

# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

## Pickleball Won't Tank Big Insurers

UnitedHealth results offer reasons for optimism

Seniors, you can go back to playing pickleball. But go easy on those joints.

On Friday, **UnitedHealth Group**, parent of the largest health insurer in the country, posted better-than-expected earnings and raised the bottom end of its outlook for the rest of the year, despite higher medical costs related to an increase in procedures among seniors.

Last month, large managed-care companies including UnitedHealth and **Humana** warned investors that seniors were feeling more comfortable going back to the operating room for such things as hip and knee replacements after lower medical utilization during the pandemic. UBS even said the rapid adoption among seniors of pickleball, which combines elements of tennis, badminton and ping pong,

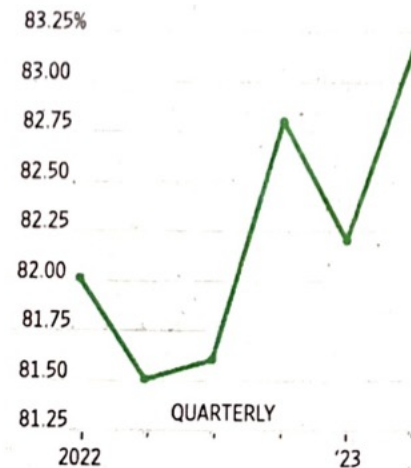
could be adding to injuries.

The insurers' predictions on seniors weren't off the mark. On Friday, UnitedHealth said the company's medical loss ratio rose to 83.2% from 81.5% a year earlier. That number reflects the proportion of premiums paid out for medical expenses, so when it climbs there is less room for profit. "As we discussed several weeks ago, during the second quarter we observed increased care patterns, notably in outpatient surgeries for seniors, and especially with certain orthopedic procedures which may have been postponed," said Chief Executive Officer Andrew Witt.

And yet UnitedHealth's stock shot up 7.2%. **Elevance Health**, **Cigna Group** and Humana were all sharply higher as well.

The stock gains were essentially

UnitedHealth medical loss ratio



Source: FactSet

a relief rally after insurers had become hard to own this year given the rising utilization concerns and pretty significant regulatory scrutiny of their pharmacy-benefits business. Even after Friday's rally, insurers have been significant underperformers, with the four aforementioned stocks all underperforming the S&P 500 by more than 25 percentage points this year.

Investors will now be closely watching to see how other insurers fare. Humana, which reports in early August, said it expects higher costs related to an increase in pro-



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Pickleball's adoption among seniors could be adding to the number of injuries.

cedures.

That UnitedHealth, the nation's largest managed-care company, usually seen as a bellwether for the industry, was able to deliver a beat helps instill some confidence in the sector, though costs are expected to remain elevated.

Pickleball could indeed be a part of the reason. After analyzing the growth in pickleball as well as the nature and frequency of related injuries, UBS analysts last month estimated that \$250 million to \$500 million of medical costs might be directly attributable to the nascent

sport. More broadly, pickleball could be a symbol of a change in senior behavior that could be driving healthcare usage up, they wrote. Compared with previous generations, seniors are living longer and are more active.

Seniors are driving up costs of the healthcare system, and that represents a short-term problem for insurers. In the longer term, though, costs will be passed on to consumers and taxpayers through higher government expenditures and higher premiums. Insurers will be just fine.

—David Wainer