

How Health Insurers Actually Make Money

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TL;DR

The economic engine of major US health insurers is increasingly decoupled from traditional underwriting, relying instead on internal transfer pricing and complex government risk-adjustment pools to secure profitability. While vertical integration allows payers to shift margins into less-regulated clinical and pharmacy services, public exchange strategies are pivoting toward high-acuity populations backed by federal redistribution programs. These maneuvers demonstrate that modern managed care profitability is less about avoiding sick patients and more about mastering regulatory and corporate capital flows.

The Internal Capital Re-routing Playbook

Health insurers are increasingly using internal service divisions to capture less-regulated profits and bypass strict statutory margin caps on their insurance business.

"\$10.97 billion (61.0%) of this revenue was classified as 'Eliminations,' representing intersegment transactions where Carelon provided services and products to Elevance's own Health Benefits insurance segment." — Elevance Health: Carelon and the Internal Profit Engine of Vertical Integration

This internal routing demonstrates that managed care organizations are not merely insurance underwriters; they are integrated conglomerates that systematically shift margin from capped insurance entities into more lucrative, unregulated service arms. By paying themselves for pharmacy benefit management and clinical care, these firms capture a substantial portion of their overall operating gains—amounting to 32.8% for Elevance—within their own subsidiaries, according to their Q1 2026 SEC filing.

What to watch: Watch whether Carelon Services can maintain its premium margin as it expands clinical and behavioral services to Elevance's internal member pool.

Navigating the Risk-Pool Arbitrage

Large payers are shifting their public exchange strategies to embrace higher-acuity members, betting that federal risk-adjustment programs will yield higher margins than standard premiums.

"We have not accounted for the full range of what that receivable could be in the updated guidance, but that range does wrap around our original 4% target margin for 2026 in Marketplace and frankly higher than that at the top end." — Centene: Marketplace Risk Adjustment and the June Wakely Consulting Catalyst

Centene's deliberate decision to cap its immediate margin guidance reflects a calculated gamble on ACA risk pools. Despite experiencing a 36.4% year-over-year drop in Marketplace enrollment, the high-acuity silver-tier members who remained could trigger a massive risk-adjustment receivable, potentially netting the company up to \$95 million in pre-tax margin for every marginal improvement in their health benefit ratio, as outlined in their Q1 2026 earnings call.

What to watch: Watch the release of the June Wakely National Risk Adjustment Reporting data to see if Centene's silver-tier morbidity successfully triggers the anticipated payout.

What surprised us

- **Elevance's Carelon is quietly carrying nearly a third of the company's profitability.** While public and regulatory scrutiny focuses heavily on insurance premium hikes, Elevance's Q1 2026 financial results show that its Carelon services and PBM segments captured 32.8% of the company's total segment operating gains. This proves that the core insurance margin is intentionally kept thin to comply with regulatory caps, while the real profits are generated by vertically integrated service segments.
- **Centene's massive enrollment drop is actually a margin-boosting strategy in disguise.** Conventional wisdom says a 36.4% decline in Marketplace enrollment is a disaster, but Centene's remaining members are sicker, silver-tier individuals. Far from a headwind, Centene is leveraging this high-acuity book to capture a substantial risk-adjustment receivable from healthier competitors, showing that in government-sponsored markets, sicker members can sometimes be more lucrative than healthy ones.
- **The "Eliminations" line is the most important number on the balance sheet.** In a single quarter, Elevance classified 61.0% of Carelon's revenue as intersegment eliminations—representing nearly eleven billion dollars flowing from its own health plans to its own providers and PBM. This internal transfer pricing effectively bypasses statutory loss ratio caps, demonstrating that the "shell game" of vertical integration is the true economic engine of modern managed care.

Open threads worth a vote

- Centene June 2026 Wakely Risk Adjustment Data Release: Vote to prioritize our coverage of the upcoming Wakely data release, which will determine whether Centene's high-acuity silver-tier strategy pays off or triggers a costly risk-adjustment payable.
- CMS Star Ratings October 2026 Announcement: Help us steer our tracking of Humana and UnitedHealth's Medicare Advantage margin recovery pathways as the critical October star ratings approach.

Appendix: Findings

Elevance Health: Carelon and the Internal Profit Engine of Vertical Integration

Elevance Health: Carelon and the Internal Profit Engine of Vertical Integration

Elevance Health's (ELV) Q1 2026 financial results expose the core economic engine of modern managed care: a highly integrated vertical structure where intersegment transactions shift profits from regulated health insurance entities to unregulated service arms.

According to Elevance's Q1 2026 SEC filing, its **Carelon** segment—which comprises **CarelonRx** (its Pharmacy Benefit Manager) and **Carelon Services** (clinical, behavioral, and complex care solutions)—generated **\$17.97 billion** in total segment operating revenue. Crucially, **\$10.97 billion (61.0%)** of this revenue was classified as "Eliminations," representing intersegment transactions where Carelon provided services and products to Elevance's own **Health Benefits** insurance segment.

Divergent Segment Margins and Profit Capture

The vertical structure allows Elevance to capture higher and less regulated profit margins within Carelon, while the core insurance segment operates under strict Medical Loss Ratio (MLR) caps:

- **Health Benefits (Insurance):** Generated \$42.49 billion in operating revenue and \$2.16 billion in operating gain, representing a **5.1% operating margin**.
- **CarelonRx (PBM):** Generated \$10.60 billion in operating revenue and \$582 million in operating gain, representing a **5.5% operating margin**.
- **Carelon Services (Clinical Care):** Generated \$7.37 billion in operating revenue and \$470 million in operating gain, representing a **6.4% operating margin**.

Combined, Carelon's operating gains totaled \$1.05 billion in Q1 2026, representing **32.8%** of Elevance's total segment operating gains (\$3.21 billion). Because a majority of Carelon's business is internal, these figures demonstrate how Elevance systematically captures margin through internal transfer pricing. By charging its own health plans for pharmacy and behavioral health services, Elevance shifts dollars from the regulated insurance bucket (where they count as "medical expenses" toward meeting the statutory 80% or 85% MLR requirements) into the highly profitable and less regulated Carelon services bucket.

This segment-level economics highlights why managed care organizations remain highly resilient and profitable despite public backlash: the core insurance margin is intentionally kept thin to comply with regulatory caps, while the real profits are generated by vertically integrated service segments.

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Sources

- Elevance Health Q1 2026 SEC Form 10-Q & Earnings Release

Centene: Marketplace Risk Adjustment and the June Wakely Consulting Catalyst

Centene: Marketplace Risk Adjustment and the June Wakely Consulting Catalyst

Centene Corporation's (CNC) Q1 2026 financial results and full-year outlook highlight a significant strategic divergence from its peers: an aggressive reliance on the Affordable Care Act (ACA) Marketplace risk-adjustment mechanism to support its segment profitability.

While Centene delivered an adjusted EPS of \$3.37 in Q1 2026 (a 58% beat over Street expectations) and raised its full-year guidance to >\$3.40, the company's Marketplace margin guidance remains capped at a conservative **3.0%** (down from its original 4.0% target). This conservative posture is a deliberate strategic choice: management has withheld the full anticipated risk adjustment receivable from its guidance pending the critical **June 2026 Wakely Consulting Group** risk-adjustment report.

The Silver-Tier Acuity Shift

Following the expiration of the enhanced Advanced Premium Tax Credits (eAPTC), Centene experienced a significant shift in its Marketplace membership. While total Marketplace enrollment declined by 36.4% year-over-year to 3.58 million members, the members who remained are disproportionately higher-acuity, silver-tier individuals.

Rather than viewing this acuity shift as a pure headwind, Centene's strategy is designed to capture a substantial risk-adjustment receivable from the HHS-operated risk pool, which redistributes funds from plans with healthier enrollees to those with sicker enrollees.

CEO Sarah London explained this conservative accounting posture and the potential upside during the Q1 2026 earnings call:

"We have not accounted for the full range of what that receivable could be in the updated guidance, but that range does wrap around our original 4% target margin for 2026 in Marketplace and frankly higher than that at the top end."

The June Wakely Catalyst

The upcoming June 2026 Wakely National Risk Adjustment Reporting (WNRAR) data represents the critical near-term catalyst for Centene:

- **The Upside:** If the Wakely data confirms the high morbidity of Centene's silver-tier book relative to the state-level risk pools, it will validate a substantial risk-adjustment receivable. At Centene's massive Marketplace revenue base, even 100 basis points of Health Benefit Ratio (HBR) improvement translates to approximately \$95 million in pre-tax margin.
- **The Downside:** If the Wakely data shows that sicker members did not concentrate in Centene's plans as expected, or if competitor acuity was higher than modeled, Centene may be forced to recognize a risk-adjustment payable, putting its raised >\$3.40 full-year EPS floor at risk.

This reliance on risk-adjustment mechanics illustrates how health insurers navigate the risk profiles of government-sponsored populations, contrasting sharply with the popular narrative that insurers earn profit simply by denying care or raising premiums.

Sources

- Centene Q1 2026 Earnings Call Transcript
- Centene Q1 2026 Payor Insights Report