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Shaping Healthcare Possibilities

PERSPECTIVE PAPER

Medical Loss Ratio:
Exploring 2024 trends and impact on the healthcare Payer market – Part 1

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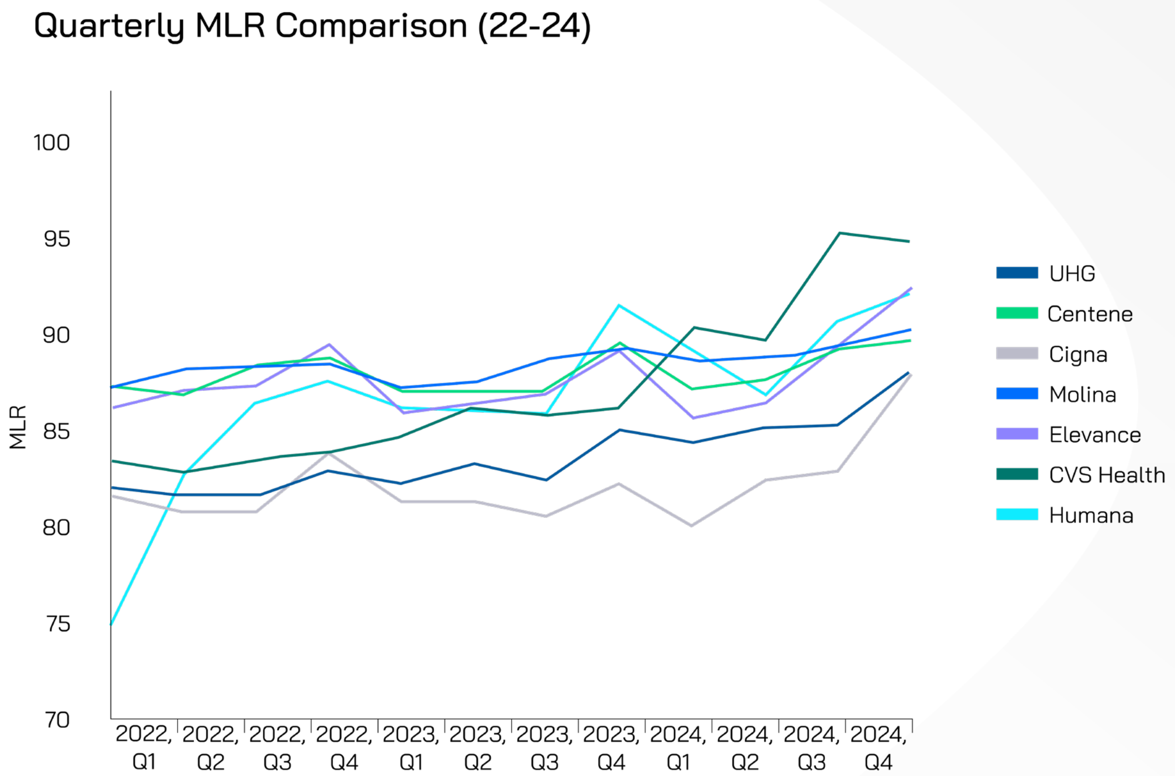
The Affordable Care Act (ACA) established minimum Medical Loss Ratio (MLR) requirements to ensure that a specific portion of insurance premiums is allocated to medical care rather than excessive administrative expenses. Insurers must meet these MLR thresholds to avoid rebates and penalties. High MLR can reduce their margins as more premium revenue is spent on medical expenses. Additionally, MLR regulations may drive some insurers to raise premiums to cover the rising costs of medical care. In this installment of our ongoing series on industry MLR analyses, we delve into the MLR trends for 2024 (and early 2025) among major U.S. Payers, shedding light on the evolving landscape of healthcare costs and Payer strategies.

Content

Rising MLR trends: A closer look at the increases from 2023 to 2024

The MLR of the seven largest publicly traded insurers, **United Health Group (UHG), Centene, Cigna, Molina, Elevance, CVS health and Humana** rose by an average of 2.6 % in 2024 as compared to 2023, indicating a significant increase in medical expenses.



Graph 1: Quarterly MLR Comparsion (22-24)

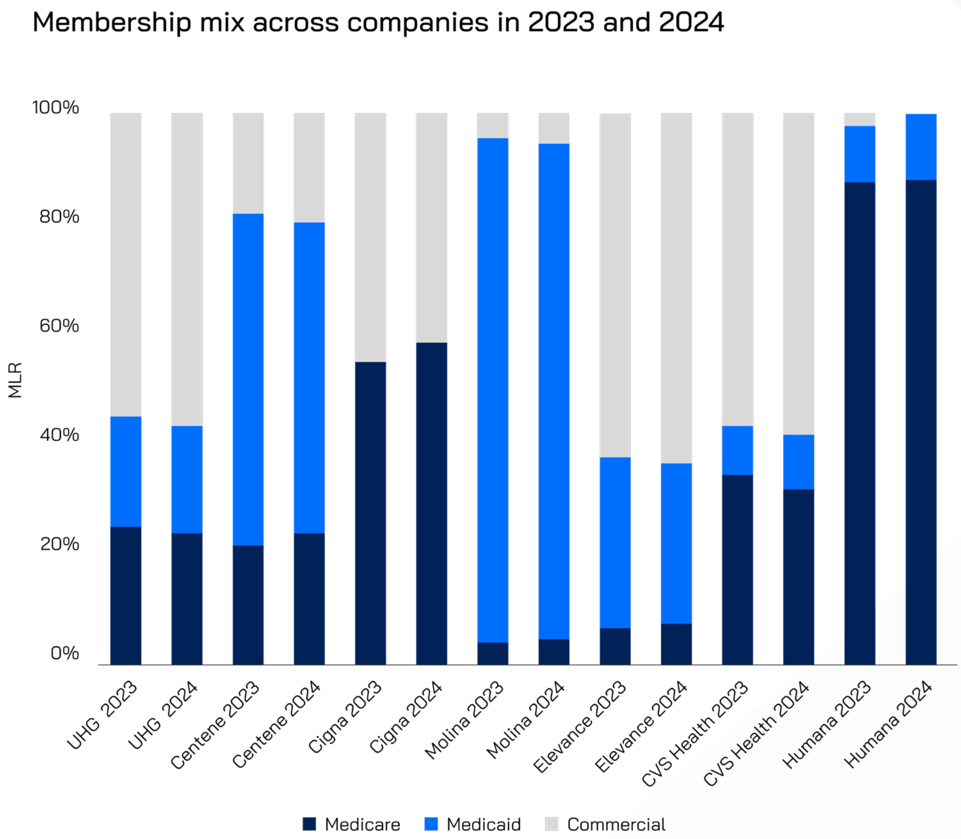
The MLR has seen a notable increase across healthcare Payers from 2023 to 2024:

- **United Healthcare:** MLR rose by 2.76%, reaching 85.5%
- **Centene:** MLR increased by 0.68%, reaching 88.3%
- **Cigna:** MLR climbed by 2.34%, reaching 83.2%
- **Molina Healthcare:** MLR went up by 1.14%, reaching 89.1%
- **Elevance:** MLR increased by 1.72%, reaching 88.5%
- **CVS Health:** MLR saw a significant jump of 7.31%, reaching 92.5%
- **Humana:** MLR rose by 2.6%, reaching 90.4%

Among these, **CVS Health** experienced an exceptionally high MLR increase of 7.31% from 2023 to 2024. This increase was driven by higher utilization and the impact of higher acuity Medicaid members following redeterminations. Meanwhile, **United Healthcare, Cigna, and Humana** saw increases of around 3%. **Centene, Molina Healthcare, and Elevance** experienced more moderate increases of approximately 1.5%. The rising MLRs were primarily attributed to one major trend: increased medical spending on members in government programs (Medicaid & MA in particular).

By examining the composition of members across different plans and tracking revenue changes, one can better understand the factors driving MLR variations. As mentioned, Medicaid and Medicare Advantage (MA) plans typically have higher MLRs due to the more complex health needs of their populations.

1. **Change in membership mix –** We limited the membership mix to Medicare, Medicaid and Commercial lines of business. Below is the change in membership mix among seven major Payers:



Graph 2: Memership mix across companies in 2023 and 2024

Note: For Elevance, we have excluded the BlueCard membership for calculating the total membership for commercial business. For Humana State-based contracts guidance includes membership in Florida, Illinois, Indiana, Kentucky, Louisiana, Ohio, Oklahoma, South Carolina, Virginia, and Wisconsin. For calculating Medicare membership, we have included Medicare Advantage, Medicare Part D and Medicare Supplement membership.

UHG, Centene, and Elevance: These plans experienced a decline in Medicaid membership due to the unwinding of the pandemic-era continuous enrolment provision.

Cigna: In January 2024, Cigna exited the MA business by selling it to HCSC. Cigna's strategy has been to expand its healthcare footprint, with about 75% of its total revenue over the past five years coming from its services businesses.

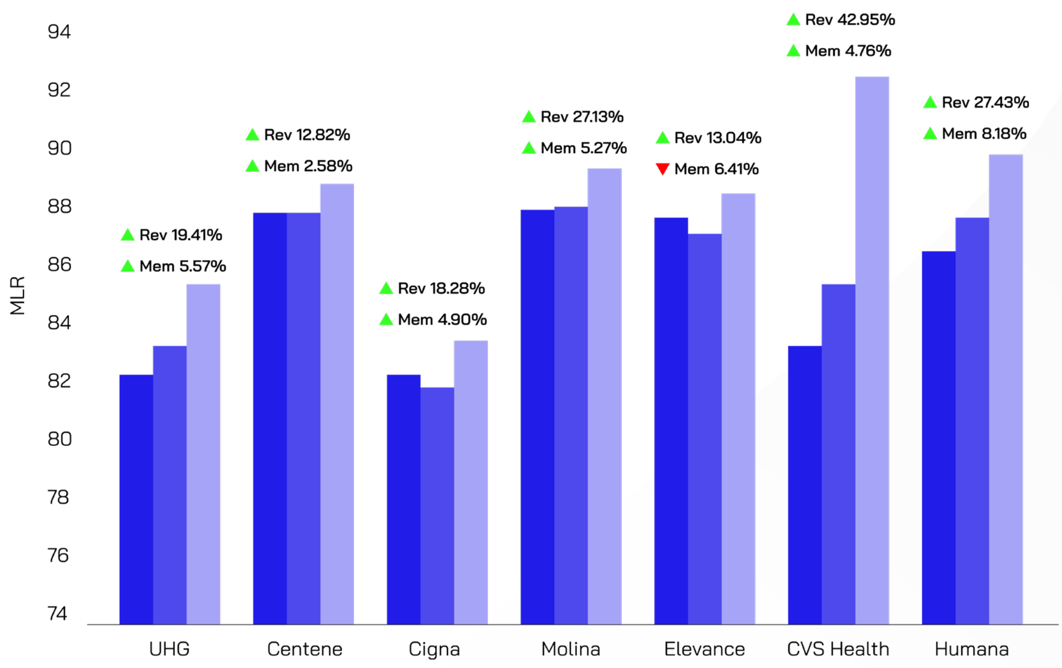
Centene: Health plan has historically focused on the Medicaid market, and it saw an 8% point decline in its Medicaid membership.

Humana: Humana experienced significant growth in the MA segment. This aligns with its strategy to expand CenterWell healthcare services and continues to lead in integrated value-based care delivery.

Molina: Molina also primarily focuses on Medicaid (91% of membership) and saw consistent increase in Medicaid membership. This was attributed to acquiring a Medicaid plan in Wisconsin and securing a new Medicaid contract in Iowa.

2. **Positive Payer revenue growth –** Most companies experienced healthy top line revenue growth in 2024. This growth highlights the importance of effectively managing MLR to ensure that a significant portion of premium revenues is dedicated to patient care and quality improvements.

MLR growth vs Business growth



Graph 3: MLR growth vs Business growth

On an average the revenue numbers for all the major Payers increased by approximately 23% in the last three years. This may be a result of diversification of services through acquisitions, increased healthcare utilization, higher enrolment in government programs such as Medicare Advantage and expansion of PBM operations.

According to a report by KFF, the average premium for single coverage rose by 6% in 2024, while the average premium for family coverage saw a 7% increase.

The premium increases alone doesn't directly change the MLR unless they are disproportionate to changes in actual healthcare spending. How a given Payer addresses it's overall operational costs also impacts year-end MLR.

Causes of rising Medical Loss Ratios

The rise in MLRs in 2024 can be attributed to several compelling factors that paint a vivid picture of the current healthcare landscape, including:

- **Higher than expected utilization of services:** acuity of Medicaid members who are retained or rejoin is higher than that of members who lost coverage during the redetermination process. Specifically, Cigna, Centene, CVS Health (Aetna) attributed increase in MLR to higher Medicaid acuity.

  For MA, older adults resumed seeking medical care (outpatient, inpatient, and supplemental benefits like dental insurance) that many have postponed during the COVID-19 pandemic. This led to increased medical spending in terms of volume (utilization) and underlying risk (severity).

- **Diabetes and weight loss medications (GLP-1 drugs):** Drugs originally developed for diabetes management, such as Semaglutide, are increasingly being prescribed for weight loss. As the use and cost of Semaglutide and similar medications continue to rise, several insurers have reported that these drugs are contributing to an increase in their pharmaceutical expenditures, and significantly impacted overall medical expenses.

- **Advancements in medical technology,** high-cost medical devices, and increased utilization, while beneficial, lead to higher healthcare costs to the system. These new and expensive technologies and treatments contribute to a higher medical expense.

Conclusion

The inflationary pressures that the healthcare industry has experienced since 2022 are persisting in 2025. Providers are experiencing cost pressures and attempting to recoup rising operating expenses through health plan contracts. The costs of GLP-1 drugs are on an upward trajectory, further impacting overall medical costs. Additionally, innovations in prescription drugs for chronic conditions and the increasing use of behavioral health services are reaching a tipping point, likely driving higher medical expenses. Overall, this necessitates strategic adjustments by insurers to maintain financial stability and ensure sustainable operations.

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