

A photograph of a multi-story brick building with the word "Humana" in large white letters on the top facade. The building has many windows and is set against a clear sky.

Humana

Humana

Q4 2025 Earnings Analysis

Earnings Insight Report for MA Payer Competitive Intelligence



Insights Summarized from February 11, 2026 Earnings Call

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EXECUTIVE SUMMARY

The most surprising finding: While Elevance and Centene are deliberately shedding Medicare Advantage members to restore margins, Humana added 1.03 million net new individual MA members (20% growth) in AEP and is guiding to another ~25% growth in 2026—a strategic divergence that positions Humana as the industry’s growth outlier, but at the cost of absorbing a \$3.5 billion Stars ratings headwind that crushes 2026 EPS.

Membership Impact: Individual Medicare Advantage membership sits at ~6.28M (Jan 2026), up 20% from 2025. D-SNP membership reached 900K, up 18%. Group MA added ~162K members (+28%). Total MA book is expanding rapidly while competitors shrink.

2026 Guidance Overview: Revenue expected to grow to ≥\$160B (+23% YoY), driven by MA membership expansion. Insurance segment benefit ratio guided to 92.75% ±25 bps (deterioration of ~235 bps). Individual MA margins guided to "slightly below breakeven" due to Stars, though normalized margins are expected to double YoY.

Strategic Positioning: Humana is betting that lifetime value of switchers + operational scale + CenterWell integration will overcome the near-term Stars drag. Management is explicitly trading 2026 earnings for market share, assuming the Stars cycle turns and competitors cannot match their retention economics.

What this means for MA payer competitive landscape: Humana is breaking the "margin over membership" consensus. If they successfully absorb 2M+ new members and restore Stars ratings, they emerge as the volume-driven consolidator. If medical trends persist or Stars recover slowly, they face a multi-year earnings trough deeper than peers.

STRATEGIC POSITIONING & KEY DEVELOPMENTS

Medicare Advantage: Anti-Cyclical Growth Bet

Humana added ~1.03M net new individual MA members in AEP 2026, with retention improving >500 bps YoY. 70% of new sales were switchers from competitors; ~30% were "bounce-back" members. Management projects another ~25% membership increase in 2026, deliberately capturing share while competitors pull back. Strategic implication: Humana is betting that competitor pricing discipline creates a transient arbitrage opportunity—acquiring high-LTV switchers at favorable acquisition costs.

Stars Ratings Headwind:

FY 2026 Adjusted EPS guidance of \$9.00 reflects a ~\$3.5 billion revenue headwind from lower Star Ratings. Only 45% of members are projected to be in 4+ star contracts for 2026. Management has appealed to the 2025 ratings; the outcome remains uncertain. Strategic implication: This is the single largest earnings depressant in Humana's history. Unlike medical trends, this is a well-known, quantified multi-year overhang requiring aggressive operational remediation.

Medicaid Expansion: Quiet Footprint Growth

Medicaid now spans 13 states, with Georgia and Texas expected to launch in 2027. This is a long-term volume hedge against Medicare concentration, but near-term margins are negligible. Membership guidance of 25K-100K new lives in 2026 is modest.

KEY LEADERSHIP QUOTES

"Good growth" defined, defending the membership surge



James Rehtin

President & Chief Executive Officer

"We grew by approximately 1,000,000 members or 20% in AEP. Our retention rate improved over 500 basis points year over year. And I'm gonna keep emphasizing that is good growth. Over 70% of our new sales were switchers from competitor plans... nearly 30% of our new sales were bounce-back members."

Strategic Implication: Rehtin is preemptively pushing back against analyst skepticism that Humana is "buying growth." By quantifying switcher mix, bounce-back rates, and channel quality, he is attempting to rebrand volume as asset accumulation. The dependency: these members must exhibit lower trends and higher retention than the average book to justify the near-term Stars penalty.

Stars as a solvable problem, not structural



James Rehtin

President & Chief Executive Officer

"We also continue to expect that when normalizing for STARS, our 2026 pricing results in a doubling of individual MA margin year over year."

Strategic Implication: This is the linchpin of the bull case. Management is asking investors to look through the \$3.5B headwind and see underlying margin expansion. The risk: Stars normalization is assumed, not guaranteed. If the 2025 ratings appeal fails and 2026/2027 Stars don't recover, "normalized" margin remains aspirational.

Intentional guidance conservatism



Celeste Mellet

Chief Financial Officer

"I would also note that the level of conservatism in our initial guide is higher than typical to account for the dynamic environment."

Strategic Implication: CFOs rarely admit guidance is overly conservative. This is a signal that the \$9.00 EPS floor is beatable if trend cooperates and Stars mitigation works. However, it also reveals uncertainty: the "dynamic environment" caveat allows for downgrades if conditions worsen.

Rate notice realism—no relief expected



James Rehtin

President & Chief Executive Officer

"The advance rate notice is you know, came in below medical cost trend. Like, that's not that's not new at this point."

Strategic Implication: Humana is not banking on CMS generosity. This statement subtly acknowledges that the Medicare Advantage funding environment is structurally tighter. The implication: future benefit adjustments are inevitable. Humana is betting its scale and vertical integration allow it to manage that tension better than peers.

Trend assumption: 2025 + a little more



Celeste Mellet

Chief Financial Officer

"Our cost trend assumptions for 2026 look a lot like 2025, but slightly higher... mid-single-digit medical trend to low double-digit pharmacy trend."

Strategic Implication: Humana is assuming no trend relief. This is prudent, but it also means any moderation flows directly to EPS upside. Pharmacy trend remains the primary pressure point.

FY 2025 FINANCIAL PERFORMANCE

A. Guidance Summary Table

Metric	FY 2025 Revenue	YoY Growth
Insurance Segment (Total)	\$124.6B	+9.5%
Individual Medicare Advantage	\$90.4B	+2.7%
Group Medicare Advantage	\$9.0B	+16.6%
Medicare Stand-alone PDP	\$6.8B	+117%
State-based contracts	\$14.5B	+32.7%
CenterWell Segment	\$22.5B	+12.7%
Consolidated	\$129.7B	+10.2%

B. Benefit Expense Ratio & Key Performance Drivers

The Insurance segment GAAP benefit ratio for FY 2025 was 90.4%, flat YoY. This stability is deceptive, as the composition shifted:

- **Favorable prior period development** totaled **\$1.03B** (80 bps benefit), up from \$701M in 2024. This is a reserve tailwind that may not repeat.
- **IRA Part D redesign** inflated the benefit ratio by shifting costs into premiums, masking underlying medical trends.
- **Days in Claims Payable (DCP)** compressed to **31.9 days** (vs 37.8 in 2024), driven by faster-paying pharmacy mix and lower IBNR requirements.
- **Individual Medicare Advantage pricing discipline** fully offset trend and plan exit impacts—a critical proof point for 2026 credibility.
- **CenterWell operating cost ratio** deteriorated to **93.1%**, driven by v28 risk model headwinds and specialty pharmacy mix.
- **Operating cash flow** declined to **\$921M** (FY) from \$2.97B in 2024, driven by IRA receivable timing and working capital swings.

2026 OUTLOOK & STRATEGIC PRIORITIES

A. Guidance Summary Table

Metric	2026 Guidance	2025 Actual	Commentary
Total Revenues	≥\$160.0B	\$129.7B	+23% YoY; MA membership surge
Insurance Segment Revenues	≥\$155.0B	\$124.6B	+24% YoY
CenterWell Revenues	≥\$25.0B	\$22.5B	+11% YoY
Insurance Segment Benefit Ratio	92.75% ±25 bps	90.4%	+235 bps deterioration; Stars headwind
Consolidated Operating Cost Ratio	10.0% ±25 bps	12.0%	200 bps improvement; transformation savings
Adjusted EPS	≥\$9.00	\$17.14	-47% YoY
Operating Cash Flow	\$2.5B - \$2.9B	\$0.92B	Recovery from 2025 low
Debt-to-Capital	~41%	41.1%	Stable

B. Membership Outlook & Strategic Trade-offs

Humana's 2026 guidance reflects **aggressive, anti-cyclical growth**:

- **Individual Medicare Advantage:** Projected growth of ~25% over 2025 year-end (from ~5.25M to ~6.6M). This is the highest growth rate among national MA plans and directly contradicts the "margin over membership" consensus.
- **Group Medicare Advantage:** Expected to add ~150,000 members (+20%).
- **Medicare Stand-alone PDP:** Expected to add ~1,000,000 members (+40%).
- **State-based contracts (Medicaid):** Modest growth of 25K-100K; Georgia/Texas launches delayed to 2027.
- **Strategic Reasoning:** Humana is betting that the switchers acquired in 2026 AEP have superior retention economics and that operational scale will drive down unit costs. They are explicitly trading 2026 margin for 2027+ market share.

C. 2026-2027 Strategic Priorities

- **Stars Recovery:** Aggressive operational investment to drive CTM scores, HEDIS measures, and member satisfaction. The appeal of 2025 ratings are pending; 2026/2027 performance will determine if 45% 4-star mix improves.

- **Margin Normalization:** Pricing assumes doubling of normalized individual MA margin (ex-Stars) YoY. This is the critical internal performance metric.
- **CenterWell Integration:** Primary care acquisitions (upcoming) and home health expansion to absorb new MA members and reduce total cost of care.
- **Statutory Capital Efficiency:** Sustain <20% capital growth on 40% premium growth; deploy freed capital into M&A or organic expansion.
- **Administrative Expense Takeout:** Supplier consolidation, offshoring, and process automation expected to drive operating cost ratio to 10.0%.
- **2028 Earnings Inflection:** Reaffirmed Investor Day target of unlocking "earnings potential" by 2028—implies current EPS is structurally depressed and will recover as Stars normalize and new members mature.

KEY RISKS & CONSIDERATIONS

2026 Headwinds

- **Stars Ratings Overhang:** Revenue drag is locked in for 2026. If the 2025 ratings appeal fails and 2026 measurement shows no improvement, 2027/2028 outlook deteriorates further.
- **Medical Cost Trend Persistence:** Management assumes trend "slightly higher" than 2025. If GLP-1 utilization or inpatient admits accelerate, the 92.75% benefit ratio guide is at risk.
- **Integration Capacity Risk:** Absorbing ~1.6M net new MA members in 12 months (YE25 to YE26) strains provider networks, customer service, and risk adjustment coding. Early NPS/CTM metrics are positive, but scaling is untested.
- **Medicare Rate Finalization:** Advance notice came in below trend; if final rule does not improve, benefit cuts or premium increases may be required for 2027, potentially chilling retention.
- **CenterWell Margin Erosion:** v28 headwinds persist; operating cost ratio is not sustainable if revenue growth slows. Primary care acquisitions carry integration risk.
- **Competitor Reaction:** If Elevance/Centene/United maintain disciplined pricing and do not cede further share, Humana's 2027 growth comps become difficult and acquisition costs rise.

Strategic Opportunities

- **Switcher Quality Upside:** 70% of new sales are from competitors; if these members demonstrate lower trend and higher retention, the 2026-2027 earnings trajectory steepens.

- **Operational Leverage:** 25% membership growth with only 11% CenterWell revenue growth suggests improving efficiency; admin expense ratio guide implies significant fixed cost absorption.
- **Statutory Capital Arbitrage:** >\$3B in preserved capital provides dry powder for primary care roll-ups that competitors (constrained by buybacks/debt) cannot match.
- **Medicaid Greenfield:** Georgia and Texas launch in 2027 provide long-term diversification away from Medicare concentration.
- **Bounce-Back Member Economics:** ~30% of new sales are returning members with known risk profiles; these members typically have lower acquisition costs and faster margin recovery.
- **2028 Visibility:** Unlike peers framing 2027 as "recovery," Humana has explicitly pushed the earnings power unlock to 2028, lowering near-term expectations and creating a longer runway to demonstrate Stars recovery.

BOTTOM LINE ASSESSMENT

Humana is executing a **high-risk, high-reward counter-narrative** to the rest of the MA industry. While Elevance, Centene, and Molina prioritize margin restoration through membership contraction, Humana is **aggressively acquiring market share**, betting that the lifetime value of switchers, operational scale, and Stars remediation will overcome a **revenue headwind**. The 2026 guide—**\$9.00 EPS vs. \$17.14 in 2025**—is effectively planned earnings reset to fund share gains. Management's credibility hinges not on hitting \$9.00, but on demonstrating that normalized margins are truly doubling and that Stars ratings recovery is on a visible path.

Key Dependencies

Stars litigation & operational recovery: The 2025 appeal and 2026 measurement cycle must show improvement; 4-star mix is a floor, not a ceiling.

Switcher unit economics: The 1M+ new members must exhibit retention rates and medical trends at or better than the incumbent book.

Medical trend cooperation: The "slightly higher than 2025" assumption must hold; any acceleration in pharmacy or inpatient trend pressures the benefit ratio floor.

CenterWell integration velocity: Primary care capacity must scale with membership; v28 headwinds need to abate in 2027.

Competitor discipline: If peers' reverse course and compete aggressively on benefits in 2027, Humana's retention assumptions break.

Statutory capital optimization: The modeled >\$3B capital efficiency must be realized to fund M&A without debt.

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