Insurance Companies' Medicare Pullback Is Here

Insurers are planning to scale back benefits, trim plans and exit from markets. Investors are cheering.

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The era of red-hot Medicare Advantage growth is over, at least for now. PHOTO: JENNY KANE/AP

Many seniors enjoy the perks that come with Medicare Advantage. But those extras—like dental coverage and free gym memberships—are being scaled back.

Insurers are cutting benefits and exiting from unprofitable markets, and Wall Street is cheering them on. Once rewarded by investors for rapid expansion in the lucrative privatized Medicare program, companies are now being applauded for showing restraint amid rising medical costs and lower government payments.

Humana HUM 4.11%increase; green up pointing triangle and CVS Health CVS 3.08%increase; green up pointing triangle, which operates Aetna, both beat earnings expectations in their most recent quarterly updates and saw their shares rise, bucking a broader downturn in health-insurance stocks. Notably, both moved to retrench their Medicare Advantage businesses this year, with Humana projecting a loss of as many as 500,000 members from its plans sold directly to seniors.

In contrast, industry giant UnitedHealth Group UNH 2.54%increase; green up pointing triangle grew more aggressively in Medicare this year—but that growth came with soaring costs and disappointing results. Its stock has lost nearly half its value, and the company is now planning a major pullback of its own for 2026.
The upshot: Insurers are learning the hard way that restoring profitability means accepting lower growth or shrinkage in their Medicare Advantage rolls. And the pullback isn't limited to Medicare. Similar retreats are under way in Medicaid and the Affordable Care Act (ACA) exchanges.

Insurers say they aren't pulling back by choice. For years, Medicare Advantage was the golden goose—delivering relatively high margins and steady growth. That spurred a flood of increasingly generous plans aimed at winning seniors and market share. Now that strategy is unraveling, as Wall Street grows wary of just how unpredictable profits in government programs have become.

Medicare Advantage, long championed by Republicans as a cost-saving alternative to traditional Medicare, was supposed to save taxpayers money. But as allegations mounted that insurers were being overpaid, bipartisan scrutiny of the program intensified and the Biden administration moved to rein in costs. The timing couldn't have been worse for investors: Lower payments collided with soaring medical expenses, creating a perfect storm of lower revenue, higher costs and shrinking profits.

One reason CVS and Humana are rebounding ahead of the industry is because they were among the first to get hit by Medicare Advantage's surging medical costs, says George Hill, an analyst at Deutsche Bank. In 2024 CVS had been especially aggressive, offering rich benefits in an effort to grab market share—only to rack up major losses in its Medicare segment. The stock tanked in 2024, and the board replaced Chief Executive Karen Lynch with David Joyner, who refocused the company on profitability over enrollment growth, announcing a withdrawal from the ACA exchanges. Humana faced a reckoning of its own as costs in its Medicare plans surged.

Both companies have seen their finances improve as they have given priority to margins. In their latest quarterly result announcements, CVS and Humana raised their profit forecasts for the year. Humana is up about 6% since reporting earnings on July 30. CVS, meanwhile, is up nearly 40% for the year.

UnitedHealth is now following suit amid pressures across its insurance businesses. The health conglomerate said it is overhauling its pricing strategy for 2026 to reflect sharply higher medical costs, including by cutting benefits and exiting from Medicare Advantage plans that would see 600,000 members lose coverage.

Many of the members CVS and Humana dropped this year ended up in UnitedHealth's plans. That has raised concerns about a high-cost population bouncing from insurer to insurer. But Humana CEO James Rechtin pushed back on that idea, saying all members can be profitable with the right product design. He called the industrywide cutbacks in benefits "good for the sector."

To be clear, major insurers aren't exiting Medicare Advantage. Apart from Cigna CI 1.44%increase; green up pointing triangle, which sold its Medicare business last year, the big players are still betting on the program—some are likely to take advantage of the turmoil to increase their market share. And the market is arguably still well served and competitive, especially in densely populated areas. Even after some moderation last year, the average beneficiary this year had 42 plan options from which to choose, according to health-research nonprofit KFF.

As the industry pivots to leaner operations, Wall Street may regain confidence. But the era of red-hot Medicare Advantage growth is over, at least for now. While Democrats have led efforts to cut overpayments, Republicans also face mounting pressure to curb spending—especially after recent tax cuts, notes Deutsche's Hill. He warns that more regulatory shifts may be coming, including a potential overhaul of the star ratings system, which governs billions in bonus payments tied to plan quality and patient satisfaction.

Until that picture clears, investors will continue to reward restraint and tightly managed risk. In today's Medicare Advantage market, and across government insurance programs, growth is taking a back seat to profitability.