Seeking Alpha

Transcripts

UnitedHealth Group Incorporated (UNH) Q2 2024 Earnings Call Transcript

Jul. 16, 2024 12:24 PM ET | **UnitedHealth Group Incorporated (UNH) Stock**, **UNH:CA Stock**

SA Transcripts
149.15K Followers

Q2: 2024-07-16 Earnings Summary

Play Call | Press Release | 10-Q

EPS of $6.80 beats by $0.17 | Revenue of $98.86B (6.41% Y/Y) beats by $44.19M

UnitedHealth Group Incorporated (NYSE:UNH) Q2 2024 Earnings Call Transcript July 16, 2024 8:45 AM ET

Company Participants

Andrew Witty - CEO
John Rex - President and CFO
Tim Noel - CEO, UnitedHealthcare Medicare & Retirement
Krista Nelson - CEO, UnitedHealthcare Community & State
Amar Desai - CEO, Optum Health
Roger Connor - CEO, Optum Insight
Brian Thompson - CEO, UnitedHealthcare
Heather Cianfrocco - CEO, Optum

Conference Call Participants

A.J. Rice - UBS
Lisa Gill - JPMorgan
Josh Raskin - Nephron Research
Stephen Baxter - Wells Fargo
Justin Lake - Wolfe Research
Scott Fidel - Stephens
Kevin Fischbeck - Bank of America
Andrew Mok - Barclays
Nathan Rich - Goldman Sachs
Erin Wright - Morgan Stanley
Lance Wilkes - Bernstein

Operator

Good morning, and welcome to the UnitedHealth Group's Second Quarter 2024 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 US 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 non-GAAP amounts. A reconciliation of the non-GAAP to GAAP amount is available on the financial and earnings reports section of the company's investor relations page at www.unitedhealthgroupcom. Information presented on this call is contained in the earnings release we issued this morning and in our form 8-K dated July 16, 2024, which may be accessed from the investor relations page of the company's website.

I will now turn the conference over to the Chief Executive Officer of UnitedHealth Group, Andrew Witty.

Andrew Witty

Thank you, Jennifer. Good morning, and thank you for joining us. The second quarter results we reported today reflect diversified and durable growth and a commitment to ensuring high quality care is available to every person we're privileged to serve. In the first half of the year, revenues grew by nearly $14 billion, with strong contributions from across the enterprise, led by double-digit growth at Optum.

UnitedHealth Group entered the second half of the year with continuing and broad-based growth momentum. As a result, we are affirming our full year adjusted earnings outlook even as we absorb $0.60 to $0.70 per share in business disruption impacts related to the cyberattack. These results come from the sustained focus of the 400,000 people of UnitedHealth Group on adding value for patients, consumers and customers through the fundamental execution of our key priorities.

We're also well positioned for growth in 2025. In the selling season to date, the most sophisticated thoughtful buyers of health benefits and services in the US, such as large employers, unions, states, seniors, all continue to choose the offerings of UnitedHealth Group, when they're looking for managed care, pharmacy services or a Medicare Advantage plan that provides the best value. This consistent growth reflects customers' recognition of the need for a company like ours. As you know, UnitedHealth Group strives to help reduce the fragmentation and lack of coordination that drives up costs and erodes care outcomes in the $5 trillion US healthcare marketplace. We aim to better coordinate and align incentives among caregivers, payers, and pharmacy, enabling us to focus on the whole patient throughout their health journey. We believe this increases value for customers and consumers, improves people's experience and health, reduces redundancies and waste, and ultimately leads to a more sustainable health system. For example, the proven health and economic value to consumers and taxpayers of Medicare Advantage. A recent study by Milliman found that the cost of taxpayers of Medicare Advantage is 4% less than traditional fee-for-service Medicare. At the same time, Medicare Advantage provides seniors well over $2,000 per year in additional value through lower out-of-pocket cost and important services like dental, vision and hearing, none of which fee-for-service Medicare covers. That means a lot to the majority of the people Medicare Advantage serves, who have limited economic resources and otherwise would lack access to such services.

The home visits we offer seniors further illustrate the value of MA. Last year, our medical professionals made more than 2.5 million home visits. As a direct result, our clinicians identified 300,000 seniors with emergent health needs that may otherwise have gone undiagnosed. They connected more than 500,000 seniors to essential resources to help them with unaddressed needs such as food insecurity, medication affordability, transportation, and financial support. They also identified and helped close more than 3 million gaps in care that made a real difference in people's lives. Within 90 days of one of our home visits, 75% of patients received follow-up in a clinical setting.

Additionally, Medicare Advantage patients with chronic conditions who receive these home visits end up with better managed and more stable health outcomes, as evidenced by spending measurably less time than fee-for-service patients in emergency room and other hospital settings. The bottom line, our home visit programs help patients live healthier lives and save taxpayers money. It is only Medicare Advantage that makes programs and results like this possible.

Similarly, Optum Rx clients continue to appreciate the efforts we make to ensure delivery of the lowest cost drugs in the face of drug companies' sole ability to set prices. They also recognize the importance of the comprehensive pharmacy services we provide to people that's driving our momentum this year and bodes well for 2025. We also continue to bring practical innovation to people through new products and services, and by using new and emerging technologies to improve our own operating efficiency. For example, Surest continues to differentiate itself in the marketplace, which is why more and more customers are offering it to their employees, and why the offering continues to grow substantially. Additionally, investments in modernization of legacy technology and new emerging technologies are enabling our consumer-centric advancement of healthcare. For example, our growing AI portfolio made up of hundreds of practical use cases will generate billions of dollars of efficiencies over the next several years. These investments enable us to improve consumer experience, enhance provider find and price care capabilities to meet people's needs and improve clinical back-office execution. We expect technology innovation to become an increasingly core driver of our growth over the next two to five years.

And now, I'll turn it over to our President and Chief Financial Officer, John Rex.

John Rex

Thank you, Andrew. I'll start this morning by providing context on some of the unique items in the quarter. Then, I'll follow with perspectives on care activity and general business updates. The overarching theme I hope you leave with today is that UnitedHealth Group continues to deliver broadly diversified growth with expanding opportunities, work that positions us for continued strong performance in '25 and beyond.

Now to update on Change Healthcare. Our focus has centered on the patients, care providers and customers who rely on us to keep the health system running. Payment and claims [slows] (ph) for most care providers are back to normal, but we know that is not the case for some, so we continue to work with those who are not there yet. UnitedHealth Group has provided more than $9 billion in loans and advance payments to help providers mitigate the impact of the attack, all at no cost to them. Cyber impacts in the quarter totaled $0.92 per share, and we now estimate the full year impact will be $1.90 to $2.05 per share. But let me break that down a couple of steps further for you. Of the total in the quarter, $0.64 per share were direct costs incurred in restoring the clearinghouse platform and other response efforts. These included higher medical expenses directly stemming from the temporary pause of some care management activities. For the full year, we now estimate these direct costs at $1.30 to $1.35 per share. The $0.40 to $0.45 per share increase in this estimate is primarily related to care provider financial support and costs for producing and mailing the consumer notifications that will begin later this month. As a reminder, these direct costs are included in net earnings but are excluded from adjusted earnings per share.

The other component affecting our results relates to disruption of the ongoing Change Healthcare business. This largely encompasses the loss of revenues combined with the costs of keeping these capabilities fully ready to serve. Notably, these effects are not excluded from adjusted earnings. In the second quarter, this impact was $0.28 per share. For the full year, we now estimate the business disruption impacts at $0.60 to $0.70 per share compared to the $0.30 to $0.40 we estimated last quarter. Most of the service functionality is now restored and revenues are rebuilding even as the pacing of this process varies. These important services are now more modern, secure and capable, and continuing to advance rapidly. Our ambition continues to be to return to baseline performance in '25 and to grow strongly from there.

Turning to international. Following the sale last quarter of our much larger Brazil operations, we classified the remaining South American businesses as held for sale. This is a natural step following the Brazil sale. We highly value the relationships we have built with our dedicated colleagues over the last several years and wish them continued success. In a diverse enterprise with a strong growth record and capabilities such as ours, such portfolio evolutions enable us to keep our focus on the many compelling growth opportunities before us. The second quarter includes a total of $1.3 billion in South American impacts, the majority of which is non-cash and largely due to foreign currency translation losses accumulated over the years. About $220 million of this stems from a regulatory action in Chile, affecting all health plans. You'll see that as a component in the supplemental financial tables we provided this morning. The action relates to industry premium increases dating back to 2020, but as configured, will be reflected in consumer premium credits to be issued in future years. As a result, the entire $220 million was recorded as a reduction to premium revenue in the second quarter, increasing our reported medical care ratio by about 25 basis points.

Turning to the second quarter medical care ratio, it was also impacted by about 40 basis points, or $290 million due to the suspension of some care management activities after the cyberattack. That makes for a total of about 65 basis points of non-repeating impacts, including South America. Beyond these effects, the care ratio in the quarter was also modestly affected by three other factors. One being member mix within Medicare Advantage and dual special needs plans, which this year has been shaped by the unusual competitive benefit configurations in the marketplace. A second being the timing mismatch between the current health status of remaining Medicaid members and the state rate updates, a timing mismatch we expect to realign in the months ahead. And third, the lingering upshift in provider coding intensity, which we believe was spurred by the temporary suspension of our care review activities and carried past. This impact is not reflected in our cyberattack direct response costs, and we have been addressing it. Nonetheless, we continue to expect our full year medical care ratio, excluding 30 basis points of cyber and South American effects to be within the range we offered in November, albeit at the upper end.

For our 2025 Medicare Advantage planning process, we assumed care patterns and mix at the levels we are seeing today, in addition to fully incorporating the second of the three-year phased funding cuts, and we have been fully attuned to how the Inflation Reduction Act will affect Medicare Part D offerings in '25. Also, as noted, we expect the Medicaid timing mismatch to subside as rates are updated throughout the remainder of this year and into next, appropriately reflecting current member health status.

Turning to the performance of our businesses. At UnitedHealthcare, revenues of $74 billion grew by $3.6 billion. UHC domestic commercial membership grew 2.3 million in the first half of this year as employers and consumers responded to our distinctive offerings. And while the '25 selling season is ongoing, we are encouraged by the continued momentum we see. Our recently filed Medicare Advantage bid for '25, again took a balanced approach to provide as much stability for seniors as possible, while factoring in the realities of the funding cuts and current care patterns. You can expect us to continue to prioritize balanced and durable performance over transitory market share gains.

In Medicaid, we expect membership levels to stabilize as we head into the second half of the year and our teams are executing well with both renewals and expansions. Optum Health revenues grew by 13% to $27 billion, and the operating margin expanded over last year. We are on track to approach 5 million patients in value-based care by the end of this year and are progressing strongly on our earlier and deeper engagement with patients, with a purposeful focus on our newer regions to more rapidly improve health outcomes and experiences.

Optum Rx revenues grew 13% to over $32 billion, driven by strong customer response to the differentiated value, consumer experience and clinical expertise we offer. At Optum Insight, for the services beyond Change Healthcare, we see strong performance in line with our expectations. The revenue backlog increased to nearly $33 billion, growth of over $1 billion from a year ago, driven by business process and information technology services for health systems.

A few additional items of note. As we highlighted in April, we established an additional $800 million in medical reserves in the first quarter to reflect the potential for the cyberattack to have affected claims receipt timing. With claims now flowing at more normalized levels, we continue to prudently analyze these trends. Similar to last quarter, the second quarter results do not reflect any favorable earnings impacting medical reserve development. Days [and] (ph) claims payable at 45.2 compared to 47.1 in the first quarter. The change was due primarily to the return to more normal claims submission patterns from providers and to a lesser extent, some impact from reclassifying the remaining South American operations to held for sale.

Cash flows from operations in the quarter were $6.7 billion, or 1.5 times net income, even with the accelerated funding for care providers. In June, our Board of Directors increased the dividend by 12%, marking the 15th consecutive year of double-digit dividend increases to shareholders. During the quarter, as I mentioned earlier, we prioritized devoting resources to support care providers in the wake of the cyberattack over some activities such as share repurchase. It was the right thing to do, devoting all our efforts to provide stability for the health system. Still, with our ongoing strong capital capacities and with support needs abating, we expect to achieve the full year repurchase objective we shared with you last November.

In summary, it is the confidence we have in the performance of our diversified businesses that allows us to affirm full year adjusted EPS in the range of $27.50 to $28.00, the objective we established last year. Even as we have absorbed the unanticipated $0.60 to $0.70 in business disruption impacts. Within this, we expect a balanced pacing in the second half.

Now, I'll turn it back to Andrew.

Andrew Witty

John, thank you. As I said in November at our investor conference, we operate in an environment where change is constant. What you've come to see is that when changes happen, foreseen or unforeseen, we just deal with it. UnitedHealth Group is a nimble and adaptable enterprise, well suited to meet the challenges that come our way and the opportunities we pursue with the many and diverse capabilities available to us. In this first half, as we've done before, we navigated a complex external environment while managing through a significant business disruption. We continue to deliver on our growth objectives and are committed to delivering on our 13% to 16% long-term growth target. We'll now answer any questions you might have. Operator, please.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to A.J. Rice with UBS.

A.J. Rice

Hi, thanks for the question. Just to make sure, expanding on John's comments, if we're thinking about the -- your thinking on MLR overall for the rest of the year, it sounds like beyond Change, beyond Latin America, there's two items you're calling out. One is Medicaid timing mismatch, which sounds like you think it’s short term and then this upcoding, coding intensity comment. And I assume that's mainly in the insurance business, but maybe it's in Optum as well. Can you just give us a sense of how much those are impacting your thinking? And how much is second quarter versus the impact in the back half on those?

Andrew Witty

Yeah, A.J., thanks for the question. Let me ask John to get right to it.

John Rex

Good morning, A.J. Yeah, and really kind of three items that we're talking to in addition to those two here, also the member mix component here when you bring it all together, those additional items that we're looking at in terms of -- versus where we were and how we're thinking about it. I would say they’re in kind of roughly equivalent -- in roughly equivalent zone in terms of their impact here. And then how they flow throughout the year -- the rest of year, really, you'll see some of those elements. So, as it relates to Medicaid impacts, pricing goes on over a period of, say, kind of 12 months or so. So there's pricing that occurs over the rest of this year into next year. So those elements in terms of catching up -- that mismatch catching up with the acuity that we have in the remaining population occurs over a period. Certainly, we are addressing the elements we talked about in terms of what we're seeing in the coding up shift, and we're well underway in addressing those elements, but we'll continue to address them throughout the course of the year. The member mix is kind of the member mix we have now at this point. And that really pertains to just the elements that I mentioned in my prepared comments about some of the benefit design impacts and how that impacted both our growth and also the type of membership that we were left with as we saw our full configuration. That really lasts with us throughout the year. So -- but that was an element we also incorporated into our view for 2025 as we approached our bids for '25. Thank you.

Andrew Witty

Well said, John. And maybe just to reiterate one thing John said and then maybe add a further point, A.J. Super important just to hear what you said in terms of that member mix, obviously, we deal with it during this year, but we obviously had the opportunity to incorporate into our '25 planning and bids. So, feel very good about that. And then the secondly, maybe just to reflect, step back just a little bit on as we think of MLR. Really, the biggest incoming dynamic on MLR at the beginning of this year was the funding reduction in MA, the V-28 significant reduction in funding. And you can see that we are fundamentally navigating that, I think, extremely well. And yes, there are a couple of areas of pressure at the margin. I think as you just heard from John, they're primarily boxed off in terms of they're going to work their way through the pricing cycle with Medicaid or in the case of concerns around coding activity, we're very focused on that, confident we'll be able to -- we are addressing that. So those things feel transitory. Most importantly, we feel good about the way our response to the V-28 funding cut is playing out for us in the overall business. And really that -- as we started the year, that was the much bigger thing to make sure we got right, and I'm feeling like we're well on our way through the first year of this three-year cycle, and we've talked to you repeatedly about how critical it is to make sure we navigate that over the long run, and we feel good about that. So, thanks, A.J. Next question?

Operator

Yes. We'll go next to Lisa Gill with JPMorgan.

Lisa Gill

Thanks very much and good morning. I want to focus for a minute on SG&A, which came in much better than expected. Can you maybe talk about the key components of where you're seeing cost savings, the durability? And, Andrew, you touched a little bit about AI efficiencies there. Are you starting to see that in this quarter? And how much opportunity is there from an SG&A perspective when we think about AI?

Andrew Witty

Lisa, thanks so much for the question. I'm going to ask John to comment a little bit. Let me make a couple of kind of upfront comments and then maybe a couple of examples more specifically to help you a little bit on this. So, to get your last point, we are running now hundreds of AI use case deployments. I'd say the first wave of those are essentially allowing us to do things much more quickly, much more reliably, much more efficiently than humans can do them. So an ability to navigate complexity to find answers within complex datasets. And super important, and I'll give you a couple of examples of how that begins to help us as we go on. I think we are now -- you will also start to see as we roll through the end of this year and next year, those same kind of tools begin to be deployed in fundamental reimagination of business process. So one is essentially allowing an existing process to run more efficiently. The second is, can we actually take steps out of a process and really start to change things. I'd call out payment integrity as a front-runner in that particular regard. And you'll start to see a lot of movement there over the next year or so, Lisa. And it's going to be, I think, OptumInsight '25, '26, '27 in terms of deployment of technology to change many of the processes that we've been used to for decades is coming, and that's going to be a very exciting phase. If you look in the short run, I'll give you a couple of examples. And this plays a little bit around technology. I certainly wouldn't say these are all Generative AI examples, but they're certainly digitization examples. They are certainly technology-enabled examples. So for example, we brought on this year at OptumRx a record number of clients. You've seen the growth. You can imagine the number of folks who've been signed up into Rx platforms. We actually spent 9% less this year in the onboarding of that record volume than we did the prior year, 9%, that's entirely due to digitization, technology efficiency deployed through the organization. Let me take you into another part of the organization, OptumHealth. We've more or less increased our number of risk -- fully risk delegated lives within OptumHealth by about 40% over the last two years. That's -- by the way, that's in excess of 1 million -- almost 1.5 million more lives over that period with zero increase in personnel headcount in the risk-based businesses. So, zero increase in headcount in a business which has increased its served members by close to 40%. So those are just a couple of examples. You're seeing that show up in those two examples, Optum. That's why you're starting to see that leverage flow through the Optum business line and it's something we obviously expect to continue to sustain over many, many quarters and years. And, John, I'd love you to go a little deeper.

John Rex

Yeah. Good morning, Lisa. As you can -- I guess I'd start by -- it is early in that journey in terms of the potential and opportunity for what we can do. And yes, it was a very strong quarter in terms of cost management. But let me just step back a moment here. As you can imagine, given how some of these businesses were built and the fragmentation of the system, there are duplicative functions and uneven consumer experiences throughout that we're addressing. And as our businesses begin to scale, our ability to produce efficiency accelerates while, at same time, we can improve those customer experiences and expand the best practice across the broader base. The comments that Andrew was offering in his answer to your question, it's just really a natural outgrowth as these businesses begin to move beyond what we have viewed the earliest phases to a more adolescent phase. That's what we're seeing. Very strong this quarter. Over the longer term, we can expect advancement. I wouldn't expect it to remain at this level consistently as we look ahead over the next few quarters, though. It was a super strong quarter. But we are going to look to invest in many of these items that Andrew just articulated here, getting to a more modern streamlined experiences as these businesses evolve further. So I wouldn't expect it to persist right at this level as we make those investments, and we're anxious and ambitious to make those investments.

Andrew Witty

Great. So, Lisa, thanks for raising it. You can tell it's a big focus for us. We laid out when V-28 first was announced, that one of the three ways that we would respond to this is we would double down on our own cost management efficiency and productivity, you're absolutely seeing that. And that coincides with an extraordinarily and exciting moment around technological innovation, whether that's Generative AI, digitization, all wrapped together in our march toward a greater consumer focus within the organization. All of that really hangs together is very much the core focus of how we think about things going forward. Thanks, Lisa. Next question.

Operator

We'll go next to Josh Raskin with Nephron Research.

Josh Raskin

Hi, thanks. Good morning. Looking at your bids that you submitted for MA for 2025, I'd be curious if you could tell us if you were bidding to improve MA margins in 2025, or if you're still within that target range in light of the G&A savings? And then more importantly, maybe just some early thoughts on what sort of growth assumptions you have included in those bids, both your assumption for the market as well as any potential market share gains?

Andrew Witty

Hey, Josh, thanks so much. I'm going to ask Tim Noel to address the first part of your question. On the second part, you're not going to be surprised. I'm going to defer from making any predictions about next year. It's still a little early. We'd like to see where everybody else plays out in this cycle. I think we [also are] (ph) in the 2024 cycle. Ultimately, the way growth plays out in the marketplace depends on how everybody bids, not just on how you bid. And it only takes one bid to be kind of out of expectation to completely distort your view of how things could play out. So, just going to defer a little bit on that one, but on the first point, Tim, I'd love you to make a few comments.

Tim Noel

Thanks, Josh, for the question. So, as we think about margins in the MA business and as it relates to our bid, I think we've talked about the consistent approach to how we plan margins. And we maintain -- continue to maintain that and we're operating comfortably within that margin range as we have in the past and as we're planning in 2025. And then when I think about our pricing approach for 2025, as Andrew mentioned, too early to get into a lot of specifics as CMS is reviewing those bids right now. But we're in a posture and how we've priced those products as we'll be comfortable with whatever growth is the outcome of the products that we bring to marketplace in 2025.

Andrew Witty

Great. Thanks so much, Tim. And, Josh, appreciate the question. Next question, please.

Operator

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

Stephen Baxter

Yes. Hi. Thanks. Can you speak in a little greater detail about your expectation that the Medicaid pressure starts to subside in the second half of the year? I guess specifically, can you maybe speak to what you actually know about rates today, either draft or finalized, versus perhaps speaking to a general reliance on actuarially sound rates playing out over a reasonable period of time? Just trying to understand the level of visibility that you have a bit better. Thank you.

Andrew Witty

Okay. Hey, Stephen, thanks for the question. I'm going to ask Krista Nelson, who leads our Medicaid business to respond to that. Kristen?

Krista Nelson

Yeah, thanks so much for the question. So as it relates to visibility, we've got visibility into the majority of our rates for ‘24. And while there's just a slight gap in the second quarter, we really like how our 7/1 rates are shaping up and continue to work with state partners to influence key assumptions before those rates become final in the future. And while we might see a little bit of dislocation the rest of the year, states have really committed to accurately reflecting the change in acuity from redeterminations into current and future adjustments and really expect this to even out as we pace through the remainder of ‘24 and early ‘25. Thanks for the question.

Andrew Witty

Krista, thanks so much. So I mean, listen, Stephen, I think you heard there why we're confident that this is really a kind of time-fenced issue and in the grand scheme of things, I would characterize this as a margin. It's a part of what you've seen in this small deviation in Q2, but we don't really see it as a sustainably structural issue and you heard exactly why just there. So, thanks, Krista. And, Stephen, thanks for your question. Next question, please.

Operator

We'll go next to Justin Lake with Wolfe Research.

Justin Lake

Thanks, good morning. Just a quick clarification and then a question about second half MLR. So first, the clarification. On the MLR, it sounded like, John, you're guiding to a core MLR at the high end of the range or 84.5%, and then I would add 30 basis points of the one-timers for the full year that you've seen in the first half, that would leave GAAP MLR at 84.8%. Is this correct and to be clear, is there any expectation for further one-timers in the second half of the year? Or should the third and fourth quarter kind of be clean? And then my question is just around, core MLR in the first quarter, ex the one-timers was 84.2%. Sounds like it'll be 84.8% in the second half. Maybe you could help us think about 3Q versus 4Q just to make sure our expectations are set correctly, given how much focus there is here. Thanks.

John Rex

Good morning, Justin. I'd say first, yes, the way you described our assumptions around core full year MLR are consistent with our expectations. So how you describe that is quite consistent. As it relates to just looking at towards the 3Q and such, I'd expect that to be in the neighborhood of 84%, very likely a few tens of basis points higher than that. So, it's kind of a little bit above that in that zone. As it relates to kind of other elements that we've pulled out here, no, they shouldn't be material. Those cyber effects should continue to abate. As we mentioned, we're not adjusting for the elements we talked about the provider and coding intensity, so that kind of pulls through a little bit. But there shouldn't be any material other impacts that we're thinking about. Thank you.

Andrew Witty

Thanks, John. Thanks, Justin. Next question, please.

Operator

We'll go next to Scott Fidel with Stephens.

Scott Fidel

Hi, thanks. Good morning. Actually, I was hoping we could maybe do a similar exercise as Justin just asked about with MLR for OptumHealth margins. And maybe first, if you can talk about how the OH margins came in at 2Q relative to your expectations. And then how you're thinking about OH margins progressing in 3Q and 4Q? And then how comfortable you are with getting into that -- the full year target range that you had provided. And, John, I thought it might be helpful to -- as we think about the sort of pacing in the back half of the year, in particular, how you're thinking about an exit rate for OptumHealth margins as we're exiting 2024 would be helpful? Thanks.

Andrew Witty

Scott, thanks so much for your question. I'm going to ask Dr. Amar Desai, who leads OptumHealth to give you a few comments there. I mean, let me just preface that by saying, look, we feel good -- very good about the continued progression and in particular, the way in which OptumHealth is -- has adjusted to deal with the new funding environment. I'm also very, very encouraged by the degree of external payer engagement with our OptumHealth platform as they deal with the environment themselves and look at Optum as a part of that solution. And I think the performance of the business you see is, it continues to improve over last year. You continue to see decent progression. And let me ask Amar to give you a little bit of a sense of how he sees the second half of the year playing out.

Amar Desai

Hi, Scott. Thanks for the question. So as Andrew said, we're in the middle of the first year of a large rate reduction over the next three years, effectively being a price cut. And as we think about the initiatives, we're pleased with the early success, mitigating the impact of that changing rate environment. In '23, we developed a three-year plan to manage through V-28. Medical cost management and affordability initiatives was at the center of it. Proactive clinical engagement that impacts member experience and total cost of care is obviously core to that, including better prevention and chronic disease management and then disciplined operating cost management, more efficient ways to work, improvements in productivity, driving consistency in our workflows and systems, which Andrew and John alluded to. We're executing very well on this plan, seeing solid progress across each of these areas. As an example, at this time last year, we had engaged 62% of all members. Year-to-date, we've engaged three-fourth of all members and above that for our highest risk membership. We're also focused on coordination of care, particularly at transition points in care, where we've increased post-discharge visits for patients who have been hospitalized that has, in fact, reduced readmission rates by 10% in our most mature markets. So, as we pace through the balance of the year, we expect to continue to build on this momentum across engagement, affordability and operating cost management and are confident in the 7.7% to 8% target for the year.

Andrew Witty

Great. Amar, thanks so much. And, Scott, thanks again for the question. Next question please.

Operator

We'll go next to Kevin Fischbeck with Bank of America.

Kevin Fischbeck

Great, thanks. Just wanted to clarify, I guess, something and ask another question. It wasn't clear to me what you were saying about no favorable reserve development. Does that mean the $800 million that you mentioned previously is still somehow in the numbers? Or is that kind of worked its way through at the end of Q2? And then I guess just trying to understand better where the outperformance is because obviously, you guys have assumed $0.60 to $0.70 of Change costs in your guidance but reaffirm the numbers and it doesn't sound like Medicare is the answer, doesn't sound like Medicaid is the answer, Change isn't the answer. So where has the outperformance come in that’s allowed you to maintain guidance? Thanks.

John Rex

Yeah. Good morning, Kevin. This is John. So yeah, exactly what we said there was nothing material there going on in development. No favorable P&L impacting development in the quarter, very similar to last quarter in terms of there was just no impact being there. And in terms of just a comment -- or questions regarding outperformance, well, maybe some across a number of the businesses in terms of where we're seeing, we're seeing very strong growth, certainly in our commercial health benefits business, we're seeing strong growth. We're seeing margin progression in OptumHealth. So we're seeing advancement. The -- really, the strong approach that the team at M&R took and tell how they looked at '24 in terms of overcoming the headwinds at V-28 and the very disciplined approach they took to how they stepped out into the marketplace with the products that they took. Even with some of the elements that we talked about that we're overcoming there, but certainly, all those creating a good impact from us. Clearly, just across the company, the strong operating efficiencies that the company is driving, strong and sustained. And as I said, look, we will continue to make investments, but really a significant progress on that and still very early stage. So as Andrew commented in terms of the potential we have as we look over the next three years and this impact, and we're just getting some of these businesses to a maturity level where we think we can really harness that. Thank you.

Andrew Witty

Yeah. Thanks, John. And let me just also reiterate that point. I mean part of what you're seeing here, Kevin, is obviously, the big change this year was the V-28 funding cut price reduction, which obviously focuses primarily on our Medicare Advantage business that Tim runs and the OptumHealth business that Amar runs, both of whom are responding super well. But let's be clear, while those pricing cuts are focused on two businesses, team UHG is responding, right? The entire corporation is engaged in how it manages itself better, reduces cost across the company, leverages technology, accelerates our consumer agenda, all designed to play our part across the board in how we offset the pressure that's been inflicted on those two important businesses. Why we're confident we can navigate this? I think you're seeing that in the performance of the business, and we're going to continue -- it's why I said what I said earlier today. We're going to continue to focus on every aspect of our business to make sure that the model we've laid out and we believe is the right one for delivering best value care for patients is the one that prospers and we're super confident in that. Next question?

Operator

We'll go next to Andrew Mok with Barclays.

Andrew Mok

Hi, good morning. The OptumInsight backlog was down about $200 million sequentially. Can you give us color on the drivers of that and the nature of conversations you're having with providers following the cyberattack? Do you expect further declines in the backlog this year? Thanks.

Andrew Witty

Andrew, thanks so much for that. Let me ask Roger Connor to address that. It's pretty straightforward. But let me ask Roger to answer that and maybe give you a little bit more flavor on what he's seeing.

Roger Connor

Yeah, Andrew, thanks very much for the question. Just in terms of backlog, obviously, an important measure and there has been some impact from the Change events within that. What it doesn't include, obviously, is what we're doing in terms of bringing in new clients and what we're doing in our whole innovation space. But fundamentally, we are very confident in terms of the performance going into next year with the cyber event certainly from an impact on the overall health system is not absolutely minimal. When you look at our overall focus, it's now on driving that business recovery. And that's all about bringing volume back into the system. And we're seeing that actually really ramping up and seeing momentum acceleration. We're not only trying to bring volume back into our current customers. We're also going to bring new clients in, and that's exciting because this event has really transformed the marketplace. They're looking for, again, access to innovation, access to security in the system and that's what we've brought back. We've brought back a very secure system, and that is resonating or seeing that momentum. You add that to the underlying strength of the OptumInsight business. Again, Change is only 15% of our overall business performance this year, was planned. That's why we're confident in terms of getting back to our baseline performance in 2025.

Andrew Witty

Great. Thanks so much, Roger. Thanks, Andrew. Next question.

Operator

We'll go next to Nathan Rich with Goldman Sachs.

Nathan Rich

Hi, good morning. Thanks for the question. I wanted to go back to the provider coding activity that you called out and asked maybe what you saw kind of change in the quarter and what actions you're taking to address this change? And is this pressure something that accounted for in bids for next year? And then if I could just ask a very quick clarification on the Change impact on EPS. You talked about the return to baseline performance in 2025. Does that mean you would expect to recover the $0.60 to $0.70 [that is in] (ph) earnings this year? Thank you.

Andrew Witty

Okay. Thanks so much for the question, Nathan. Brian, if you'd like to go first?

Brian Thompson

Sure. I'll answer that first part on the upshift that we saw in provider level of care coding patterns. We actually believe that was largely induced by our level of care waivers that we did during the cyber disruption. The reason we believe that is we really saw a higher level of mix to inpatient versus observation after we went back to turning on our utilization management protocols. Pretty distinct on April 15th and thereafter. So that's why we see that. Certainly aware of that activity as we plan for 2025 in our bid. So, really no concerns with respect to that. I feel like it's an anomaly tied to what we saw during our waiver. And we have reinforced our utilization management protocols and believe that these impacts will dampen as we pace through the remainder of the year.

John Rex

Yeah. And regarding Change, yes, as we mentioned in our comments and Roger mentioned, our ambition is to get back to baseline expectations performance for that business in 2025. So those baseline expectations being what we would have expected prior to any of this happening. And clearly this quarter, we have increased the impact of the business disruption here. So as we bring those back, there's the pacing of those revenues coming back, taking sometimes a little bit more time to bring in, but that is our ambition, actually, as we look ahead.

Andrew Witty

Thanks, John, Brian. I mean, again, just on this business interruption piece, I mean, I think in all honesty, we were a little optimistic in hindsight at the pace at which we thought people would come back in terms of putting their flow through the system once it was reconnected. I think as we've looked at the last several weeks, that momentum and pace, and particularly as we look at new clients come in and as well as returning clients feel good about where we are now. So I think probably a little overoptimistic three months ago. I think now, I feel like we have this now and we're in good position and the rest of the year we've got a clear path how this plays out. And I think the platform that we've rebuilt is going to serve people extremely well. Next question.

Operator

We'll go next to Erin Wright with Morgan Stanley.

Erin Wright

Great, thanks. So on the earlier topic of potential offsets, I wanted to ask on Optum Rx and with the recent level of industry attention kind of on the PBM business as well as kind of specialty pharmacy, how should we think about how those drivers are playing out relative to your expectations, whether it's biosimilars or GLP-1s in terms of that therapeutic category, how should we think about those near-term drivers across Optum Rx? Thanks.

Andrew Witty

Erin, thanks so much for the question. Let me ask Heather, who runs Optum for us, to make a couple of comments on that, if you don't mind, Heather.

Heather Cianfrocco

Sure. Just basically, I think you can see in the quarter, just strong performance, maybe a couple of things I would just highlight for that. We've talked for a few years about the investments we've been making in Optum Rx on both the PBM side, but also on the pharmacy side. PBM side, you've seen the growth there in client and just in volume, sort of same with respect to volume within our existing clients as well. We take that as a sign of strong retention of existing clients and continuing to perform with them. I think the thing I'd highlight on the PBM side is, I've said this before, the modular effect of the PBM business. We serve at the privilege of our clients, so what they need, we serve, And that is we administer their benefit. And we offer the programs, the services to drive affordability of medications for them in the best interest of their members. And we've brought a lot of products and services in the last year. Two or three new products this market that are leading differentiating in the marketplace that we are seeing our health plans and our employers take advantage of this year that are really market differentiating and we are seeing that drive not just growth with health plans, but growth in products and services. So I think you're seeing that show up. The other thing you're seeing is the cost efficiency show up in the business. One of the -- Andrew brought up an example. And you're seeing some of the timing of supply chain efficiency. On the services side of the business, you mentioned specialty, I call out the diversification of the pharmacies in general. Remember, we've got the integrated behavioral health business which continues to grow and expand. It's a very differentiated business in that it's co-located and it's specifically directed at those behavioral health members to ensure access and affordability and holistic care to individuals with mental health conditions. And then our frontier and our infusion services that really drive those specialty medications in-home, we're seeing continued need for that from our PBM clients, but also non-PBM clients. And so that's where we're really seeing that diversified growth. So you're just seeing that show up in continued, consistent performance in that business through the quarter.

Andrew Witty

Heather, thank you. Erin, thanks so much for the question. We have time for one final question, please.

Operator

We'll go next to Lance Wilkes with Bernstein.

Lance Wilkes

Great, thanks. For OptumHealth, could you talk a little bit about what pricing has been like there? And, in Investor Day, it seemed like you may have seen some improved pricing as far as global cap rates, and likewise given higher global cap rates out of the MA business. Was wondering if ‘25, we should be expecting continued improvement in that, or whether there needs to be a retrenchment or retracing of that kind of makeup for what was given? And also, are you starting to exclude things from global cap as you look at 2025? Thanks.

Andrew Witty

Hey, Lance. Thanks for the question. And love the cheeky attempt at the end of the call to get us to predict, give you some numbers for ‘25. We're going to defer from that, but well done on the last-ditch effort. I'm going to ask Amar to give you a little bit more of a kind of general sense of how we're seeing that. And please go ahead, Amar.

Amar Desai

Thanks for the question, Lance. Look, we continue to have very strong relationships across our over 100 plan partners. And in fact, in a pretty dynamic rate and benefit environment, we've seen increased outreach from payers looking for an enduring partner that's very adept at operating within fully capitated value-based arrangements. In particular, the discussions have been productive around benefit design, funding, market level planning and we're confident in the position as we go into 2025. We're down the path in adding plan partners as well as adding geographies for 2025. Foundational within that to those relationships and as we think about those arrangements is quality, quality of care of our providers that are anchored in the community, our strong ability to drive clinical outcomes, improvements and achievement in star measures, and of course strong documentation and diagnosis. We also are seeing that the strength of our network that's aligned in geographies is an important focus area for plan partners, and of course continued focus on clinical engagement which I mentioned previously. So when you take that together, great momentum across those areas gives us confidence as we drive value for our plan partners and as we pace through the next two years of the risk model changes and grow.

Andrew Witty

Amar, thank you very much. And as I think you could probably sense from those couple of answers that Amar has given you over the course of the call, Amar leads a very, very special team of people running a very, very special business in terms of what it’s able to do on behalf of patients and the way it's able to provide great work experience for the healthcare professionals and colleagues who work in that business. I'm very pleased with how the continuation of that business progresses.

We're coming toward the end of the call. I'd like to thank you all for your questions this morning. As you've heard, our focus on fundamental execution, our restless spirit, and our ability to adapt to changing environments gives us great confidence as we look ahead and as a testament to the hard work and discipline of the people of UnitedHealth Group who work every day to serve patients, consumers, and care providers, customers efficiently and effectively. We appreciate your time this morning. Thank you.

Operator

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

Read more current UNH analysis and news

View all earnings call transcripts

Comments