

UnitedHealth Group Incorporated (UNH) Q4 FY2025 earnings call transcript

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Jan 27, 2026, 8:00 AM EST



Earnings call

UnitedHealth Group reported FY25 adjusted EPS of \$16.35, slightly ahead of expectations, and guided to over \$17.75 in FY26, implying at least 8.6% growth. Despite anticipated Medicare Advantage membership losses of up to 1.4 million and Medicaid pressures, UNH expects margin expansion across UHC and Optu...

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Operator

0:00:00

Good morning and welcome to the UnitedHealth Group Fourth Quarter and Full Year 2025 Earnings Conference Call. A question-and-answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded. Here is some important introductory information. This call contains forward-looking statements under U.S. federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially from historical experience or present expectations. A description of some of the risks and uncertainties can be found in the reports that we file with the Securities and Exchange Commission, including the cautionary statements included in our current and periodic filings. This call will also reference a non-GAAP amount. Reconciliation of the non-GAAP to GAAP amounts is available on the Financial and Earnings Reports section of the company's Investor Relations page at www.unitedhealthgroup.com.

Operator

0:00:55

Information presented on this call is contained in the earnings release we issued this morning and in our Form 8-K dated January 27, 2026, which may be accessed from the Investor Relations page of the company's website. I will now turn the conference over to the Chairman and Chief Executive Officer of UnitedHealth Group, Stephen Hemsley.

Stephen Hemsley

Chairman and CEO

0:01:16

Thank you and good morning. Thank you for joining us today. This morning, I'll provide updates on the progress our organization has made over the last six months and the momentum that is building in 2026. Tim Noel and Patrick Conway will dive more deeply into how UnitedHealthcare and Optum finished 2025 and our conviction for improved performance in 2026. Wayne DeWitt will walk through the details of our full-year 2025 financial performance and 2026 outlook before we turn to Q&A. We continue to progress and strengthen as we enter 2026. We've taken a critical look across all our products and our U.S. market positions, focusing on what is working, what needs more attention, and what no longer makes sense for us.

Stephen Hemsley

Chairman and CEO

0:02:08

We are driving greater operational disciplines in all our business practices, leveraging the use of technology and artificial intelligence broadly, and renewing our commitment to innovation, agility, and accountability. We have removed assets that are not aligned with our focus on serving the U.S. health system. We continue to strengthen our management team, leveraging both our internal depth and bringing fresh ideas and talent from outside the organization. These actions and others are intended to improve the value we offer to all those we serve and drive sustainable growth for many years to come. Our people are rising to the challenge before them. We finished 2025 with adjusted earnings per share of \$16.35, which was slightly ahead of our expectations. Full year 2025 results exclude a \$1.6 billion net of tax and largely non-cash charge, very consistent with what we discussed on our third quarter earnings call.

Stephen Hemsley

Chairman and CEO

0:03:12

Addressing the elements of this charge was important in setting a solid foundation for returning to the historical earnings quality and growth you've come to expect from us. Wayne will provide further details on both these results and the charge. Looking to 2026, we expect adjusted earnings per share of greater than \$17.75 for growth of at least 8.6%. Our initial outlook reflects measured growth across all four of our reporting business segments, with double-digit improvements at UnitedHealthcare and low to high single-digit adjusted growth across our Optum segments. These overall results are tempered by the third year of Medicare funding reductions, ongoing funding shortfalls within our state Medicaid programs, and our historical respect for rising medical cost trends. As expected, improvement will be more evident within UnitedHealthcare in 2026, while at an earlier stage, Optum will take more operational effort and investment and time.

Stephen Hemsley

Chairman and CEO

0:04:23

At UnitedHealthcare, we successfully repriced the insurance businesses, intentionally right-sizing them to refocus on membership we can best serve on a sustainable basis. In Optum, new leaders are driving operational improvements that translate to more consistent results and better

performance visibility. We've taken a critical look at our services and geographies, remaining in markets that are best aligned with our core integrated value-based care purpose. This analysis also led us now to align Optum Financial Services with Optum Insight, where our energies and talents for healthcare technology and financial technology innovation can be brought together to better address the opportunities and potential within these markets. We are clearly embarking on a new age of technology already transforming the way the world operates, and healthcare must participate carefully and fully. We plan to be a leader in that movement.

Stephen Hemsley

Chairman and CEO

0:05:24

We expect 2026 to be a year of focus and execution, an important one in the history of our company. We have emerged strongly from challenging periods in our past and are committed to that course today. Our team is showing great resilience and energy, and we believe strongly the steps we're taking will pay off. With that, I'll turn it over to Tim.

Tim Noel

CEO

0:05:46

Thanks, Steve. UnitedHealthcare finished 2025, having made progress to more effectively serve our members and network partners, another important element in building sustainable growth. We closed the year with medical care patterns in each business in line with our updated outlook and ultimately supportive of our pricing decisions for 2026. With that, I will briefly walk through each business. Starting with Medicare, the 2025 medical cost trend was in line with our expectation of approximately 7.5% and supports our 2026 trend expectation of 10%. This reflects consistently elevated utilization in addition to increases in physician fee schedules and the continuation of higher service intensity per care encounter. As part of our efforts to address elevated trends and funding cuts, we plan for some Medicare Advantage membership contraction in 2026.

Tim Noel

CEO

0:06:50

We now expect UHC Medicare Advantage contraction will be in the range of 1.3 million-1.4 million members for the full year, including group, individual, and dual special needs plans. These are greater losses than originally anticipated as competitive market dynamics drove higher than expected planned shopping during the intensely competitive annual enrollment period. Our 2026 approach favored margin recovery, and these membership trends are a result of these actions. We similarly positioned our Medicare supplement and standalone Part D segments, and as a result of the totality of actions taken across UHC Medicare, we expect an improvement in

Medicare margins of approximately 50 basis points from 2025. Looking briefly to 2027, the Advance Notice published yesterday simply doesn't reflect the reality of medical utilization and cost trends.

Tim Noel

CEO

0:07:51

We will continue to work with CMS to ensure an appropriate final growth rate calculation to avoid a profoundly negative impact on seniors' benefits and access to care. That would be a deeply unfortunate result for a program that already is under funding pressure from the previous administration, despite its track record of success serving seniors and taxpayers. Turning to Medicaid, we continue to expect this business to see incremental pressure in 2026, largely driven by state funding shortfalls. We have received some rate relief, but still anticipate the mismatch between rate and acuity to pressure performance in 2026, while we hope for further improvement in 2027. We expect Medicaid membership contraction of approximately 565,000-715,000 people, which includes D-SNP members, due to reduced Medicaid eligibility combined with the exit from one state.

Tim Noel

CEO

0:08:56

We took important steps in our commercial pricing and cost management efforts during the second half of this year. Nearly all of our employer group and fully insured pricing align with continued increases in care activity for 2026. In the individual ACA market, we repriced nearly all states in response to higher medical trends and the elevated needs of ACA beneficiaries in 2025. These actions were necessary to ensure a sustainable foundation in these plans and enable us to maintain our participation in all the states we served in 2025. We are working with CMS on solutions to address the consumer affordability challenge given the unfolding dynamics in the ACA marketplace. As we announced last week, we have voluntarily pledged to rebate ACA market profits back to our ACA customers this year as policymakers work to determine how to improve affordability in this marketplace.

Tim Noel

CEO

0:10:01

We expect both fully insured group and individual enrollment to contract and be partially offset by continued momentum in our group self-funded offerings. For 2026 overall, our strategic focus on margin recovery through product repositioning and repricing efforts enables us to estimate approximately 13% adjusted operating earnings growth across all of UHC, principally from the improvement in serving commercial and Medicare market needs. These actions should expand operating earnings margins for UnitedHealthcare by 40 basis points and are expected to result in membership contraction of 2.3-2.8 million. The expected contraction in commercial membership is in line with our plans. While this will drive margin expansion in 2026, we still anticipate operating just slightly below our historical margin range until 2027. Our UHC recovery effort is

being supported by steady efficiency gains as we advance AI and machine learning capabilities across our businesses.

Tim Noel

CEO

0:11:13

We anticipate operating cost reductions of nearly \$1 billion in 2026, many AI-enabled and importantly resulting in higher customer experience and satisfaction at a lower cost. Over 80% of calls from members leverage AI tools to help answer members' questions faster and more accurately. This enables our advocates to focus more time on a better service experience for individuals. Now I'll turn it over to Patrick Conway, CEO of Optum.

Patrick Conway

CEO

0:11:46

Thanks, Tim, and good morning, everyone. As we start 2026, Optum will be anchored around relentless focus on improved and consistent execution and Optum Health and Optum Insight that will enable future margin expansion and top-line growth. Optum Rx will remain focused on maintaining its market position in providing a more comprehensive suite of pharmacy benefits and services and continuing to pursue success in winning new customers for 2027 and 2028, all in highly competitive markets. Our 2026 performance outlook reflects adjusted earnings growth in all three segments of our business, ranging from low to high single-digit year-over-year performance and margin expansion ranging from 20-90 basis points across the portfolio. Growth rates will remain somewhat tempered in 2026, but strategic refocus and investment in modern next-generation services should lead to growing momentum in the back half of the year that will carry into 2027 and beyond.

Patrick Conway

CEO

0:12:52

Some details on each of our segments, starting with Optum Rx. At Optum Rx, we expect operating earnings growth from expanding margins by approximately 20 basis points on an adjusted basis. This growth is driven by a strong external selling season that will impact 2026 and 2027 as we implement and expand over 800 new customer relationships. While new customer wins were offset by membership contraction at UnitedHealthcare, we are capitalizing on significant AI automation-enabled operating efficiencies to support our expanded margin outlook in 2026. Entering 2026, we have implemented new pricing models that will deliver greater transparency to customers and cost-based reimbursement to pharmacies. We have removed reauthorization requirements for 180 drugs benefiting millions of people, and we will continue to

expand these efforts. We continue to advance our commitment to pass through 100% of drug rebates we receive to our customers.

Patrick Conway

CEO

0:13:57

Over 95% of our customers have elected to receive full rebate pass-through in 2026, with all remaining customers expected to transition by the end of 2027. Our customers recognize pharmacy benefits are an essential tool in helping employers, governments, and patients afford and access medications. Optum Rx members save over \$2,200 in annual prescription costs due to our efforts in moderating manufactured drug price increases. Turning to Optum Insight, we expect earnings growth of greater than 4% while expanding margins by approximately 90 basis points. This growth is driven by new sales, commercialization of new products, stringent cost management, and increased volumes within existing core businesses. Investments and execution on 2026 priorities will set the stage for more growth into 2027 and beyond, principally through broad-based AI-first new product innovation strengthening Optum's care provider market offerings. An important change starting in 2026 involves aligning Optum Insight and Optum Financial Services.

Patrick Conway

CEO

0:15:11

These businesses have a much greater synergy today. For example, integrating Optum Reel's AI-driven revenue cycle solutions with Optum Financial's payment and financing capabilities has the potential to transform healthcare transactions, moving the industry from post-service reconciliation to real-time point-of-care approval and monetization, creating a more modern closed-loop approach that is better for the health system. The impact is significant. It reduces areas of long-standing processing friction while enhancing Optum Insight's growth and margin potential by expanding beyond transaction processing into higher-value services focused on a more certain, simpler, faster experience for patients and providers we serve, unlocking faster settlement, improved liquidity for providers, and creating new value pools for payers.

Patrick Conway

CEO

0:16:08

Turning to Optum Health, as you see in our results this morning, we made substantial changes through 2025, enabling our team to enter 2026 with a stronger foundation, more aligned to the intent of our integrated value-based care approach. We expect operating earnings growth of approximately 9% while expanding margins by approximately 30 basis points. This growth is driven by a back-to-the-basics focus on integrated value-based care and execution. I'll touch on a few core areas in which we have taken action. First, we are focusing on markets where we have strong presence and the complementary wraparound services to succeed in our integrated value-based care approach. We provide these services under an aligned incentive structure that improves outcomes, reduces cost, and improves patient satisfaction. Practices operating in this

environment are driving down total cost of care by up to 30%, with patient satisfaction NPS near 90.

Patrick Conway

CEO

0:17:09

Second, we are making sure our integrated value-based care network is appropriate and optimized. We've narrowed our affiliated network by nearly 20% since this time last year, with the goal of having a more optimal alignment of physicians and services in place to best serve our patients. We have strengthened our value-based care network and management disciplines and will continue to reshape the network to ensure it is aligned with our strategy for higher quality and greater affordability. Third, we have streamlined our risk membership by approximately 15%. This reflects dropping unaligned PPO contracts, repositioning certain markets, and payer de-delegation in instances where we were not able to reach a viable sponsor contract. Importantly, we have made strides in getting back to the original intent of our integrated BBC vision, removing ancillary services risk and focusing back on core medical care.

Patrick Conway

CEO

0:18:08

The majority of this work was done for 2026, with a smaller amount still to address in 2027. Finally, we have improved basic operational disciplines. We have exceptional care teams and proven approaches. In 2024 and 2025, inconsistencies in market-to-market execution hurt us. We are intensely focused on driving consistency, accountability, and performance. For example, we now have nearly 100% of our employed provider groups on one of three strategic electronic medical records. This is down from 18 EMRs in the past few years. This will enable us to more swiftly adopt enhanced workflow tools and AI, as well as have more timely and consistent data to guide our patient care efforts. Optum Health has made significant progress in bringing the integrated value-based care approach back to original purpose.

Patrick Conway

CEO

0:19:03

You should expect further progress from us throughout 2026 as we continue our journey back to strong, transparent, consistent results while driving higher quality of care for patients and lowering overall cost in the health system. Before I turn it over to Wayne, I want to take a brief moment to thank all the people of Optum who continue to work every day to ensure our customers and our patients get the best experience and care we can offer. Wayne?

Wayne DeVeydt

CFO

0:19:34

Thanks, Patrick, and good morning, everyone. I'll start by diving right into our 2025 results. Today, we reported adjusted earnings per share of \$1,635, which was slightly ahead of our expectations. These results reflect continued solid execution across the enterprise that will carry into 2026. As Steve noted, the quarter included a \$1.6 billion net of tax charge or \$1.78 per share, which was largely non-cash and primarily related to actions within Optum. This net charge has three primary components. First, a true-up for all remaining cyber-attack-related activities, including approximately \$800 million for net collection expectations associated with provider loans and other customer balances. Second, a net gain of about \$440 million related to portfolio optimization activities associated with assets we are exiting or plan to exit. And third, a \$2.5 billion related charge principally to broad restructuring and other actions, including contract reassessments, real estate rationalization, and workforce reductions.

Wayne DeVeydt

CFO

0:20:45

Of note, approximately \$625 million of this charge relates to a lost contract reserve for third-party contractual relationships within the Optum portfolio that are structurally unprofitable and that we could not exit for 2026. These actions are aligned with our broader efforts to improve focus and execution to drive more sustainable long-term earnings performance. Some additional details for the full year of 2025. We delivered revenues of nearly \$448 billion, reflecting 12% growth from 2024, driven by domestic membership growth of over 415,000 people. Our medical care ratio of 89.1% came in slightly better than our expectations. This includes approximately 20 basis points of negative charge-related impacts primarily associated with the lost contract reserve I just discussed. Our operating cost ratio of 13.3% demonstrates strong management discipline while balancing key investments in people and capabilities that support long-term performance improvements.

Wayne DeVeydt

CFO

0:21:52

The Operating Cost Ratio was slightly higher than anticipated due to approximately 40 basis points of charge-related impacts, higher than originally contemplated because of approximately \$800 million in broad-based employee incentives and funding to the UnitedHealth Foundation. Investing in our workforce and the communities we serve both are critically important to this enterprise. Finally, earnings were supported by strong cash flows of \$19.7 billion, or approximately 1.5 times net income. Turning to our 2026 outlook, we expect revenues of approximately \$440 billion, net earnings of at least \$17.10 per share, and adjusted net earnings of greater than \$17.75 per share. This reflects anticipated operational improvements and margin stabilization as we continue executing against our long-term strategy. We expect slightly under two-thirds of full-year earnings to be generated in the first half of the year.

Wayne DeVeydt

CFO

0:22:51

This seasonal progression is largely consistent with 2025 and reflects the impact of Part D benefit changes under the Inflation Reduction Act as well as overall business mix. Turning to cash flow, we expect to generate at least \$18 billion from operations in 2026, or about 1.1 times net income. Our medical care ratio is expected to be 88.8% \pm 50 basis points, reflecting our view that medical care activity will likely remain at current trend levels through 2026. Consistent with prior years, we expect the first half medical care ratio to be notably below the midpoint, with the second half notably above. The operating cost ratio is expected to be 12.8% \pm 50 basis points. This reflects disciplined cost management, ongoing productivity initiatives, and the early benefits of our investments in artificial intelligence, while also incorporating required investments in people and technology.

Wayne DeVeydt

CFO

0:23:49

Our 2026 outlook reflects the realignment of Optum Financial from Optum Health into Optum Insight. We believe this better optimizes the Optum portfolio and aligns with how we expect to engage the marketplace and grow through the Optum AI network. Finally, on capital and liquidity, for 2026, we expect our dividend to remain well-supported by earnings and cash flow. As we look ahead, we expect leverage to continue improving through the year, supported by strong cash generation and a more stable operating environment, and to reach our long-term debt-to-capital target of approximately 40% before year-end. As this progress continues, we expect to return to our historical capital deployment practices in the second half of the year. Before closing, I want to echo what Steve, Tim, and Patrick have said about the people of UnitedHealth Group. 2025 was a year of challenges on multiple fronts.

Wayne DeVeydt

CFO

0:24:45

Our team stepped up, embraced those challenges, and remained focused on delivering for the people we serve. Now, I'll turn it back to Steve for some closing remarks.

Stephen Hemsley

Chairman and CEO

0:24:54

Thanks, Wayne. I hope everyone is getting the sense from today's comments that we're returning to the operating and executional focus and the quality financial disciplines that have served us well. Details matter in these businesses. These approaches are essential to enable us to better serve customers and consumers and the expectation of shareholders. That commitment to serve

is embodied in our mission to help people live healthier lives and help make the health system work better for everyone, and it's supported by a deliberate culture. To that end, I would call out three overarching themes we're pursuing. The first is a refocus back to that mission and culture. We are re-energizing and retooling that sense of mission and culture throughout the company, which is already the core reason so many of our colleagues joined this enterprise. The second is the urgent, thoughtful application of modern intelligent technologies.

Stephen Hemsley

Chairman and CEO

0:25:55

These efforts can help address long-standing needs in healthcare for simplicity, speed, certainty, insight, consumer empowerment, and convenience. We're hoping to invest nearly \$1.5 billion in 2026 and expect at least as much to follow in 2027. This work is making a difference within our organization today, and we expect it will serve as the foundation for external versions that can benefit the broad health system through Optum Insight. Lastly, we are methodically taking steps to advance greater trust and transparency wherever we serve the public healthcare interests. This began with the independent reviews of business practices and risk assessment in pharmacy services and in care management. Those first independent reports were published in December, and the remediation recommendations will be completed and reported no later than March of this year. Further independent oversight reviews and reports are in process today and will continue.

Stephen Hemsley

Chairman and CEO

0:27:01

In addition, in 2026, we will begin to publish our results in areas of interest such as prior authorizations and claim approval rates, certain performance statistics, data and trends, rebate practices and prices for products and services, key business and core management practices and policies. For methods such as these and more, as they evolve, we will become even more publicly accountable for our performance and strive every day to improve it. We thank you for your time this morning. We'll now open it up for your questions. Operator, please.

Operator

0:27:38

The floor is now open for questions. At this time, if you have a question or comment, please press Star 1 on your touchtone phone. You may remove yourself from the queue by pressing Star 2 on your touchtone phone. We ask that you limit yourself to one question. If you ask multiple questions, we will only be answering the first question so we can respond to everyone in the queue this morning. Our first question comes from Josh Raskin with Nephron Research.

Josh Raskin

Analyst

0:28:06

Hi, thanks. Good morning. Appreciate all the details. So you're guiding to a decline in 2026 in traditional MA lives of almost mid-teens, and the proposed rates for 2027, as Tim mentioned, might indicate the need to further refine benefits even more than that. So do you think we're at the bottom of the MA cycle now? Should we expect MA margins to improve, not just what you mentioned in 2026, but in 2027? And then if you could help frame how important that core MA book is to the other segments of the enterprise, especially Optum Health. Thanks.

Stephen Hemsley

Chairman and CEO

0:28:40

Yeah. So Josh, maybe I'll maybe respond to the second half of your question, and then Tim Noel can kind of respond to the first. But our interest has always been to serve all the markets in healthcare, all the segments, and also the national health system as a whole. And MA is certainly important in that sense, and it's important to Optum Health and Optum Rx, just as you suggest. But I also might turn it around another way because the Optum businesses are extremely complementary to UnitedHealthcare and its benefits and to many other payers. And that's why we believe that we are bringing more broadly to the healthcare market a very broad value, really across the board.

Stephen Hemsley

Chairman and CEO

0:29:26

That is why you really have to strike the right balance when you're thinking about this in terms of growth and membership, really across the whole of the UnitedHealth Group platform. Tim?

Tim Noel

CEO

0:29:42

Good morning, Josh, and thanks for the question. So let me start the conversation with 2026. As I hit on in the opening remarks, our strategy in 2026 did focus more so on margin than it did on any specific membership target. That is all really playing out as expected when you think about some of the core and key pricing assumptions that we made as we close out 2025. Those look to be good assumptions that we made, and they're really holding firm. We feel good about our margin recovery efforts of about 50 basis points across Medicare Advantage. The membership losses, while they're a little north of what we were talking about earlier, really kind of sit within our internal planning range. I think about that all as a real solid foundation that we're setting for 2026 as we then head into 2027.

Tim Noel

CEO

0:30:39

So moving into 2027, the news that we received last night in the Advance Notice was disappointing. And it was because it's a further reduction for a program that has experienced \$130 billion in benefit or, pardon me, in funding reductions over the last three years under the prior administration, which is particularly concerning for a program that provides excellent choice, access, and affordability for America's seniors and does so with satisfaction rates north of 95% while saving money for taxpayers. So we're going to, of course, work with CMS from now until the rates are finalized.

Tim Noel

CEO

0:31:24

But as this all sits today, as I talked about, it will mean very meaningful benefit reductions, and we'll once again need to take a hard look at our geographic footprint, our product footprint across the country, and has the likelihood to play out not dissimilar to how 2026 did in terms of modifications to plan footprint and benefits. We don't see this to be something that's going to be broadly disproportionate payer by payer. Therefore, seniors kind of across the sector are going to experience these implications of reduced choice, reduced access, and affordability challenges. And given all of this and kind of where we sit, too early to talk point estimates around margin or membership for 2027.

Tim Noel

CEO

0:32:23

But I will say this: over the long term, given the actions that we have taken in 2026 and our integrated business model that Steve alluded to really focuses on value-based care, those things, having a strong foundation, focusing on value-based models are going to be even more important in this environment that we're being asked to operate. Thanks for the question, Josh.

Stephen Hemsley

Chairman and CEO

0:32:51

Next question, please.

Operator

0:32:53

Our next question comes from Justin Lake with Wolfe Research.

Justin Lake

Analyst

0:32:59

Thanks. Good morning. I wanted to ask about the fourth quarter Optum Health performance. You guided to just under \$3 billion of OI with the third quarter results. If I'm doing the adjusted math correctly, came in closer to \$2.3 billion. So underperformed by \$6.7 billion of OI in the fourth quarter. It's fairly surprising to still see this kind of volatility in the business that late in the year. I was hoping you could lay out the drivers there and talk to what gives you guys confidence in more stable performance in 2026, given that fourth quarter volatility coming out of the year. Thanks.

Stephen Hemsley

Chairman and CEO

0:33:36

Good question, Justin. Very much focused on making sure that we really took a hard look at the whole of the Optum Health business. Krista, do you want to respond?

Kristen Gil

COO

0:33:49

Yeah, absolutely. Thanks for the question, Justin. So results in the fourth quarter and for the full year were slightly disappointing to our expectations, but really reflective of the restructuring actions that we took in the fourth quarter, as well as some one-time items that are now right behind us. In addition, in the fourth quarter, medical remained elevated but consistent with our expectations. So excluding restructuring and the move of Optum Financial, our adjusted earnings are now approximately \$1.5 billion, which is our new baseline that we will continue to build off of in the future. Maybe I'll just take a quick step back and answer the second part of your question, which is what gives us confidence.

Kristen Gil

COO

0:34:37

We have reoriented Optum Health back towards our original purpose, and we have a full integrated value-based care delivery system where we employ and deeply partner with providers across multiple service lines, including primary and specialty care, imaging, surgery, home health, behavioral health, and additional wraparound services to support our patients. It's a system that's anchored by primary care and an aligned payment model, which incentivizes improved outcomes, offering preventive and holistic care compared to a system that rewards volume of services. We've established this strategic clarity in the business and paired it with a

very comprehensive evaluation of our assets and capabilities, which, as a result, we took meaningful actions in the fourth quarter to strengthen our foundation. In addition to that, I'm pleased with progress that we've made reshaping our risk portfolio, refining our network, and bolstering operations.

Kristen Gil

COO

0:35:43

I would say we're significantly stronger today than we were just six months ago. Thanks for the question.

Stephen Hemsley

Chairman and CEO

0:35:48

A really solid shakeout, a totally different management and leadership team, and a much more rigorous approach. A lot of potential there. Yep. Next question, please.

Operator

0:36:04

We'll move to our next question from Kevin Fishbeck with Bank of America.

Kevin Fishbeck

Analyst

0:36:11

Great. Thanks. I wanted to go back to the 2027 MA rate update. Basically, it sounds like you're saying that trend is the biggest part you want to go back to the government with, but I wanted to focus, I guess, on the two kind of coding components that if you take out normalization, 1.8 for, call it the risk model, and another 1.5 for charts. So it's like a 3.3% headwind. I think that with V28, you guys talked about an impact that was more than what the industry was seeing. Would you expect a similar dynamic with these two coding components that, as a company that's probably better than average at coding, you'd see more than this kind of 3.3% headwind that we're calculating?

Kevin Fishbeck

Analyst

0:36:56

Do you still feel good about if that's true, do you still feel good about getting to a 5% margin in Value-Based Care Optum Health? Thanks.

Stephen Hemsley

Chairman and CEO

0:37:03

Sure. Tim, do you want to address that?

Tim Noel

CEO

0:37:06

Yeah. Kevin, thanks for the question. So no, we don't expect the impact to be different for us versus the rest of the industry on those two elements that you outlined. Our modeling shows consistency between what we're seeing and also what the estimates are of industry averages on those two elements.

Stephen Hemsley

Chairman and CEO

0:37:38

Outlook? Kevin, was there a second part to your question?

Kevin Fishbeck

Analyst

0:37:42

Yeah. The second part was Optum Health margins with this rate cut. Can we still get the 5%?

Stephen Hemsley

Chairman and CEO

0:37:47

Yep. Krista?

Kristen Gil

COO

0:37:49

Yeah. Yeah. Thanks for that question. I would just say it's early. We have opportunities to improve performance in the business just outside of MA rates. Let me just give you a couple of examples

that really give me confidence in why we're really confident in getting back to our long-term target margins. As I've gotten to spend time with our care teams, and after we've done that complete thoughtful evaluation of our performance in our businesses, we do have many high-performing markets today that really deliver strong outcomes for our patients. One example worth highlighting is a large market in Texas where we serve over 750,000 patients across over 50 clinics, offering that holistic care I described: primary care, labs, imaging, specialty care, home health, surgery, care coordination. We're really proud of our results. For example, here, we've got a 4.5-star health plan.

Kristen Gil

COO

0:38:50

We have total cost of care that is approximately 30% better than our competitors, a patient satisfaction of 90, really strong provider retention, and margins already performing in our long-term target margin range. Another example that just gives me confidence here is we've got about 30% of our mature value-based care patients that are already, again, inside that target margin range or above. And so those two examples, combined with the work I described previously that we're doing to improve the consistency of our performance, just give me a lot of confidence in the runway ahead for Optum Health.

Stephen Hemsley

Chairman and CEO

0:39:29

So really more about execution, really, than any other single factor, really, is focused on execution. Yep. Thanks for the question. Next, please.

Operator

0:39:39

We'll go next to Steven Baxter with Wells Fargo.

Stephen Baxter

Senior Equity Research Analyst

0:39:44

Yeah. Hi. Thanks. In the Medicaid business, I think you made reference to getting a little bit of rate relief. So I was hoping you could speak to 1-to-1 rates that you're seeing and maybe contrast that to the rates you were seeing in 2025. And in general, if the rates are coming in a little bit better and it seems like there's not going to be any material impact from early starts to work requirements, have you kind of revisited your margin assumption for the Medicaid business at all in 2026? Thanks.

Stephen Hemsley

Chairman and CEO

0:40:10

Thanks, Steven, for the question. I'll give you kind of an overview and where we are in rates. For 2026, our view remains unchanged in terms of overall performance. For our Medicaid business, we do expect some margin contraction due to the ongoing dislocation of rates and continued elevated medical trends. We are projecting rate increases in the range of 6%-7% in aggregate for the year, but that will continue to be below our medical trend. And we do expect some membership contraction as we continue to manage the business. For January 1, our rates are somewhat in line with our expectations. And again, we expect our rates to range between 6%-7% for the year as we think about 2026. Thanks for the question.

Stephen Hemsley

Chairman and CEO

0:40:58

Next question, please.

Operator

0:41:00

Our next question comes from Lisa Gill with JPMorgan.

Lisa Gill

Analyst

0:41:04

Thanks very much. And good morning. I wanted to ask a couple of questions on the Optum Rx side. First, Wayne, you made a comment that due to Part D, we're going to see earnings more first-half-driven. Can you talk about the changes around the subsidies and the impact that we have on Part D? And then secondly, when we think about Optum Rx, you talked about the member contractions because of what happened on the United side, but 800 new clients on that side. Last quarter, you talked about combining prescription and medical benefit trends. Can you just talk about those 800 new clients and if there's anything different that you're seeing in them as we think about 2026?

Stephen Hemsley

Chairman and CEO

0:41:46

Maybe the first question, Bobby, and then John, the second part.

Speaker 13

Company Representative

0:41:53

Yeah. Hey, thanks, Lisa, for the question. So maybe just kind of hit quickly on the Part D side. I mean, Wayne did talk about the seasonality dynamic. We've been pretty clear, I think, now with the implementation of the IRA, we do see more of an even kind of seasonal trending throughout the year. So that element is certainly kind of foundational in the outlook. When you think about the actual 2026 benefit design, the way that we position the benefits on the Part D, both for standalone PDP and MAPD, I think it's very reflective of the way that the IRA has evolved the program, the way that the industry has largely kind of evolved the design. So I feel like we're in pretty good lockstep there with where overall industry is moving.

Speaker 13

Company Representative

0:42:38

And as I look at just kind of how 2025 closed out on the pharmacy cost for us inside the health plan, I feel pretty good about the overall trend on balance between all the key drivers, things like specialty trend, brand utilization, etc. So it gives me pretty good belief in our outlook and our positioning for 2026. And early in the year, I haven't seen anything to suggest otherwise. Thanks for the question.

Operator

0:43:04

Fantastic, Bobby. And Lisa, thanks for the question. So maybe building on the membership growth, I'll pick up where Patrick left off and some of his opening comments. Strong selling season in 2026, combined with continued high-90s retention, allowed us to backfill about half, maybe more than half, of the membership loss from UHC. And so that puts us in a nice position to deliver a modest 2% earnings growth in 2026 for a business that we expect will return to the low double-digit to high single-digit to high—excuse me—high single-digit to low double-digit earnings growth. And if I unpack that, Lisa, to your question on what are we seeing in the market and why are we winning, why did those 800 new clients choose Optum Rx? A couple of points. Our businesses are performing strongly. Each of our core businesses are growing in the high single digits.

Operator

0:44:06

The reason we're winning threefold: affordability, transparency, and execution. From an affordability perspective, our clients have never needed us more than now, and good prospective activity there. We're committed to bringing affordability to those that we serve. For our clients, Optum Rx generates more than \$100 billion in savings annually through negotiations with drug

manufacturers and network pharmacies. And then for our members and patients, we deliver more than \$1 billion in savings annually through our PriceEdge and Specialty IQ solutions. From a transparency perspective, frankly, we're proud to be leading the transparency transformation in this industry. And this begins with the industry's only fully transparent pharmacy and therapeutics committee. And then it continues through the supply chain with wholesome instrumentation around manufacturer, network, and wholesaler drug pricing.

Operator

0:45:07

And so we couple all of this with our commitment to pass through 100% of rebates to clients by 2028, and then we wrap that in a transparency guarantee around our offering for our clients. And then finally, rounding out on experience, we're making it easier for all those that we serve, providers, clients, and members, to interact with us. In our pharmacies, record-high NPS in our home delivery pharmacy, our behavioral health pharmacy delivering 90% NPS for the patients that we serve. And in our hospital-based specialty pharmacies, high 90s NPS for patients and low 90s for providers. And then finally, Lisa, we're eliminating provider and patient abrasion. So as Patrick mentioned, we reduced or removed reauthorization requirements for more than 180 drugs that have the net effect of reducing our overall prior authorizations by more than 10%. So in summary, transformational vision is compelling. Our offering is resonating.

Operator

0:46:09

Our team is executing, and we're well-positioned for 2026. Thanks for the question.

Stephen Hemsley

Chairman and CEO

0:46:15

Thank you. Next question, please.

Operator

0:46:18

Our next question comes from Scott Fidel with Goldman Sachs.

Scott Fidel

Analyst

0:46:23

Hi. Thanks. Good morning. I guess I'll slip over to the commercial business. And interested if you could just provide us with the breakdown of the 1.3-1.4 million commercial risk lives that you're expecting to decline in 2026, how that breaks out between commercial group and then the exchanges. And then also just in terms of margins and year-over-year progression for commercial group and the exchanges, what you're thinking about for 2026. Obviously, we know that you're planning to rebate the profits from the exchange business. Thanks.

Stephen Hemsley

Chairman and CEO

0:47:00

Thanks, Scott. Dan?

Tim Noel

CEO

0:47:02

Yeah, Scott. Thanks for the question. Addressing your membership first and then moving to margin. On membership pertaining to the risk-based decline, the largest share of that membership decline is connected to our exchange business for 2026, where we continue to expect meaningful decline between now and the end of the year. Beyond the exchange business, general market decline of risk-based customers, our pricing posture supporting margin recovery, and continued deliberate migration to our self-funded, level-funded small employer offerings all contributing to a decline in risk-based membership. So to parse that out specifically, 500,000+ attributable to the exchange business, the remainder to those three factors. Moving to margins and first addressing the exchange business, over the course of the decade-plus in which we have operated in that market, it has never been a significant contributor of earnings for us.

Tim Noel

CEO

0:48:18

Our pricing posture for 2026, coming out of 2025, is going to return that market to a positive margin business for us. However, I would expect those margins in the exchange business for 2026 to be in about the 1% range, $\pm 1\%$ for that business. Related to margin for the group business in 2026, I'm encouraged by our January performance and how that has set us up for our full-year plan. Specifically, for January, we found the market to be firm and competitive. That supported us yielding the required renewal rates and membership persistency to deliver on the 2026 margin improvement that Tim alluded to in his opening remarks. Specifically, I expect us to close more than half of the gap between our 2025 margin performance and our historical margin range, which we expect to achieve in 2027. Thanks for the question, Scott.

Stephen Hemsley

Chairman and CEO

0:49:29

Thanks, Dan. Next question, please.

Operator

0:49:32

We'll go next to A.J. Rice with UBS.

A.J. Rice

Managing Director

0:49:36

Hi, everybody. Thanks for the question. I think as you guys came back on board and got your arms around the business, you talked about modest growth in 2026, getting back to low double-digit earnings growth in 2027, and then something more like what we're used to seeing from United in 2028. You're talking about the rate notice impacting benefit design and being felt by seniors. And I think your underlying assumptions generally in Medicare and with Optum Health had been for gradual margin improvement, not dramatic margin improvement over the years. You've got now a view on all the other business lines. Do you still think you can get to low double-digit growth in 2027 and back to traditional growth in 2028 as you put it all together?

Stephen Hemsley

Chairman and CEO

0:50:37

Yeah. Well, AJ, thanks for the question. So we're not going to really talk to 2027. Obviously, it's January of 2026. But I would say that the business is meaningfully stronger than it was just a few months ago. And in 2026, our agenda is to strengthen it even further. We'll continue to be focused on doing smart, intelligent things to serve that total mission, but well within the margins that we have operated in and continue to believe we can strengthen that. So I can't speak to 2027, but I will speak, let's say, to a longer term. And that is very much feel that we can operate within our long-term growth rate margins, that 13%-16%.

Stephen Hemsley

Chairman and CEO

0:51:31

When you take a look at the needs in the marketplace and the opportunity for this total enterprise to operate at its full potential, and actually the elements in the marketplace, the actual pressures that have been discussed on this call, actually to respond to those effectively across the marketplace really speaks to what I think our overall business approach can achieve. And when you think about just solid organic growth and retention, again, in the margins that we have been talking about, the enormous potential of AI-driven productivity, which is already in line with

an organization that is driven towards productivity and scale, innovation and approaches to kind of serve the broader healthcare marketplace, kind of AI as applied to healthcare in a practical way, as a platform to really energize Optum Insight's business agenda, the need and emergence for value-based care.

Stephen Hemsley

Chairman and CEO

0:52:40

You combine that with thoughtful capital stewardship and the continued measured, thoughtful expansion into the value-added markets. That's why I think that long-term growth rate for this enterprise and responding to the margins or the pressures in the marketplace has actually never been better. But we have to play to full potential, and we have to execute. And that really is what we're about. But we have an amazing set of resources to respond to the needs of the marketplace. And that's why I think the long-term growth for this enterprise is kind of more compelling than ever.

Operator

0:53:27

Okay. Thanks.

Stephen Hemsley

Chairman and CEO

0:53:30

Next question, please.

Operator

0:53:32

We'll go next to Ann Hynes with Mizuho Securities.

Operator

0:53:37

Hi. Good morning. In your prepared remarks, you talked about your trend expectations for 2026 of 10%. Can you tell us what that is, Medicare, Medicaid, and commercial, and maybe how 2025 ended and what was different versus your expectations? Thanks.

Stephen Hemsley

Chairman and CEO

0:53:58

Tim?

Tim Noel

CEO

0:53:59

Yeah. Thanks, Anne, for the question. So you're correct. The 10% is a number that reflects our utilization assumptions inside of Medicare. 2025 closed out around 7.5%, which is what we've kind of reset our expectation through middle point of the year. So that really is playing out well at a high level in terms of historical care utilization patterns in line with our reset expectations. We have historically or recently talked about the commercial trend approaching 11%. I think that's probably still a good place to orientate to. And due to some of the nuance in the Medicaid market, where it's not quite as instructive to give a point estimate there. But I think you can just think about the themes really being similar across all the businesses. Seeing elevated trend that elevated in the earlier part of 2025 remains at those elevated levels.

Tim Noel

CEO

0:55:07

Our expectation is that will persist into 2026.

Stephen Hemsley

Chairman and CEO

0:55:13

Thanks, Tim. I think we have time for maybe just one more question or two because we're going to try to wrap it up at 8:00 A.M. Next question, please.

Operator

0:55:21

Our next question comes from Erin Wright with Morgan Stanley.

Operator

0:55:26

Great. Thanks. So it seems like you're progressing according to plan with the Optum turnaround. But have there been any surprises that have come out of some of the initiatives there, especially at Optum Care? And just I think you're still saying that the long-term margin target, 6%-8%, is still

intact. I just want to confirm that. And then just in light of the rate notice and policy is top of mind, how are you thinking about this administration's support of value-based care initiatives and the integrated Optum offering? And you mentioned just how important value-based care is to operate in this environment. So some context there would be helpful. Thanks.

Stephen Hemsley

Chairman and CEO

0:56:06

Sure. Kristen, do you want to kick it off?

Kristen Gil

COO

0:56:09

Yeah. Absolutely. Thanks, Erin, for the question. So a couple of things. You asked about just how we're progressing and if we've seen any surprises. No. I think as we've gone through the evaluation I described in the fourth quarter and as we've started to look at performance in each business and as we've made some decisions to improve our footprint and our market portfolio and getting some of that behind us, I actually feel better about our 2026 position and our foundation by which we will be building off of. Your second question was on the 6%-8% and if that's still intact. And the answer is yes. Like I mentioned earlier, the examples I described in Houston, we have a number of examples like that where I described our mature value-based cohorts already performing inside that. Again, those are reasons to give us confidence.

Kristen Gil

COO

0:57:04

That being said, we do have work to do, which is we've laid that out thoughtfully. And I think in terms of progression of earnings, we're looking at modest basis point improvement inside 2026 as investments take shape and as we overcome the last year of V28 with building stronger momentum in the back half of the year setting us up for 2027. And then the last part of your question around just the support of value-based care, what we've got is a very unique integrated value-based care delivery system that continues to demonstrate value to patients served, higher quality outcomes, and a total cost of care that is significantly better than all market alternatives. And this system, like I mentioned earlier, is aligned around an aligned payment model, which incentivizes preventive care and holistic care.

Kristen Gil

COO

0:58:00

Comparing that to a system that rewards for volume is just a system that we need more of. We feel even stronger today about that need and the greater possibilities for Optum Health than we have before. Thanks for the question.

Stephen Hemsley

Chairman and CEO

0:58:13

Totally perfect. And the pressure in the marketplace just actually makes value-based care more compelling. And the retention of patients to value-based care is very strong. So one last question, please.

Operator

0:58:31

Our last question comes from Jessica Tasan with Piper Sandler.

Operator

0:58:36

Hi. Thank you so much for the question. What would you highlight for investors from the independent reviews of UNH business practices that you all published in December? Is there any way to draw confidence around UHC and Optum Health's ability to contend with risk adjustment reform from some of those reviews? Thank you.

Stephen Hemsley

Chairman and CEO

0:58:55

Sure. I'll just offer broadly. They were actually very positive. They really did speak. They were more focused on the overall environments, the controls, the oversight, the governance with respect to those areas of practice, and particularly in risk assessment. So we were pleased with that. We are following that with really our own independent review in terms of risk accuracy. Chris?

Tim Noel

CEO

0:59:31

Yeah. I'll just follow up to say that I think the reports really are focused on trying to advance trust and transparency in these areas. And in 2026, we are going to do at least three or four more of these reviews that will be really focused on the metrics that come out of it. While 2025 was really focused on the policies, procedures, compliance, oversight, all of which were strong and robust, 2026 will focus on risk assessment accuracy and metrics, clinical policy accuracy, and pharmacy services.

Stephen Hemsley

Chairman and CEO

1:00:10

We have reviewed these with the administration. We are very much open and continuing this course, again, recognizing the long-term responsibility for trust and transparency in this. I really appreciate the question, a good one to end with. It is really all we have time for now. What I would say is the momentum inside this organization is palpable. We still have work to do to continue to successfully build and progress over the next several months. We are eager to get to it. But I'm very pleased with the performance and outlook that we have. Thank you for your time today.

Operator

1:00:53

Ladies and gentlemen, this does conclude today's conference. We thank you for your participation.

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