Elevance Health: On the Mend

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Under pressure from rising costs and policy uncertainty, US health insurers continue to face a challenging near-term outlook. Yet, with many headwinds likely temporary, opportunities are emerging for long-term investors. Through its scale, diversified growth, and improving cost control, Elevance is well placed to navigate the complexity and return to sustainable growth.

US health insurers are navigating a storm of negative sentiment, weak margins, and political headwinds. Consumers remain frustrated with high premiums, yet earnings are under pressure as utilization and medical costs outpace rate increases. A political push to reshape subsidized plans adds further uncertainty.

Government programs have been the primary source of disruption as post-COVID premiums have not kept up with rising utilisation and evolving risk pools. Medicare Advantage was hit first as unfavourable risk adjustments and rate changes coincided with rising competition. Utilisation rose, and margins collapsed. Medicaid followed when eligibility checks resumed in 2023. Coverage lapses skewed to healthier members, leaving a sicker insured pool behind. ACA (Affordable Care Act) Exchanges face similar challenges, with administrative hurdles and rising costs destabilising risk pools, while demand is being pulled forward ahead of the expiration of expanded subsidies. Legislative changes and subsidy expirations are likely to cause further deterioration in Medicaid and ACA Exchanges into next year.

Despite these near-term challenges, history suggests that periods of political uncertainty create attractive buying opportunities for health insurers. While reform is needed in the US healthcare system, insurers remain part of the solution. They pool and price risk, reduce administrative burdens, and increasingly manage patient journeys to enhance outcomes at lower costs. Competition will rationalise, premiums will catch up with costs, and margins will normalise. Positive signs are already emerging: Medicare Advantage rates are recovering, states are adjusting Medicaid reimbursement models for acuity shifts, and insurers are exiting over-competitive markets.

Within this complex landscape, Elevance is well placed for long-term success. As one of the largest health insurers in the US, Elevance leverages its underlying brands and scale to create a virtuous cycle for service providers and customers, keeping rates and benefit options competitive. Diversification into government sponsored policies offers acyclical growth opportunities, while a growing services business enhances monetization of its insured pool and other health plans across the US. These services are skewed to value-based rather than volume-based arrangements, enabling better outcomes at lower costs.

Combined with favourable capital allocation, Elevance is well-placed to return to its growth algorithm of >12% EPS growth. Currently trading at a depressed valuation on a low earnings base, Elevance offers compelling risk-reward for investors seeking a quality business at a reasonable price.

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