HEALTHCAREDIVE

DIVE BRIEF

Elevance controls medical costs to $6B profit in 2023

The payer curbed the worst of medical cost growth last year, and expects to do the same in 2024 — an assumption one analyst called “aggressive” given persistent higher utilization among seniors.

Published Jan. 24, 2024

Rebecca Pifer
Senior Reporter

Elevance headquarters in Indianapolis, Indiana Permission granted by Elevance Health

Dive Brief:

- Elevance Health raked in $6 billion in profit last year on revenue of more than $171 billion — a better performance than Wall Street expected, given that high medical costs have been dogging payers.
- The payer beat analysts’ consensus expectations for earnings and revenue in the fourth quarter of 2023, with a topline of $42.7 billion, up 7% year over year. Elevance’s fourth-quarter profit of $831 million was down, however, by 5% year over year.
- Elevance chalked its revenue growth up to higher premiums and growth in its pharmacy benefit manager CarelonRx. Analysts said the Indianapolis, Indiana-based payer also benefited from better-than-expected medical costs and higher investment income in the quarter.

Dive Insight:

Stocks of managed care companies fell in the first few weeks of 2024, as UnitedHealth and Humana warned that elevated medical costs that dampened earnings had persisted into the new year. Medicare seniors receiving more healthcare than payers expected led Humana to slash its 2023 profit outlook and UnitedHealth to report its highest medical costs since the start of the COVID-19 pandemic.

Elevance's shares were also pressured by investors' utilization concerns coming into its fourth-quarter and full-year earnings release

However, the payer's stock rallied Wednesday after it released its financials before market open.

Despite cost concerns, Elevance's medical loss ratio — a marker of how much insurers are spending on patient care — improved in both the fourth quarter and 2023 overall compared to the prior-year period, to 89.2% and 87% respectively.

And Elevance's projection for medical costs in 2024 is relatively stable. The payer expects an MLR of about 87% this year.

"Overall 4Q results look solid against a backdrop of low expectations and high concerns around trend," Leerink analyst Whit Mayo wrote in a Wednesday note on Elevance's results.

Yet, Elevance's guide to a flat MLR this year is an "aggressive assumption" given higher utilization, Mayo said.

Elevance did see higher utilization in the fourth quarter, especially among seniors receiving outpatient care like orthopedic procedures, along with the normal seasonal uptick in respiratory illnesses and vaccines, CFO Mark Kaye said on a Wednesday morning call with investors. However, the payer said its premium adjustments covered the worst of rising medical costs.

Elevance offers Blues-affiliated plans in 14 states, along with Medicare and Medicaid plans through a subsidiary called Wellpoint.

The health insurer's membership fell in 2023 because of Medicaid redeterminations, as states continued rechecking individuals' eligibility for the safety-net insurance program.

Nearly two-thirds of Elevance's Medicaid members have been redetermined to date. Close to 30% of those unenrolled before September have rejoined an Elevance product, CEO Gail Boudreaux said on the investor call.

Yet, Elevance's total medical membership dropped by 570,000 people to 47 million by the end of 2023.

The company projects its enrollment will continue falling in 2024, to between 45.8 million and 46.6 million people by the end of the year.

Elevance still heralds Medicare Advantage, where the government contracts with private payers to administer the care of Medicare seniors, as a key growth area. However, the insurer doesn't think its MA membership will grow at all in 2024.

That's after Elevance saw more competition for members in key markets than it had expected. And after Elevance revised its MA bids in response to upcoming (and unfavorable) rate changes in the program, more members dropped out of its plans than it had planned.

Elevance also exited certain markets that had been underperforming for years, resulting in a decline of roughly 174,000 members in the mainland U.S. and Puerto Rico, according to Felicia Norwood, who runs Elevance's Medicare and Medicaid businesses.

As a result, though MA membership should remain flat this year, earnings per member in the program should improve, Norwood said on the call.

Elevance is not the first payer to have its 2024 outlook hampered by regulatory changes to MA around rate revisions and quality ratings.

The insurer sued the federal government in December over changes to how regulators calculate MA quality ratings, called stars. The changes could cost Elevance hundreds of millions of dollars in quality bonus revenue next year.

Boudreaux said Elevance is taking steps to curb the worst of the losses. Along with changes to its bids, Elevance started cutting costs late last year and is working to weave artificial intelligence into its operations.

Elevance also kicked off layoffs in the fall that have impacted employees in multiple states.

"We anticipate that our health benefits business is going to continue to grow in [2025] after a reset year in [2024]," Boudreaux told investors.