Health Insurers in Shock After Medicare Holds Line on 2027 Payments

Big companies lose $96 billion in market capitalization after Medicare proposed relatively flat rate increase for next year

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UnitedHealth is among Medicare insurers whose shares were down. STEPHEN MATUREN/GETTY IMAGES

Wall Street believed the Trump administration was going to take a friendly approach to Medicare insurers. Now, investors think the industry might be in for a rough ride.

Shares of big insurers plunged after The Wall Street Journal first reported that the Medicare agency was proposing 2027 Medicare insurer rates well below analysts' expectations.

UnitedHealth Group's shares were down nearly 20% on Tuesday, while Humana's dropped 21%. CVS Health and Elevance Health both fell 14%.

Among those large companies, $96 billion in market capitalization was wiped out Tuesday.

"These guys definitely have a case of whiplash," said John Gorman, a longtime consultant to the healthcare industry on Medicare issues. "Shock and dismay is a lot of what I'm hearing."

The proposal dealt a blow to insurance companies that have been pushing to turn around a business that is central to their finances and hopes for growth.

Medicare Advantage, the private-insurer version of the federal program for older and disabled Americans, generated an estimated $500 billion in revenue for the industry as a whole last year. For industry giant UnitedHealth, for instance, revenue from the overall Medicare line of business is more than twice that from private insurance.

Such revenue was long a key driver of growth and profits—until recent retrenching, partly due to a Biden administration policy that trimmed some lucrative billing practices.

If the 2027 rates are skinnier than insurers think they should be, the industry will likely turn to a playbook companies deployed this year as they sought to bolster margins. Medicare enrollees might see insurers pull back some offerings, trim extra benefits such as cash-like cards used for health expenses, and offer plan designs with more cost controls, such as limited networks of doctors and hospitals.

The proposed rates would increase payment in 2027 by around 0.09%. Analysts had expected a boost closer to 5%. The rate for this year had come in more generous than expected, and analysts felt the Trump administration wouldn't want to rock the boat for Medicare enrollees in an election year.

"So Much For the Mid-Terms," was the headline on a Jefferies analyst note regarding the proposal.

If the proposed rates for next year are finalized, Raymond James analyst John Ransom estimated, the change could pull down earnings by as much as 18.6% at UnitedHealth, 12% at CVS and 75% for Humana, which was already expected to have its 2027 results squeezed for other reasons.

Chris Klomp, deputy administrator of the Centers for Medicare and Medicaid Services, or CMS, said in an interview Monday the agency wanted to improve payment accuracy and give Medicare insurers stable reimbursement, while bolstering the system's simplicity and competition.

On Tuesday, Klomp added that CMS wanted to "ensure Medicare Advantage's long-term sustainability" and that its "beneficiaries have access to robust Medicare Advantage plan offerings in 2027 and subsequent years."

Already, the industry is laying the groundwork for a lobbying push to raise the final rates, which will be announced in April.

In the past, insurers have deployed phalanxes of angry seniors and run large-scale ad campaigns, including a commercial during the Super Bowl. Tim Noel, who leads the insurance arm of UnitedHealth, said during an earnings call Tuesday that it would work with CMS to "avoid a profoundly negative impact on seniors' benefits and access to care."

"This is going to be the typical industry Medicare lobbying on crank, this next 90 days," Gorman, the consultant, said.

Yet one challenge for the industry is that many of the inputs that shape the final payment rates aren't decided by Trump administration political appointees, according to current and former CMS officials.

Mehmet Oz leads the Centers for Medicare and Medicaid Services. MARK SCHIEFELBEIN/AP

CMS staff actuaries calculate expected growth rates for costs, and the numbers came in below what many analysts had expected this time. Often, these estimates evolve as the actuaries get more data.

Also, the Trump administration might be less receptive to the industry's case than Wall Street had figured. The administration has been seeking to cut federal government spending.

Insurers are facing a fairly hostile political environment. Recently, two powerful House committees held hearings with top company chief executives, who were questioned about denials of patient care, business structures and profits. President Trump has said he wants to meet with insurers to press them for lower pricing.

Mehmet Oz, who leads CMS, signaled in his confirmation hearing that he planned to crack down on insurance industry techniques that were highlighted in Journal reporting.

He called himself a "new sheriff in town" and said he would go after "upcoding."

Part of the reason for the smaller-than-expected proposed rate increase was a policy decision to stop allowing payments based on patient diagnoses gathered through insurer reviews of medical charts, if the information wasn't tied to a medical encounter. Such chart reviews are among the industry billing practices that have drawn scrutiny.

Klomp said the goal of the chart-review change was to "ensure program incentives better reward activities that improve beneficiary care."