

# Humana tumbles as insurer faces \$3 billion hit to revenue over lower Medicare star ratings

‘This represents a worst-case scenario result,’ stock analyst says



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Humana’s Medicare business has taken a financial beating all year, and it’s only going to get worse.

The company disclosed Wednesday that 25% of its Medicare Advantage members are enrolled in plans that have at least a four-star rating for 2025, down from about 94% this year. Humana is the second-largest Medicare Advantage plan in the country, covering 6.2 million people as of August.

The Medicare Advantage star-rating system, considered flawed by experts, plays a central role in how profitable health plans are. The massive downgrade will cost Humana billions of dollars in revenue — and could potentially erase most, if not all, of its profit heading into 2026, when 2025 bonuses are paid.

“This represents a worst-case scenario result,” Scott Fidel, an analyst at the investment bank Stephens, wrote in an investor note Wednesday morning.

Medicare Advantage plans are scored on a scale from one to five stars based on several factors, such as how much enrollees like the plan, whether people get recommended health screenings, and other similar customer service metrics. The stars, therefore, are supposed to be a proxy for quality. Plans that have at least a four-star rating get a 5% revenue bonus from the federal government.

Humana's stock plummeted more than 20% on Wednesday after the disclosure, following a 12% slump Tuesday on rumors that the star ratings would decrease. Humana's stock is down more than 50% this year after the company slashed profit projections multiple times. Its Medicare Advantage enrollees went to the doctor and hospital more than its actuaries had anticipated. The company has said it will cut benefits in Medicare Advantage plans that are not profitable, potentially driving some of those members who used a lot of care to competing plans next year.

The main contributor to Humana's ratings decline involves its largest Medicare Advantage contract, which covers 2.8 million of its members. That plan slipped from 4.5 stars to 3.5 going into 2025. CVS Health similarly had its biggest Medicare Advantage contract downgraded two years ago.

#### **Humana cutting Medicare Advantage plans that cover 10% of members**

David Windley, a health care stock analyst at Jefferies, estimated in September that if Humana's rating fell below four stars for that specific contract, Humana would lose \$1.8 billion in revenue from that contract alone, which accounted for \$1.1 billion of Humana's profit.

Humana stands to lose more than \$2.5 billion in revenue across all of its Medicare Advantage membership, based on the same calculations used by Windley. Fidel estimated on Wednesday that Humana would lose at least \$3 billion in revenue.

A Humana spokesperson declined to comment about the potential loss of revenue. The company said in its filing to investors that it thinks the federal government made errors in calculating the star ratings.

“The company has outstanding appeals related to certain results and has requested additional information to ensure accuracy of threshold calculations,” Humana said in the filing. “The company intends to continue to engage with [Medicare] on these matters to ensure star ratings are accurate and representative of plan quality.”

Humana also said it “is exploring all available options to mitigate the expected 2026 revenue headwind” if its appeals fail. Humana did not say

whether it would sue Medicare over the ratings, a tactic the industry used recently to get a reversal in this year's ratings.

**Insurers went all-in on Medicare Advantage. Now, some are scaling back**

The government will officially list all Medicare Advantage star ratings for 2025 by Oct. 10. While Humana's demotion came as a surprise, executives hinted at a Wall Street conference last month that retaining its quality scores would not be easy.

When asked how the company thought the 2025 star ratings would shake out, Humana CFO Susan Diamond said the company didn't have any information yet. But she said it was difficult to improve since 94% of its Medicare Advantage members are already in those plans.

"We are very high-performing. So lots of days it feels like there's only one way to go, right?" Diamond said at the conference.