UnitedHealth Group Incorporated (UNH) Q1 FY2026 earnings call transcript

Apr 21, 2026, 8:00 AM EDT

Earnings call

UNH delivered Q1 2026 adjusted EPS of $7.23, up from Q1 2025 and exceeding internal expectations, with total revenue of $111.7B (+2% YoY). All segments outperformed plans, particularly Medicare and Optum Health, and management raised full-year EPS guidance to greater than $18.25. Margin recovery, disciplined pricing, and AI-driven operational improvements are central to the outlook, with continued focus on cost management and sustainable growth.

Operator

0:00:00

Good morning, and welcome to the UnitedHealth Group first quarter 2026 earnings conference call. A question-and-answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded. Here are 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.

Operator

0:00:38

This call will also reference non-GAAP amounts. A reconciliation of the non-GAAP to GAAP amount is available on the financial and earnings report section of the company's investor relations page at www.unitedhealthgroup.com. Information presented on this call is contained in the earnings release we issued this morning and in our Form 8-K, dated April 21st, 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

0:01:15

Thank you, Lisa. Good morning, and thank you for joining us today. The first quarter unfolded largely as expected, reflecting actions taken in the past several months to drive consistent performance across each business. The quarter saw continued progress in advancing our organization's performance, culture, and better business practices. All of our major business segments exceeded plan for the quarter. At UnitedHealthcare, pricing is improving relative to elevated healthcare cost trends and affordability initiatives are generating positive momentum. At Optum Health, operational improvements continued to take hold as we more deeply embed disciplined, integrated, value-based care practices market by market. Optum Insight is seeing increased market interest with its AI-first enterprise approach. Tim Noel and Patrick Conway will discuss these efforts in more detail in a minute. We're encouraged by the way the year has started.

Stephen Hemsley

Chairman and CEO

0:02:17

We will remain grounded in the need for consistent execution in managed care fundamentals and on a strategy to help build an integrated value-based health system that together makes things better and simpler for care providers, patients, and customers. We are investing in AI-enabled modernization. While early, these capabilities are already improving experiences for consumers and care providers, increasing productivity and reducing administrative burden. The application of technology has long been foundational to how this enterprise operates and how we can help others across the health system improve their operations through Optum Insight. We remain on track to invest nearly $1.5 billion in AI-related initiatives in 2026. I hope our conversation today gives you a sense of the momentum building at our company and the steps we've taken to strengthen the enterprise and position it for long-term success.

Stephen Hemsley

Chairman and CEO

0:03:18

We have refocused the organization squarely on U.S. healthcare, exiting non-U.S. businesses. We've refreshed nearly half of our top 100 leadership roles. Our accelerated technology and AI investments are showing meaningful potential, and we're actively evolving business practices in areas such as data and processing interoperability and speed, pharmacy practices, prior authorization, product and reporting transparency, and management practices more broadly. At the corporate level, we strengthened governance by creating a public responsibility committee of the Board, naming a new lead independent director and new committee chairs, adding a new independent director, and accelerating our Board recruiting process.

Stephen Hemsley

Chairman and CEO

0:04:09

We've redoubled community engagement and support with renewed focus and resources to the United Health Foundation and an expanded commitment to improving rural healthcare, expanding the healthcare workforce, strengthening maternal and children's health, addressing the challenges of behavioral health, and more. We strive to be an organization of people proud to work for and with. These efforts and others will remain central to those goals. With that, I'll turn it over to Tim and Patrick to provide insights on our quarter and goals for the remainder of the year. Tim?

Tim Noel

CEO

0:04:49

Thanks, Steve. As Steve said, the actions initiated last year are driving early momentum in UnitedHealthcare, both in our business results and in the experiences members and care providers have when they engage with us. Medicare and retirement results reflect disciplined pricing strengthened by affordability initiatives in an elevated but stable medical trend environment. Community and state results continue to reflect the pressures in state-based rate environments but were within the overall expected range. Commercial and ACA results were consistent with pricing and trend assumptions, albeit still early in the year. Our 2026 approach prioritized margin recovery and product stability with a deliberate trade-off on membership growth, particularly in Medicare and commercial markets. Care utilization trends in the quarter remained consistent with our expectations for 2026.

Tim Noel

CEO

0:05:50

The quarter's medical cost performance overall was driven primarily by net reserve development, better mix, and enrollment dynamics in government programs. As we monitor underlying utilization trends, they remain consistent with the high levels we saw in the prior year. At this distance, we anticipate trend to remain at the anticipated levels for 2026. In Medicaid, we remain focused on improvements in high acuity care management and operating cost management. First quarter performance reflected a combination of favorable reserve development and early in-year medical cost experience. We continue to expect membership attrition and negative margins in 2026, in light of continuing high trend and insufficient funding, with modest margin improvements beginning in 2027. Many state rate processes are still open for the remainder of 2026 and into 2027. Appropriately aligning state rates to elevated medical cost trends in these programs is essential to sustainably serving people who rely on them.

Tim Noel

CEO

0:07:02

We continue to advocate for this with state partners, alongside our own disciplined cost management and operational efficiencies. We are intensifying our work with states to address areas of potential fraud, waste, and abuse. For our commercial business, membership levels, renewals, and trends were generally in line with the expectations we shared with you. The pricing actions we have previously discussed are materializing as intended, preserving margin while contributing to some moderation and growth. Self-funded offerings continue to perform well. We are approaching the 2027 selling season with a focus on appropriate pricing for the elevated cost environment and meeting employer needs for more modern tools to support consumer engagement and affordability. As anticipated, the individual ACA business continues to contract. We still expect total membership to decline by approximately 1/3 in 2026.

Tim Noel

CEO

0:08:07

Our approach in the ACA market continues to be directed toward the bronze and gold-tiered products, where member mix and utilization rates are largely aligned with plan. As a reminder, we pledge to refund any 2026 profits from these plans, and our first quarter results reflect this pledge. In Medicare, medical trends remain elevated, but in line with our pricing assumption. This reflects continued service intensity and higher provider billing patterns consistent with what we saw exiting last year. This is an issue that we are squarely addressing. Turning to enrollment. Results from the annual enrollment period were largely as expected, and OEP retention has remained stable. At this point in the year, we expect membership to contract consistent with previous guidance, but centering more around a drop of 1.3 million.

Tim Noel

CEO

0:09:03

On the final Medicare Advantage rate notice for the 2027 plan year, we appreciate that the Trump administration better aligned funding with increasing healthcare costs. It's an important step to preserving stability for the millions of seniors who rely on MA and toward ensuring this vital program's long-term sustainability. Turning now to our efforts to improve the patient and clinician experience when they engage with us, starting with prior authorization. Prior authorization remains a critically important tool for eliminating fraud, waste, and abuse, and for helping ensure patient safety and quality care. We also recognize it is a source of frustration, and we are working to reduce that. Nearly 95% of prior authorization requests are now submitted electronically. About 50% of those are processed in real time, and more than 90% are approved on average in one business day.

Tim Noel

CEO

0:10:03

We are working to enable more prior authorization submissions to be made directly within care provider workflows, in addition to the steps we are taking to further reduce the overall number of medical prior authorizations by 30% or more by the end of this year. Member adoption of UHC AI-powered digital tools continues to grow. Almost half of all members are now registered for and using UHC Digital Access. We saw 73 million digital visits in Q1, up 42% over the last two years, reflecting sustained and growing engagement with our digital platform. Digital self-service is now the primary way members interact with us, with over 80% of consumer contacts through digital formats and an NPS in the top quartile of the industry.

Tim Noel

CEO

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For care providers, digital channels continue to grow, with transaction volumes up 75% year-over-year and about 75% of in-network providers using our portal or API tools. This improves real-time access to eligibility, benefits, and claim status while reducing manual outreach, enabling clinicians to spend more time on caring for patients. We are intensifying our efforts to help independent rural healthcare providers. We will accelerate payments in all lines of business by 50% for rural hospitals and exempt rural healthcare providers for most medical prior authorization requirements. We are building network partnerships between rural providers and leading regional health systems. Together, these initiatives will help lower costs and simplify processes for care providers and greatly enhance access to quality care for people in rural communities.

Tim Noel

CEO

0:11:59

All these efforts, and others like them, are part of our commitment to pursue and invest in new and innovative ways to fulfill our mission. To help people live healthier lives and help make the health system work better for everyone. With that, I'll turn it over to Patrick.

Patrick Conway

CEO

0:12:16

Thanks, Tim. Across Optum, positive first quarter results reflect strengthened operations, continued investment in growth, and changes that make engaging with us easier for patients and provider and clinician partners. I'll start with Optum Health. Adjusted earnings of $1.3 billion reflect pricing and operational improvements that began in the back half of 2025, as well as actions taken to improve contracts and reshape our value-based care portfolio to better align with the original purpose and risk profile for that strategy. As we have shared over the past three quarters, our efforts are focused on management and process improvements that steadily improve margins at Optum Health for 2026 and accelerate into 2027. A key part of the progress is Optum Health's return to a disciplined, integrated value-based care model.

Patrick Conway

CEO

0:13:10

With increasing prices from health systems, rising patient acuity, and higher consumer expectation, integrated value-based care is the most effective way to improve outcomes and manage total cost of care over time. We are privileged to serve over 20 million patients in our Optum Health care models across the country, including over 4 million in fully value-based arrangements. Both patients and care providers do better when incentives are aligned towards care outcomes and not the quantity of services provided. For example, new research published in The American Journal of Managed Care showed that among nearly 2 million dual-eligible patients, those in value-based care arrangements had 24% fewer acute inpatient hospital admissions and 29% fewer emergency room visits than patients in traditional Medicare. We are improving patient experience and outcomes through efforts to stabilize staffing, increase productivity, improve scheduling, and standardize workflows in both our value-based and fee-for-service models.

Patrick Conway

CEO

0:14:15

It is this kind of operational focus that improves clinical outcomes by better focus and deployment of clinical resources to the right care, time, and setting, and that gives us a clear path to long-term sustainable margin levels of 6%-8%. One example, our West region, where in response to rising patient acuity, we deployed more data-driven, clinically-led navigation in areas such as hospital admission and discharge, skilled nursing facility transitions, and emergency department encounters. Since the last quarter, clinical reviews have increased by more than 50%, with earlier patient intervention and more consistent care coordination. We're already seeing inpatient skilled nursing admissions trending sharply below historical levels, including an approximately 35% reduction in skilled nursing admissions in the first month compared to last year.

Patrick Conway

CEO

0:15:10

These efforts are expanding to additional markets and reflect how using real-time data, strong clinical leadership, and coordinated care to improve outcomes can drive more predictable performance. Within our fee-for-service businesses, we've brought more managed structure and accountability, starting with clearer scheduling guidelines, stronger regional leadership, and better data and analytics to match supply and demand. These new standards are now in place across nearly 70% of our settings and are on track to reach nearly 80% by the end of the second quarter. They have already driven a 12% year-over-year increase in patient-facing hours, which is better for both clinicians and patients. We are rapidly scaling self-service digital scheduling, including AI-enabled tools that guide patients to the right appointment in the right setting at the right time for them. That's improving access, reducing friction, and expanding capacity without adding incremental clinical burden.

Patrick Conway

CEO

0:16:12

Moving to Optum Rx, we started the year by onboarding more than 800 new clients while reducing contact call center volume 25% through enhanced digital and AI-enabled self-service, with member satisfaction over 95%. Our unique PreCheck Prior Authorization capability reduces prescription approval time from over eight hours to under 30 seconds and provides a 68% reduction in denials due to missing information and an 88% reduction in appeals, easing interactions for clients, members, and providers. First quarter utilization and drug cost trends were as expected, with scripts down slightly year-over-year, reflecting some membership mix and attrition. As manufacturers continue to implement significant drug price increases and with more complex, specialty drugs representing over 50% of drug spend, the role of pharmacy care is more important than ever in helping patients access affordable drugs. At Optum Insight, new AI-first products continue to gain traction.

Patrick Conway

CEO

0:17:22

Optum Real is helping payers and care providers deal more efficiently with administrative functions such as claim adjudication and coverage validation, and can reduce manual contact costs by 76%. Other AI initiatives help automate provider, payer, and internal workflows, improving accuracy, reducing administrative burden, and strengthening our role as a technology partner for the health system. Within Optum Insight, Optum Financial

Services continues to perform well and has agreed to acquire Allegis Technologies, a leading health financial services business.

Patrick Conway

CEO

0:18:03

This is an important step in providing more flexible, consumer-centered solutions for the people we serve. This transaction is expected to be accretive in 2027. Our AI-enhanced performance gives just a flavor of what Optum can do to help physicians and clinical care teams, payers, and patients. Wayne, I'll turn it over to you.

Wayne DeVeydt

CFO

0:18:25

Thank you, Patrick, and good morning. Our first quarter results reflect improving fundamentals and a strengthening of operations across our businesses. As Steve mentioned, all our operating segments exceeded our plan for the quarter, with particular strength in Medicare and Optum Health. For the first quarter, we reported adjusted earnings per share of $7.23, well ahead of our expectations and backed by strong quality metrics, including cash flows and reserves. We continue to balance near-term performance with disciplined investment in longer-term strategic priorities. Total revenues in the quarter were $111.7 billion, reflecting 2% growth year-over-year, driven by disciplined pricing actions and member mix. We now serve 49.1 million total members domestically, compared to 49.8 million at the end of 2025.

Wayne DeVeydt

CFO

0:19:21

Turning to medical costs, our reported medical care ratio of 83.9% compares to 84.8% in the first quarter of 2025 and is a result of pricing discipline, strong medical cost management, and favorable reserve development. The first quarter benefited modestly from seasonal dynamics, including lower-than-expected respiratory activity. Consistent with our guidance, we expect some of these dynamics to moderate as we move further into the second quarter, particularly given the impact of IRA-related changes to Part D seasonality, which meaningfully shifted the earnings profile beginning in 2025. Importantly, underlying utilization trends remained broadly consistent with our expectations, and we are seeing early signs of improved alignment between pricing and medical cost trends. The operating cost ratio was 13.8% in the quarter, reflecting the timing of targeted investments across operations, technology, and care delivery, as well as incremental investments in areas such as AI, customer experience, cybersecurity, and community engagement.

Wayne DeVeydt

CFO

0:20:30

We also recorded approximately $900 million in incentive compensation for the quarter as compared to $35 million in the first quarter of 2025, reflecting our performance. We continue to expect operating cost ratio trends to normalize over the course of the year as these investments scale and begin to deliver productivity benefits. Our operating results were supported by solid operating cash flows of $8.9 billion in the quarter or 1.4x net income. Our capital priorities remain consistent. Invest in growth, strengthen our balance sheet, and return value to shareholders. With our cash flow performance this quarter, we were able to bring the debt-to-capital ratio down to 42.9%, on track to our year-end goal of 40%. We initiated share repurchases earlier than anticipated and expect to deploy at least $2 billion by the end of the second quarter.

Wayne DeVeydt

CFO

0:21:25

Based on our current share price and the deep intrinsic value discount at which our shares are currently trading, returning value through share repurchases will remain a priority. We anticipate further capital allocated into strategic acquisitions that support long-term growth. We will be measured in pursuing such assets while prudently managing our balance sheet. One other item of note for the quarter. As previously discussed, as part of the restructuring actions taken in the fourth quarter of 2025, we will continue to remove from our 2026 adjusted results the residual impacts of those actions. The net negative impact of these items was about $50 million for the quarter and was excluded from adjusted earnings per share. This impact includes, among other things, a $525 million gain on the sale of our U.K. business, which was successfully closed in the first quarter.

Wayne DeVeydt

CFO

0:22:19

We used $400 million of these net proceeds to provide additional funding to the United Health Foundation. Our intention is to improve the focus and discipline of our core operations while using proceeds from non-recurring gains to further advance our mission by helping build healthier communities and a robust healthcare workforce. In addition, at Optum Health, we had the positive impact of the loss contract offset by the final true-up of losses related to assets which were held for sale as of December and divested during the first quarter. While it is still early in the year, we've updated our full-year outlook to greater than $18.25 per share. This refreshed view balances the performance we saw in the first quarter with a prudent level of patience to see how the remaining months evolve. Our earnings cadence for the year remains consistent with prior expectations.

Wayne DeVeydt

CFO

0:23:09

We continue to expect approximately 2/3 of earnings in the first half of the year and the remaining 1/3 in the second half. That said, the earnings profile varies meaningfully across the portfolio. UnitedHealthcare earnings are over 75% weighted to the first half of the year. Similarly, for Optum Health, we expect earnings to moderate throughout the year from Q1 levels, with the significant majority of full-year reported earnings occurring in the first half. In contrast, Optum Insight and Optum Rx are more naturally weighted to the back half, with each generating approximately 60% of earnings in the second half.

Wayne DeVeydt

CFO

0:23:48

This pattern also similarly influences the progression of our medical cost ratio, with first-half levels more than 250 basis points below the midpoint of our full-year guidance and second-half levels more than 200 basis points above. Overall, this has been a strong start to the year as we continue to improve our business performance and advance our mission. Steve, back to you.

Stephen Hemsley

Chairman and CEO

0:24:12

Thanks, Wayne. Before we turn to your questions, let me kind of summarize where I think our company stands today. This was a solid quarter across all segments, positioning us for similarly solid progress going forward. The historic disciplines and innovations of UnitedHealthcare are rounding back into place. Optum Health is clearly focusing on the right basic elements and gaining traction. Optum Insight has untapped potential in an AI-centric world. They're starting to sell business and building broader service relationships around that reality. To evolve more modern scale solutions and for users to be ready to embrace them will take more time, in my mind, later into 2026 and into 2027. Our enterprise-wide AI ambitions are meaningful, and the agenda is in motion. We're getting after business units and functions alike, and importantly, critical processes that are core to several of our businesses.

Stephen Hemsley

Chairman and CEO

0:25:10

This is not just a matter of being more productive at what we already do, but a reimagining of how we organize, operate, and work going forward. Few, if any, large organizations have ever done things like this at this scale, so we match our desire for speed with prudence and humility. We remain focused on advancing business and management processes and continue making progress in areas such as governance, transparency, stakeholder experience, and more. Underpinning these steps is the undertaking to deeply reenergize our mission and culture across this company, an effort in which our leaders and people are engaged avidly. This management team believes we are a long way from performing to our full potential, and we're committed to getting to that potential quarter after quarter and reporting to you on our progress. With that, operator, please open the line for questions.

Operator

0:26:06

The floor is now open for questions. At this time, if you have a question or comment, please press star one on your touch-tone phone. You may remove yourself from the queue by pressing star two on your touch-tone phone. We ask you to 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 A.J. Rice with UBS.

A.J. Rice

Managing Director of Healthcare Facilities and Managed Care Equity Research

0:26:34

Hi, everybody. Thanks for the question. Just to maybe drill down on the comments around what you're seeing in trend. I know the last two years, I think the general consensus is the Medicare Advantage cost trend was running about 7%-8%. I know that coming into this year, you guys described what you had been thinking about pricing for it being closer to 10%. You're saying it's been consistent so far with what you've seen historically and your expectations. I'm wondering, can we focus in on is it running close to 10% or is it more in the 7%-8%? If it's accelerated, where is it accelerated, or if it's moderated, where is it moderating?

Stephen Hemsley

Chairman and CEO

0:27:19

Tim, do you want to take that?

Tim Noel

CEO

0:27:20

Yes. Good morning, A.J. Thank you for the question. As we referenced, broadly speaking across UnitedHealthcare, trend is progressing in line with our expectation. Again, our focus for 2026 was the focus on margin recovery and product stability across all of these businesses. We continue to see the utilization patterns continuing at the high elevated levels that we experienced in 2025. You're correct, we were talking about a 7%-8% trend in Medicare Advantage, with the pricing assumption of around 10% into 2026.

Tim Noel

CEO

0:28:03

We're seeing some modest favorability in the government programs, which would then include Medicare Advantage. Commercial, very consistent with those expectations. It's really early right now. We'll have a more fulsome view when we talk in Q2 and can get down into some of the specific service categories. Right now, the takeaway is modest favorability in government programs, but progressing at those elevated high levels. We're not seeing any inflection point, and we're really comfortable with the pricing posture that we had coming into 2026 based on how things are playing out in the early innings.

A.J. Rice

Managing Director of Healthcare Facilities and Managed Care Equity Research

0:28:44

Thanks, Tim.

Stephen Hemsley

Chairman and CEO

0:28:45

Next question, please.

Operator

0:28:49

Our next question comes from Kevin Fischbeck with Bank of America.

Kevin Fischbeck

Managing Director of Healthcare Equity Research

0:28:55

Great, maybe just following up on that trend question. I think you specifically mentioned this in context to the Medicare Advantage, but you talked about acuity and provider billing and how you are trying to address that. So can you maybe size how much of the trend component is this acuity dynamic, and then what exactly you can do to address it and how it may happen? And then just clarify, was that really just an MA comment or was that a comment across kind of across all products? Thanks.

Tim Noel

CEO

0:29:25

Kevin, this is Tim. I think I can really address that across all products. When you think about trend drivers, our assumption is that the activity that we would see for 2026 will be pretty consistent with what we saw in 2025. As I just stated, that's really playing out. What we've done is a couple of things. We talked in the Medicare Advantage space of our product positioning, leaning more towards HMO-based products as a means to be able to better manage outlier activity. Broadly speaking, themes that you can think about in terms of how we're managing it is we have better tools to early identify some of the outlier patterns that we're seeing and where some of the trend drivers inside of 2025 and engage early with clinical programs, with payment integrity programs.

Tim Noel

CEO

0:30:23

Also, in certain cases, take network actions, which we have done, to be able to address those things. We are making good progress in that area, and we'll continue to focus on affordability across all the product lines inside of 2026, and then probably be able to offer more information around that in the Q2 call as well.

Stephen Hemsley

Chairman and CEO

0:30:47

Thanks, Tim. Next question, please.

Operator

0:30:50

We'll move next to Andrew Mok with Barclays.

Andrew Mok

Director of Equity Research

0:30:55

Hi, good morning. Could you help us unpack what's driving the outperformance in Optum Health this quarter? Specifically, how much is contract or benefit driven versus utilization driven? And can you clarify what's driving the strong moderation in Optum Health profits such that the majority of earnings are recognized in the first half? Thanks.

Stephen Hemsley

Chairman and CEO

0:31:15

Sure. Krista, please.

Krista Nelson

CEO

0:31:16

Yep. Thanks, Andrew, for the question. We're really encouraged by what we're seeing in the first quarter, which is really a direct reflection of intentional actions that we've taken over the past few months to improve core performance. I'll just call out two drivers of the performance improvement. First, we're seeing medical from prior periods restate favorably relative to our expectations. This is actually largely concentrated in markets where we've really focused on clinical and medical management efforts. Patrick highlighted one of the examples in the West, where we saw an opportunity to help support members in key moments of transition. As we've increased and invested in leadership and process improvement in clinical reviews, we've actually seen a pretty sharp decline and improvement in unnecessary inpatient admissions as well as SNF admissions. Again, just really pleased with what we're seeing.

Krista Nelson

CEO

0:32:16

We expect this performance to continue and also are scaling some of those efforts across all of our markets. The second driver I would point to is just we've seen continued improvement in operating performance, which includes cost management, which was a really big focus for us last year, but also just kind of fundamentals around operating execution. The example we gave in our opening remarks just around scheduling. That was a key focus for us to make sure we're creating access points for all of our patients. Year-over-year, after that focus, we've seen an improvement, 12% increase in patient-facing hours. That is happening actually across all of our regions, where again, we've just really focused on core operating improvement.

Krista Nelson

CEO

0:33:03

I would say while it's early, those two things are really giving us confidence that we're focused in the right places, and that we would expect some of this improved performance to continue rest of year. I think to your last question just around the pacing. With the move of Optum Financial into Optum Insight, Optum Health really resembles a risk business in terms of seasonality. That's really why the majority, the significant majority, really, of the earnings will occur in the first half versus the second half.

Stephen Hemsley

Chairman and CEO

0:33:35

Krista, thank you. Mostly utilization and the result of management. Great, thank you. Next question, please.

Operator

0:33:42

Our next question comes from Justin Lake with Wolfe Research.

Justin Lake

Managing Director of Healthcare Services Equity Research

0:33:48

Thanks, good morning. I wanted to stay on Optum Health for a minute. I appreciate all the details there. I wanted to make sure, first of all, that the $1.3 billion of adjusted earnings is the right comparable to the guidance of $1.575 billion at the midpoint on an adjusted basis? Krista, you mentioned that some of the benefit was from PYD. I'd like to understand what the internal expectation was, because that $1.3 billion is significantly higher than I think anybody expected. I just want to understand what you were expecting internally and maybe how much of the difference versus internal was PYD versus run rate. Lastly, maybe you could share something similar on kind of how the business is running at Optum Insight, Optum Rx versus internal expectations, because those looked a little lighter than consensus was expecting. Thank you.

Stephen Hemsley

Chairman and CEO

0:34:49

Okay. I think that's three, Justin, if I'm counting. Maybe Wayne, you might take the first.

Wayne DeVeydt

CFO

0:34:57

Yeah.

Stephen Hemsley

Chairman and CEO

0:34:57

Krista, the second. Then we'll maybe come back to the third.

Wayne DeVeydt

CFO

0:35:03

Yeah, Justin, let me unpack this. I think I can address this fairly easily. As you think about Optum Health, yes, you should be comparing the $1.3 billion of adjusted earnings to the guide of $1.575 billion that we provided originally for our true run rate. We believe that is a clean view of looking at the business and removes non-cash accounting implications of the loss contract, as well as the final disposition of assets in the quarter. The one thing I would say around Optum Insight and Rx, very similar to Optum Health.

Wayne DeVeydt

CFO

0:35:35

I think it's very important to recognize in the prepared remarks, that these are fully burdened by incentive compensation this year in Q1. They were not fully burdened in Q1 of last year, comparing $900 million to roughly $35 million that really creates an unusual anomaly for our sell-side investor analysts out there that are trying to model this, and that was why we tried to call that out. I would say that all four segments did actually exceed our internal plan expectations. Krista, do you want to maybe address the prior year?

Krista Nelson

CEO

0:36:05

Yeah. To your question, just on some of the prior period development. While some of this was favorable to our expectations, I just also want to reiterate it's really based on specific actions that we took in the fourth quarter. The performance is coming in a little bit better, but I'm not surprised by just how it's coming in given some of the intentional work that we've done.

Krista Nelson

CEO

0:36:30

I also mentioned that we are seeing some improvement in our operating costs, which is also contributing. Also it's early in the year, and we're taking a really prudent approach to make sure that we see another quarter of medical mature. Then frankly, also just continue to focus on some of the basic blocking and tackling. There still remains a significant amount of opportunity for Optum Health to achieve its full potential, and so again, we're just focused on core performance and improving that consistently across our markets.

Stephen Hemsley

Chairman and CEO

0:36:59

Thanks, Krista. Next question, please.

Operator

0:37:02

We'll move now to Stephen Baxter with Wells Fargo.

Stephen Baxter

Managing Director of Healthcare Equity Research

0:37:07

Yeah, hi. Thanks. A couple questions about Medicare Advantage. I guess with visibility to the final rate, I would love to hear if you could discuss your confidence level and further margin recovery for 2027. Just as an add-on to that specific question, as we think about the moving parts, have you indicated that you'd participate in the BALANCE Model for GLP-1s? And if you are indicating that you'd participate, do you anticipate the industry thresholds for participation will be met? Thank you.

Stephen Hemsley

Chairman and CEO

0:37:34

Bobby, you want to take that?

Bobby Hunter

CEO of Government Programs

0:37:35

Yeah. Thanks, Stephen, for the question. On the final notice, maybe just to start, I do want to express my appreciation for the active and ongoing engagement that we've had with CMS. The changes made by CMS in the final notice were both important and impactful for the program and more importantly, for the Medicare beneficiaries. However, also, I need to acknowledge the reality that the widely expected medical trend for 2027 is still meaningfully above these funding levels. Consistent with our strategy in 2026, we're going to remain focused on financial sustainability, product durability, and then the path to margin recovery that we're on within that 2%-4% long-term range that we've discussed.

Bobby Hunter

CEO of Government Programs

0:38:19

For 2026, maybe just to hit that one as a jumping off point, we're only a couple of months into the year, but feel good about achieving the 50 basis point year-over-year margin advance that we had previewed last quarter. For 2027, our aspiration is to be in the upper half of the 2%-4% long-term range, doing that while continuing to deliver the quality, the value, and delivering on the full expectations that I know that our members have of us. As it relates to your question about the BALANCE Model, we've been in good active dialogue with both CMS and CMMI on that front. We'd like to find a path to yes there on coverage over time, but there are some notable challenges and outstanding questions with the currently planned structure.

Bobby Hunter

CEO of Government Programs

0:39:05

We're still working through that process internally, and we look forward to continuing the dialogue with CMS. We've provided some specific recommendations that we believe would serve all stakeholders really well. As you know, we'll be participating in the bridge demo here starting in July, and I think we'll learn a lot about the best way to advance this priority through that experience. Thanks for the question.

Stephen Hemsley

Chairman and CEO

0:39:27

Thank you. Next question, please.

Operator

0:39:29

Our next question comes from Lisa Gill with JPMorgan.

Lisa Gill

Managing Director of Healthcare Technology Equity Research

0:39:33

Thanks very much. Good morning. Just want to understand a couple of things. The first would be the Optum Insight and Optum Rx currently being back half weighted. It seems like that's a little bit higher than it's been historically. Is there anything to think about there? Then secondly, since we last spoke last quarter, the PBM legislation has passed. Just want to understand, are there any incremental investments that you need to make? I know you've been a lot more transparent than others, but is there anything to think about? If you do come to a settlement with the FTC, do we need to think about re-domiciling the GPO to the U.S., and is there any cost there?

Stephen Hemsley

Chairman and CEO

0:40:13

Yeah, we'll handle those separately. Wayne, do you want to talk about the slope?

Wayne DeVeydt

CFO

0:40:18

Yeah. The one thing I would say on the slope is for Optum Insight, I would view this as what we're doing is a couple things. One is slowly decommissioning old products that were not AI-based and reinvesting in those products through the AI investments. You're getting the slow rundown of those products in Q1, and then the investments to transfer those over into more AI-based. I think you'll see the benefits of that coming into the back half. Relative to Optum Rx, we are onboarding almost 800 new clients this year, of which the vast majority of those will be going into next year in terms of the actual run rate. You're getting the full impact of those onboardings starting early in the year.

Wayne DeVeydt

CFO

0:40:56

I think as the year progresses and we begin to migrate and bring folks over, you'll start to see that subside. I would also just remind you that we've assumed a little bit of lower script volume, obviously, due to the membership that we had. As the year progresses, I think you'll see some of our G&A initiatives and AI investments coming through, and that will actually improve the outlook in the back half.

Stephen Hemsley

Chairman and CEO

0:41:18

Thanks, Wayne. Patrick and John, do you want to address PBM?

John Cosgriff

CEO

0:41:22

Sure, happy to. Thanks again for the question, Lisa. If I look at PBM, first I'll hit the punchline, which is we've accounted for these impacts in our guidance both for the remainder of 2026 as well as our out year guidance. As it relates to the GPO, just to hit that one head on, our GPO is domiciled in the U.S., so no impact as we think about GPO. Broadly, I want to hit a couple of things. First look at what's happening in Tennessee, and I would just say that we're really concerned about that legislation as we sit here today, primarily for what it means for access.

John Cosgriff

CEO

0:42:05

What's playing out in Tennessee is targeted at the retail pharmacy space, but the impact here goes well beyond the intended scope of retail. Specifically for us, it will harm access for nearly 150,000 Tennesseans with complex conditions, think cancer, think HIV, think serious mental illness, that rely on specialty and behavioral health pharmacies designed to uniquely serve those populations. Very concerned and will continue to advocate for those that we serve in Tennessee and elsewhere.

John Cosgriff

CEO

0:42:38

Beyond that, with other emerging legislation, I want to say that our work over the last two years has put us in the leadership position in the industry, and you referenced that with the transparency comments. It goes even beyond transparency. There's four drivers here, Lisa, maybe just to touch on. First is the independent pharmacy stability. As you know, again, we don't play in the retail space. We rely on a vibrant pharmacy network for more than 80% of the claims that flow through our PBM. We're well ahead of the curve with 100% of our independent pharmacies reimbursed at a cost-based reimbursement mechanism. We're leaning into health system pharmacies through our CPS business as well and expanding the reach for those pharmacies. The second driver is consumer affordability. On that front, Price Edge now serves 14 million members.

John Cosgriff

CEO

0:43:33

Between Price Edge, Optum Savings IQ, and our critical drug affordability, we'll deliver more than $1.5 billion this year in affordability to the patients that we serve through this business. The third driver is the patient provider experience. Patrick mentioned PreCheck Prior Authorization on this one. We're moving that from scale with the Cleveland Clinic to serve more than 20 health systems this year and continuing the work and the streamlining of prior authorizations for 180 drugs. I'll round out, Lisa, on payer transparency. This is what's driving our growth. Wayne mentioned a record growth year. We're experiencing another strong selling season, and that's largely driven by a compelling 15-part transparency guarantee for those that we serve. Feel good about our leadership position, have accounted for all this in our guidance. Thanks again for the question.

Stephen Hemsley

Chairman and CEO

0:44:21

Patrick, do you want to comment?

Patrick Conway

CEO

0:44:23

Just on overall Optum, because it's come in a couple of ways. Look, all three segments, as we said, exceeded expectations. If you look at Optum Health, core management of medical trends and operational execution. Optum Rx has a lot of momentum in the marketplace, winning new clients and renewals, but also ahead in the policy agenda and leading. Then Optum Insight, as Wayne and others mentioned, Sandeep and team leading AI first products and services. That we're making those investments now, and those investments are starting to pay dividends, and as Steve said in the opening, will pay dividends in the long term.

Stephen Hemsley

Chairman and CEO

0:44:59

Yeah. Ahead on PBM business practices, because we've been at this for a couple of years. Great question, thank you. Next one, please.

Operator

0:45:08

We'll go to David Windley with Jefferies.

David Windley

Managing Director of Healthcare Equity Research

0:45:12

Hi, good morning. Thanks for taking my question. I wanted to come back to Optum Health on the PDR and the lives associated with that, I believe are in a couple of tranches that add up to 1 million lives that you're in various stages of negotiation and scaling on. I wondered if you could give us an update on the status of those. Are you at a point where you're having conversations with new provider groups or new populations of members that you could add into your value-based care base? Or are we still right-sizing down to the logical, profitable base of lives that you can manage in VBC? Thank you.

Stephen Hemsley

Chairman and CEO

0:45:58

Okay. If I understand that, basically, there's two pieces to that, the PDR and then how we're engaging in the market. Wayne will touch on the PDR, and Krista will pick up the market.

Wayne DeVeydt

CFO

0:46:09

Yeah, thanks, Dave. Good morning. Let me just quickly on the PDR. We laid out what we estimated the PDR to be for the full year. It was north of $600 million. That was a reflection of contracts that we fully anticipate either renegotiating to appropriate rates or we will de-delegate or exit. You'll see the numbers actually slightly lower in Q1. That is a reflection of some of the assets that we disposed of in the quarter that had a PDR associated with them. The team is still in active negotiations. I'll let Krista comment on that.

Krista Nelson

CEO

0:46:44

Yeah. Dave, thanks for the question. We are really in active negotiations and continue to partner with all of our payer partners just across our portfolio and really pleased with the progress underway. We started significantly earlier. We've put a lot more data and infrastructure and support and leadership behind this. Frankly, at this distance, there's still a number of levers we can work through with all of our payers, whether that's product and benefit design for 2027, network opportunities, looking at the markets and the footprints that we're in, as well as recalibrating appropriate rates. I think just like Wayne mentioned, I'll reiterate our confidence in making sure that we get these items settled and get into a better position for 2027.

Stephen Hemsley

Chairman and CEO

0:47:32

I think that reflects a little bit of the cultural change in terms of the way we're engaging and how we are working with relationships across the Board in a constructive way. Great response, Krista. Next question, please.

Operator

0:47:48

We'll move to Ann Hynes with Mizuho Securities.

Ann Hynes

Senior Equity Research Analyst

0:47:53

Good morning. Thank you, I just want to focus on AI. I know it sounds like you're doing a lot of investment. Can you share some maybe targets you have on how you think AI will, from the cost side, maybe like SG&A, do you have a target internally how you think it could save? Just also on the revenue side with Optum Insight, do you think your investment in AI could structurally shift the growth rate of that segment? Thanks.

Stephen Hemsley

Chairman and CEO

0:48:23

Yeah, I think true on both fronts. Sandeep, do you want to start?

Sandeep Dadlani

CEO

0:48:28

Sure. Thanks, Ann, for the question. As we said earlier, we're spending about $1.5 billion in AI across UnitedHealth Group. Think about it this way. A third of this is explicitly invested into software products and platforms, accelerating Optum Insight's transition of business models into an AI-first software and services firm. The remaining 2/3 is spent across signature end-to-end processes and functions across UnitedHealth Group. Let me give you some examples. Areas like consumer member experience. You must have noticed we just launched Avery, a generative AI chatbot, answering member questions for UnitedHealthcare, which will be expanded to over 20 million members by the year-end. Another example is an administrative simplification. Tim spoke about prior auth and the automation in UHC, as well as Optum Health and Optum Rx.

Sandeep Dadlani

CEO

0:49:25

A third area is clinical workflows, for example, Ambient rollout for physicians and nurses in Optum Health, and then summarization capabilities for nurses and clinical reviews. Then functions like HR, finance, marketing, fundamentally reimagining these processes and areas. In the end, all internal investments in AI use cases is routed through Optum Insight and has the potential to be commercialized outside of UHG. We expect a return conservatively of two to one on these programs over the next few years, many of them paying back within the next 12-18 months. Optum Insight AI-first products are already seeing great external traction. Example, this quarter we launched Digital Prior Auth in keeping with the enterprise priority on prior auth. We already have a couple of payer clients and provider clients using them and over 50 clients in the pipeline.

Sandeep Dadlani

CEO

0:50:28

The early results are that prior auth submitted through our software have shown a 96% approval rate on first submissions. Optum Real, an AI-first platform launched a couple of quarters ago, now has 500 million transactions year-to-date and expects to close the year at over 2.5 billion transactions. Optum AI, our new AI consulting arm, has already signed its first few contracts, helping companies like Labcorp through their operational AI initiatives. That should give you a good sense of AI inside and outside the company. Thank you.

Stephen Hemsley

Chairman and CEO

0:51:03

Thanks, Sandeep. I think really good potential. I think we're going to be very measured as we go about this in terms of expectation, because I think it's new for everybody. Definitely we are leaning into this. We think it can be quite impactful to our enterprise and to this whole industry. Good question, thank you. Next, please.

Operator

0:51:29

Our next question comes from Erin Wright with Morgan Stanley.

Erin Wright

Senior Equity Research Analyst

0:51:34

Great, thanks. I wanted to follow up on the AI and automation front. What should we, though, expect in terms of these savings accelerating in 2027, 2028? I guess, should we anticipate that the cost and contributions, or how do we weigh the cost and then contributions of some of the efficiency gains there? How could this accelerate or even drive upside to the long-term target margins across the different segments? Then just one quick follow-up on capital deployment. Just in terms of buybacks, you announced the $2 billion today. I just wanted to be clear what was embedded in guidance from a share repurchase standpoint. Thanks.

Stephen Hemsley

Chairman and CEO

0:52:16

I'll let Wayne handle the second one. The first one is a very good question. This is kind of uncharted territory when you think about the scope that this could have. We aren't giving any guidance with respect to the compounding effect, if you will, of these kinds of changes across the business. I will comment and reinforce something Sandeep said, and that is we're really deploying it kind of across the enterprise, looking at our large core processes with an idea of modernizing those and then ultimately taking those to the outside marketplace. Then the large overall functions typical of an organization of this size and scope, and I think the potential is great. I think it would be very premature to offer you guidance in terms of what the impact of those could be.

Stephen Hemsley

Chairman and CEO

0:53:14

I wouldn't be making these investments if we didn't think that these were not only strategically important to maintaining the competitiveness of our organization, but also having a long-term positive impact, mostly for the consumer and the experience that others will have with us, and then secondarily, the very natural productivity lift that it should produce. Wayne, you want to take the other part?

Wayne DeVeydt

CFO

0:53:43

Yeah, relative to capital deployment, our original guidance was approximately $2.5 billion back half loaded, so think of later Q3, Q4. At this stage, with the intrinsic value discount we see, we thought it was important for shareholders that we would get at that sooner and the confidence we have in our results. No changes in the guidance, but view it as we are moving quicker at this stage.

Stephen Hemsley

Chairman and CEO

0:54:07

Ultimately headed back to where we were. This is kind of restoring where we were in terms of this program that had been in place for almost 20 years. Next question, please.

Operator

0:54:17

Our next question comes from George Hill from Deutsche Bank.

George Hill

Managing Director of Healthcare Technology Equity Research

0:54:22

Hey, good morning, guys, and thanks for taking the question. Wayne, a quick accounting question is, could you quantify the PYD or the impact of the PYD in the quarter? And is there a way to break that out between the UHC impact and the OH impact? Thanks.

Wayne DeVeydt

CFO

0:54:37

Hey, George. Good morning. I think ultimately you'll see when we file the quarter, PYD on a net basis is around a little bit north of $500 million for the organization. While that benefits a quarter, it's important to recognize that we believe we've established somewhat of a similar level of conservatism or prudent view, I would say, at March 31st. Until we can see more of this development in April and May from Q1, I think at this stage it would just be prudent to have a bit of patience right now. That's roughly the net number that came through from the prior year.

Stephen Hemsley

Chairman and CEO

0:55:10

Yes. I do think that.

George Hill

Managing Director of Healthcare Technology Equity Research

0:55:11

Okay, appreciate that.

Stephen Hemsley

Chairman and CEO

0:55:13

Everybody needs to understand that this is the first quarter. Second quarter is usually quite informative in terms of the rest of the year. We're, I think, appropriately positioning ourselves based upon what we see so far. We'll take about two more questions, please, and then we'll be available to answer questions through the balance of the day. Next question, please.

Operator

0:55:39

Our next question comes from Michael Ha with Baird.

Michael Ha

Senior Research Analyst

0:55:44

Hi, thank you. Just quick clarification first. How much of the $400 million contribution to the United Health Foundation is Optum Insight? My real question, just wanted to ask about the proposed MA risk model recalibration. I understand it's now delayed, but when it is eventually implemented, possibly in 2028, a significant number of chronic condition code reimbursement is being cut, and the magnitude of those cuts is what appears concerning to us, the top 10 HCC codes being chronic conditions making up the majority of RAF prevalence all across the industry and presumably higher for value-based care providers. With the reimbursement of some of those codes being cut down to 20%, this concerns us for Optum Health.

Michael Ha

Senior Research Analyst

0:56:34

Again, I know it's delayed, but when it is eventually implemented, how do you expect the impact to Optum Health versus industry average? If you still believe the impact should be roughly in line with the industry average, then how do you justify that when your value-based care business is purpose-built to care for polychronic members and therefore disproportionately exposed to these material cuts to chronic conditions? Thank you.

Stephen Hemsley

Chairman and CEO

0:56:58

Well, I'm not sure that's a question or a statement, but we'll respond to that. Let's take the first part.

Wayne DeVeydt

CFO

0:57:07

Yeah. Relative to the $400 million contribution to the foundation, we are trying to match those contributions relative to where the gains reside. When we sold and closed our European operations, the gains were all within Optum Insight, north of $500 million, and the entire foundation then came out of Optum Insight. That is included in the reconciliation to our adjusted segments that we provided in the press release.

Stephen Hemsley

Chairman and CEO

0:57:32

That's going to be a pattern we follow to the extent we get gains and things like that. We are invested in the notion the foundation can be used as a means to really advance the healthcare system, kind of be part of the responsibility we bear for that. We did that in the past, and had kind of strayed from that in the last few years and just we're returning to that theme with real commitment. Bobby, do you want to talk about, start with the-

Bobby Hunter

CEO of Government Programs

0:58:01

Yeah. Thanks, Michael. I'll start with kind of our view on modernization of the program, and I'll kick it to Krista, then talk a little bit about the Optum Health dynamic. Maybe just kind of big picture, we're again, very appreciative of the active and ongoing engagement with CMS, in the zones around modernization opportunity. I'm not going to speculate on what changes could happen to the program in future years. That said, we do believe there are opportunities to improve the program. We support modernization. We, for example, advocated for chart linking, which was just finalized in the final rule and final notice. We are committed to making the system simpler, more efficient, more transparent, and Krista will get into it, but we see value-based care as a critical and foundational tool to ensuring that success long term.

Bobby Hunter

CEO of Government Programs

0:58:52

In terms of risk adjustment, specifically, we actually wrote to our modernization agenda in response to both the advance notice and proposed technical rule. The big picture, we remain supportive of policy that advances and improves the program. I think as you saw in this last rate cycle, it's important that we all acknowledge that this work is complicated, and it should be done thoughtfully with appropriate testing and staging and with program stability at the forefront. In that regard, we stand ready to partner in any and all respects. Maybe then, Krista, if you want to add on the value-based care Optum Health piece.

Krista Nelson

CEO

0:59:26

Yeah. I would just start by echoing what Bobby said, just again, appreciative of the improvements that CMS made. More importantly, their commitment to the Medicare Advantage program and really foundational, their commitment to value-based care. The direction of their comments just continue to reinforce what our patients experience and what our payers experience, which is our value-based care model delivers better outcomes, improved health status, better experience, and a lower total cost of care for the patients that we serve. That alignment of incentives is really central to CMS's goal, which they have stated is for all of Medicare, not even just for Medicare Advantage. Again, just reiterating, our commitment to value-based care has really never been stronger.

Krista Nelson

CEO

1:00:13

Our focus is really on just improving our execution and our core operating performance in our model, working closely with our payer partners to thoughtfully expand this to more patients and more providers over time. At this distance, it's really too early to suggest what the impact could be for 2028. I would also just say inside of some of the proposed changes, there were puts and takes for complex populations. That's really where our model has a significant benefit for patients as well as our payer partners. Again, we just remain focused on core fundamentals, improving outcomes for our patients, and making sure that we can continue to scale value-based care for more patients over time. Thanks.

Stephen Hemsley

Chairman and CEO

1:01:01

That should carry the day at the end of the day. We have time for one more question, and then we'll be done.

Operator

1:01:10

Our last question comes from Sarah James with Cantor Fitzgerald.

Sarah James

Managing Director of Healthcare Equity Research

1:01:15

Thank you. I want to try to unpack MLR outperformance under the lens of cost categories. Can you speak to trends across physician, hospital, and drugs, how those are performing in the different books versus expectations? Bridging that to your earlier comments on traction you're seeing from engaging members in clinical programs and network actions, can you clarify what cost category you're seeing that move the needle on? Thank you.

Stephen Hemsley

Chairman and CEO

1:01:45

Sure. Tim, do you want to comment on that?

Tim Noel

CEO

1:01:47

Yeah. Thanks, Sarah, for the question. Again, it's a little early to get into that level of specificity on utilization patterns. I think generally, this modest outperformance that we've cited in government programs under the umbrella of UHC, which is largely aligned with our expectations. There's no category I would single out as being out of line compared to what our expectations were, and the modest favorability that we've talked about around government programs is really kind of across the Board based on the visibility that we have at this distance in Q1. Thanks.

Stephen Hemsley

Chairman and CEO

1:02:29

Patrick?

Patrick Conway

CEO

1:02:30

Yeah, just on the Optum side of the house. Optum Rx is purpose-built to help payers and employers manage drug costs, and we'll save billions and billions of dollars again this year focused on affordable access to drugs, as John described, and we've been leading the marketplace. On Optum Health, as Krista described, these are programs that decrease admissions for patients, keep them out of the hospital, get people into their homes where they want to be, and care for them across the care continuum. It's really purpose-built for some of the most complex patients that need this care the most. Our payer partners, whether that's UnitedHealthcare or others, as Bobby said, and we hear this from external payers as well, want that care for their members because it's better quality, better experience, and more affordable care.

Stephen Hemsley

Chairman and CEO

1:03:19

Thanks, Patrick. Thank you all for the time today. Because we kind of build on the momentum as we get started in this year, we realize there's a great deal more work to do. I think you'll see sustainable progress to position this enterprise to serve all of its stakeholders in progressively better way, quarter after quarter. That's kind of our agenda. We're going to return to that, and we'll see you next quarter. Thank you.

Operator

1:03:55

This does conclude today's conference. Thank you for your participation.