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ELV.N - Q3 2026 Elevance Health Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Nathan Rich *Elevance Health Inc - Vice President, Investor Relations*

Gail Boudreaux *Elevance Health Inc - President, Chief Executive Officer, Director*

Mark Kaye *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Felicia Norwood *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

Morgan Kendrick *Elevance Health Inc - President of our Commercial Health Benefits business*

CONFERENCE CALL PARTICIPANTS

AJ Rice *UBS AG - Analyst*

Andrew Mok *Barclays Services Corp - Analyst*

Justin Lake *Wolfe Research LLC - Analyst*

Stephen Baxter *Wells Fargo Securities LLC - Analyst*

Lisa Gill *JPMorgan Chase & Co. - Analyst*

Lance Wilkes *Sanford C Bernstein & Co LLC - Analyst*

Scott Fidel *The Goldman Sachs Group, Inc. - Analyst*

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

Erin Wright *Morgan Stanley - Analyst*

George Hill *Deutsche Bank AG - Analyst*

Ann Hynes *Mizuho Securities USA LLC - Analyst*

Ben Hendrix *RBC Capital Markets - Analyst*

David Windley *Jefferies LLC - Equity Analyst*

Jason Cassorla *Guggenheim Securities LLC - Equity Analyst*

Elizabeth Anderson *Evercore Inc. - Analyst*

Ryan Langston *Cowen and Company LLC - Analyst*

Whit Mayo *Leerink Partners LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Elevance Health third quarter earnings conference call. (Operator Instructions) As a reminder today's conference is being recorded.

I would now like to turn the conference over to the company's management. Please go ahead.

Nathan Rich - *Elevance Health Inc - Vice President, Investor Relations*

Good morning, and welcome to Elevance Health's third quarter 2026 earnings conference call. My name is Nathan Rich, Vice President of Investor Relations. With us today on the earnings call are Gail Boudreaux, President and CEO; Mark Kaye, our CFO; and Felicia Norwood, our Chief Health Benefits Officer; and Morgan Kendrick, President of our Commercial Health Benefits business.

Gail will highlight our third quarter performance and discuss the progress we're making on our strategic priorities. Mark will then discuss our financial results and the drivers supporting our earnings outlook in greater detail. After our prepared remarks, the team will be available for a question-and-answer session.

During the call, we will reference certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, elevancehealth.com. We will also be making forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Elevance Health.

These risks and uncertainties may cause actual results to differ materially from our current expectations, and we advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Good morning, and thank you for joining us. Elevance Health delivered strong third quarter results with Medicaid, Medicare Advantage and individual ACA each contributing to our better-than-expected performance. These results reflect focused execution across the enterprise. They support a higher earnings outlook for 2026 and increase our confidence in the sustainability of our performance entering 2027.

We are revising our 2026 adjusted diluted earnings per share guidance to at least \$29, reflecting operating outperformance as well as favorable nonoperating items. More importantly, we're raising our 2026 earnings baseline to at least \$26.75. That increase reflects better underlying results and greater confidence in the durability of that performance. From this higher baseline, we remain confident in our ability to deliver at least 12% adjusted diluted earnings per share growth in 2027.

We expect that growth to be driven by continued margin improvement in health benefits, broader adoption of Carelon value-based solutions and greater operating efficiency across the enterprise. We are bringing together the scale and local presence of our health benefits business with Carelon's clinical and operational expertise to improve outcomes and make care more affordable. As we extend these solutions across our health plans into external clients, we expect to improve medical cost management, increase operating leverage and deliver greater value for those we serve.

We are already seeing measurable results. Carelon's risk-based oncology solution connects treatment planning with personalized support throughout a member's cancer journey through earlier identification of risks and more coordinated intervention, our cancer care engagement program has reduced avoidable inpatient admissions by 15% in the commercial market.

Our Elevate medical cost management platform is helping our teams identify emerging cost drivers earlier and translate those insights into targeted action. This year, the platform has identified more than \$300 million in anticipated savings. We are encouraged by these results and see significant opportunity as we deploy these capabilities more broadly across the enterprise.

Now let me turn to our performance by line of business. In Medicaid, third quarter performance was ahead of our outlook, primarily reflecting the benefit of recent rate actions. We are now tracking slightly ahead of our prior full year margin guidance. We remain focused on the drivers within our control. We are expanding evidence-based clinical oversight in behavioral health, strengthening care management and advancing targeted network actions while preserving access to appropriate care.

Looking to 2027, we expect Medicaid margins to improve as rates become better aligned with cost trends and the actions we are taking continue to gain traction. In Medicare Advantage, we have repositioned our portfolio around the products and markets where we can deliver sustainable value for members. These deliberate actions together with improved medical cost performance and continued execution are delivering the results we expected and positioning the business for more sustainable growth over time.

We are carrying that same discipline into the 2027 annual election period with an emphasis on HMO plans and serving dual-eligible members. Our plan designs prioritize stability in the benefits members tell you most and reflect a measured view of cost trends. This approach supports further margin improvement in 2027 and as we advance toward our long-term operating margin target.

We recently received our 2027 Star ratings and are pleased that approximately half of our Medicare Advantage members will be enrolled in plans rated 4 stars or higher. We again achieved an enterprise-wide average of 4 stars in a competitive and dynamic environment. Our Stars performance remains a multiyear priority, and we continue to invest in member experience, clinical quality and care provider engagement to improve on these results.

In Commercial, we maintained a consistent and disciplined approach to the 2027 selling season. That approach reflects prudent pricing, the value of our integrated medical and pharmacy offering and our unwavering focus on affordability. We continue to see strong demand for our Anthem balance funded product and the differentiation created by our patient advocacy programs. These capabilities are increasing member engagement, strengthening clinical support and supporting disciplined cost management.

Turning to Carelon. We are pleased with its strong performance in the quarter. We're bringing together pharmacy, behavioral health and home-based care to create more integrated solutions that address a broader set of client needs. Our focus remains on deepening adoption across our health plans, expanding external client relationships and delivering measurable value. As a result, Carelon is becoming an increasingly important contributor to both affordability and enterprise earnings growth.

In summary, execution is strengthening across the enterprise. We are raising our 2026 guidance, increasing our earnings baseline and entering 2027 with greater momentum and visibility, we see a clear path to delivering at least 12% adjusted earnings per share growth in 2027, supported by continued margin improvement in health benefits, ongoing expansion of Carelon and greater operating efficiency across the enterprise.

Beyond 2027, we believe the actions we are taking today position us to drive sustainable, long-term earnings growth. Before closing, I want to thank our associates. Their commitment, expertise and execution are central to our progress and to the difference we make for the people we serve.

With that, I'll turn the call over to Mark to review our third quarter financial results and outlook in greater detail.

Mark Kaye - Elevance Health Inc - Chief Financial Officer, Executive Vice President

Thank you, Gail, and good morning, everyone. Third quarter adjusted diluted earnings per share of \$6.99 exceeded our outlook. Improved operating performance across the enterprise supports both our increased 2026 earnings guidance and a higher earnings baseline as we enter 2027. Results were driven by approximately \$0.50 per share of operating outperformance, favorable benefit expense performance in the quarter reflected a recent Medicaid rate actions disciplined execution in Medicare Advantage and improved claims experience in our individual ACA business.

We also recorded a net nonoperating benefit of \$1.85 per share primarily related to valuation adjustments within investment income, partly offset by certain state tax items. Based on these results, we are raising our 2026 adjusted diluted earnings per share guidance to at least \$29. Our earnings baseline increases by \$0.75 to at least \$26.75, reflecting third quarter operating outperformance and an improved full year outlook for individual ACA.

Looking ahead to next year, we remain confident in delivering at least 12% adjusted EPS growth in 2027 from this higher baseline. We expect broad-based operating improvement across our diversified portfolio with multiple earnings drivers supporting our outlook.

Let me now review our third quarter results in greater detail. We ended the quarter with approximately 44.9 million medical members, growth in our commercial fee-based membership offset anticipated attrition in our Medicaid business. Operating revenue increased just under 1%

to \$50.4 billion, driven by higher premium yields, Carelon Rx product revenue and service fees, which helped offset lower health plan membership.

Our consolidated benefit expense ratio was 90.6%, an improvement of 70 basis points. Medicaid, Medicare Advantage and individual ACA each delivered results favorable to our outlook. Our adjusted operating expense ratio increased 90 basis points to 11.3%. This quarter, we again made targeted onetime investments in member experience, medical cost management and Carelon's value-based solutions. We also funded actions to support growth in our dual eligible business and initiatives that enhance quality, including Stars.

In Medicaid, cost trends remained elevated, but relatively stable compared with the second quarter. Our results in the quarter benefited from recent rate actions, and we now expect our full year operating margin to be slightly ahead of our prior outlook. We are encouraged by the progress in rate alignment and continue to take targeted action on the medical cost drivers within our control. We continue to view 2026 as the trough for our Medicaid margin and expect improvement in 2027.

In Medicare Advantage, the product and geographic actions we took for 2026, along with the quality of our retained membership mix support a full year operating margin of at least 2%. Our planned positioning for 2027 provides enhanced value for members while continuing to advance the business towards our target margin range. In individual ACA, we now expect a modestly higher full year operating margin as claims continue to develop favorably.

The seasonal increase in plan paid costs associated with a higher produce mix emerged more slowly than expected, and we have incorporated that experience into our risk adjustment position. Enrollment also remains ahead of expectations, reflecting the value our plans deliver and we now expect to end the year with at least 1.2 million members. For 2027, we will maintain our prudent approach to sustain this improved performance.

In Commercial group, cost trend remains consistent with our pricing assumptions. Importantly, we maintained that pricing discipline through the 2027 selling season and continue to prioritize client retention and profitable growth.

Turning to Carelon. We are building a connected clinical platform to intervene across more of the care journey and assume risks that can improve outcomes and lower costs. We are encouraged by our sales momentum and the breadth of our pipeline. Our integrated offerings create opportunities to serve larger clients more effectively and as programs launch and mature, we expect Carelon's contribution to enterprise earnings to grow.

Now moving to the balance sheet and operating cash flow. Days in claims payable were 44.9 days as of September 30. The an increase of 3.5 days year-over-year. Operating cash flow totaled \$1.3 billion in the quarter, and we are raising our full year operating cash flow guidance to at least \$6.5 billion.

Turning to our revised outlook. We now expect adjusted diluted earnings per share of at least \$29 in 2026. Our revised guidance reflects third quarter outperformance and a strengthened ACA outlook partially offset by a nonrecurring discrete tax item we expect to recognize in the fourth quarter.

For 2027, we continue to expect at least 12% adjusted diluted earnings per share growth from our ending 2026 earnings baseline. We remain focused on managing medical costs using technology to increase productivity and allocating capital with discipline. Together, these efforts will improve operating performance and strengthen the long-term earnings potential of the enterprise.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

AJ Rice, UBS.

AJ Rice - UBS AG - Analyst

Thanks. Hi, everybody. Maybe just a high-level first question. When you think about bridging to your 12% earnings growth next year, I wonder if we could flesh out a little more of what's underlying that. Is it -- you said you think you could get -- this is the bottom in Medicaid margin. Is it dependent upon Medicaid margin improvement next year?

And maybe any comment on the underlying cost trends assumed across the major business lines. Is that similar to '26? Or are you assuming any improvement when you talk about 12% earnings growth?

Gail Boudreaux - Elevance Health Inc - President, Chief Executive Officer, Director

Well, great. Thank you, AJ, for the question. I think it's probably helpful to frame our results and our outlook and give you a sense of what gives us confidence. And I guess I would start with -- our confidence first is stronger because we're entering '27 from a much higher earnings baseline and with stronger operating confidence and performance across the enterprise. As we shared, we remain confident in delivering at least the 12% adjusted EPS growth off the '27 higher ending baseline of '26 of \$26.75.

In terms of your question, we really -- we see a clear path through continued health benefit margin improvement, continued growth in our Caredon based solutions and a greater operating efficiency across our enterprise. But I think to your question, importantly, we're not relying on any single business marketer assumption, and that's really what gives us the confidence in both the outlook and the durability.

So thank you for the question. Next question, please.

Operator

Andrew Mok, Barclays.

Andrew Mok - Barclays Services Corp - Analyst

Hi, good morning. You attributed the Medicaid outperformance in the quarter primarily to better Medicaid rates, but Medicaid wasn't mentioned as a driver of year-over-year MLR improvement in the press release. So first, can you help us understand whether Medicaid MLR was up, down or flat versus 3Q '25? And second, are the better rates generally captured in prospective rates? Or is there a big out-of-period element that you would need to continue to fight for?

Gail Boudreaux - Elevance Health Inc - President, Chief Executive Officer, Director

Great. I'll have Mark address your question.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Andrew, thanks very much for the question this morning. The third quarter MLR was 90.6%, and that was favorable to our expectations. The favorability was driven by each of our businesses, so Medicaid, Medicare and ACA all performed favorably versus what we expected.

Maybe just a little bit of detail on each. So on Medicaid, performance was better than expected, and that was primarily because of recent rate actions. The July 1 update did provide greater support to the second half margins, especially as states incorporated more recent cost experience but importantly, the underlying cost trend here remains elevated and broadly stable.

On the Medicare Advantage side, also performance better than expected, that reflected the favorable mix of business we retained following our 2026 product and geographic actions. And then obviously, a disciplined plan design and execution on our medical cost management further supported that result. And then briefly on the individual ACA side, we did benefit from continued strength in membership and a slower-than-expected seasonal increase in some of the plan-paid costs associated with our higher brand mix.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yes. And thanks, Mark. And I think, Andrew, the most important point is that Medicaid is moving from stabilization to improvement, and we are seeing better rate alignment, but we're also executing on actions that are within our control and feel the business is performing, and we have much greater visibility.

Next question please.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research LLC - Analyst*

Thanks. Good morning. I wanted to stay on the topic of Medicaid. I appreciate the comments on 2027 improvement. And I think we all understand and appreciate that rates are getting better, like you said, reflect the higher cost trend that's been out there for a few years. But specifically, I think the question is the impact of work requirements and some of the other rollouts in 2027.

Is there anything you could share with us on your early views on work requirements in terms of potentially how you think it's going to affect membership on a year-over-year basis and maybe the impact of -- on cost trend or acuity and any early rate actions that states are taking. Are you seeing states actually put something in rates for '27 in the back half of this year for oral apartments? Or are they saying, we'll look at it later after it rolls out? Thank you.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thanks, Justin. I'll ask Felicia and then maybe Mark to address your questions because there was quite a bit there, Felicia?

Felicia Norwood - *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

Good morning, Justin. And thank you for the question. certainly, when we take a look at the work requirements, as you know, states are still working to develop plans for implementation around the work requirement, so we are staying close to those decisions. And those state decisions around their verification methods, whether they use self-attestation and other implementation timing is certainly going to impact what we see in terms of the overall changes in the Medicaid population.

From a rate perspective, I will tell you that states are obviously beginning to work on '27 rates, and we expect them to incorporate more of that cost trend that we're experiencing into those rates. Some of those states have included the kind of work requirements into those assumptions, but that varies state by state. So as we take a look at the potential acuity impact, that's going to be more visibility we have there as we move throughout the end of 2027 because we are still pretty early in the 2027 rate cycle.

So as we look at where we are today, we are encouraged by what we're seeing in our 2027 rates and certainly the use of the updated requirements around work requirements in that rate perspective. but look to wait to hear how states ultimately implement those community engagement requirements as we go forward.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

And then very briefly, Justin, just to add on to Felicia here, we are planning for incremental acuity pressure from some of those rate changes that Felicia, membership changes that Felicia spoke about here, and we do expect Medicaid margins to improve in 2027.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question please.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo Securities LLC - Analyst*

Thanks. Another follow-up on Medicaid. I mean we came away from the second quarter call thinking that your full year rate outlook probably came in about 100 basis points better than your initial guidance. I think the commentary was low end of mid-single digits to upper end of mid-single digits. And I think now you're only talking about Medicaid margin outlook that's slightly ahead of previous and maybe that's, I don't know, 25 basis points better or something in that general vicinity.

I guess when we think about the difference between the improved rates and the improved margin, I guess what are the key kind of blocks that we should think about there? I guess how much of that is maybe cost or acuity above initial expectations? And how much of it I guess, would potentially be incremental investment that you've made? And how to think about whether that investment is part of the baseline are more opportunistic in 2026?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Stephen thanks very much for the questions this morning. Maybe let me just briefly start with the third quarter improvement. As we mentioned a moment ago, our July 1 rate actions that we received did deliver a sequential margin uplift that we expected while the underlying cost train did remain broadly elevated, but stable and very consistent with what we saw in the second quarter. It's worth knowing we're not looking to provide a specific try to think about the fourth quarter margin outlook. We expect to continue to see normal fourth quarter seasonality.

And the rate actions are really supporting better half or better second half margins relative to what we saw in the first half. And that's what gives us a much stronger sense for a starting point for 2027 than what we necessarily anticipated midyear. Importantly, I don't care, there is a lot of work still to do. Rates are certainly not fully caught up with the underlying costs.

And our focus here is really on closing that gap and then executing against our targeted medical cost actions. And the progress that we're making on those priorities really reinforces our view here that 2026 is the trust for Medicaid margins and that we will expect improvement again in 2027.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thanks, Mark. And I guess I would just like to reinforce a couple of things because it is both our recent rate actions were an important contributor to third quarter performance. And -- but the progress that we're seeing isn't solely dependent on rates as Mark shared. We've also been executing against a number of operating initiatives that are very much focused on medical cost management, care coordination network performance.

And so I think the way we're thinking about the business is simple. We need appropriate rates. We need disciplined execution, and we're making progress on both fronts. And that's why our confidence in margin improvement has increased.

Thank you for the question. Next question.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co. - Analyst*

Thanks very much. Good morning. I want to switch over to Carelton for a minute. When I look at the quarter, Carelton Rx came in better than what our expectations were. You highlighted that part of this is due to product revenue. Can you just talk about what you're seeing on the Carelton Rx side -- is this specialty infusion, how you're thinking about that business?

And then dove tailing into that, as we think about '27, Gail, you made a comment about integrated medical and pharmacy for '27 in the sales -- selling season. Can you maybe just talk about what your expectations are on the pharmacy side as we go into '27?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Lisa, thanks very much for the question, and I really appreciate an opportunity to talk about Carelton. So Carelton, from an earnings perspective, especially in Rx side, had a very strong quarter. We were up at 10.8% on an operating gain basis. Operating margin was 5.3% for the quarter. And that margin performance really reflected very solid underlying PDM execution as well as improved performance in our dispensing assets.

And I think it's really important because it ties back to our strategy here in Carelton Rx, which is very much centered on integrated medical and pharmacy management and on controlling those levers that matter the most to total cost of care.

What we have seen is as we integrate medical and pharmacy, our members are benefiting by saving up to \$100 per member per month and we see membrane integrated plans also experience about 30% or more fewer emergency room visits. So we feel very strongly about the Carelton Rx model. We're differentiated as we combine at pharmacy scale with that medical integration, we feel very supportive of how the quarter progressed.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thanks, Mark. And to your question, I think Mark answered it. We're very encouraged by the selling season and very encouraged by the integration between our medical and pharmacy clients. And as he shared, we're seeing almost \$100 PMPM savings advantage for those clients, and I think that's what's really resonating in the marketplace.

Next question, please.

Operator

Lance Wilkes, Bernstein.

Lance Wilkes - *Sanford C Bernstein & Co LLC - Analyst*

Great, thanks. Could you talk a little bit about the '27 selling season, in particular, interested in Carelon services? And how much of the outlook and growth might come from internal shifts of contracts as opposed to external.

And then maybe related to '27, if you could talk a little on from employers second blue bid? And if you want to make a comment about Jeff Park getting appointed over in Carelon, that would be interesting, too.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Okay. Great. Why don't we ask Mark to talk about Carelon, and then I'd love to have Morgan to talk a little bit about our commercial selling season, which is going quite well. So Mark, please.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Lance. It's been a little bit since we've had the opportunity to talk about Carelon services on an earnings call. So maybe let me start a little bit with our strategy here as differentiation, and I'll get to your specific question here. So we're very confident in the broad growth trajectory of the Services business as we head into 2027.

Our growth model is pretty straightforward. We've got to improve value internally and then we've got to scale externally -- and our affiliated health plans really give us that opportunity to refine our clinical model to demonstrate their financial impact before we bring those capabilities to external customers. And we've got a number of differentiators in how we connect those capabilities. Examples here could be Health OS and some of our connected clinical data, they really have helped us build a much more complete view of the member.

And then we have AI-enabled workflows that help translate that information into earlier support through our risk-based programs, including, for example, care in the home. And objective here is really solidly focused on coordination across settings with a much greater accountability for outcomes and total cost of care.

In terms of the 2027 external selling season, I'd say it's progressing very well on the services side. We've already secured a number of new wins across key businesses. Including behavioral health, clinical care services as well as specialty and post-acute. We've also seen very good retention. We've exceeded 90% across the majority of our product and clinical risk solutions and that gives us a very durable base on which to add new business. And finally, I'd add here, the pipeline remains pretty broad. And so we feel very good about going into next year.

Morgan?

Morgan Kendrick - *Elevance Health Inc - President of our Commercial Health Benefits business*

Yes. Thanks for the question. A couple of things there. I want to touch on the 2027 cycle, first of all, has come together quite nicely, as Mark indicated, we started with a pipeline of over 1 million members in the RFP and we've had meaningful wins this cycle for 1/1/27. Notably, several large jumbo employers have moved back to Anthem after moving away for 12 months. It's been quite nice to see that. And of course, it has the full suite of the Carelton solutions as well as part of it. So nonetheless, feeling really strong about it.

As we think, too, about the second blue bid. Second blue bid is part of that \$1 million, that \$1.70 million number that we had upfront. So we've done quite well there. And so we're not winning every one of them, but the market is keeping the benefits of the settlement with the Blues and having different solutions available for them.

At the end of the day, I'll tell you the market is myopically focused on affordability and simply, and that's precisely what we're doing as well. So we're having a very solid season, 2028 is starting off strong, and we look forward to continued success in the commercial space.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

And Lance, to your final question, we are pleased to welcome Jeff Park as President of Carelton. As you saw from his background, he brings the significant amount of experience building and scaling health services and pharmacy businesses and importantly, has a proven track record of execution, which is a key focus for us.

We see this. We've built a strong team inside of Carelton already, and this appointment continues to help us position for the next level of growth. So we're excited about having him join the team. And as you heard from us, we have a lot of excitement about Carelton and the ongoing contribution and growing contribution it's going to make to our earnings as we move forward.

So thank you for the question. Next question, please.

Operator

Scott Fidel, Goldman Sachs.

Scott Fidel - *The Goldman Sachs Group, Inc. - Analyst*

Good morning. I wanted to maybe stick on the commercial group market and just ask about the underwriting environment? And specifically, if you could talk about maybe what your current view on medical cost trend is for '26 and then how you're pricing for '27? I know you talked about continuing to be disciplined. Just curious on whether you're sort of pricing for a stable view on trend or some further acceleration?

And then just maybe touch on some of the key underlying drivers and obviously with IDR, in particular being topical.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Scott, good morning. So commercial group cost trend remains elevated, relatively stable and most importantly, in line with our pricing assumptions. And specifically, we priced 2026 and 2027 for a low double-digit cost trended environment. And we have a plan really built around stability year-over-year. And that includes incorporating the impact of the independent dispute resolution process. We certainly recognize the emerging pressure in mid-2025 and we incorporated that experience into our claims base and our forward train discussions that we used to price this year and next year. And importantly, our own IDR experience has remained very consistent with those assumptions.

If I stay back just for a moment here, IDR is obviously an industry-wide affordability issue -- and its impact varies meaningfully by geography, by funding arrangement as well as provider and network mix. And within our business, the pressure has been much more pronounced in our ASO block than in fully insured. And those differences obviously are together with those differences together with how each carrier ultimately prices its business means that other experiences could be different from our own.

The final comment I'll make here is we have a very good and broad access to the Blues network into the blue card claims data. And that gives us great visibility into emerging patents -- and we're using those insights to strengthen both the claims review and dispute validity around IDR but more importantly, to price our products to ensure that we are ahead of any trend and the curve for 2027.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Kevin Fischbeck, Bank of America.

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

Great, thanks. Maybe just going back to Medicaid. Obviously, you're looking for improvement in 2027 margins. Can you just remind us how long you think it might take for you to get back to target margins and kind of what the biggest variables are maybe outside of just the impact of our requirements?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

We continue to expect Medicaid margins to improve in 2027. And as we've spoken about, that's going to be supported by better rate alignment and a growing contribution from our medical cost actions. States are increasingly incorporating more recent cost experience into their rates, and we're encouraged by the momentum that we see on that side.

Rate discussions remain ongoing. States are also in the early stages of assessing how H1 is going to affect membership and acuity, and we spoke a little bit earlier to that. And most importantly, we are engaging proactively with the state partners to advocate in advance full rates that reflect the expected cost of caring for members who remain in the program.

Over time, to your question, we continue to view 2% to 4% as the appropriate margin target for Medicaid. And the pace of recovery here is particularly going to depend on how quickly rates align with the underlying cost of care. And in addition, as we've discussed, Medicaid cost trend remains elevated, but really importantly, stable. And we'll certainly share more detail on the path to improvement in 2027 on our January earnings call. Thank you.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - Morgan Stanley - Analyst

Great, thanks. So in terms of what's embedded for 2027 earnings and your expectations, how are you thinking about the capital deployment or what's embedded on that front from a share buyback standpoint. And somewhat of a similar question and follow-up to some other Caelon questions. Just considering what you were in teeing kind of with the recent hire as well.

I guess, should we interpret this as you lean more into specialty and specialty pharmacy. Are there areas that you feel like you need to invest in or areas like you would have like to have greater scale or presence? Just curious on that front.

Mark Kaye - Elevance Health Inc - Chief Financial Officer, Executive Vice President

Erin, I appreciate the question. There are a couple of different topics there. So let me give a little bit of color. We'll certainly provide more detail in January on the underlying assumptions for 2027 and -- but certainly, on the capital deployment and operating efficiency side, in the near term, our posture is going to be very disciplined or intentionally disciplined. We're looking to really maintain that balance sheet strength. We're looking to fund targeted investments that support margin enhancement in Caelon growth, and we will remain opportunistic on share repurchases.

Importantly, over the long term, our capital framework is really unchanged. We're looking to, again, reinvest back into the business, pursue a disciplined M&A focused on integrated capabilities and then return capital to shareholders through either dividends or share repurchases. And alongside that will definitely evaluate selective M&A opportunistically as it becomes available in the market.

And related to that, I thought I'd spend just a minute on specialty because it is central to kill on Rx because it effectively brings that medical and pharmacy management together around patients with the complex needs and our expanding our dispensing capabilities gives us opportunity to connect clinical support more closely with pricing and some of the site of care decisions.

And that basically gives us a direct role in improving the patient's experience. And the one point I want to cite here is that this year, we've launched our Oncology Center of Excellence within BioPlus, and that is strengthening the support that we've provided to patients and their treating physicians and we're seeing solid improvements in turnaround times in medication adherence and most importantly, the measures of quality and service that we provide to our members. Thank you.

Gail Boudreaux - Elevance Health Inc - President, Chief Executive Officer, Director

Next question, please.

Operator

George Hill, Deutsche Bank.

George Hill - Deutsche Bank AG - Analyst

Yeah. Good morning, guys, and thanks for taking my question. Mark, I was going to ask about commercial expectations for 2027. I guess a couple of quick points. Is the expectation that IDR continues to weigh on results next year?

And given what you're seeing in trends, are you guys pricing for margin expansion or margin kind of maintenance for next year? And then kind of like the subquestion here is like the expectation for ACA margins given the performance there this year?

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

So George, let me start just with IDR because I think broadly, I think it's an important policy topic, quite frankly, and as we shared before, we have been on top of IDR and a leader in advocating for change around the administrative processes for several years. So you heard we've incorporated into our assumptions, but honestly strongly believe that it does need to be changed. And our concern is not it's with whether the IDA process is operating as intended. We strongly support the consumer protections that it provides.

But remember, it was designed as a backstop for resolving a relatively limited number of eligibility payments. And we're seeing significant process disputes, including claim eligibility awards, in many cases, way in excess of what is reasonable. And those outcomes really do suggest that the process is not consistently achieving the purpose.

And I think you also have to think about this, it is beyond health plans. These excessive awards and administrative burdens ultimately cost the entire health care system. And that's why we are taking steps to limit the impact of it as well as advocate both for regulatory and legislative changes to this process because we are seeing it come through in higher consumer costs.

And by the way, at a time when health care affordability remains the most important issue facing all of us. We believe that we need to resolve this and actually get a fix. So just quickly, I think it's important, our position is pretty straightforward. We support the consumer protections and the nose price deck, but we also know that we need this to strengthen the eligibility controls and improve the administration of this to ensure that there are not excess awards. Again, we've dedicated significant resources to help change this role.

With that, let me have Mark answer the more specific questions that you asked.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

You asked the two additional ones in terms of commercial large group fully insured, we're really looking for a plan that is built around stability in year -- sorry, stability in year-over-year. Margins are stable. On the ACA side, we feel pretty good about where the 2027 rates have landed.

We believe they position us to build on this year's progress and our approach to the ACA market really remains very disciplined and very market-specific, meaning the rates that we filed and that have been approved really reflect our forward view of medical cost trend and morbidity together with any risk adjustment or local benefits or network dynamics that obviously incorporated into that assessment.

The last comment I'll make here is that we do expect the risk pool to take more than one renewal cycle to normalize following the expiration of those enhanced subsidies.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Ann Hynes, Mizuho Securities.

Ann Hynes - *Mizuho Securities USA LLC - Analyst*

Great. Thank you so much. Maybe we come to you on the ACA, just comment on overall better performance. And with the Wakely data okay versus what you expected in Q2 -- and can you remind us how the disenrollment impacts market acuity, meaning are all the levers that we're seeing in bronze? And if so, how does that help risk adjuster in the gold population? Thanks.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

And thanks for the question. So individual ACA is tracking ahead of our full year expectations. We continue to expect modest year-over-year margin improvement. And what's really encouraging to us is that, that better -- is that better retention has come alongside favorable claims experience. We certainly entered 2026 position for an elevated cost environment while preserving those affordable coverage choices, and we've certainly seen that play out well.

With the greater membership shift towards Bronze plans to your point, it obviously affects our risk adjustment position. But ACA still continues to perform ahead of our expectations, even after we incorporate that impact. And the September wait helped us inform that -- helped inform that assessment -- we certainly accrued appropriately for it, and we feel good about where we stand as of today.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Ben Hendrix, RBC Capital Markets.

Ben Hendrix - *RBC Capital Markets - Analyst*

Great. Thank you very much. I wanted to switch back to Medicaid and the margin expansion you're expecting for next year. Just a little more color there. We've talked a lot about the better rate alignment, but I'm wondering if we could touch on some of the other aspects you think are going to drive expansion next year, particularly the care management actions, clinical oversight and interventions you've talked about prior.

And then any changing on how you're thinking about the footprint rationalization for next year? Any update there or milestones you've reached on the care management specifically? Thanks.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Thanks for the question. So we are strengthening Medicaid cost management really by acting directly on the utilization and the payment patterns that are driving elevated trend. So for example, in behavioral health, we are strengthening clinical oversight and care ordination that's supported by evidence-based review and enhanced analytics. At the same time, we're streamlining authorization processes to support appropriate treatment with less administrative friction on payment integrity, we're expanding claims review and coding policies, including behavioral health payment guidelines AI-enabled analytics have helped us here, identify potentially inappropriate billing and utilization patterns earlier.

You saw some of that in the Wall Street Journal this morning. The idea here is allowing our teams to investigate and respond more quickly. We are also thinking through our provider networks in markets to ensure better alignment of provider performance with affordability, while importantly preserving member access pharmacy management, reimbursement, side of care action, they all complement that work. And so we expect those initiatives to continue to make a growing contribution over time, especially as we begin to step into 2027.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you. Next question.

Operator

Dave Windley, Jefferies.

David Windley - Jefferies LLC - Equity Analyst

Thanks for taking my question. I wanted to focus on a question on Carelon Risk businesses. During this multiyear period of higher trend pressure, the Carelon risk businesses, the margins there seem to have been able to weather that better seeing less volatility in medical cost pressure than, say, the overall risk business, the health benefits business.

I'm wondering if and when trend moderates in some of these areas where Carelon takes risk. Can it benefit from the lower cost pressure? Or is it kind of similarly insulated going forward, where we should expect more stability as we have seen over the last several years?

Mark Kaye - Elevance Health Inc - Chief Financial Officer, Executive Vice President

I appreciate the question this morning. And again, I just want to complement on the Carelon oriented focus. You can tell I'm very passionate about this area. Maybe let me focus your question a little bit on behavioral health because I think this will be indicative of the broader dynamic that you're calling out here.

And if I look at Carelon's behavioral health business, our performance here reflects both the value of our clinical programs and the economics of the contracts. And those contracts are important because they define the population and services that we cover and how risk is shared, which really means we're giving Carelon a different financial exposure than that of our broader health plan.

And certainly, Carelon's not insulated from broader cost pressures, but its financial results don't mirror the overall cost in we're seeing. So for example, in behavioral health, the clinical value that we're generating is different. That clinical value also supports our health plans. And an example I can give is serious mental illness program serves our affiliated Medicaid members. It allows us to bring those physical and behavioral health care components together, and we do that through more intensive cost management.

It also helps with medication adherence, it reduces inpatient and emergency department use and allows us to, at the Carelon level, delivered gross margin that's ahead of plan, even in a business or product where you typically see high cost trends.

And those are the results that demonstrate that the unique attributes that Carelon offers in terms of caring for complex and chronic populations, where we can continue to deliver value even in an environment where cost trend is pressured in the health plan side of the business.

Gail Boudreaux - Elevance Health Inc - President, Chief Executive Officer, Director

Thank you, Mark. And the other thing, Dave, I would also think about is we're also seeing Carelon be deeper and broader in its impact and its growth is coming from that as well where we have an opportunity to scale both inside of Elevance, but also importantly, externally with Elevance as we brought these capabilities together. And I think it is the synergy of bringing those capabilities to focus on these high-cost populations. That's really the opportunity that we see for continued growth.

Next question, please.

Operator

Jason Cassorla, Guggenheim Securities.

Jason Cassorla - *Guggenheim Securities LLC - Equity Analyst*

Great. Thanks for taking my question. Maybe going back to the exchanges. I guess, first, it sounds like you're looking to exit this year with at least 1.2 million members. It would suggest that, that would be something close to like a mid- to high single-digit sequential drop in exchange enrollment versus this quarter. Is there anything specific driving that dynamic? Or is that just conservatism?

And then you talked about sustaining your improved performance next year. It will take more than one cycle for the risk pool to get back to correct, I guess any thoughts on kind of like how you're thinking about the overall exchange market enrollment for next year and how that shakes out to would be helpful.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Jason, I appreciate the opportunity to cover a little bit here. So the effectuation rates and the retention that we are seeing in the exchange markets have been better than we expected. And that supports our stronger year-end membership outlook. We ended the third quarter with approximately 1.3 million individual ACA members, and that compared to our expectation of about \$1.2 million.

Affordability has obviously been an important driver. Obviously, as consumers take greater premium responsibility following the expiration of the enhanced subsidies. We have seen a meaningful shift towards those lower premium brand plans. And it's those options that are helping people maintain coverage and support better situation across our markets.

We're also quite encouraged by the passive renewal cohort, lapses as the a 90-day grace period expired back in April, they were modestly lower than we anticipated, and that left us with a stronger membership base entering both the second and the third quarters, and a favorable experience has continued as the year has progressed.

We've also seen sales in some of our expansion markets, exceeding expectations and lapses sort of remaining below those midyear assumptions. So fourth quarter still allows for some attrition above historical levels as consumers adjust but even with that assumption, we now expect to end the year with at least 1.2 million individual ACA members.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore Inc. - Analyst*

Hi, guys. Good morning, and thanks so much for the question. Maybe a longer-term one about the commercial market. As we continue to see people -- more people shift away from like risk-based to sort of more ASO-type membership, how do you kind of guys kind of ensure that you capture your fair share or more than your fair share of those members as they switch and then able to integrate some of your other products Carelton that you guys have been highlighting on the pools, so we could sort of think about that on a longer-term basis in terms of that growth rate?

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yes. Let me ask Morgan to comment on that.

Morgan Kendrick - *Elevance Health Inc - President of our Commercial Health Benefits business*

Elizabeth, when I think about the long-term view of the commercial space, I find it one that's, in my opinion, intact. And the markets -- most of our customers look at their health benefit plan as part of their human capital strategy, so they work together hand in glove, so to speak.

Cost is changing. People are looking for different funding mechanisms as you just described. We've certainly talked about it a bit between our balance funded as well as our ASO solutions. We do that all the way down market up into our national accounts, of course, which is primarily all on a self-funded basis. This isn't new, and we're seeing people move that way. And so people are still thinking, let's work with a payer that's got a solid network, solid clinical management to avoid having just a stitch together model which we've seen people avoid.

That being, we -- the cost pressure is indeed there. That said, I do think we've got solutions in place for every member in every geography. And we're ready for it, and we're actually in the middle of it, right, quite now. We've been selling different funding mechanisms for several years.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you Morgan. And Elizabeth, we just recently had our session with our largest employers. And I just want to share a couple of points, which I think Resonate and Morgan talked to. One is, I think our cost position is resonating. Our ability to drive affordability is really important to employers across the spectrum regardless of size, and that has been I think, a differentiator for us.

The second is integration. We have seen significant amount of large customers in particular coming back to us, as Morgan mentioned earlier in the call, because they want an integrated solution, and that includes also our Caredon capability. So we're seeing more pull-through opportunity with pharmacy and the value we can create.

And then just simplicity, our ability to really allow their associates to manage care seamlessly. And that's an area that we've been investing in, particularly with some of our digital solutions. More importantly, our care management as well as our advocacy. So I would just bring it together, we feel very good about the commercial market and the progress we've seen. But again, there's a lot of pressure on employers and affordability is paramount. So we want to ensure that we have options. I mentioned a bit about our alternative health plans. That's an opportunity to provide other affordable solutions for employers, certainly down market.

So thanks for the question. And next question, please?

Operator

Ryan Langston, TD Cowen.

Ryan Langston - *Cowen and Company LLC - Analyst*

Great. Thanks. In Medicare Advantage, is it fair to say, at least right now that 12% earnings growth next year does not assume getting back to your long-term target margin? And then based on the assumptions of low double-digit cost trend growth in commercial risk, should we expect that enrollment to further contract next year? Thank you.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Felicia?

Felicia Norwood - *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

Good morning, and thank you for the question. I think we feel very good about how we are positioned in our Medicare Advantage business. As you know, we started this journey in 2026 even before that, taking a very disciplined approach to our market positioning and very much focus on our footprint and where we believe we have the right to win that we've done that.

As we head into 2027, we are building off that strength. We are going to deliver, as you know, in 2026, margins of at least 2% and as we move into 2027, the expectation is that we improve on that margin position. So we feel good about how we're positioned from a Medicare Advantage perspective, and we'll continue along the trajectory to move our long-term target margin range of 3% to 5%.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Whit Mayo, Leerink Partners.

Whit Mayo - *Leerink Partners LLC - Analyst*

Hey, thanks for squeezing me in. Just back on Medicaid. CMS issued some guidelines on ABA therapy back in August and appear some states are responding to this maybe some more than others. I'd just be curious your views on those guidelines and what may now be better within your control as it relates to ABA therapy spend?

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Felicia?

Felicia Norwood - *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

Yes. Thank you for the question. Where we sit today, we are very much focused on strengthening our overall medical cost management and behavioral health is certainly an area of opportunity. Many of our states have been working with us to think about ABA therapy. And as you know, it's one of the areas where we've seen very high utilization.

I want to be clear, we want our members to have access to the right care at the right place and at the right time. What we are trying to do is to make sure that as this area has expanded, we are leveraging our AI capabilities to understand abnormalities in terms of claims and what's happening with respect to this population.

So we appreciate the support from CMS and certainly from our state partners as we continue to focus on this growing category as we go forward. But it will be important that we deploy our payment integrity capabilities to make sure that we are reviewing claims across the spectrum to avoid any type of misuse in the Medicaid space, but at the same time, making sure that bandwidth have access to the care that they need. So thank you for the question.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you, Felicia, and thank you to everyone who joined us this morning. Our third quarter results reflect the meaningful progress that we're making across Elevance Health and the benefits of the actions we've taken to strengthen our performance across the NRI. As you heard today, our earnings foundation is stronger, and we're entering 2027 with greater visibility and greater momentum.

As we look ahead, we remain confident in our ability to deliver at least 12% adjusted earnings per share growth in 2027, supported by the continuing margin improvement in health benefits, our ongoing expansion of Carelon and the greater operating efficiency across our enterprise.

Thank you for your interest in Elevance Health, and have a great rest of week.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through November 21, 2026. You may access the replay system at any time by dialing (800) 391-9853 and international participants can dial (203) 369-3269.

This concludes our conference for today. Thank you for your participation and for using Verizon conferencing. You may now disconnect.

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