

Centene Faces Earnings Crunch as More Healthy Americans Exit Insurance Plans

The health-insurance provider is reckoning with multiple threats to its business

By
[Katherine Hamilton](#) – Wall Street Journal
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[Centene](#) is reckoning with multiple threats to its business, potentially leaving it with fewer and less-healthy enrollees signed up to its health-insurance plans.

The end of certain pandemic-era health-insurance benefits over the past year is prompting more Americans to drop out of coverage plans, which Centene said could hollow out its earnings. On top of that, the proposed Medicaid cuts in President Trump's budget bill would limit the number of people enrolled in Centene's largest business, Jefferies's David Windley said.

"Centene didn't anticipate the extent of this," Windley said. "The people left in the market are fewer and sicker, and that's killing the margins."

The health-insurance provider withdrew its guidance on Tuesday after new data about the insurance marketplace showed growth was less favorable than anticipated. Centene now believes its annual earnings per share could be at least \$2.75 lower than the \$7.25 it previously guided for.

Shares plunged 39%, to \$34.43, on Wednesday in the wake of the cut, marking their largest-ever percent decrease and making Centene the worst performing stock on the S&P 500.

The cause of such market trends is likely related to expanded benefits, which were rolled out during the Covid-19 pandemic and are now starting to wind down, Windley said. The policies gave many people free insurance coverage, sometimes unbeknownst to them, which in some cases resulted in people enrolling in more than one insurance plan.

Rules around those policies started tightening last year. As people realized they were double-enrolled or that they couldn't continue to have free coverage, many dropped out of the plans. The people exiting Centene's plans tend to be healthier because they are

less reliant on coverage, which leaves the company with more unhealthy—and therefore expensive—customers, Windley said.

Insurance companies such as Centene had been aware of this trend, but the drop-out rate has been higher than expected, Windley said. The problem is particularly pronounced in states that haven't expanded Medicaid coverage, such as Florida, Georgia and Texas, which together make up about 60% of Centene's membership, he estimates.

"You'd have had to have lived under a rock to not know that some of this was going to happen," Windley said. "But generally speaking the management teams thought this was going to be relatively minor."

The other major hurdle for Centene is Trump's budget bill. The bill, which passed through the Senate on Tuesday, is set to reduce Medicaid enrollment by 10.3 million people by 2034, the Congressional Budget Office estimates. This is substantial for Centene because about 50% of its premiums come from Medicaid, by Windley's estimates.

Wall Street is aware of the effect that winding down pandemic policies is having on insurance companies, but the budget bill's effect could be greater than investors have been anticipating, [Mizuho](#) analyst Ann Hynes said in a note.

Centene's exposure to legislative changes is the highest among healthcare companies in Mizuho's coverage. Hynes estimates about 21% of Centene's adjusted earnings are exposed to legislative changes.

"We believe the risk has increased over the past two weeks," she said. "There could be meaningful market disruption driven by potential changes included in the upcoming Budget Reconciliation legislation."