickly with regulators and states to ensure smooth execution. If there’s changes or phase downs, we’re prepared to work closely to help people stay insured.”

### Budget Reconciliation Bill - Medicaid Provisions

- **Provisions:** Federal Medicaid eligibility changes phased into 2027-2028.
- **Scope:** Will impact less than 20% of Elevance’s Medicaid membership.
- **Management View:** “Phased and manageable... that pacing reduces execution risk and supports a steadier transition of the risk pool.” Some large states already “accelerated redetermination work into ‘25” providing early visibility.

### State Medicaid Program Changes

- **Context:** States facing budget pressure post-enhanced FMAP expiration.
- **Changes Under Discussion:**
  - Optional service limitations (e.g., ABA therapy caps, GLP-1 restrictions)
  - Benefit refinements aligned with contract renewal cycles (January/July)
  - Enhanced program integrity measures
- **Elevance Engagement:** “Proactively working with state partners on rate alignment, recommending program improvements... supporting states as they implement program changes.”

### Medicare Advantage Rate Updates

- **2026 Final Rate:** Not explicitly discussed on call, but leadership referenced “disciplined bid approach” and margin improvement expectations.
- **Stars Impact:** Improved performance (55% in 4+ Star for PY2027) will drive enhanced rebate opportunities and competitive positioning.

# Medical Cost & Utilization Trends

## Medicaid: Elevated Across the Board

### High-Pressure Categories:

- **Long-Term Services & Supports (LTSS):** Acuity-driven utilization increase
- **Behavioral Health:** Persistently elevated demand above historical norms
- **Specialty Pharmacy:** New therapies (GLP-1s) and expanded access driving costs
- **Applied Behavioral Analysis (ABA):** State-mandated expansions increasing utilization

### Management Response:

“Intensified care management and program integrity programs in the highest cost categories... we are seeing measurable improvement.”

## Medicare Advantage: Manageable but Elevated

- **Q3 Performance:** “Marginally better than expected due to disciplined plan design and member composition.”
- **Trend Status:** “Trend has been elevated but manageable.”
- **2025 Outlook:** Operating margin expected to “increase slightly in 2025, though still well below long-term range [3-5%].”

## ACA Marketplace: Risk Pool Deterioration

**Q3 vs Expectations:** “Developed somewhat favorably to prudent expectations” but “cost trends remain significantly above historical levels.”

### Pressure Points:

- Inpatient medical surgery
- Behavioral health
- Pharmacy costs
- ER utilization

**Q4 Expectation:** “Planning for higher costs in the fourth quarter as members utilize their benefits ahead of coverage changes next year.”

Full Year: High single digit operating margin decline expected.

## Commercial Group: Consistent with Expectations

**Trend Status:** “Elevated trends persist but remain mostly in line with expectations.”

### Watch Areas:

- Outpatient utilization
- Unit cost mix of services (including higher-cost surgeries)

Overall Assessment: “Very consistent with our outlook. No concerns.”

## Competitive Positioning & Market Strategy

### Carillon Growth Engine

#### CarillonRx:

- +20% YoY revenue growth
- “Strong selling season for 2026 with national account wins”
- High retention rates
- Specialty pharmacy integration on track (BioPlus, Kroger transitions)

#### Carillon Services:

- +50% YoY growth
- “Trending toward high end of guidance range”
- Driven by organic growth and CareBridge integration)

### 2026 Headwind:

“Enrollment dynamics in health benefits will create directional headwind for Carillon next year” - Medicaid/ACA membership losses will offset some external growth.

### Technology & Innovation

#### AI-Enabled Capabilities:

- 10M+ members with AI virtual assistant by year-end

- Personalized provider matching using 500+ data points
- Customer service automation improving first-contact resolution

#### **HealthOS Platform Benefits:**

- >68% reduction in denials
- 100%+ reduction in peer-to-peer reviews

#### **Strategic Positioning:**

“Creating our own future through innovation” - CEO Boudreaux positioned AI/digital as core to affordability and experience goals.

#### **Value-Based Care Integration**

##### **Strategic Alignment:**

D-SNP and HMO focus enables tighter integration with Carillon’s value-based care capabilities, particularly in specialty risk areas like oncology.

##### **Provider Network Strategy:**

“Expanding behavioral health interventions, strengthening specialty drug management, optimizing sites of care” - initiatives designed to “bend the cost curve” while improving outcomes.

#### **Competitive Differentiation:**

Integrated medical-pharmacy model with Carillon’s differentiated VBC approach driving commercial retention and “industry-leading Net Promoter Scores.”

# Actionable Intelligence for Payers

## 1. Medicaid Rate Negotiations

Elevance is openly discussing benefit redesign with states (ABA limits, GLP-1 restrictions, optional service reductions). This signals industry-wide opening for collaborative program changes beyond rate adjustments alone.

**Action:** Frame 2026 rate discussions as “sustainability partnerships” - bring specific benefit/policy recommendations, not just rate requests.

## 2. Medicare Product Portfolio Optimization

Elevance’s PPO pullback and 150K exits demonstrate willingness to sacrifice membership for margin discipline.

**Action:** Review your own unprofitable service areas and product types - 2026 may be the year to make similar tough calls without Wall Street penalty, as peer actions provide cover.

## 3. Stars Investment Urgency

Elevance moving 55% of members into 4+ Star contracts (from 40%) represents massive quality measure investment paying off.

**Action:** If your Stars trajectory lags, 2026 is critical year for catch-up investments - Elevance’s “several hundred million” spend signals scale required.

## 4. ACA Subsidy Scenario Planning

Elevance filed rates assuming subsidy expiration but positioned for “smooth execution” if extended.

**Action:** Ensure your January systems/operations can flex quickly for mid-cycle benefit/subsidy adjustments - policy decision likely to come very late.

## 5. Provider Coding Integrity Programs

Elevated coding intensity flagged as Medicaid margin pressure.

**Action:** If you haven’t already, implement enhanced clinical documentation review and vendor oversight programs focused on diagnosis coding accuracy - regulatory scrutiny likely to intensify across industry.

## 6. Technology Investment as Competitive Moat

Elevance’s AI/HealthOS capabilities (67% denial reduction, 10M members on AI assistant) represent significant operational advantages.

**Action:** Evaluate your digital/AI roadmap against these benchmarks - technology gap = future margin gap.

## Key Executive Quotes for Reference



“We are creating our own future through innovation. By year end, more than 10 million members will have access to our AI-enabled virtual assistant, demonstrating how digital innovation is enhancing access, efficiency and engagement across our platform.”

— CEO Gail Boudreaux



“We now expect the full year 2025 Medicaid operating margin to be modestly negative, establishing a baseline from which we anticipate a decline of at least 125 basis points in 2026, as rates continue to lag acuity and utilization trends remain elevated.”

— CFO Mark Kaye



“States are certainly more receptive to ways that can help reduce the overall cost of the Medicaid program and improve affordability. We’ve seen increases in certain categories of services... But the conversations this time around have certainly not just been about rates.”

— President Felicia Norwood (Government Health Benefits)



“PPO has never really been a strong product focus for Elevance Health. It’s our expectation to be able to manage the conditions of our members effectively, and PPO certainly doesn’t allow us to do that the same way that our HMO and D-SNP portfolio allows us to do.”

— President Felicia Norwood (Government Health Benefits)



“If a state isn’t going to deliver the expectations that we need from a financial perspective, we will certainly consider exiting that business if we can’t deliver on the long term.”

— **President Felicia Norwood (Government Health Benefits)**



“We’re approaching 2026 with discipline and focus... While we recognize the external environment remains dynamic, we are confident in our strategy, our execution and our ability to drive sustainable value for our stakeholders.”

— **CEO Gail Boudreaux**

This competitive intelligence report is part  
of HealthWorksAI’s rapid-response earnings  
analysis series.

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