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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Elevance Health first-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 first-quarter 2025 earnings call.

My name is Nathan Rich, Vice President of Investor Relations. With us this morning on the earnings call are Gail Boudreaux, President and CEO; Mark Kaye, our CFO; Pete Haytaian, President of Carelon; Morgan Kendrick, President of our Commercial Health Benefits business; and Felicia Norwood, President of our Government Health Benefits business.

Gail will begin the call with a review of the progress we've made against our strategic initiatives and a discussion of our first quarter performance. Mark will then discuss our financial results and outlook in greater detail.

After our prepared remarks, the team will be available for Q&A.

During the call, we will reference certain non-GAAP 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 can cause actual results to differ materially from our current expectations. 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 today's call. At Elevance Health, we began 2025 with focus, momentum, and a deep commitment to advancing our purpose to improve the health of humanity. Across our enterprise, this purpose is not an abstract mission.

It's what drives how we serve our members, support care providers, and partner with communities. In the first quarter, we've seen that commitment come to life in powerful ways. Let me begin by highlighting just a few examples of the difference we're making.

We believe the healthcare experience should be simpler, more affordable, and more human. That's why we've made sustained investments to fundamentally transform how people experience their care. In Q1, our patient advocacy solutions supported over 6 million members, delivering personalized guidance to navigate benefits, manage chronic conditions, and access behavioral health services.

With a 95% satisfaction rate, it's become a valuable differentiator, especially among employers seeking holistic, proactive care for their employees. We also continue to scale HealthOS, our digital platform that integrates clinical data and insights into provider workflows.

It now supports more than 88,000 care providers and over 1,200 provider organizations, enabling real-time decision making and seamless prior authorizations when documentation is accurate and complete. And for high performing providers, we've gone a step further, eliminating prior authorization requirements on more than 400 outpatient procedures to reduce administrative friction and speed up access to care.

These efforts are helping us reduce complexity, rebuild trust, and create a more connected care experience for both members and care providers. Across every line of business, we're addressing the full spectrum of physical, behavioral, and social health to drive better outcomes and lower total cost of care.

We're expanding our value-based oncology care model to Medicare Advantage this year following success in commercial last year which reduced inpatient admissions and higher adherence to treatment protocols. These are the kind of outcomes that matter most to members and care teams alike.

Through Carelon Services, we continue to expand our external reach. In Q1, we launched new post acute and behavioral health contracts with health plan clients, validating our ability to deliver risk-based outcomes for complex populations and reinforcing Carelon's role as a scalable platform for whole person care.

We also completed the acquisition of CareBridge at the end of last year, further strengthening our capabilities in home and community-based services. By integrating these offerings into our Medicaid & Duals platforms, we're delivering high touch in-home support to individuals with complex needs, helping to avoid ER visits and institutional stays.

And as we scale our risk-based care model, we're leveraging Carelon's advanced data-driven capabilities to deepen collaboration with providers and close gaps in care. These value-based arrangements are not only improving quality, but have also driven nearly \$100 in per member per month savings across medical and pharmacy, highlighting the impact of our whole health approach.

Now turning to our first quarter results. We delivered performance in line with our expectations, reflecting consistent execution and disciplined operations despite an elevated trend environment. Across our businesses, we're staying focused on what we can control, delivering operational results, engaging proactively with partners, and advancing our long-term strategy.

In Medicaid, we continue to make progress on rate alignment with April adjustments coming in as expected and early discussions for the July cohort underway. These conversations reflect a shared understanding of the need to align reimbursement with the current level of acuity of our membership.

At the same time, we're partnering with states to rethink care delivery. Our long-term care model continues to deliver better outcomes at lower cost by integrating home-based services, behavioral health and care coordination.

Our recent acquisition of Centers Plan for Healthy Living in New York will expand our whole health approach to deliver improved care for members and greater value for the state. In Medicare Advantage, performance was consistent with expectations, retention remains strong, and growth was targeted and disciplined, supporting both margin and membership sustainability.

We remain confident in the long-term outlook for MA. Stronger retention not only improves member satisfaction, it's associated with better care coordination, fewer inpatient stays, and lower overall Medicare spending.

In commercial, we're seeing strong engagement with our integrated offerings. Employers increasingly value our differentiated approach, which brings together advocacy, behavioral health, pharmacy, and specialty care into a seamless experience.

We're encouraged by the momentum we have heading into the 2026 selling season. And while individual ACA effectuation rates have been lower, we still expect solid growth in 2025. Our expansion into three new states supports our broader strategy to build lifetime value through coordinated ACA and Medicaid coverage.

Carelon continues to be a strategic growth engine for Elevance Health. In the first quarter, we significantly expanded our relationships with external payers, including Many Blues plans for solutions in post-acute, behavioral health, specialty care, and palliative, further validating Carelon's ability to deliver outcomes beyond our own membership.

These relationships underscore the strength of Carelon's operating model and its alignment with what clients are asking for -- solutions that drive outcomes, reduce cost, and simplify care. We're executing with consistency, advancing our strategy with discipline, and delivering measurable value across the enterprise.

What sets Elevance Health apart is not just how we perform, but why we perform. Through a purpose-driven model that focuses on whole person health, supports our partners, and delivers outcomes that matter.

Before I turn it over to Mark, I want to thank our more than 100,000 associates. Their commitment and passion continues to define our culture, power our performance, and strengthen our impact. This quarter, Elevance Health was named once again to Fortune's 100 Best Companies to Work For, recognized as one of America's most innovative companies, and included in the JUST 100 by JUST Capital, reflecting both the values we uphold and the difference we strive to make every day.

With that, I'll turn it over to our CFO, Mark Kaye to take you through the financial results and outlook.

Mark?

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

Thank you and good morning, everyone.

As you just heard from Gail, we're encouraged by our strong start to 2025, delivering results that are aligned with the expectations we laid out at the beginning of the year. In the first quarter, and as we reported on our Form 8-K filing last week, GAAP diluted earnings per share was \$9.61 and adjusted diluted earnings per share was \$11.97, reflecting year over year growth of more than 10%, underscoring the resilience of our diversified business and disciplined execution across our strategic initiatives.

We ended the first quarter with 45.8 million medical members, up 99,000 from year end, driven primarily by targeted expansion and better than expected retention rates in Medicare Advantage. While our individual ACA membership grew approximately 11% sequentially, we anticipate a moderation in membership during the second quarter as effectuation rates on renewing members are tracking below our initial expectations.

Operating revenue in the quarter was \$48.8 billion, an increase of over 15%, principally driven by higher premium yields in our health benefits segment, growth in our Medicare Advantage and individual ACA membership, and CarelonRx product revenue.

In addition, our revenue result reflects contributions from recent acquisitions, particularly in pharmacy services and home health, two areas critical to advancing our whole health strategy. These investments strengthen our ability to deliver more connected care, and we are actively integrating these assets across our health benefits and Carelon platforms to improve outcomes for members and accelerate our enterprise flywheel.

Our consolidated benefit expense ratio was 86.4%, an increase of 80 basis points year over year. The increase was due to higher cost trends in our Medicaid business, partially offset by out of period Medicaid premium taxes that had no material impact on operating gain.

The ratio also benefited from favorable seasonality in Medicare Part D, specifically related to the Inflation Reduction Act changes. Overall, utilization patterns in our health benefit segment remain elevated, but consistent with the assumptions embedded in our full year guidance.

In our Medicare Advantage business, the first quarter developed in line with expectations that high costs trends would persist in 2025, and we have maintained a prudent posture in our outlook appropriate for this early stage of the year.

The adjusted operating expense ratio stood at 10.7%, an improvement of 60 basis points, reflecting our commitment to disciplined expense management and thoughtful prioritization of strategic investments. Health benefits operating gain of \$2.2 billion declined slightly on higher Medicaid costs, partly offset by operating efficiencies.

Carelon's operating gain of \$1.1 billion grew 34% driven by growth in pharmacy volumes and the improved performance of deployed risk-based capabilities. Net investment income exceeded our expectations for the first quarter.

The factors driving this outperformance were incorporated in our full year guidance, though the timing was earlier than anticipated. As such, we continue to expect our 2025 net investment income to align closely with our initial guidance.

Turning to our balance sheet. We ended the quarter with a debt to capital ratio of approximately 41%, preserving flexibility for strategic investments and future capital deployment. Days in claims payable were 44 days as of March 31 when adjusted for the acquisition of CareBridge.

The increasing DCP of 0.5 days sequentially reflects our consistent and prudent approach to reserving. We continue to expect DCP to trend towards the low 40s over time. Operating cash flow totaled \$1 billion and reflected timing-related items that negatively impacted working capital in the quarter.

Importantly, we expect these timing items to reverse as the year progresses with our outlook for operating cash flow of approximately \$8 billion remaining unchanged. We continue to approach the pacing of share repurchases opportunistically.

In the quarter, we repurchased 2.2 million shares of common stock for approximately \$880 million, demonstrating our confidence in the intrinsic value of our shares. Overall, we are pleased with our start to the year and are reiterating our guidance for adjusted diluted earnings per share to be in the range of \$34.15 to \$34.85.

Regarding earnings seasonality, we continue to expect more than 60% of adjusted earnings per share to be realized in the first half of the year.

And with that, operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

AJ Rice, UBS.

AJ Rice - UBS Equities - Analyst

Maybe just try to flush out some of the issues that have been raised regarding Medicare Advantage. I know it's not as large a business for you as it is for some others, but certainly, there's been some discussion about Group MA.

Are you seeing anything unusual there? There's concern about the IRA impact. How is that shaping up so far relative to the changes and how you've incorporated them in their outlook? And then I know you said you've got an elevated trend that seems to be in the individual market tracking your expectations. Is -- do you feel like you got a good read on it or do we really need to get to the second quarter before we have full visibility on how that's all trending?

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

Thanks for the very comprehensive first question there. Anticipating we're likely to get a couple of questions on trend during the time together this morning, let me start from a Broad perspective. Medicare costs overall remain elevated but manageable to start the year, very consistent with our fourth quarter experience and very much in line with our expectations for the first quarter.

Effectively, nothing has materially changed with respect to our prior commentary. In the first quarter, we did see flu and respiratory illnesses cause slightly higher utilizations. Those costs moderated as the quarter came to a close, very much as you'd expect for seasonal conditions.

We are also very closely tracking weekly claims data, prior authorizations, and provider level interactions to identify emerging patterns quickly. And that's going to enable us to detect shifts and respond accordingly. But based on the most recent data review that we've conducted by our teams, we remain comfortable with the trend environment and the cost trajectory we've seen here to date.

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

And sort of just reiterating what Mark said, I think we feel very much aligned with our expectations to start the year. So again, I appreciate the question and next question, please.

Operator

Lance Wilkes, Bernstein.

Lance Wilkes - *Bernstein & Co. LLC - Analyst*

Could you talk a little bit about the Carelon Services really strong growth? And in particular, could you talk to cross sales into the Anthem book of business and how that's progressing? And then maybe if you could quantify or give us more details on sales into the Blues and other plans there.

And I guess as part of that if you want to talk a little bit about specialty pharmacy ramping into CarelonRx as well and how far along you are in that process, that would be great.

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

A number of questions there. We'll try. I'll ask Pete Haytaian to address those, but appreciate the recognition of the very strong results that we've seen in both internal and external growth with Carelon Services and CarelonRx. So Pete?

Peter Haytaian - *Elevance Health Inc - Executive Vice President and President, Carelon and CarelonRx*

Great question. Like Gail said, we're really pleased with the momentum we're seeing on the services side in Carelon. I think you saw it in the quarter, we had over 60% growth. We continue to track to the 50% -- at least 50% for the year.

And to your point, we're seeing really nice balanced growth internally and externally. To speak first internally, you asked about that. We're seeing really nice expansion. You heard it in the prepared remarks around products like total cost of care for oncology which we've been expanding last year into our commercial business now, into Medicare this year.

So we're seeing that proliferate across the portfolio as well as in Medicaid in areas like behavioral health where we continue to expand our seriously mentally ill offering as well as other offerings. And then externally, we came off a really strong year in '24 as you know and heard around Carelon Services growth.

As it relates to this year, we feel very confident in the growth that we're seeing this year in 2025 across Carelon Services. And again, we're seeing diversity in what we're selling across all our offerings, across PAS, across our specialty care services business, across behavioral health.

And then of course, with the addition of CareBridge, which we're really excited about. So we will see in 2025 the most significant external growth across the Carelon Services portfolio. As it relates to CarelonRx, again, I'm very confident and happy about performance as it relates to our strategy there, continuing to follow through as it relates to SpecialtyRx and our migration in that business.

And as you know, we started with acquiring BioPlus and then Kroger Specialty Pharmacy. And so we're being very thoughtful about how we manage that, very thoughtful around the patient and the provider experience.

And we'll continue to migrate scripts both for Elevance as well as Kroger over the next year or so in addition to the work that we're doing around Paragon and our infusion businesses. So overall, very, very pleased across the portfolio in Carelon.

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

Thank you, Pete. And next question, please.

Operator

Stephen Baxter, Wells Fargo.

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

Thanks for the color on the exchanges. I was hoping if you could expand a little bit maybe quantitatively on kind of how different the effectuation rate is actually coming in. I guess how much of a membership step down you're expecting when we get to the second quarter?

And how much, if at all, are these dynamics impacting? How you're thinking about exchange profitability for the year inside your guidance?

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

We've been very pleased with our sustained growth in the individual ACA market. And we expect 2025 to be another year of growth likely at or above market levels. Our member effectuation rates, which are essentially the proportion of all members who have paid their premiums, are indeed tracking a little bit lighter than our initial expectations.

And this is really due in part to a surge in passive renewals among people transitioning from Medicaid who are now paying premiums in 2025. Given the 90 day grace period has now ended, we do project membership attrition in the mid single digit percent range in early Q2, after which we'll anticipate our membership or ACA membership base will stabilize for 2025.

And importantly, these revised membership assumptions are factored into our reaffirmed 2025 EPS guidance. And so you could think about commercial risk-based membership really ending the year in the range of 4.9 million to 5 million members.

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

Thanks, Mark. Next question, please.

Operator

Andrew Mok, Barclays.

Andrew Mok - Barclays - Analyst

It looks like today's MLR finished better than what was implied from your comments at our March conference. Can you help us understand what developed favorably in the back half of March to drive that better MLR performance and how is that shaping your view on trend for the balance of the year?

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

As expected, our Medicare Part D medical cost ratio in the quarter ended up where we expected. And the primary drivers here really come from both the IRA as well as a premium tax that we incurred that was larger than anticipated specifically on the premium tax related to one of our larger Medicaid states, and that premium tax had the dual effect of both lowering current period benefit expense ratio and increasing the current period operating expense ratio.

But importantly, with no material impact on overall operating earnings. And this adjustment effectively accounts for the majority of that positive variance that you're seeing between our reported benefit expense ratio and the updated analyst consensus estimates.

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

Thanks, Mark. Next question, please.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - JPMorgan - Analyst

I appreciate the comments around Medicare elevated but manageable. Can you maybe just talk about new members versus existing members and how those new members came on when we think about risk coding?

And then just lastly, Mark, can you help us understand on Part D and the changes on IRA, what the specific impact was to medical cost trend or MLR in the first quarter?

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

Let me maybe start firstly with the Part D piece. We've received a lot of questions from investors on this topic in the last little while. So let me take maybe a moment just to first provide some additional context about the Part D Inflation Reduction Act changes, and then I'll get to your specific question.

There are really two key factors at play here in 2025. First is the lower \$2,000 member maximum out of pocket cap, which really accelerates when beneficiaries reach their cost sharing limit, and that effectively shifts more liability onto the health plans early in the year.

Second is the offset from the enhanced CMS direct subsidies that replace some of that cost burden that members and plan sponsors carried in prior years. And when taken together, these changes effectively reverse the usual quarterly seasonality pattern for Part D.

And that results in stronger financial performance in the earlier quarters and lower margins in the later quarters. And although it's still early, we are seeing this new seasonality pattern play out from both a pricing and a forecasting perspective.

And so to your question, you could think about Part D seasonality now much more closely resembling that of a broader medical benefits business with a much steeper slope as more members enter into that catastrophic phase of coverage as the year progresses.

And then briefly just on Medicare Advantage membership, we are carefully managing the new volume and we are delivering targeted growth across specific populations, products, and geography.

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

And I guess I would just reiterate in terms of your membership, we feel really good about where we grew the products, where we grew and the geography. So in terms of the strategy that we laid out last year and shared with you, we feel that that's playing out and feel this is very consistent with the expectations we set.

So thank you and next questions, please.

Operator

Ann Hynes, Mizuho Securities.

Ann Hynes - *Mizuho Securities USA - Analyst*

Earlier in the conference call, you cited that Medicare trends were in line with your expectations. Can you actually remind us what is embedded in guidance, meaning are you assuming 2024 trends growing high single digits or mid single digits? Any clarification, I think would be very helpful.

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

I think we feel pretty comfortable that trends have emerged consistent with the expectations that we're managing. And maybe if I take this question from a slightly different angle thinking through the margin perspective, we really do feel good about our positioning in Medicare, having seen the composition of our membership.

And importantly, the results to start the year. Just as a reminder, we do expect to see stable margins in 2025. And that's going to come through strong retention rates, disciplined cost management, and importantly, the improved recognition of that member acuity following the elevated utilization trends that we've seen in recent years.

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

Next question, please.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - *TD Securities - Analyst*

You mentioned flu and respiratory was affecting the quarter. Sorry if I missed it, but can you just give us a sense on how much of the specific impact that was on the first quarter MLR and if those respiratory trends were different between your service lines or patient populations?

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

We entered the year of modeling in influenza and influenza-like season to follow the pre-COVID norms, which are somewhat higher than what we observed during the pandemic era. And despite those prudent assumptions, first quarter flu-driven costs came in modestly above our own expectations.

And importantly, here, the severity of those flu cases was in line with our assumptions. And given the recent decrease in flu incidence rates, we don't anticipate any outsized impacts in the second quarter. So for the first quarter, to your question, you can think about the impact of the benefit expense ratios between 15 basis points and 20 basis points.

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

Thank you, Mark. Next question, please.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - Morgan Stanley & Co - Analyst

Appreciate the detail on the EPS cadence, and there's a lot of moving pieces with the Medicaid state rate dynamics and how that progresses over the course of the year has anything changed on that front, but you also have respiratory that you just called out, Part D seasonality.

I guess what is -- where does that leave us for MLR in the second quarter? And anything else to call out that we should be aware of as we're thinking about the upcoming quarter?

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

We are pleased with our results in the first quarter with I'd say seasonality consistent with what we anticipated in the January guidance. A couple of key factors to call out here. First, our first quarter benefit expense ratio did benefit from that favorable workday calendar that effectively pulled forward some earnings into the first quarter.

Second, as you noted, there was the Part D benefit design changes, and that has notably shifted that earnings cadence of our Medicare drug plans. And we'll expect that Part D seasonality going forward to more closely resemble our medical benefits business I mentioned earlier.

And then finally, we are seeing a more front loaded earnings contribution, thanks to our shift in membership mix, namely lower Medicaid membership and then higher ACA growth. And all of this gets back to our point of continuing to expect more than 60% of earnings to be realized in the first half of the year.

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

And sort of just to reiterate based on the number of questions sort of on our expectations, I guess I would say we came into the year very respectful of the environment and had planned and are seeing an elevated season. But feel that we've accounted for that and feel quite frankly that we're just going to continue to monitor the situation, but as Mark has shared, feel comfortable in the ranges and the reiteration of our guidance.

Next question, please.

Operator

Ben Hendrix, RBC Capital Markets.

Ben Hendrix - *RBC Capital Markets - Analyst*

I was getting a lot of questions about visibility into the remainder of the year, and I appreciate your comments about MA new members and your ability to detect trends sooner. But I was wondering if you could specifically talk about your new member engagement strategy.

How many of those new members you've actually reached out to and engaged and kind of how you're thinking about that translating to primary care activity and outpatient referrals later down the road?

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

I'm going to ask Felicia Norwood, who leads our Government business to address that.

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

I mean certainly, as soon as members come into Elevance Health, we are very focused on making sure that we engage those members early. A very dedicated focus around getting individuals to have their annual wellness visits, expediting care early on, and making sure we understand what their health risk assessments look like so that we are able to be very focused on the type of care that they need and the care coordination that comes from our clinical team.

Previously, we would have waited longer on some of those. We've accelerated a lot of those to make sure that we are doing complete and accurate capturing of those individuals and their health conditions, all with the expectation that we do everything that we can to maintain quality and make sure that those individuals have a very strong experience with us.

So we're very focused on making sure that individuals get the care they need, being able to get them to see their physicians early and establishing a plan of care early into our relationship with them going forward.

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

And just a few other things that I would like to reiterate about our membership. One, if you think about our product mix, it's heavily HMO. And we've also been moving much more aggressively into value-based care, where our physicians are much more actively engaged with their patients earlier in the year.

And specifically, increasing our upside downside risk percentage of that. So if we look at our Medicare book, we feel very good about the active engagement and the more accurate capture of our clinical conditions across the board.

And again, as we shared, I think in some of our comments, we feel good about the disciplined strategy that we executed this year around growth and geographies and specifically, on our product types. So overall, we feel that that's playing to the expectations that we laid out and they're going to continue to manage it and continue to engage our patients to ensure that they get the right care and that we align them appropriately with our value-based providers.

But thank you very much for the question and next question, please.

Operator

Josh Raskin, Nephron Research.

Joshua Raskin - Nephron Research - Analyst

If you think about your MA bid strategy in the coming years, how important is the lifetime value of the member and the opportunity to penetrate that member with additional say Carelon Services and which Carelon Services specifically benefit most from that growth in MA?

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

I'm going to ask Felicia first to just address our overall Medicare strategy and then Pete to comment a little bit about how we're embedding both the Carelon Services but also, as I mentioned a minute ago, our value-based care.

So Felicia, first and then Pete.

Felicia Norwood - Elevance Health Inc - Executive Vice President, President - Government Business Division

I mean we absolutely want to make sure that we have members for life. At the end of the day, we want to be a lifetime trusted partner and really value the relationship that we have with our members. Members choose Medicare Advantage because of the value that it brings, and we think that value is significant relative to fee for service.

If we think about our bid strategy for 2026, it's certainly still early. But I can assure you that it will be a very thoughtful and disciplined one that's very much focused on stability and sustainability in our Medicare Advantage program and making sure that we are leveraging and engaging our Carelon partners and making sure that those individuals receive the highest quality care, particularly for those with complex conditions.

Pete?

Peter Haytaian - Elevance Health Inc - Executive Vice President and President, Carelon and CarelonRx

I think it's a really great question, Josh. I appreciate it very much. We're trying to be very targeted around what we do. And as Felicia said, we face off with our health plan partners in this case, to your question, Felicia and the government programs team identify those areas of complexity and high cost and how we can effectively build clinical and engagement strategies around them.

If you look at our portfolio of offerings, we're being very, very intentional about that. So starting off on our value-based care strategy and how we're approaching that through Mosaic. You've heard us talk a lot about post acute care and what we're doing through our PAS offerings. Most recently, with CareBridge, and I think a real differentiated way to manage care in the home, highly scalable, I think in a capital efficient way.

And then services at the end of life and in some cases, in the most complex periods of members around palliative care. On the pharmacy side, you look at the areas that we're very focused in on around SpecialtyRx, et cetera.

So we're being very thoughtful around Government programs business, around Medicare specifically and trying to touch members in the moments that matter in these areas of real high cost complexity in healthcare and it's really what powers the flywheel that we talk about in the company.

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

Next question, please.

Operator

Sarah James, Cantor Fitzgerald.

Sarah James - *Cantor Fitzgerald - Analyst*

I wanted to go back to the RAF score availability because I think it's an important point and likely knowable at this time. So one of your peers saw a lower portion of new members on boarding with RAF scores than normal.

How did the portion of new members that onboarded with existing RAF scores compare to historical average for Elevance? And can you give us some context of what the typical step up is of what portion new members have RAF scores typically versus year two when they're renewing with you? What portion have RAF scores?

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

So risk adjustment remains a critical component of how we ensure that member benefits are aligned with their healthcare needs. And over the past couple of years, we've navigated two consecutive years of reimbursement changes to the program, including shifts in the underlying risk model.

And while the base -- the recent base rate release was more reflective of actual trend, it doesn't fully restore the impact of prior underfunding. And you can think about us as remaining disciplined in how we approach benefit design and coding.

And our focus on accurately documenting member conditions better ensures we can support their clinical needs. And ultimately, we do see risk adjustment that's helping to ensure seniors receive the comprehensive care they deserve while also supporting a sustainable, stable marketplace for the long term.

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

And I would just say our members are aligned with the expectations we set. So thank you for the question.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research - Analyst*

Can you tell us how Medicaid MLR margin trended from Q4 last year to Q1 this year? Just flat, up, down? And then does your guidance still anticipate Medicaid margins being flat year over year in 2025 before improving in 2026?

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

Maybe at a very high level, the benefit expense ratio did decrease sequentially more from the fourth quarter of last year to the first quarter of this year than is typical. And you could think about that really as being driven by a workday dynamics in the first quarter and Medicare Part D seasonality changes.

On Medicaid, I would say trends remain elevated but decelerated as expected during the first quarter. And that reflects the stable membership levels and utilization patterns and this really aligns with our broader view that recovering Medicaid margins is likely to be a tale of two halves.

We're going to see stabilization early in the year and then improvements materializing in the latter half of the year as rate updates continue to come in.

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

Thank you. Next question, please.

Operator

Joanna Gajuk, Bank of America Securities.

Joanna Gajuk - *BofA Securities, Inc - Analyst*

Actually, to follow up on this last comment in terms of Medicaid rate outlook. Like you say, you expect some improvements that can have. So any update you might have? I mean I understand that July rate update right will be important here but any indications there? And also when will you know those July rate updates?

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

Thanks for the question. Felicia?

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

Our Medicaid team is in constant communication with our state partners, advocating for actuarially sound rates that adequately account for the elevated acuity and cost trend that we certainly experienced late last year.

Today, our January and April rate renewals were in line with our expectations and really reflect progress towards bringing rates back to a level that will prospectively cover cost trends. When we think about July, our July renewals represent about one-third of our membership, and early discussions with our states are underway, but it's far too soon to comment around where we are because those discussions have really just commenced.

I will say that we will continue to provide regular updates to our state partners and work very closely with them to make sure that our go-forward rates align with the level of trend we're experiencing in our Medicaid book.

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

And as we said, I think they've been very constructive discussions with our state to align rates to the acuity of the population.

Next question, please.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

This is probably one for Mark and for Pete is I have a question about V28. And I guess could you talk about the -- your expected impact from the V28 risk model change this year kind of as it relates to last year? And what I'm really trying to focus on is, is this kind of a lapping effect as it relates to the implementation of the risk model or a stacking effect? And I don't know if it's too early to think about like what happens as we move from '25 into '26.

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

I'll get started here. The V28 risk adjustment model has introduced changes to the way that the Medicare Advantage plans obviously receive funding based on members' clinical and demographic profiles. And these modifications obviously affect how we document and report chronic conditions, factors that really ultimately help align planned payments with the healthcare needs of our members.

That said, these changes were anticipated and incorporated into our 2025 planning and pricing. And we're going to continue to take a disciplined approach to benefit design and remain focused on driving that value through strong member engagement and effective care coordination.

And over time, we really believe our operational execution and our diversified portfolio position put us in a good place to navigate this transition.

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

Thank you. Next question, please.

Operator

Whit Mayo, Leerink Partners.

Whit Mayo - *Leerink Partners - Analyst*

Just wanted to follow up on Group MA. I don't think I heard you directly comment on this, but are you seeing any different trends with care activity or utilization patterns versus individual MA, not versus your expectations per se, but just anything different about group MA?

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

The utilization patterns that we observed in the first quarter do not indicate any meaningful acceleration in cost trend for our group MA business. And just to remind you, that represents about 15% of our total Medicare Advantage enrollment.

And as a reminder, our MA growth this year does include meaningful contribution from really one large group MA account, and so retention across our book remains strong. We'll also continue to approach this segment with discipline, ensuring that the offerings are sustainable and aligned with our long-term margin objectives.

So I'd say while trends are elevated, it's early in the year for completion factors to fully mature, but we've not seen changes in utilization patterns from what we expected.

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

And I think we have one last question in the queue.

Operator

Michael Ha, Baird.

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

Regarding Part D, I just wanted to double click into it a bit more. Based on the emerging Part D claims data you're seeing year to date, I was wondering if you could discuss the utilization, what percent of your MA Part D members are already through their maximum out of pocket limits?

How does that compare to your expectations? Basically, how much clarity do you have on the new normal of utilization behavior? And I guess the fear is if there was going to be higher than expected Part D utilization levels and it doesn't materialize until the back half of this year, then plans may end up missing it in their June bid.

So is there any way at all that you could help us sort of assuage those concerns?

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

Perhaps the best place for me to start is to say that we are comfortable with the mix of our Medicare Advantage membership that we've attracted this year. We always balance benefit design against risk management and price discipline so that ultimately, we remain confident that our MA membership mix is aligned with a sustainable high quality risk pool.

With respect to Part D, we've also not observed a substantial variation to our plan this year. And any higher utilization that we might hypothetically see would of course Michael, as you know, be balanced by risk corridors, rebates, and other contractual offsets, and that's the way I would think about this.

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

That was the last question.

I just want to reaffirm a few things. One, that we are pleased with the start of the year. We're remaining disciplined. We're respectful of the environment, and you'll continue to see that from us for the course of this year.

And I also want to thank everyone on the line for your questions today and your interest in Elevance Health. We're pleased, as I said, with the strong start to the year and we're confident that our actions are going to have and make meaningful impact and make healthcare simple, affordable, and accessible for our members, communities, and care partners.

We look forward to updating you on our progress in the quarters ahead. Have a great rest of the week.

Thank you again for joining us.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through May 22, 2025. You may access the replay system at any time by dialing 800-396-1242, and international participants can dial 203-369-3272.

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

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