



Elevance Q4 2025 Earnings Call Insight

Executive Summary Report

 January 28, 2026

Prepared by
HealthWorksAI

www.healthworksai.com

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EXECUTIVE SUMMARY

Elevance Health reported FY 2025 revenues of **\$197.6 billion**, up 13% year-over-year, but faces continued margin pressure with operating margin declining 90 basis points to 3.6% and FY 2025 adjusted EPS is \$30.29 while 2026 projected will be \$25.50. The 2026 guidance projects low single-digit revenue decline driven by **substantial membership contraction of approximately 2 million** in the high teens percentage range in 2026, attributed to deliberate portfolio adjustments and stable dual eligible membership.

The guidance reflects **disciplined pricing actions** across all lines of business, particularly in Medicare Advantage and Medicaid (expected to decline 650-850K members), as the company prioritizes margin recovery over growth. Management reaffirms its **long-term earnings algorithm targeting at least 12% adjusted EPS growth in 2027**, positioning 2026 as a transitional year focused on repricing, portfolio optimization, and operational efficiency.

Strategic Positioning & Key Developments



Benefit Expense Pressure

Benefit expense ratio expanded, driven by elevated medical cost trends, particularly in Affordable Care Act plans and heightened Medicare Part D seasonality from Inflation Reduction Act changes.



Medicare Advantage Strategy

Planned membership contraction in 2026 from pricing discipline and network optimization.



Individual ACA Year-End Membership Outlook

Guiding to at least 900,000 members at year-end 2026, reflecting repositioning and subsidy expiration impact.



Carelon Growth Engine

Operating revenue up 33% to \$71.7B in 2025, driven by CarelonRx product revenue growth and expansion of risk-based solutions; adjusted operating gain +10% to \$3.4B despite margin compression.



Capital Allocation

Returned \$4.1B to shareholders in 2025 through \$2.6B in buybacks and \$6.7B of board-approved share repurchase authorization remaining.

KEY LEADERSHIP QUOTES

Confident return to growth in 2027



Gail Boudreaux

Chief Executive Officer

"Elevance Health delivered fourth quarter results in line with our outlook, reflecting disciplined execution in a dynamic environment. As we enter 2026, our focus is on advancing affordability and making healthcare easier to access and navigate for the members we serve. Through pricing discipline and targeted investments, we are strengthening the earnings power of our diversified platform and remain confident in our ability to return to at least 12% adjusted EPS growth in 2027."

Strategic Implication: CEO frames 2026 as transitional year requiring near-term membership sacrifices for long-term margin recovery; reaffirms commitment to double-digit EPS growth algorithm beginning 2027 once repricing actions stabilize and industry dynamics normalize.

Recalibrating segment margins for sustainable growth



Mark Kaye

Chief Financial Officer

"Our 2026 guidance reflects the strategic actions we're taking to reposition the business for long-term sustainable growth. We're recalibrating our segment margin targets to reflect the current operating environment while maintaining our commitment to disciplined capital allocation and returning substantial cash to shareholders. The Health Benefits segment will experience near-term margin pressure as we prioritize quality and affordability, but we expect sequential improvement throughout the year."

Strategic Implication: CFO acknowledges that previous margin targets are no longer achievable in current environment; 'recalibrating' is corporate speak for lowering expectations while maintaining commitment to shareholder returns despite earnings pressure.

Prioritizing value over volume



Peter Haytaian

President, Health Solutions

"We've taken decisive action on pricing across our book of business, particularly in Medicare Advantage and Medicaid, to ensure we're appropriately compensated for the medical costs we're experiencing. While this resulted in membership declines, we believe these actions are necessary to restore margins to acceptable levels."

Strategic Implication: Health Benefits leadership explicitly choosing margin over membership, acknowledging enrollment decline; frames aggressive repricing as necessary medicine rather than strategic choice, betting competitors will follow similar discipline.

AEP enrollment outcomes reflect deliberate margin-focused repositioning



Felicia Norwood

President, Government Health Benefits

"Our enrollment during AEP and the resulting member composition are highly aligned with our focus on margin. We took very deliberate steps to reposition the business toward sustainable value and our margin objectives. While overall membership growth came in below expectations, we were pleased with member response to our emphasis on D-SNP and HMO products. Importantly, the majority of attrition occurred in PPOs and in geographies where we intentionally did not offer comparable alternatives. These outcomes reflect deliberate choices, and we are positioned to deliver meaningful Medicare margin improvement to at least 2% in 2026."

Strategic Implication: Management is explicitly prioritizing margin discipline over membership growth, accepting higher MA attrition as a planned outcome. The shift away from PPOs and toward D-SNP and select HMO offerings underscores a portfolio optimization strategy, with 2026 positioned as a margin recovery year rather than a growth year.

Medical cost trends stabilizing but elevated



Morgan Kendrick

President, Commercial and Specialty Health Benefits

"Medical cost trends remain elevated but we're seeing signs of stabilization as our utilization management initiatives take hold. The pipeline for 2027 and 2028 is strong across both local and national markets, and self-funded performance continues to exceed expectations. Importantly, CarillonRx pull-through has been very strong, particularly in the upmarket where it had not previously been formalized "

Strategic Implication: Claims leadership attempting to reassure that worst is behind despite Q4 benefit expense ratio; 'signs of stabilization' without specific metrics suggests uncertainty; 2026 guidance assumes favorable trend trajectory that may not materialize if utilization remains elevated.

FY 2025 FINANCIAL PERFORMANCE

Guidance Summary

Segment	FY 2025 Revenue	YoY Growth	Operating Gain	Margin
Health Benefits	\$167.1B	+11%	\$4.2B	2.5%
CarelonRx	\$43.4B	+21%	\$2.4B	5.6%
Carelon Services	\$28.3B	+58%	\$1.0B	3.4%

Benefit Expense Ratio & Key Performance Drivers

Benefit expense ratio expansion to 90.0% (93.5% in Q4 2025) reflects 150 bps deterioration year-over-year driven by: (1) elevated medical cost trends particularly in ACA health plans, (2) heightened Medicare Part D seasonality from Inflation Reduction Act changes, (3) higher medical cost trends across all products, and (4) ongoing utilization increases. Days in claims payable declined to 41.3 days from 43.2 days year-end 2024.

- **Health Benefits margin compression** driven by medical cost trend outpacing premium increases; segment margin declined 170 bps to 2.5%; Q4 2025 operating loss of \$220M reflects severity of trend pressure.
- **Medicare business growth** demonstrates continued market strength despite industry-wide repricing.
- **Medicaid revenue growth** masked underlying profitability challenges; membership declined 500K as company exits unprofitable state contracts.
- **CarelonRx strength** with quarterly adjusted scripts of 88.5M (+6.8% YoY); operating margin of 5.6% demonstrates pricing power in pharmacy benefit management.
- **Cash generation** of \$4.3B (0.8x GAAP net income) reflects working capital headwinds.

2026 OUTLOOK & STRATEGIC PRIORITIES

Guidance Summary

Metric	2026 Guidance	2025 Actual	Commentary
Revenue	Low single digit decline	\$197.6B	Membership contraction + repricing discipline
Operating Gain	≥\$6.8B	\$7.5B	Margin stabilization focus
Adjusted EPS	≥\$25.50	\$30.29	-19% reflecting transitional year challenges
Benefit Expense Ratio	90.2% ±50bp	90.0%	Slight deterioration despite repricing actions
Adj Operating Expense	10.6% ±50bps	10.5%	Maintaining expense discipline
Cash Flow (Ops)	≥\$5.5B	\$4.3B	+28% normalization from working capital

Membership Outlook & Strategic Trade-offs

The 2026 guidance reflects **deliberate membership contraction** from 45.2M to 43.2-43.9M range as the company prioritizes margin recovery over growth. Key membership changes by product:

- **Medicare Advantage:** Expected to decline 355-455K members (from 2.23M to 1.78-1.88M range) representing 16-20% contraction from disciplined pricing and benefit adjustments.
- **Medicaid:** Projected to decline 650-850K members (from 8.5M to 7.65-7.85M range) from continued exits of unprofitable state contracts.
- **Commercial Risk-Based:** Expected to decline 674-774K members (from 4.92M to 4.15-4.25M range) from ACA repricing actions and employer group attrition.
- **Commercial Fee-Based:** Slight growth expected to 27.2-27.5M (from 27.1M) indicating continued employer group services competitiveness.
- **Medicare Supplement:** Minor decline to ~850K (from 882K) reflecting natural book runoff.
- **Federal Employee Program:** Expected to decline to ~1.55M (from 1.60M) from competitive pressures.

These membership actions position Elevance to sacrifice near-term top-line growth for improved unit economics, betting that competitors face identical medical cost trend pressures and will follow similar margin-focused discipline.

KEY RISKS & CONSIDERATIONS

2026 Headwinds

- **Medical cost trend persistence:** Elevated trends particularly in ACA and Medicare products requiring continued vigilance; Q4 2025 benefit expense ratio of 93.5% indicates ongoing pressure.
- **Medicare Advantage competitive dynamics:** Planned membership contraction assumes competitors follow disciplined pricing; if peers maintain aggressive benefits, market share losses could accelerate beyond guidance.
- **ACA market volatility:** Individual membership expected to decline substantially from repricing actions; competitive dynamics in ACA exchanges remain unpredictable.
- **Medicaid rate adequacy:** State budget constraints limiting rate increases; company strategically exiting unprofitable contracts but remaining exposure to rate pressure in retained states.

- **Regulatory uncertainty:** Potential changes to Medicare Advantage rates, ACA subsidies, and Medicaid policies under new administration; CMS Star Ratings performance impacting quality bonuses.
- **Carelon Services margin pressure:** Q4 2025 operating loss of \$150M indicates execution challenges; segment margin declined 60 bps for full year 2025 despite strong revenue growth.

Strategic Opportunities

- **Industry-wide repricing opportunity:** If competitors follow similar pricing discipline, industrywide margin stabilization could support faster than expected recovery.
- **Portfolio optimization:** Continue strategic exits from unprofitable Medicaid contracts and ACA markets; focus on states/products with sustainable economics and adequate rate structures.
- **Operating efficiency:** Adjusted operating expense ratio guided to 10.6% \pm 50bps representing continued expense discipline while investing in technology and capabilities.
- **Carelon diversification:** Strong 33% revenue growth and expanding presence in pharmacy and services provides earnings diversification beyond health insurance.
- **Technology and AI investments:** Continued investment in technology infrastructure and AI capabilities to drive operational efficiency and improve member experience.
- **Fee-based business stability:** Commercial fee-based membership expected to grow to 27.2-27.5M providing stable revenue base insulated from medical cost trends.
- **Cash generation improvement:** Projected >28% increase in operating cash flow to \geq \$5.5B provides capital allocation flexibility for growth investments and shareholder returns.
- **2027+ growth inflection:** Management's confidence in returning to \geq 12% adjusted EPS growth in 2027 suggests near-term pain positions company for sustainable long-term performance.

BOTTOM LINE ASSESSMENT

Elevance Health is executing a deliberate margin recovery strategy that prioritizes profitability over growth, with 2026 guidance pointing to low single-digit revenue decline and approximately 2 million member attrition. The strategy reflects aggressive portfolio rationalization across Medicare Advantage (expected 1.78 to 1.88M members), Medicaid (expected 7.65 to 7.85M members), and Commercial risk-based products (expected 4.15 to 4.25M members). Management credibility hinges on

- Competitors following similar pricing discipline rather than aggressively pursuing market share,
- Medical cost trends stabilizing at current elevated levels,
- Carelon execution improving after Q4 2025 Services segment loss, and
- Successful return to $\geq 12\%$ adjusted EPS growth in 2027.

Key Dependencies



Industry pricing discipline

Elevance's aggressive membership contraction assumes competitors face identical medical cost pressures and follow rational pricing; market share risk if peers maintain aggressive benefit richness.



Medical trend trajectory

Q4 2025 benefit expense ratio of 93.5% and full year 90.0% both well above target; 2026 guidance of 90.2% ± 50 bps requires trend stabilization.



Carelon Services turnaround

Q4 2025 operating loss of \$150M concerning; 2026 guidance targeting 0-25 bps margin expansion requires execution improvement.



Medicaid contract profitability

Strategic exits from unprofitable contracts reduces revenue but improves margins; remaining book must achieve adequate rate increases from states.



2027 inflection proof points

Need visible benefit expense ratio improvement toward company's historical 88-89% range, membership stabilization across products, and early indicators of EPS growth reacceleration.

The bull case envisions 2026 as a necessary reset year positioning for sustained double-digit earnings growth; the bear case sees prolonged margin pressure if medical costs fail to stabilize or competitive dynamics deteriorate. Near-term risk/reward skewed toward execution risk given magnitude of membership contraction, EPS compression, and uncertain timing of margin recovery. The successful path forward requires industry-wide recognition that current benefit levels are economically unsustainable, leading to coordinated repricing that stabilizes margins without triggering a market share war. Management's reaffirmed commitment to EPS growth beginning 2027 provides longer-term upside potential if the 2026 transitional strategy executes as planned.

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