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CVS' biggest healthcare moves in 2024

Article

The trend: A series of concurrent headwinds are impacting different sectors of CVS' business. Eyeing a return to profitability for Aetna, the company has taken immediate steps—including appointing new leadership and cutting considerable costs—to help steady the ship.

Here's our take on CVS' 3 biggest healthcare moves in 2024:

1. CVS Health made big leadership changes after a series of failed health services investments.

David Joyner was appointed president and CEO of CVS, replacing the ousted Karen Lynch. Under Lynch's leadership, CVS acquired **Aetna** for $70 billion and two senior-focused health services companies—**Oak Street Health** and **Signfiy Health**—for nearly $19 billion combined.

Lynch wasn't able to boost CVS' bottom line by connecting enough Aetna members with healthcare services from Oak Street and Signify. Lynch never fully figured out how to accomplish this in a way that would justify the massive investments in the senior-focused entities. Today, both companies appear to be worth less than what CVS paid for them.

Why it matters: Joyner as CEO could start reversing CVS' financial fortunes given his decades of experience working for the vertically integrated "payvider," including as president of its PBM, **CVS Caremark**, and at Aetna.

2. It reimagined its health insurance strategy due to underwhelming performance in the Medicare Advantage (MA) space.

As a whole, Aetna may finish the year operating at a loss—a remarkable downfall after generating nearly $5.6 billion in adjusted operating income for 2023.

MA was the primary culprit, chiefly due to enrollees receiving more medical care than the company planned for. CVS' failures in the MA market prompted the company to bring in longtime health insurance veteran Steve Nelson as Aetna's president to right the ship.

At largest issue is Aetna's ever-rising medical benefit ratio, which has increased from 86% in Q3 2023 to 95% in Q3 2024. For context, a lower medical benefit ratio means the health plan pays fewer claims for care received than what it collects in premiums.

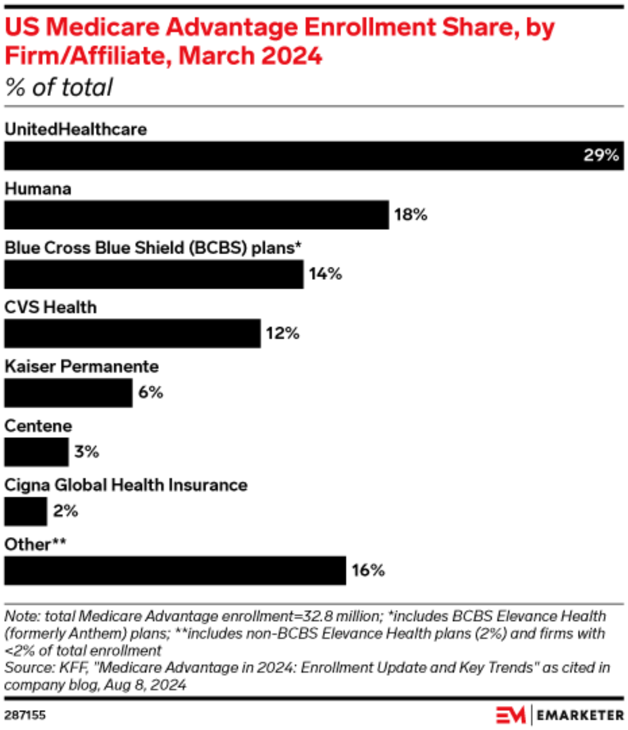
Why it matters: CVS executives express confidence in the actions they've taken to improve margins in 2025, which could include removing unprofitable plans, reducing benefits, and increasing premiums. Aetna anticipates losing 5% to 10% of its MA membership as a result. Currently, some 12% of all MA members are enrolled in a CVS Health/Aetna plan.

3. CVS explored a company breakup.

Amid a strategic review, CVS considered separating its retail and insurance arms. Mounting pressure from investors to cut costs and improve the struggling company's financial performance helped spur the exploration.

Ultimately, CVS decided to move forward intact. However, the company implemented layoffs as part of a previously announced $2 billion cost-cutting plan that will affect about 2,900 employees, primarily serving in corporate roles.

Why it matters: While health insurers and PBMs have a long track record of profitability, retail pharmacies can't say the same. That tells us CVS realized it would have its work cut out to make any possible offshoot a success.



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