U.S. Health Insurance Sector View 2024

Revenue growth amid risk in government segments

S&P Global
Ratings

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This report does not constitute a rating action

Contents

U.S. Health Insurance

Stable Sector View Highlights

Sector revenue growth in 2024 despite headwinds

We expect healthy revenue growth for most companies from premium rate increases, tied to medical cost inflation. However, membership growth may be slowed by the softening economy, Medicare Advantage rate pressure, and Medicaid redeterminations in the first half of 2024.

Higher earnings risk in government segments

In Medicare Advantage, many insurers will face elevated outpatient utilization from pent-up demand and improved provider capacity. In Medicaid, rate adequacy is an area to watch if insurers face claims pressure from Medicaid redeterminations.

In the commercial market, insurers are citing GLP-1 drugs and behavioral health as areas of elevated costs.

Limited legislative risk in 2024

We expect bipartisan pharmacy benefit manager (PBM) legislation may pass in the first half of the year. Otherwise, we expect mostly headline risk during the presidential election season.

The industry remains acquisitive

Health insurers will use mergers and acquisitions (M&A) to strengthen their core businesses and diversify into noninsurance lines. Regulatory scrutiny will deter mega merger activity.

Leverage and integration risks remain balanced by strong cash flows and the tuck-in aspect of many deals.

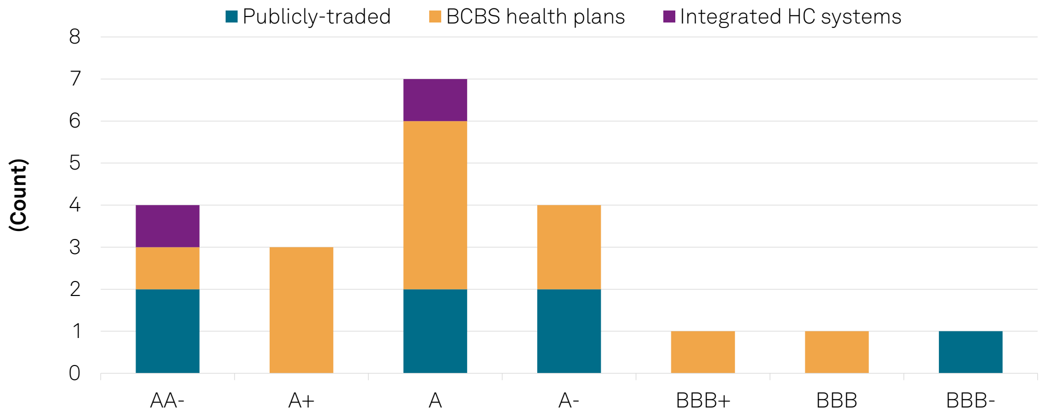
Rating And Outlook Distribution

The U.S. health insurance sector is highly rated with stable outlooks on most companies

We have ratings on 21 insurance groups including seven publicly traded companies, 12 privately owned Blue Cross & Blue Shield (BCBS) health plans (a mix of not-for-profit and mutual companies), and two integrated health care delivery systems (Kaiser Permanente and HealthPartners).

Industry consolidation has gradually reduced the number of rated companies.

Average financial strength rating (FSR) of 'A/A-'

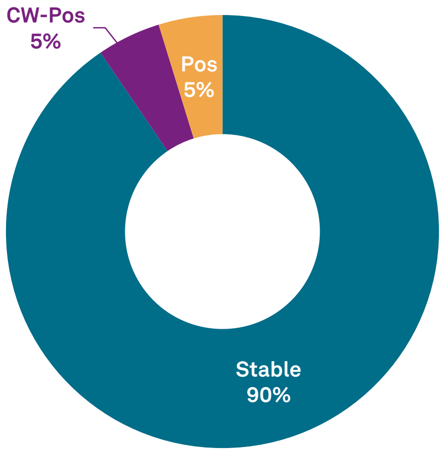


Source: S&P Global Ratings.

Ratings with outlooks that aren't stable include:

- **BCBS Louisiana (A/Watch Pos/--)** on the pending acquisition by **Elevance Health (AA-/Stable/A-1)**
- **Molina Healthcare Inc. (holding company: BB-/Positive/--)** on improved competition positioning and credit metrics.

Stable outlooks with a positive bias

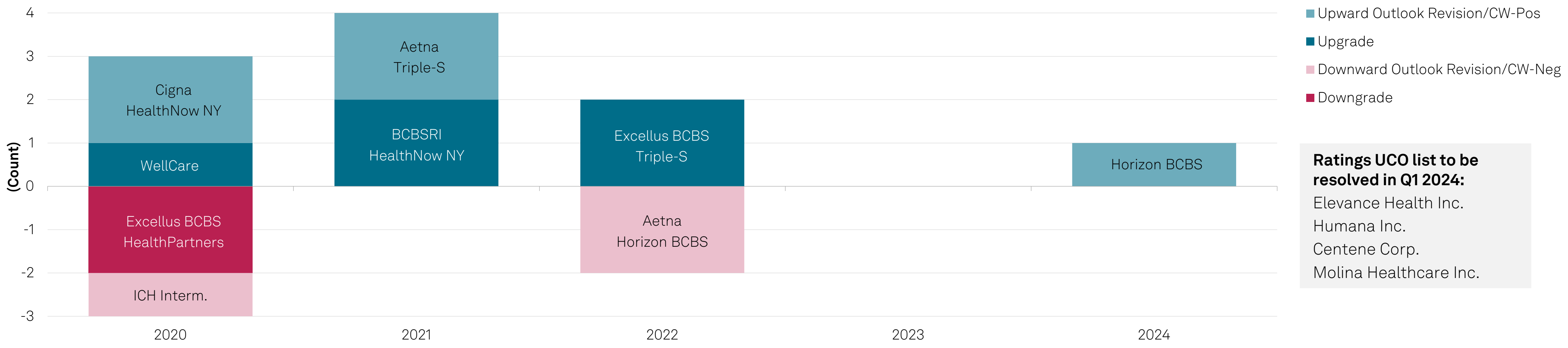


Source: S&P Global Ratings.

U.S. Health Insurance Rating Trends And Drivers

- **We saw no rating changes in 2023. The five upgrades in 2020-2022** were driven by acquisitions (by a larger, higher rated entity) and capital improvement, while the **two downgrades in 2020-2022** were driven by weakened operating performance and capital deterioration.
- Following our new capital adequacy criteria (November 2023), **we placed five companies under criteria observation (UCO)** for a potential rating or outlook change. We resolved one UCO (Horizon BCBS) in January 2024, leading to an outlook revision to stable from negative.

Positive rating actions versus negative rating actions



Ratings UCO list to be resolved in Q1 2024:
Elevance Health Inc.
Humana Inc.
Centene Corp.
Molina Healthcare Inc.

Data as of Jan. 25, 2024. Note: Negative count on y-axis represents a negative rating action. Source: S&P Global Ratings.

Negative Rating Drivers For Health Insurers

What could pressure ratings in 2024?

Weaker Revenue And Profitability

Competitive market issues that lead to sustained membership and contract losses

Consistent mispricing and higher-than-expected medical costs reflecting weak underwriting practices and medical management

Adverse Public Policy And Regulatory Changes

Transformative legislation that reduces the industry's role in health coverage

Weakened federal or state funding of government-sponsored coverage programs

Regulatory actions and significant penalties on the industry

Weakened Capitalization

Lower capitalization based on risk-based capital measures due to weakened earnings and investment losses

Financial policy changes that include higher leverage and lower capital targets

Significant Debt-Funded M&A

Higher-than-expected leverage for a sustained period (such as 12-24 months) due to lower-than-expected debt repayment or earnings

Integration issues with M&A

Sector Fundamentals Support A Stable Sector View Beyond 2024

Solid growth prospects and earnings stabilizers, balanced by manageable risks

Long-term sector strengths

Favorable growth: The resilient U.S. economy, growing population, and public policy moves that have lowered the uninsured rate

Pricing flexibility: The ability to reprice many products, or have rates adjusted annually, based on anticipated medical cost inflation

Improving tech and data analytics (incl. A.I): Should aid pricing and underwriting, member experiences, and operating efficiency

Value-based care: Insurers are well-positioned to promote new payment structures with providers to lower costs and raise quality

High barriers to entry: Due to regulatory and capital requirements, actuarial expertise, and provider networks

Long-term sector risks

Persistent legislative and regulatory risks: Health care will continue to be a top election issue

Government pricing and compliance risks: Affect premium rates, benefit and network requirements, marketing rules, and earnings

Unsustainable medical/drug cost inflation: Hurts product affordability, leads to political risk, and causes periodic earnings surprises

Rising consumer expectations: Will require greater product innovation and tech investments

Disruption risks: Especially from nontraditional competitors, as well as new competitive risks as health insurers diversify into new lines

How Does 2024 Fit Within Our Stable Long-term Sector View?

U.S. economic outlook
Legislative, regulatory, & legal risks

U.S. Economic Forecast

Cooling off but not breaking

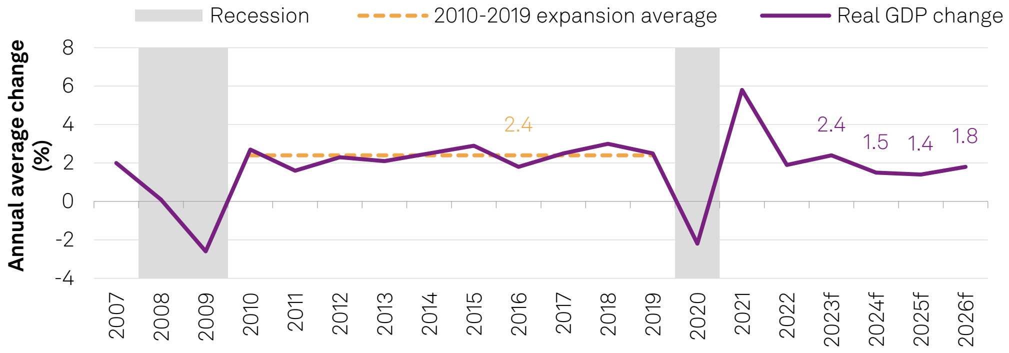
The U.S. health insurance sector is generally resilient through economic cycles. We expect it to perform relatively well as the U.S. economy enters a downturn but avoids a recession in 2024-2025.

However, employment losses could soften growth prospects in the employer-sponsored market, where roughly half of Americans receive their health coverage, in the back half of 2024.

A severe economic downturn (outside of our base case) would benefit growth in the Medicaid market, partly reversing membership losses from Medicaid redeterminations, scheduled to end in first-half 2024.

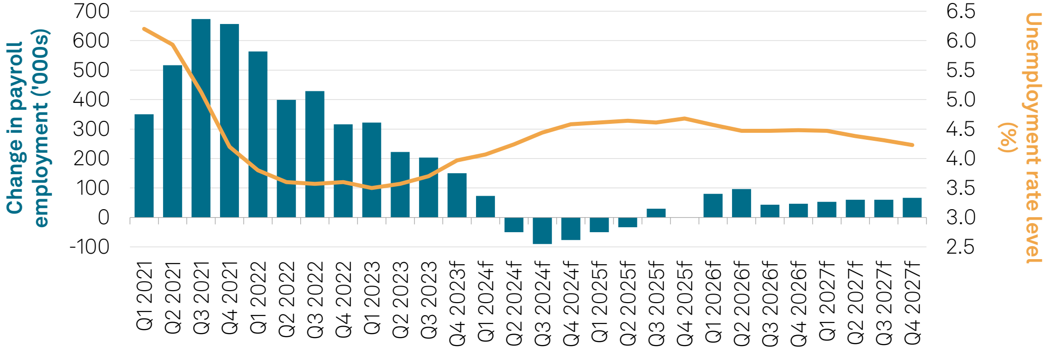
Overall, medical loss ratios may benefit slightly if consumers curtail discretionary-like health spending during a severe downturn.

Real GDP expected to dip below trend in 2024-2026



f--forecast. Source: S&P Global Ratings.

Payroll employment softening, unemployment bottoming out



f--Forecast. Q--Quarter. Sources: Bureau of Labor Statistics and S&P Global Ratings Economics calculations.

U.S. Economic Forecast

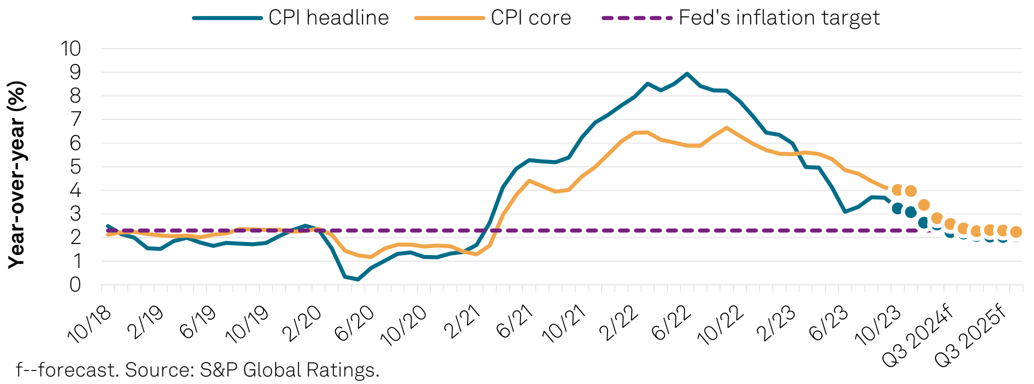
Cooling off but not breaking

Health insurers are facing inflationary pressures because hospitals and providers are requesting higher reimbursement rates due to elevated labor and supply chain costs and payor mix shifts (the growing portion of Medicare and Medicaid business). However, health insurers' risks are hedged to some degree, as provider contracts are typically several years in duration and renewal dates are staggered across maturity years.

We expect health care inflation will continue to outpace overall inflation. If overall inflation declines meaningfully, provider contract renewal pressures may moderate slightly in late 2024-2025.

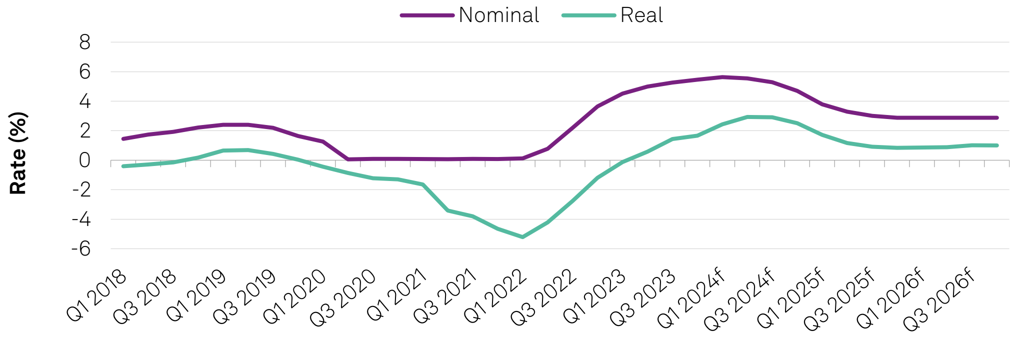
Elevated interest rates will continue to be a net tailwind for health insurers because health insurers invest a large portion of invested assets in short-to-medium duration fixed income securities. Health insurers will benefit from solid investment income in 2024, though this tailwind will lessen if the Fed begins to lower rates in the second half of 2024.

CPI expected to fall to fed's inflation target by Q3 2024



f--forecast. Source: S&P Global Ratings.

Fed likely done hiking, rates to peak in Q2 2024-Q3 2024



Q--Quarter. f--Forecast. Real rates is calculated as nominal policy rate minus instantaneous core PCE 12-month inflation. Sources: The Federal Reserve, S&P Global Market Intelligence, S&P Global Ratings Economics Forecast.

Legislative, Regulatory, And Legal Risks

Divided government likely means incremental health care proposals

Presidential Elections

Health care will be a top issue, tied to the economy, in the 2024 elections. We expect mostly headline risks during the election cycle. Both parties will likely pursue incremental health care proposals compared with past elections, which featured "Repeal & Replace (the ACA)" and "Medicare-for-All."

One topic that may come up will be the Inflation Reduction Act of 2022's enhanced ACA subsidies for consumers, which will expire in 2025. ACA opponents may propose to let the subsidies expire or use it as a bargaining chip for extending certain provisions of the Tax Cuts and Jobs Act of 2017 that are expiring in 2025.

Legislative Agenda

We expect limited legislative risk for the sector in 2024. This is based on expected gridlock in a split Congress and the likely pause in substantial legislation in second-half 2024 during the presidential election season.

However, one area with bipartisan support is PBM legislation, which may pass in first-half 2024. Legislation will likely have a manageable impact for PBMs, especially if the focus is on areas such as pricing and business practice transparency (with reporting requirements) and spread pricing in Medicaid.

Moreover, PBMs will have time to renegotiate contracts with clients and manufacturers in reaction to legislation.

Regulatory Watch Items

Medicare Advantage (MA) rates for 2025: Rates will be released in February and finalized in April. We expect a rate increase of 0%-2% for 2025 versus a decline of 1.1% for 2024.

MA Star Ratings: These affect product competitiveness and profitability. The 2025 Star Ratings (affecting 2026 payments) will be released in Fall 2024.

Medicaid redeterminations: States started redeterminations in April-July 2023, and will complete this process during H1 2024.

FTC study of PBMs: The Federal Trade Commission study could be released in 2024 and include proposed regulatory or enforcement actions against PBMs.

Legal Watch Items

Elevance Health v. HHS--Filed Jan. 2024 on changes to CMS' MA Star Rating methodology

Humana v. HHS--Filed Sept. 2023 on CMS' new MA RADV methodology

BCBS antitrust lawsuits: subscriber-led settlement (close to final), provider-led lawsuit (timing uncertain)

Operating Performance

Operating Performance: Industry Revenue And Earnings

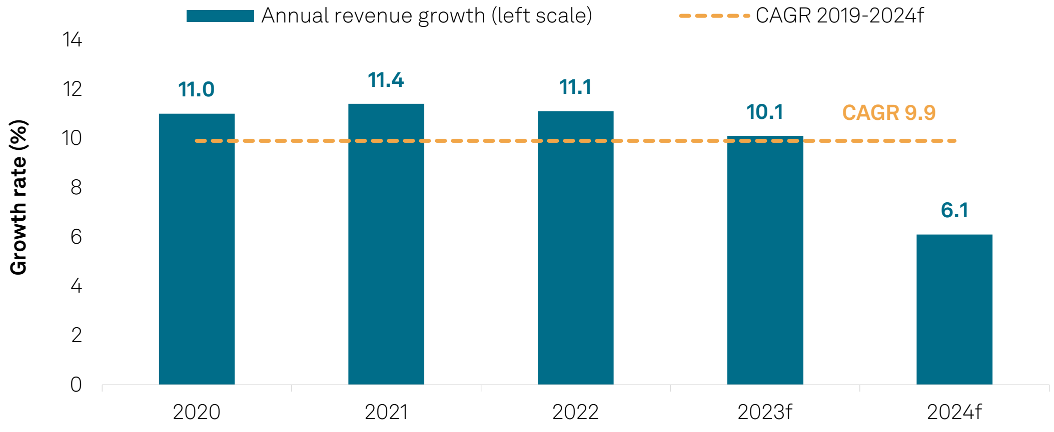
Revenue growth and operating margin may moderate in 2024

Industry revenue growth has been strong in recent years. This is based on premium rate increases to reflect expected medical cost trend, solid membership growth in MA and Medicaid, health care services growth, and acquisitions, slightly offset by divestitures.

Industry revenue growth could moderate in 2024. This could come from more modest MA growth and membership losses from Medicaid redeterminations, with **M&A adding revenue upside.**

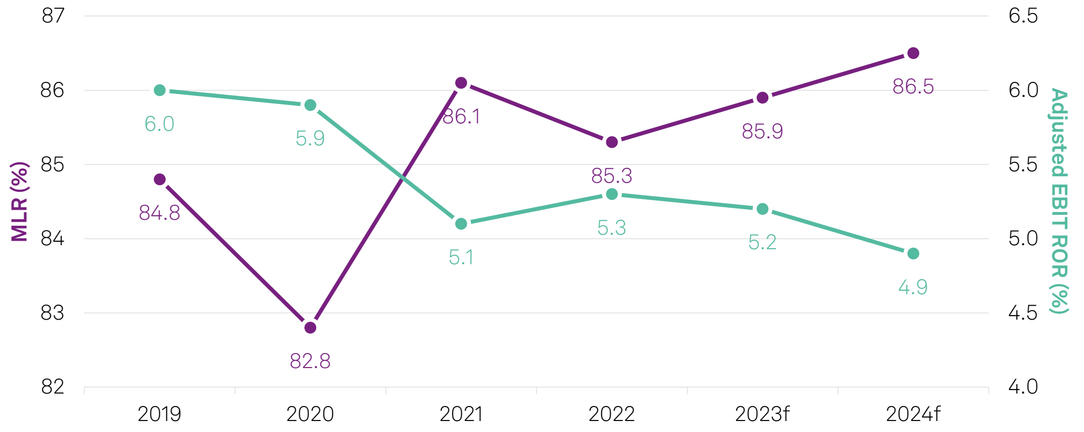
The industry medical loss ratio (MLR) gradually increased in 2021-2023. Business mix was a key driver as the industry saw growth in MA and Medicaid, which generally have higher MLRs than commercial business. We expect the industry MLR will increase in 2024 because of revenue and claims pressures in MA and possibly Medicaid redeterminations. **Industry operating margins will decline modestly based on the higher MLR, offset by healthy investment income and operating cost initiatives.**

Strong industry growth from organic growth and M&A



Note: Industry revenue based on aggregate data for The Cigna Group, Centene Corp., CVS Health Group, Elevance Health Inc., Humana Inc., Molina Healthcare Inc. and UnitedHealth Group Inc. f--Forecast. Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Rising MLR will dampen operating margins

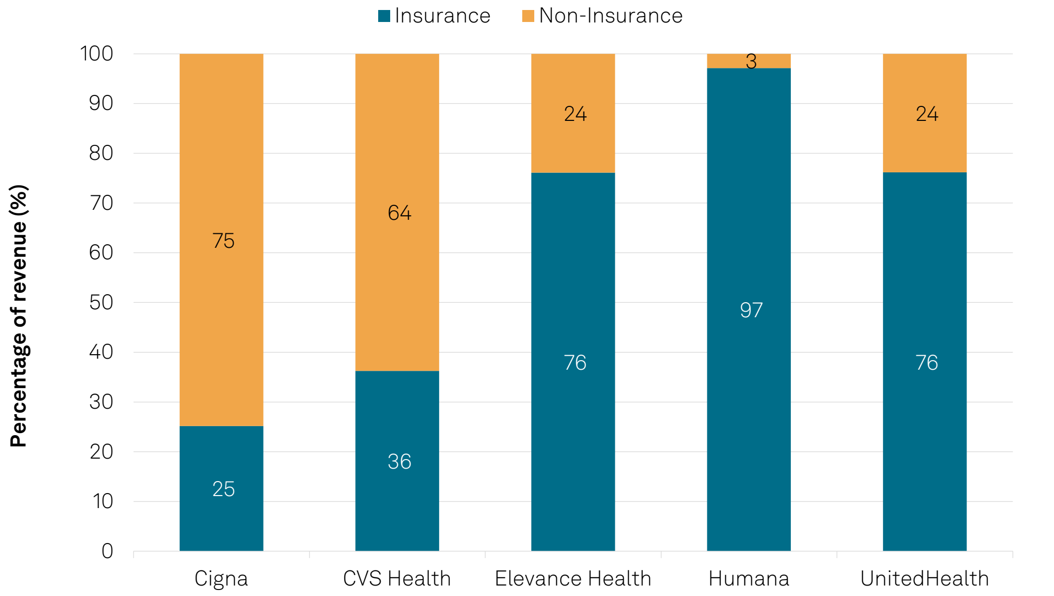


Note: Industry MLR and ROR based on the average of The Cigna Group, Centene Corp., CVS Health (HCB Segment), Elevance Health Inc., Humana Inc., Molina Healthcare Inc., and UnitedHealth Group Inc. f--S&P Global Ratings' forecast. Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Operating Performance: Insurance Versus Noninsurance Mix

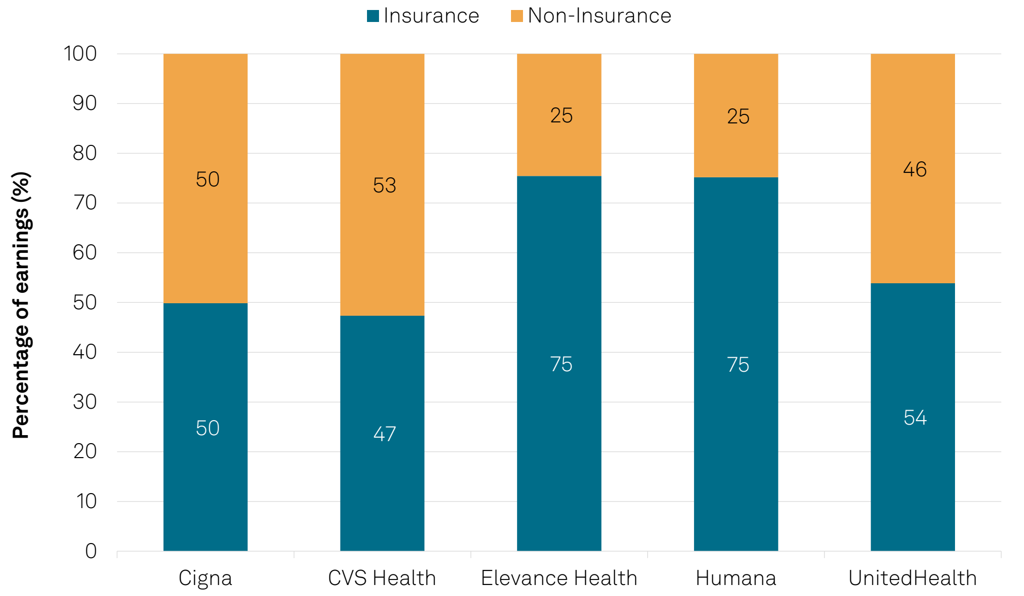
Noninsurance health care services increasingly make up a significant portion of total earnings

Revenue mix: Insurance versus noninsurance
Q3 2023 YTD



Note: Revenue excludes corporate/other segments and intersegment revenue. Noninsurance segments include Evernorth (Cigna), CVS Health Services and Pharmacy/Consumer Wellness (CVS Health), Carelon (Elevance Health), CenterWell (Humana), and Optum (UnitedHealth). Source: Company filings, S&P Capital IQ, S&P Global Ratings.

Operating earnings mix: Insurance versus noninsurance
Q3 2023 YTD

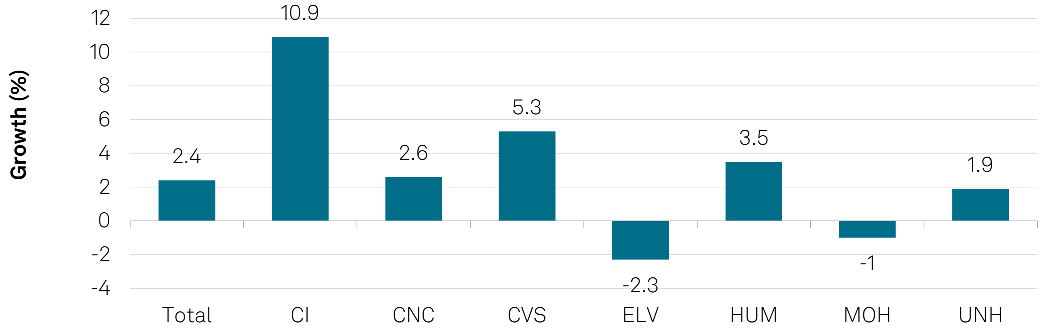


Note: Reported operating earnings exclude corporate/other segments. Noninsurance segments include Evernorth (Cigna), CVS Health Services and Pharmacy/Consumer Wellness (CVS Health), Carelon (Elevance Health), CenterWell (Humana), and Optum (UnitedHealth). Source: Company filings, S&P Capital IQ, S&P Global Ratings.

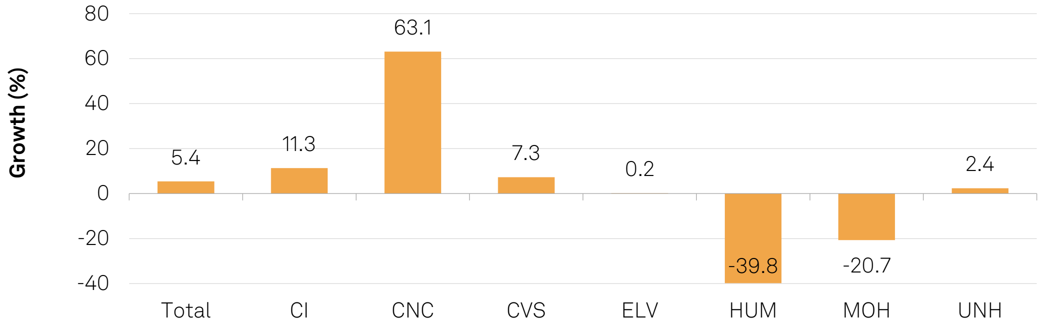
Operating Performance: Membership Growth By Segment

CI--The Cigna Group, **CNC**--Centene Corp., **CVS**--CVS Health Corp., **ELV**--Elevance Health Inc., **HUM**--Humana Inc., **MOH**--Molina Healthcare Inc., **UNH**--UnitedHealth Group Inc.

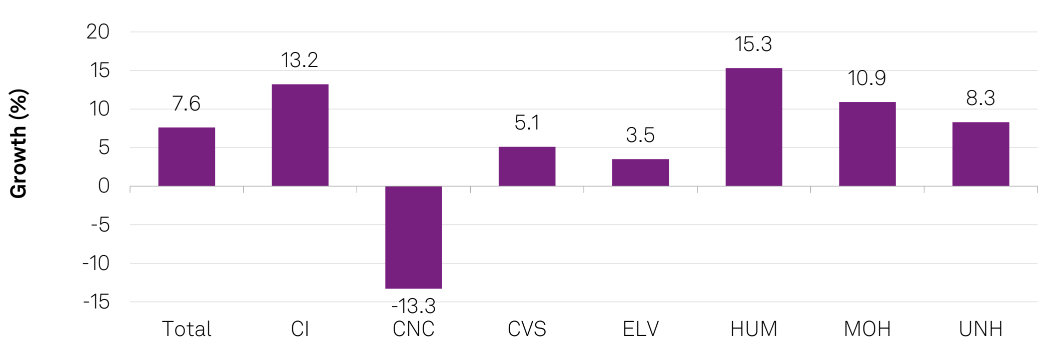
Total membership growth (Q3/Q4 2023 vs. YE 2022)



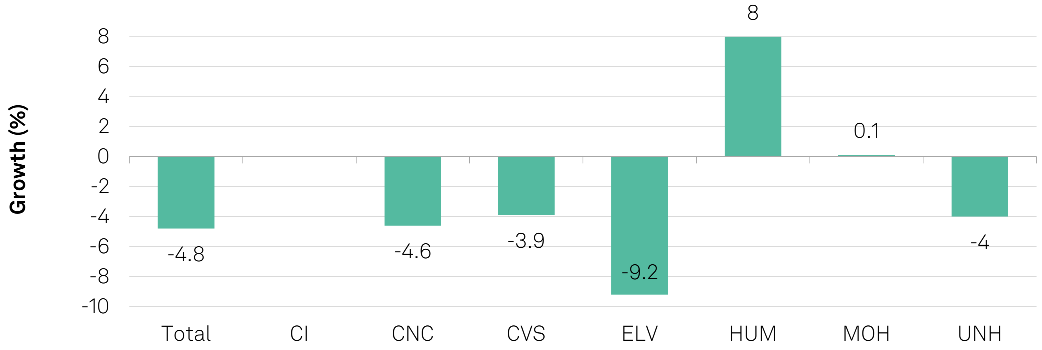
Commercial group/individual growth (Q3/Q4 2023 vs. YE 2022)



Medicare Advantage growth (Q3/Q4 2023 vs. YE 2022)



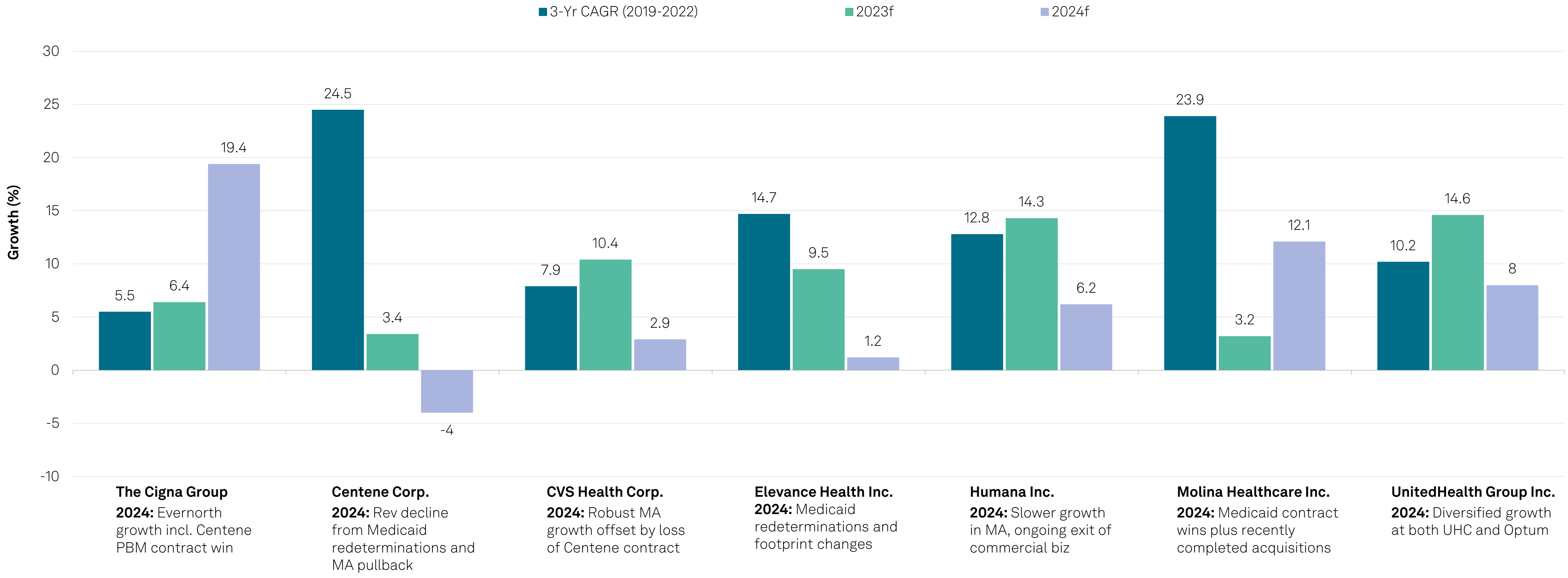
Medicaid growth (Q3/Q4 2023 vs. YE 2022)



Note: Q4 2023 actual used for Elevance Health, Humana, and UnitedHealth. Elevance Health membership excludes BlueCard. Total—Aggregate data for peers.
Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Operating Performance: Revenue Growth By Company

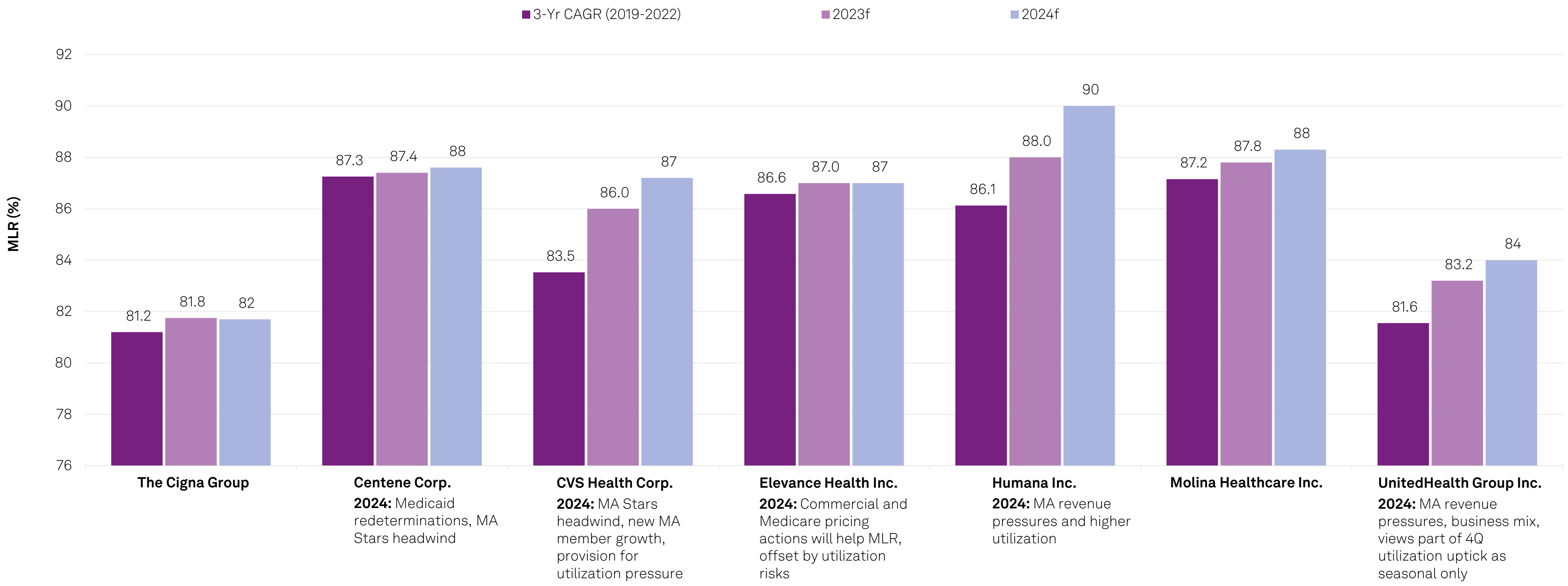
Variation due to business mix, client shifts, and M&A



Note: 2023 actual used for Elevance Health, Humana, and UnitedHealth. f--forecast. Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Operating Performance: Medical Loss Ratio By Company

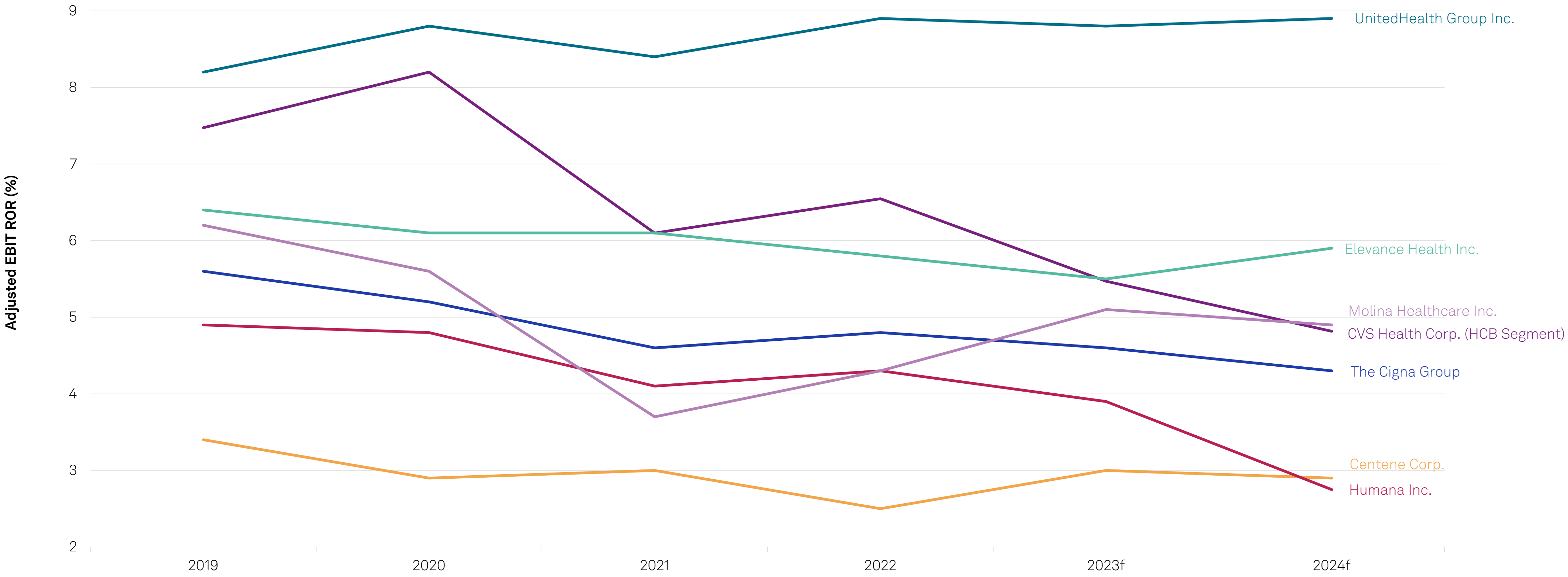
MLR pressure from MA and Medicaid in 2024



Note: 2023 actual used for Elevance Health, Humana, and UnitedHealth. Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Operating Performance: Operating Margins By Company

Adjusted EBIT return on revenue trends



Note: 2023 actual used for Elevance Health, Humana, and UnitedHealth. Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Segment Outlooks

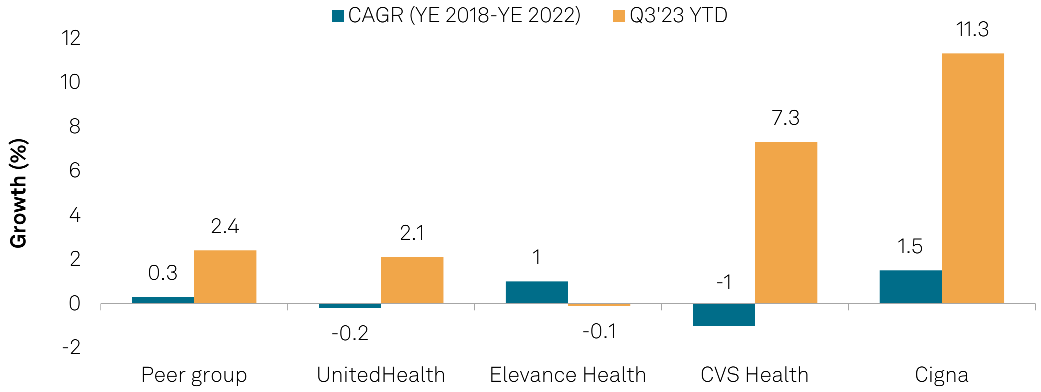
Segment Outlooks: Commercial Segment Will See Modest Growth In 2024

Job growth slowdown will be a slight headwind; commercial pricing will vary

The commercial group segment is the industry's largest. According to the Kaiser Family Foundation, total membership is 153 million (35% fully insured, 65% self-funded). We expect modest growth in 2024 and the long term. Companies typically gain market share in this segment through product and service innovation and group-level pricing strategies. However, companies can often replicate product and pricing strategies, so they tend to trade market share over time. **In recent years, we've seen rising demand for self-funded "level-funded" products** (with stop loss coverage) from small employers and health advocacy/navigation services from large employers.

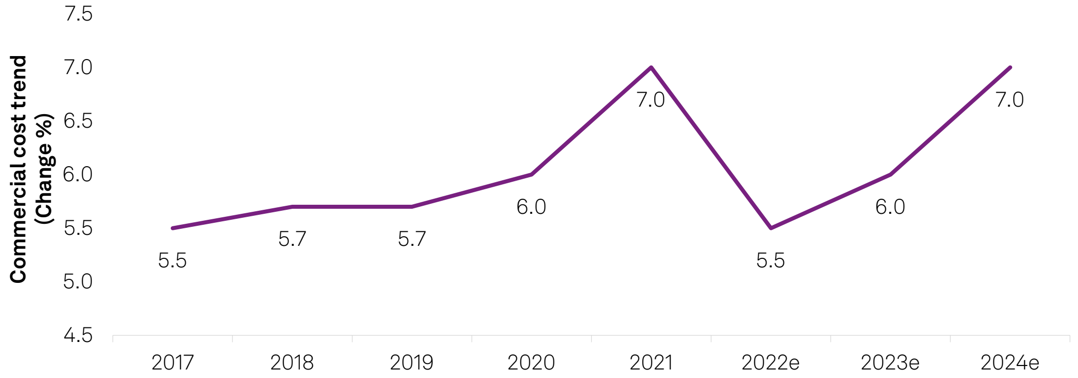
For 2024, we expect pricing will be broadly disciplined with less MLR risk than other segments. This is because commercial utilization increased compared with pre-pandemic levels earlier than other segments. At the same time, health insurers and self-funded employers will face cost pressure from higher reimbursement to providers, higher utilization of anti-obesity drugs (GLP-1s), specialty drugs, and behavioral health. **We believe health insurers and employers have manageable exposures to GLP-1 costs.** The bulk of GLP-1 coverage for anti-obesity usage is concentrated in the self-funded market. Companies that do cover the drug benefit are focusing on utilization management to better manage costs.

Commercial group/individual membership growth



Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Health insurers are pricing for higher medical cost trend



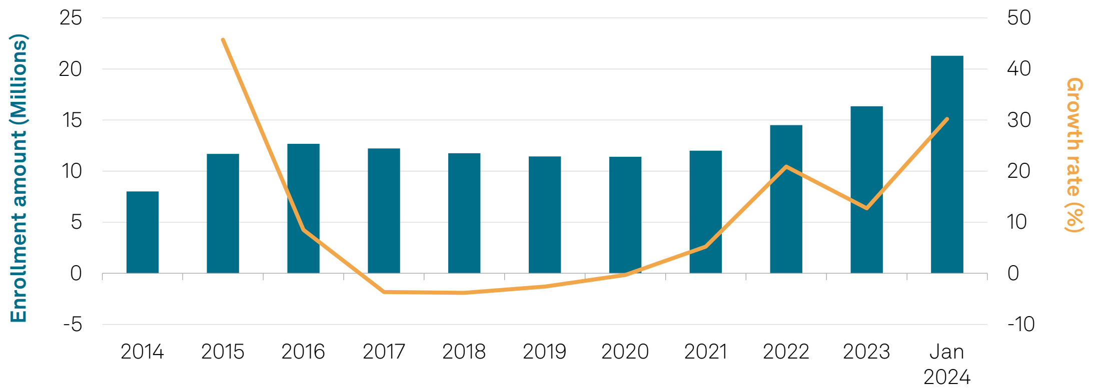
Note: Commercial cost trend based on PwC Health Research Institute Study. Commercial cost trend for 2017-2021 includes commercial group segment only, whereas expected cost trend in 2022-2024 includes commercial group and individual segments. Source: PwC Health Research Institute, S&P Global Ratings.

Segment Outlooks: The ACA Marketplace Gaining Momentum In 2024

Enhanced subsidies for consumers and higher marketing spending are attracting members

The ACA Marketplace, the smallest of the major segments, is seeing record enrollment. Legislation enacted in 2021 (the American Rescue Plan Act) enhanced subsidies that made ACA products more affordable for a greater number of consumers, which the Inflation Reduction Act of 2022 extended to 2025. The enhanced subsidies, increased government spending on marketing and customer assistance, and higher broker interest are combining to boost enrollment. Medicaid redeterminations are also driving growth, as a portion of members losing Medicaid coverage are signing up for ACA products.

ACA enrollment growth



Note: Enrollment reflects individuals who selected an ACA Marketplace Plan. Source: Kaiser Family Foundation, CMS (for Jan 2024 data), S&P Global Ratings.

Tailwinds

- Enhanced subsidies for consumers through 2025
- Greater consumer awareness of products
- Program's success provides some political insulation
- Market size could grow if employers adopt Individual health reimbursement arrangements (HRA)

Headwinds

- Divided government means enhanced subsidies are unlikely to become permanent
- Highly regulated product pricing, benefit design, enrollment, etc.
- Unpaid risk adjustment payables from Bright Health and Friday Health's exit

ACA Margins Below Target For Some Companies

Centene: On 2023 margins: "we're still just below our target range of 5%-7.5%...because of all the growth and year one commission...we have forecasted into 2024 to expand margin into that 5% to 7.5% zone." (Q3 2023 earnings call)

CVS Health: "2024 for us is a margin recovery year. In 2023, we are losing a bit of money. In 2024, we expect to make money. And in 2025, we expect meaningful margin improvement as we march towards our target margins of 3% to 4%." (Dec. 2023 Investor Day)

Cigna Group: "We anticipate the individual exchange book to run below our target margins in 2023, and our long-term target for this business is 4% to 6%." (Q3 2023 earnings call)

Source: Company filings and transcripts, S&P Global Ratings.

Segment Outlooks: Medicare Advantage Headwinds In 2024

Still the sector's strongest long-term growth opportunity, though growth will slow in 2024

Industry growth may slow to a still respectable 6%-8% (possibly lower). Weaker MA rates from the new risk model being implemented in 2024-2026 and MA Star Rating changes caused many MA health plans to selectively reduce product benefits. Moreover, Centers for Medicare and Medicaid Services (CMS) tightened its marketing restrictions on MA products. **One slower growth year is not a credit concern.** However, a steeper, sustained slowdown (outside of our base case) could be, particularly for companies with Medicare concentrations. Moreover, the top MA companies are financing and building care delivery, pharmacy services, and home health businesses that rely partly on MA growth.

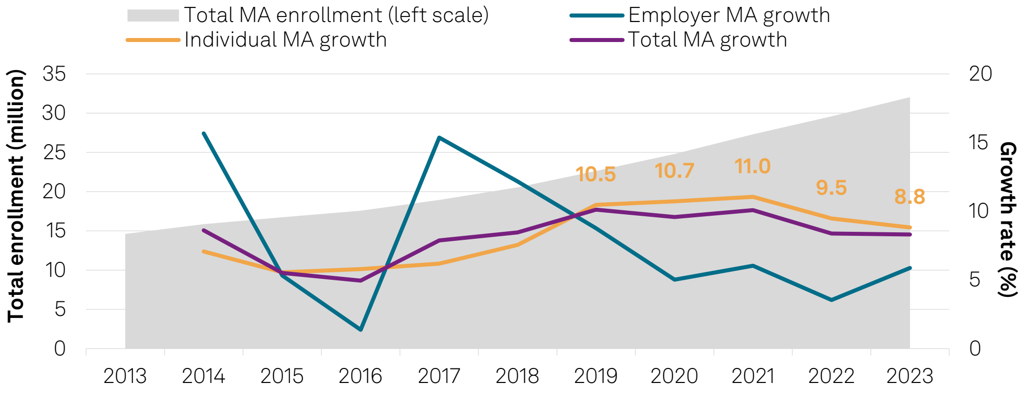
Tailwinds

- Favorable demographics (aging population)
- Rising MA penetration (52%) of total Medicare population
- Bipartisan support of the program
- High premiums per member per month (PMPM) versus other segments with target margins of 3%-5%

Headwinds

- Weaker MA rates for 2024
- Intense competition driving higher member churn
- MA Star Ratings volatility
- Higher utilization of outpatient services may persist in 2024
- Regulatory and compliance risks

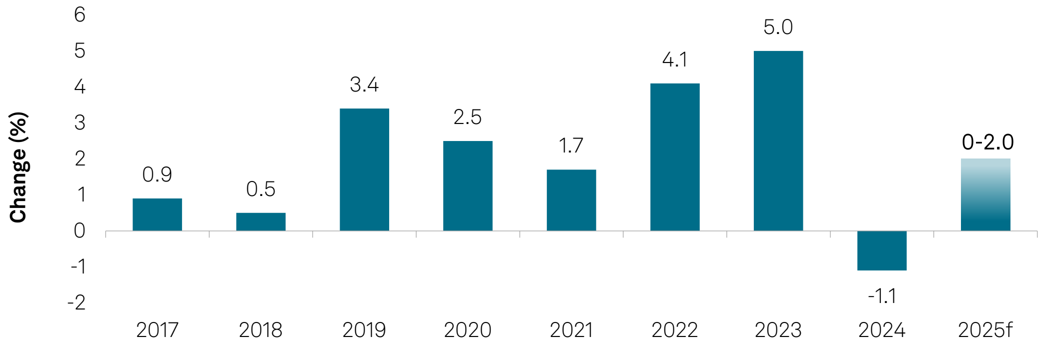
MA industry growth: Individual MA growth decelerating



MA--Medicare Advantage, Source: CMS, S&P Global Ratings.

Lower MA rate growth in 2024, 2025 rate uncertainty

Three year phase-in of new risk model will dampen rates in 2024-2026



Note: MA Rate Growth reflects CMS' estimate of the average change in revenue industry-wide. MA--Medicare Advantage. f--forecast. Source: CMS, S&P Global Ratings.

S&P Global Ratings

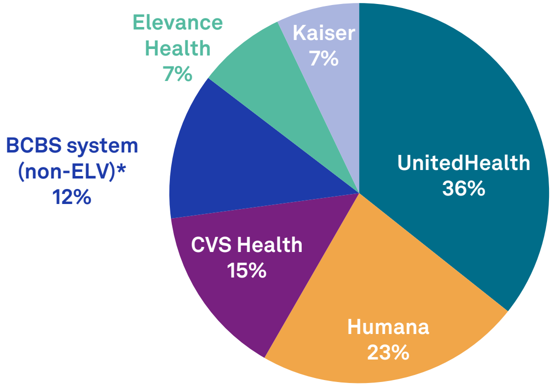
Segment Outlooks: Medicare Advantage Headwinds In 2024

Companies faced tough decisions on growth versus margin in 2024

We expect some market share shifts. UnitedHealth Group and Humana, the national market share leaders, will see lower enrollment growth than previous years due to their pricing/product decisions, reflecting weaker MA rates, and intense competition. CVS Health will capture market share in 2024, as its MA strategy broadly emphasized growth over margin. Depending on their 2024 performance and 2025 MA rates, CVS Health may return to a more balanced growth versus margin approach for 2025, supported by their improved Star Ratings.

MA Star Ratings can be volatile and affect competitive dynamics. CMS rates MA health plans based on Star Ratings on a scale of 1 to 5 (lowest to highest) based on 40 quality and performance measures (for MA-PD plans in 2024). MA health plans with ratings above 4.0 receive a 5% revenue bonus. Many companies saw their 2023 Star Ratings drop (affecting 2024) because of the phase-out of pandemic relief measures. CMS used a new scoring methodology for 2024 Star Ratings (affecting 2025) that hurt some companies (Elevance Health) more than others.

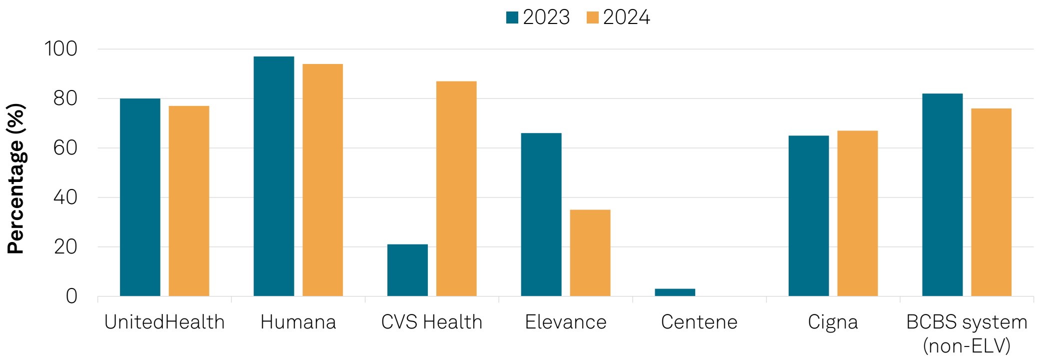
Medicare advantage market leaders



Data as of Jan. 2024. Note: BCBS system represents total membership across all BCBS health plans excluding Elevance Health. Source: Jan. 2024 CMS enrollment data, S&P Global Ratings.

MA Star Ratings are a key competitive differentiator

Percentage of MA members (%) in bonus-eligible 4+ Rated Health Plans



BCBS system (non-ELV)--aggregate of all BCBS health plans excluding Elevance Health. 2023 based Oct. 2023 enrollment and 2023 Star Ratings (affecting 2024 payments). 2024 based on Oct. 2023 enrollment and 2024 Star Ratings (affecting 2025 payment). Source: CMS, S&P Global Ratings.

Segment Outlooks: Medicare Advantage Headwinds In 2024

More earnings risk in 2024 than in recent years

The industry started to see higher outpatient utilization of procedures such as orthopedic surgeries in second-quarter 2023. Companies also cited higher-than-expected utilization of supplemental benefits (dental, vision, and over-the-counter/flex cards). We attribute higher overall utilization to pent up demand (from the pandemic) and improved provider capacity. Moreover, companies not only invested in product benefits to gain market share in recent years, but they also heavily marketed those benefits, which may be driving higher utilization.

Higher utilization may carry into 2024 and cause MLR risk. Some companies likely did not capture 100% of the higher utilization trend into their 2024 pricing assumptions. If higher utilization is coming from pent up demand, utilization should eventually normalize (decrease) over time, though it's uncertain how long this would take. It's also possible that utilization will stay at a higher baseline over the long term.

For 2025 and beyond, MA rate growth will continue to be based on Medicare fee-for-service cost trend, with technical adjustments each year. Separately, MedPac, the independent commission that advises Congress, has previously recommended changes in areas such as the MA bid process, risk coding adjustment, and Star Rating bonuses.

CMS is proposing to tighten marketing related regulations further in 2025. This could come in areas such as broker compensation, consumer awareness of unused supplemental benefits, and Dual Eligible Special Needs Plans (D-SNP) "lookalikes."

Medicare Advantage Expectations For 2024

UnitedHealth: Total MA growth of 450k-550k in 2024 (at/below industry growth), AEP a bit light, the bulk of growth will occur outside of AEP in February through December; modest seasonal MLR pressure (e.g. respiratory-related claims) in Q4 2023

Humana: Individual MA growth of about 100k (1.8%) in 2024, new sales during AEP on target but member churn an issue; saw MLR pressure in Q4 2023, MA margins will be constrained in 2024; Strong MA Star ratings for 2025

CVS Health: Total MA growth of more than 800k (24%) in 2024, about 75% of growth from "switchers," about 33% from duals; stronger-than-expected growth and utilization trends may pressure 2024 MLR guidance; Strong MA Star ratings for 2025

Centene: "Mid-teens plus" percent MA member decline in 2024, repositioned growth strategy to focus on lower-income, complex members; MA business will be unprofitable in 2024; near-term Star Rating target of above 3.5

Elevance: Membership will be roughly flat in 2024 on an organic growth basis; Medicare margins will improve in 2024; disappointing 2024 MA Star Ratings will be a 2025 headwind offset by operating cost improvements

The Cigna Group: Selling Medicare business including MA (about 600,000 members) to Health Care Service Corp.; 2024 margins likely to be below Cigna's target of 4%-5%; deal could close in the first quarter of 2025 pending regulatory approvals

Source: Company filings and transcripts, S&P Global Ratings.

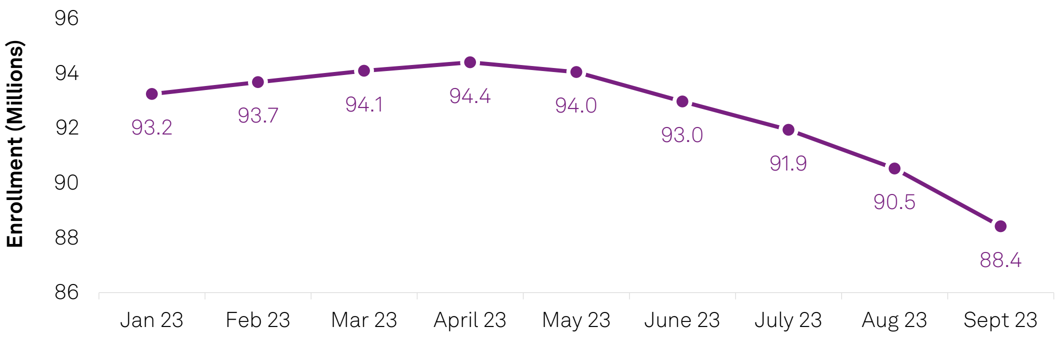
Segment Outlooks: Managed Medicaid

Medicaid redeterminations process will result in significant membership losses

The sector will face revenue headwinds from the Medicaid redeterminations process, partly offset by contract wins for some companies. The Kaiser Family Foundation (KFF) estimates 8 million to 24 million Medicaid members to lose their Medicaid coverage from the redeterminations process, which started in April 2023 (in some states) and will likely conclude in the first half of 2024. **As of January 2024, KFF estimates that 15.8 million Medicaid members have been disenrolled;** 71% were disenrolled for administrative reasons; therefore, a portion of these members may be eligible to regain coverage. Alternatively, some members will transition to ACA and commercial group products.

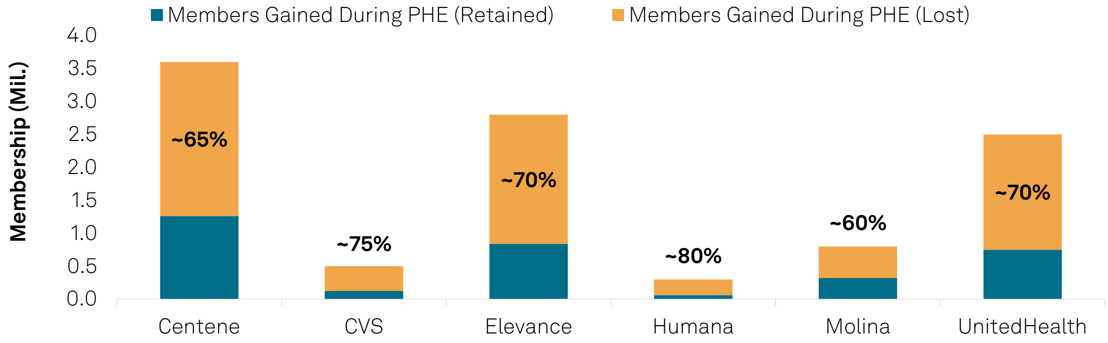
We expect potential MLR pressure in the Medicaid segment because of normalizing (higher) utilization and Medicaid redeterminations. If companies primarily lose members with lower health acuity during redeterminations, they could face MLR pressure if the capitated rates paid to them (by states) do not account for the higher health acuity of the remaining Medicaid membership. **Rate adequacy appears to be sufficient.** Healthy state budgets are a positive factor. Moreover, companies continue to confirm "actuarially sound" rates. The largest Medicaid player, Centene Corp., said most of its states are including acuity adjustments in their rates.

Medicaid/CHIP enrollment dropped 6.3% from April 2023 to Sept. 2023



Source: Kaiser Family Foundation, CMS, S&P Global Ratings.

Companies expect to lose 60%-80% of Medicaid membership gained during the PHE period



Note: PHE--National Public Health Emergercy. Members gained during the PHE excludes members gained from new contracts or Medicaid coverage expansions. Source: Company filings and transcripts, S&P Global Ratings.

Segment Outlooks: Managed Medicaid

Managed Medicaid remains a long-term growth area after redeterminations

Medicaid enrollment has increased through economic cycles, with the ACA's Medicaid expansion in 2014 providing a substantial boost. Following Medicaid redeterminations, we expect Medicaid enrollment will grow at a low-single-digit run-rate. North Carolina was the latest state to implement Medicaid expansion in December 2023. Texas and Florida, among the 10 "hold out states," are unlikely to pursue Medicaid expansion for political and fiscal reasons. **We expect states will increasingly contract with health insurers to manage their high cost, high acuity Medicaid members.** For example, Georgia added the Aged Blind and Disabled (ABD) population to their new contract up for bid.

Select Request for Proposals (RFPs) In 2024

Michigan: Proposals due Jan. 2024; incumbents incl. Centene, UnitedHealth, and Molina

Florida: Awards in Q1 2024; incumbents incl. Centene, CVS Health, Humana, Molina, and UnitedHealth

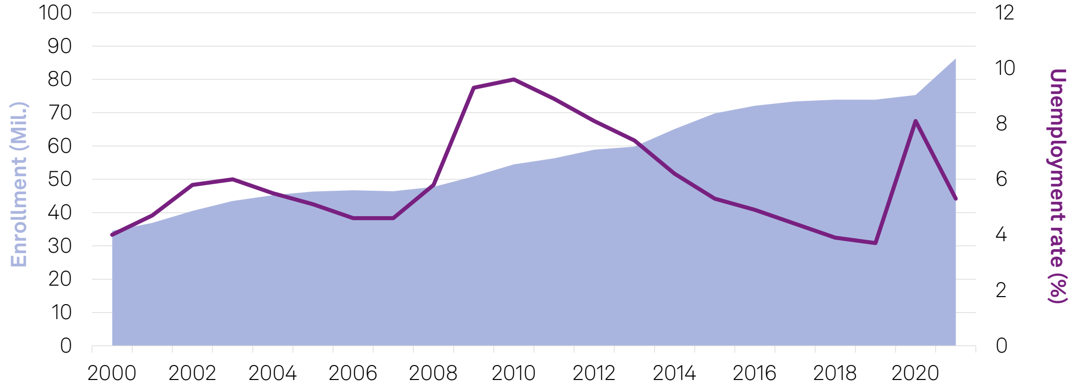
Georgia: Awards in Q2 2024; incumbents are Centene, Elevance Health, and CareSource

Kansas: Awards in Q2 2024; incumbents are Centene, CVS Health, and UnitedHealth

Texas STAR & CHIP: Awards in Q3-Q4 2024: Incumbents incl. Centene, CVS Health, Elevance, Molina, UnitedHealth, and BCBS TX (HCSC)

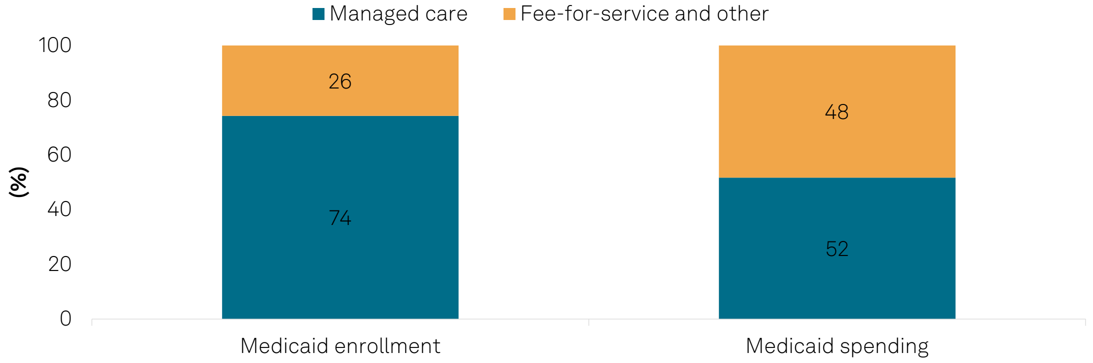
Source: Health Management Associates, S&P Global Ratings.

Medicaid/CHIP has grown through economic cycles



Source: MACPAC, Bureau of Labor Statistics, S&P Global Ratings

Untapped growth from complex, high acuity populations



Source: Medicaid enrollment based on MACPAC (2021 data, 2023 report), Medicaid spending based on KFF (2022 data), S&P Global Ratings.

2024 Sector View

Capital And Earnings
Key Credit Metrics
Capital Deployment
M&A
Debt Maturity Schedule

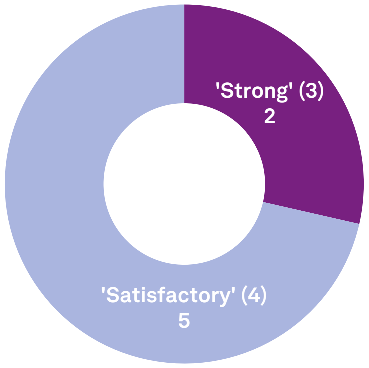
Capital And Earnings (C&E)

The ratings on U.S. health insurers reflect solid overall capitalization

Publicly traded companies maintain healthy levels of capital versus regulatory requirements. Risk-based capital (RBC) targets are 350%-550% (authorized control level). We assess them as having satisfactory or strong capital and earnings (C&E) based on our capital model and other factors. These companies benefit from strong and diverse earnings, which can replenish capital, and good access to the public debt and equity markets. Conversely, we believe the quality of their capital is weakened by significant debt at the holding company.

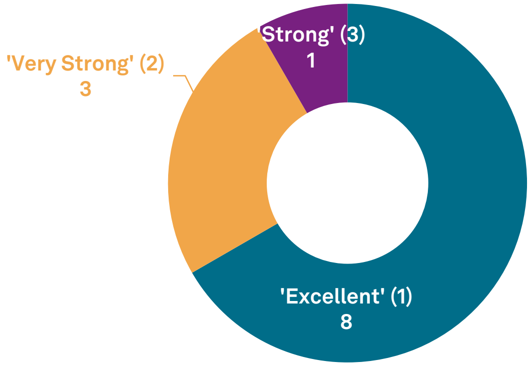
Privately owned companies, which primarily include not-for-profit and mutual BCBS health plans, have high C&E assessments. They generally maintain ample regulatory capital, with RBC targets of 500%-1000%+, as well as high levels of capital redundancy based on our capital model. Most companies also have low-to-moderate levels of debt. Conversely, many companies need to maintain high levels of capital because of modest earnings power, as well as business and geographic concentration risks.

S&P Global Ratings C&E assessments: Publicly traded companies



Data as of Jan. 25, 2024. Number of companies in each C&E category is reflected in the chart. C&E is ranked 1-8 from strongest to weakest: 'Excellent' (1) to 'Vulnerable' (8): Source: S&P Global Ratings.

S&P Global Ratings C&E assessments: Privately owned companies



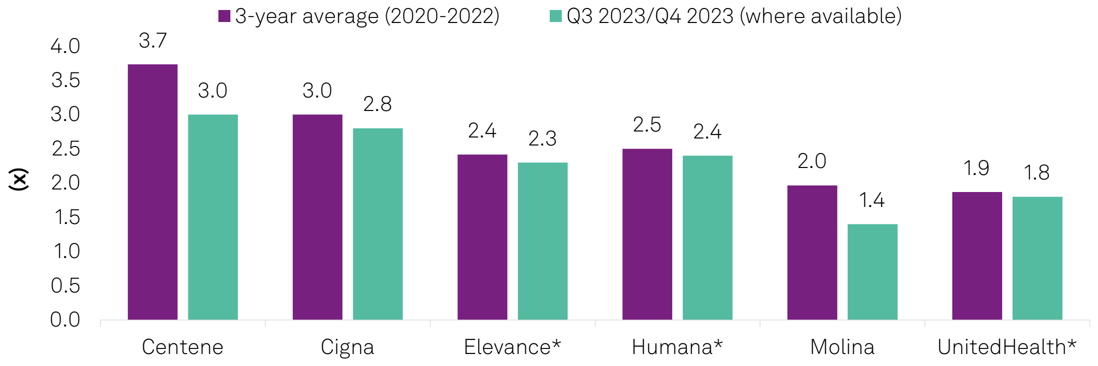
Data as of Jan. 25, 2024. Number of companies in each C&E category is reflected in the chart. C&E is ranked 1-8 from strongest to weakest: 'Excellent' (1) to 'Vulnerable' (8): Source: S&P Global Ratings.

Key Credit Metrics

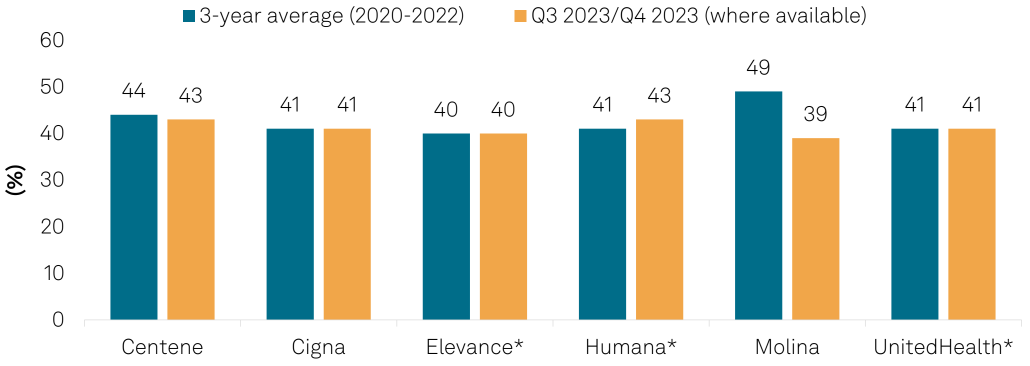
Financial policy varies within the industry

The publicly traded health insurers have reported debt-to-capital targets at the high end of the historical 35%-40% range. These companies will temporarily go above 40% for certain acquisitions, with the intention of reducing leverage back to their target within 12 months for smaller deals and 18-24 months for larger deals. **Privately owned health insurers, which rely less on acquisitions for growth, have reported debt-to-capital ratios of 0%-25%.** Some companies occasionally use their lines of credit or Federal Home Loan Bank facilities for working capital purposes. **Other key credit metrics are healthy.** Our view is based on financial obligations/EBITDA and EBITDA fixed charge coverage.

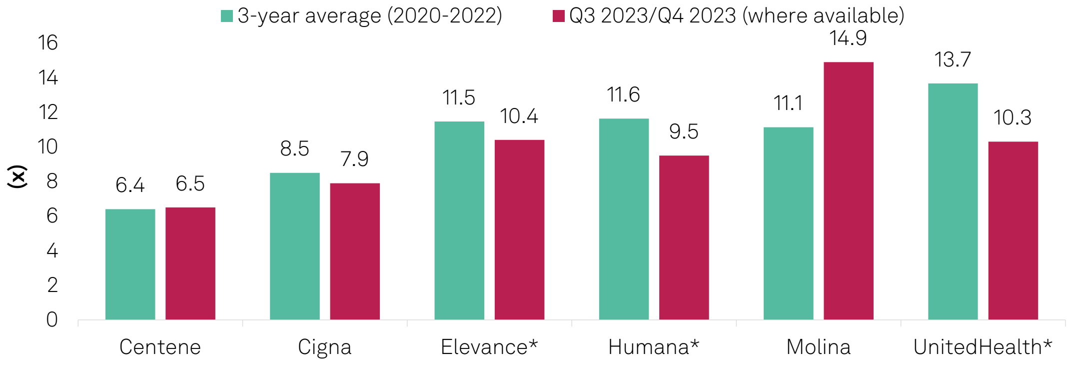
Financial obligations-to-adjusted EBITDA



Financial leverage



EBITDA fixed charge coverage

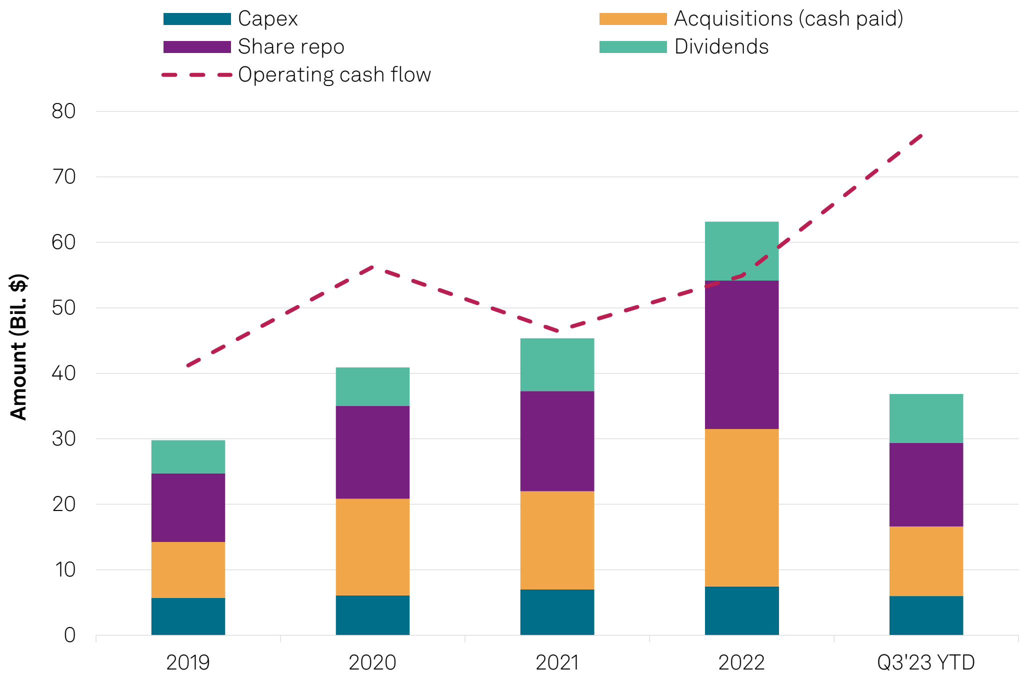


*Data as of Q4 2023 for Elevance, Humana, and UnitedHealth. Note: Financial leverage incl. adjustments for operating leases and unfunded post-retirement obligations. Source: Company filings, S&P Capital IQ, S&P Global Ratings.

Capital Deployment Trends And Mix

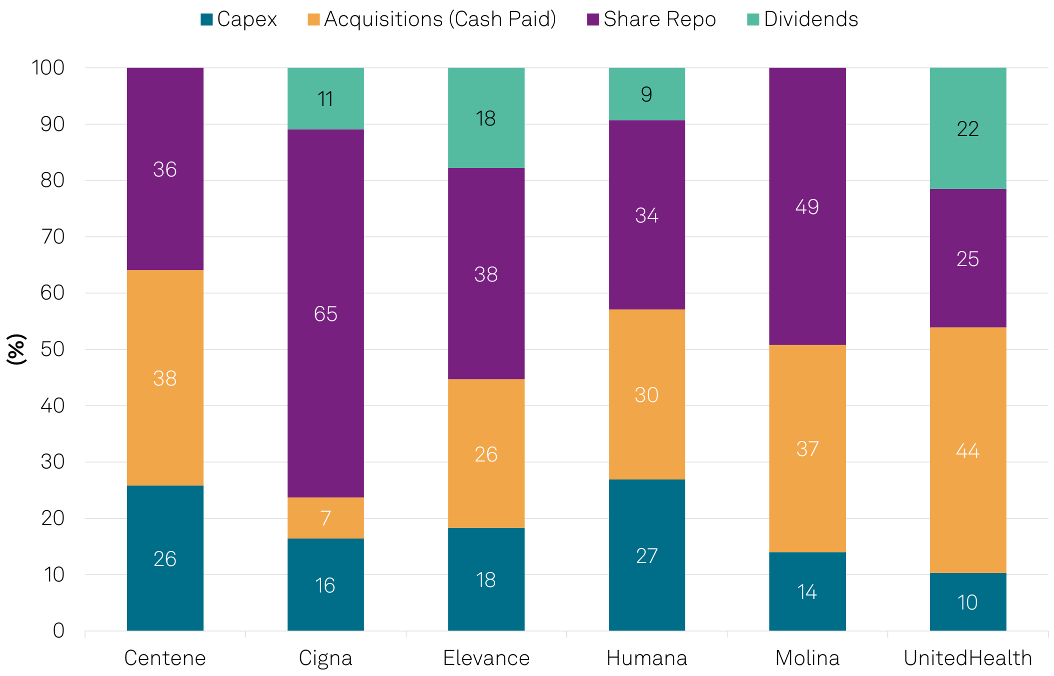
Good cash flow generation provides financial flexibility for capital deployment

Peer group: Total capital deployment by year



Data excludes impact of divestitures. Peer group includes UnitedHealth, Elevance Health, Centene, Cigna, Humana, and Molina. Source: Company filings and presentations, S&P Capital IQ, S&P Global Ratings.

Capital deployment mix varies by company 2019-Q3 2023



Data excludes impact of divestitures. Capital deployment based on total from 2019 through the first three quarters of 2023. Source: Company filings, S&P Capital IQ, S&P Global Ratings.

Mergers And Acquisitions

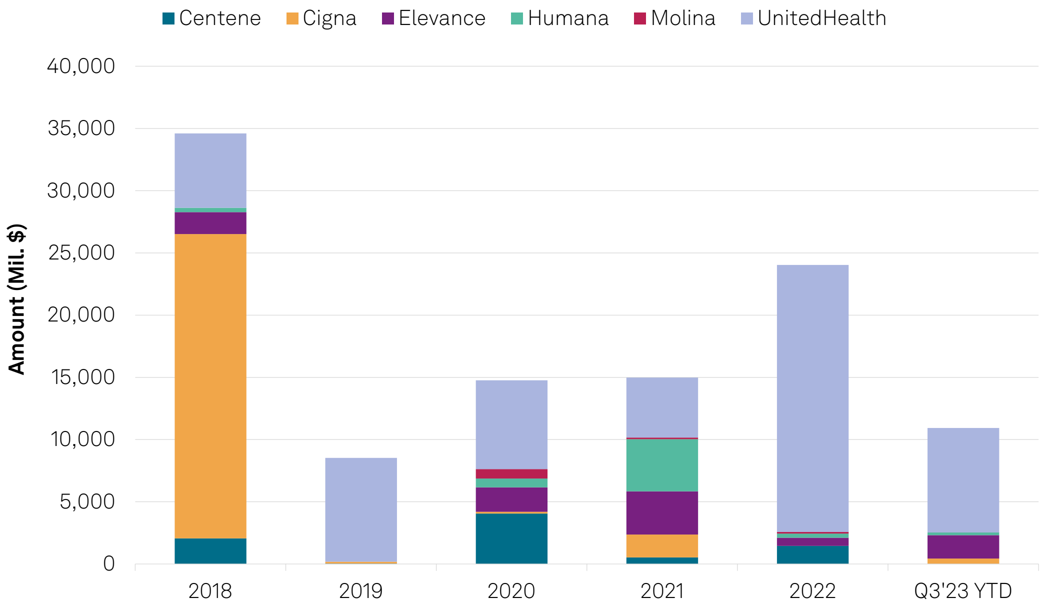
The mega-merger remains elusive

M&A is a key part of all publicly traded health insurers' growth strategies. Due to antitrust hurdles, companies have primarily made small-to-midsize health insurance deals in recent years to bolster existing geographic markets or expand into new ones. Medicare and Medicaid assets appear to be the area of interest for many companies.

A lot of M&A activity has been focused on noninsurance assets. Health insurers have diversified into health care services such as primary care, pharmacy services, home health, and health care technology. These businesses can provide a competitive advantage in helping to manage medical and pharmacy costs. Moreover, they can generate valuable nonregulated earnings that enhance the group's financial flexibility.

Within the BCBS system, M&A occurs infrequently, though we are seeing movement. Elevance Health is seeking to acquire BCBS Louisiana. If the deal is approved, it could pave the way for similar deals, if there is interest. Large BCBS health plans are also potential acquirers. For example, in 2023, BCBS Michigan merged with BCBS Vermont in a noncash deal. Separately, Health Care Service Corp. will be acquiring The Cigna Group's Medicare business pending approvals.

Acquisitions (cash paid) in recent years



S&P Global Ratings

Companies Are Diversifying And Divesting

Deals announced or completed in 2023-2024 are highlighted below.

Small to midsize Health Plans And TPAs

- **BCBS Florida:** Triple-S Management
- **BCBS North Carolina:** Brighton Health
- **Elevance:** MMM Holdings, Integra Managed Care, *BCBS Louisiana**
- **Health Care Service Corp:** Trustmark Health Benefits, *The Cigna Group's Medicare and CareAllies businesses**
- **Highmark:** HealthNow NY, Gateway Health Plan
- **Humana:** Inclusa
- **Molina:** AgeWell NY, Cigna TX Medicaid, My Choice Wisconsin, Bright HealthCare CA Medicare
- **UnitedHealth:** PreferredOne

*Pending deal. Source: S&P Global Ratings.

Noninsurance Health Care Services

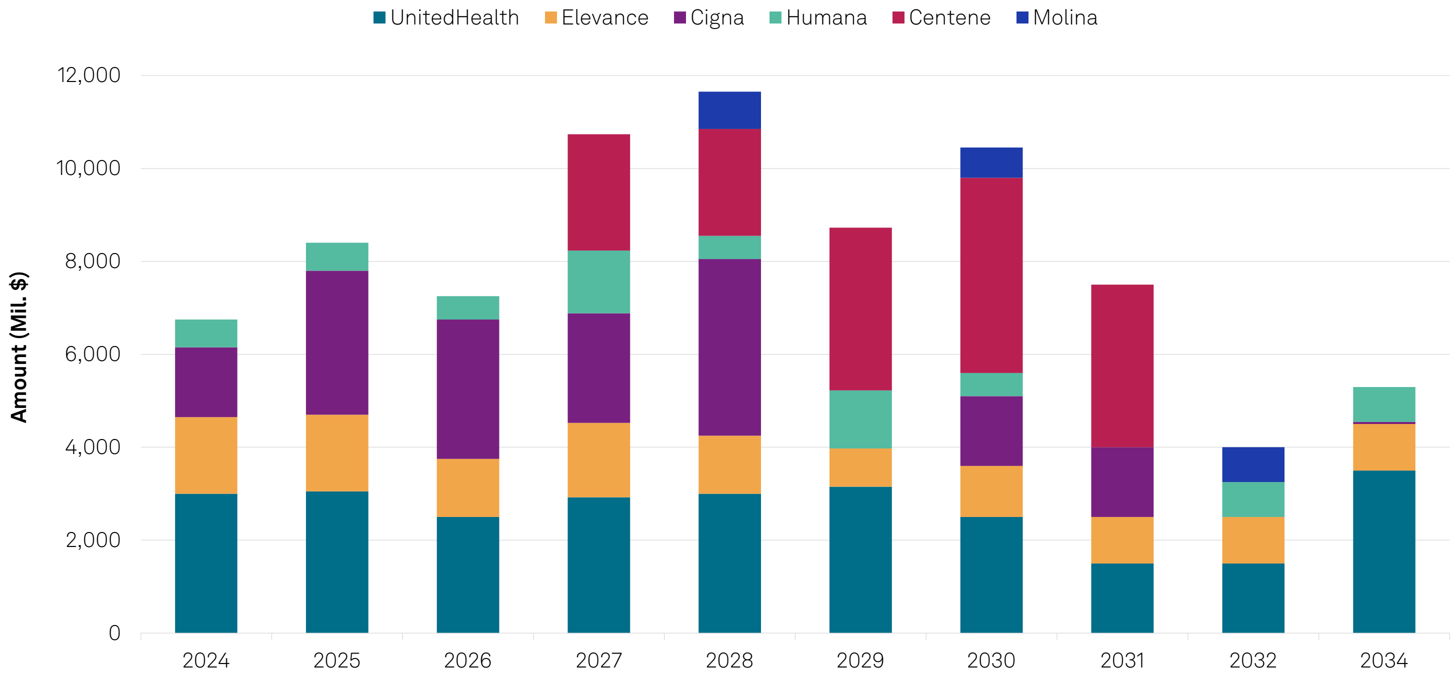
- **BCBS North Carolina:** FastMed (urgent care)
- **Elevance:** MyNexus (MA home health), BioPlus (specialty pharmacy), *Paragon Healthcare (infusion services)**
- **Cigna:** MDLive (telehealth), Summit Health (investment w/VillageMD, multispecialty practice/urgent care)
- **CVS Health:** Signify Health (home health), Oak Street Health (primary care)
- **Humana:** Kindred at Home (home health), One Homecare Solutions (home health), Cano Health (TX, NV centers)
- **UnitedHealth:** Change Healthcare (health IT), LHC Group (home health), Crystal Run (primary care), EMIS (UK Health IT), *Amedisys* (home health)*

Non-core Divestitures

- **Centene:** US Medical Management LLC (sale of majority stake), PantherRx, MagellanRx, Magellan Specialty Health, Spanish & Central European businesses, Apixio, Circle UK
- **Cigna:** International Supplemental Business, TX Medicaid, *Medicare and CareAllies businesses**
- **CVS Health:** bswift, PayFlex, international healthcare (Thailand)
- **Elevance Health:** *Life & Disability business**
- **Humana:** Kindred at Home Hospice (sale of majority stake), Commercial Group business (phased exit)
- **UnitedHealth:** *Brazil operations**

Debt Maturity Schedule

Upcoming senior note maturities



As of Jan. 25, 2024. Source: Company filings, S&P Capital IQ, S&P Global Ratings.

2024 senior note maturities:

UnitedHealth Group:

- $750 mil. (Feb. 2024)
- $1 bil. (May 2024)
- $750 mil. (Aug. 2024)
- $500m (Oct. 2024)
- Elevance Health:
- $800 mil. (Aug. 2024)
- $850 mil. (Dec. 2024)

Cigna:

- $500 mil. (March 2024)
- $1 bil. (June 2024)

Humana:

- $600 mil. (Oct.. 2024)

Appendix

Ratings List

Company	Financial strength rating/outlook	Holding company long-term rating/ outlook/short-term rating
Elevance Health Inc.	AA-/Stable	A/Stable/A-1
Health Care Service Corp.	AA-/Stable	NR
Kaiser Foundation Health Plan Inc.	AA-/Stable	NR
UnitedHealth Group Inc.	AA-/Stable	A+/Stable/A-1
Blue Cross & Blue Shield of Florida Inc.	A+/Stable	NR
Blue Cross & Blue Shield of North Carolina	A+/Stable	NR
BlueCross BlueShield of Tennessee Inc.	A+/Stable	NR
Louisiana Health Service & Indemnity Co. (d/b/a Blue Cross and Blue Shield of Louisiana)	A/CW-Pos	NR
The Cigna Group	A/Stable	A-/Stable/A-2
HealthPartners Inc.	A/Stable	NR
Highmark Inc. (d/b/a Highmark BCBS & Highmark Blue Shield)	A/Stable	NR
Horizon Healthcare Services Inc. (d/b/a Horizon Blue Cross Blue Shield of New Jersey)	A/Stable	NR
Humana Inc.	A/Stable	BBB+/Stable/A-2
Triple-S Salud Inc.	A/Stable	NR
Aetna Inc.	A-/Stable	BBB/Stable
Blue Cross & Blue Shield of Minnesota	A-/Stable	NR
Centene Corp.	A-/Stable	BBB-/Stable
Noridian Mutual Insurance Co.	A-/Stable	NR
Excellus Health Plan Inc.	BBB+/Stable	NR
Blue Cross & Blue Shield of Rhode Island Inc.	BBB/Stable	NR
Molina Healthcare Inc.	NR	BB-/Positive

Ratings as of Jan. 25, 2024. *Rating was placed "Under Criteria Observation" (UCO) following the release of the new risk-based capital model criteria on Nov. 16, 2023 *§Health Care Service Corp. d/b/a Blue Cross Blue Shield of Illinois, New Mexico, Oklahoma, Texas and Montana. †Triple-S Salud Inc. is a subsidiary of GuideWell Mutual Holding Corp., the parent of BCBS of Florida Inc. Source: S&P Global Ratings.

Related Research

- U.S. Property/Casualty Insurance Sector View 2024, Jan. 31, 2024
- North American Life Insurers Sector View 2024, Jan. 30, 2024
- Economic Outlook U.S. Q1 2024: Cooling Off But Not Breaking, Nov. 27, 2023

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