Health Insurers Flash Warnings Over Unexpected Medical Costs (1)

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Updates with Elevance comments in sixth paragraph, shares in seventh.

- Centene says Medicaid business came under pressure in April
- Uncertainty is heightened in wake of Change Healthcare hack

US health insurers say their profits are being squeezed because states stripped Medicaid benefits from millions of people after the pandemic.

Centene Corp. said Friday that having fewer people in its Medicaid business has reduced the pool of money the company has to pay for medical expenses, which are going up. "We are seeing pressure in our Medicaid book of business in April results," Chief Executive Officer Sarah London said at Bernstein's Strategic Decisions Conference.

Centene had cautioned earlier this week that claims were higher than expected in April and May in its Medicaid plans. That came just hours after UnitedHealth Group Inc. warned of a "disturbance" in its Medicaid business, sending stocks tumbling across the sector.

States stopped removing people from Medicaid during the pandemic but resumed checking their eligibility last year. Centene plans to negotiate with states to make sure reimbursements match what it takes to cover medical costs, executives said.

Centene still affirmed its outlook for full-year profit and a key measure of medical costs this week, citing strength in other parts of its business.

Elevance Health Inc. CEO Gail Boudreaux said Friday that she's also confident in her company's earnings and medical cost targets. Elevance has been watching the level of medical need in its Medicaid business. "We're very encouraged by constructive conversations we're having with states about rates," Boudreaux said at the Bernstein conference.

Elevance shares jumped as much as 5% in New York on Friday, while Centene shares rose as much as 3.5%.

The rise in medical expenses in Medicaid, the joint state and federal program for low-income Americans, is especially alarming to investors who were already worried about profits in another big revenue generator, Medicare.

More than 20 million people have been removed from states' Medicaid rosters since March 2023, or nearly a quarter of those enrolled, according to health researcher KFF. Many are terminated for administrative reasons, like an incorrect address, and regain coverage after a gap.

Expenses are also rising in private Medicare plans that cover about 32 million seniors and people with disabilities. People are no longer putting off procedures that they might have delayed due to Covid, such as a knee replacement.

At the same time, the Biden administration ratcheted back payment policies that had helped make Medicare a driver of growth and profits across the industry. Large insurers including Humana Inc. and CVS Health Corp.'s Aetna have signaled that they plan to raise prices, cut benefits and shed members to recover profits on their Medicare plans.

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Health insurers set premiums based on estimates of future costs. They negotiate with employers and US government programs such as Medicare and Medicaid for how much money they need to cover the medical expenses of the people who enroll in those plans. Rates are set months in advance, which means surprise shifts in trends can upend forecasts and spook investors.

Timing lags compound the uncertainty. Medical providers can take weeks or months to submit claims to insurance companies, so insurers don't have a clear view into their expenses for a given quarter on the day it ends. As claims come in over time, they learn whether their projections were accurate. If they reserved more for expenses then they ultimately needed, that boosts income. On the other hand, if companies didn't set aside enough for medical expenses, that hits profits.

Uncertainty is heightened right now because a major cyberattack against a UnitedHealth subsidiary delayed billions of dollars in claims and payments across the health-care system. It's a wild card that makes the tricky job of estimating expenses even harder.

UnitedHealth lifted some restrictions on care — requirements doctors need to get before a treatment or prescription — during the hack. UnitedHealth CEO Andrew Witty called that a "watch area" in his remarks on May 29. Another executive said the results from May and June "will be telling."