OVERVIEW:
HUM reported 2Q22 adjusted diluted common EPS of $8.67. Expect 2022 adjusted diluted common EPS to be approx. $24.75.
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PRESENTATION

Lisa M. Stoner - Humana Inc. - VP of IR

(technical difficulty)

Humana’s President and Chief Executive Officer; and Susan Diamond, Chief Financial Officer, will discuss our second quarter 2022 results and our updated financial outlook for 2022. Following these prepared remarks, we will open up the line for a question-and-answer session with industry analysts.

Joe Ventura, our Chief Legal Officer, will also be joining Bruce and Susan for the Q&A session. We encourage the investing public and media to listen to both management’s prepared remarks and the related Q&A with analysts. This call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana’s website, humana.com, later today.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the detailed risk factors discussed in our latest Form 10-K and other filings with the Securities and Exchange Commission and our second quarter 2022 earnings press release as they relate to forward-looking statements and to note in particular that these forward-looking statements could be impacted by risks related to the spread of in response to the COVID-19 pandemic.
Our forward-looking statements should therefore be considered in light of these additional uncertainties and risks, along with the other risks discussed in our SEC filings. We undertake no obligation to publicly address or update any forward-looking statements in future filings or communications regarding our business or results. Today's press release, our historical financial news releases and our filings with the SEC are also available on our Investor Relations site.

Call participants should note that today’s discussion includes financial measures that are not in accordance with Generally Accepted Accounting Principles or GAAP. Management’s explanation for the use of these non-GAAP measures and reconciliations of GAAP to non-GAAP financial measures are included in today’s press release. Finally, any reference to earnings per share or EPS made during this conference call refer to diluted earnings per common share.

With that, I'll turn the call over to Bruce Broussard.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Thank you, Lisa, and good morning, and thank you for joining us. Today, Humana reported financial results for the second quarter of 2022 that reflected our solid fundamentals and strong execution across the enterprise. In the second quarter, our adjusted earnings per share was $8.67, which was above our initial expectations. Our outperformance in the quarter was driven by broad-based strength across the organization.

Our updated full year guidance of approximately $24.75 represents compelling earnings growth of over 20% over our 2021 results. Susan will share additional detail on our second quarter performance and our full year outlook in a moment. As we look ahead, we are confident that we continue to deliver strong results as a leader in Medicare Advantage and value-based care delivery.

Over the last several months, we’ve taken deliberate steps to meaningfully advance our strategy. In our Medicare Advantage business, we finalized our 2023 product strategy as reflected in our bids and are confident the investments we’ve made will significantly enhance the value proposition of our offerings. These investments were supported by the enterprise commitment to delivering on our $1 billion value creation initiative, which we expect to significantly improve membership growth in 2023 while still delivering compelling earnings growth consistent with our long-term target.

Beyond our product investments, we worked with our external sales partners to enhance recruiting, training and incentive programs, which we believe will lead to improved member retention. We’ve enhanced the way we work with over all of our 40 external care partner centers -- partners, creating increased alignment by linking incentives to quality and retention metrics and many of our partners have also revised agent level incentives to emphasize retention.

We continue to see an increase in member satisfaction year-over-year, demonstrating the positive impact of our efforts. We held our annual external sales partner conference last week and are encouraged by the optimism and excitement expressed by our distribution partners on our commitment to return to market-leading growth and in the specific investments we’ve made.

We are also making significant progress advancing our Medicaid strategy. We received notification of a contract award from Louisiana in June. We are very proud of the team's success articulating Humana's unique Medicaid capabilities and our ability to organically grow our Medicaid footprint. We are actively preparing for the Ohio contract implementation later this year as well as the implementation in Louisiana, which is expected in early 2023.

In addition, we continue to actively work towards procuring additional awards in our priority states. Within our Healthcare Services segment, we continue to expand our CenterWell assets. We established a second joint venture with Welsh Carson that will deploy up to $1.2 billion of capital to develop up to 100 new CenterWell senior primary care clinics between 2023 and 2025.

In the Home business, we began expansion of the value-based model in June with the implementation in the Virginia, increasing the number of MA members covered by the model to 331,000, a 22% increase. These actions are building significant momentum within the organization and position us for continued strong growth and leadership in the delivery of integrated value-based care.
Turning to our $1 billion value creation initiative. We've made strong progress towards our target and now have line of sight into initiatives valued at over $900 million in 2023 in design, execute or full realization stages. This is up from $575 million when we last provided an update in April. We are confident in our ability to fully deliver against the important commitment and ultimately realize $1 billion of value in 2023.

As I've just highlighted, we've made meaningful progress advancing our strategy in recent months, resulting in significant expansion of our health care service businesses and further strengthening our Medicare Advantage and Medicaid platforms. In addition to our strategy advancement, the work completed on our value creation initiative has led to an organizational simplification that enables us to accelerate our previously planned organizational streamline.

Beginning in 2023, we will realign the company into 2 distinct units. Insurance Services and CenterWell. Insurance Services will be made up of the businesses that currently sit in the Retail and Group and Specialty segments, while Centerwell represents the current Healthcare Service segment. We believe this simpler structure will create greater collaboration across our Insurance and CenterWell business and will accelerate work that is underway to centralize and integrate operations within the organization.

The realignment also expands the scope of authority for leaders and allows us to operate with greater agility and focus on increasingly capture synergies across our portfolio. Importantly, we are committed to providing the transparency you are accustomed to receiving from Humana when we transition to the new segments to ensure you have the information needed to follow our progress and understand the economics of our material businesses.

To lead this new segment, we've launched an external search for a President of Insurance and Enterprise Services. We are targeting candidates who can look across insurance business and key centralized platforms and services, driving enterprise-level strategic execution. We also look for this individual to bring deep experience in running complex organizations. A key focus of this role will be to help us continue to simplify our structure, to make us more agile and to further improve our ability to increase synergies between our businesses and improve outcomes for our customers.

We anticipate naming this individual by the end of the year. As announced in our 8-K this morning, after a long successful career at Humana, Alan Wheatley will transition from his role at the end of the year. Alan has had a distinguished 31-year career at Humana and I’m grateful for his significant contribution to the organization. We are confident that momentum Alan and team have created throughout 2022 in the Medicare business will drive a successful 2023 AEP. I appreciate Alan’s commitment to Humana, and I’m pleased that he has agreed to serve as a strategic adviser until next year to ensure a seamless transition.

Alan has developed a strong leadership team with -- in the retail organization, and we are fortunate to have the opportunity for these talented and experienced leaders to expand their responsibilities. Effective August 5, George Renaudin will take on the new role of President of Medicare; and Susan Smith, Senior VP, will take on an expanded role of leading our enterprise services, which includes our clinical, consumer experience, STARS and Medicare risk adjustment teams.

John Barger will continue leading our Medicaid organization in his role as President of Medicaid. George, Susan and John, who have 55 years plus of combined experience across different functions at Humana will report to Alan until the new role of President is filled. In addition, Sue Schick will continue to lead our Group and Specialty segment business, also ultimately reporting to the new President of Insurance and Enterprise Services when the segment realignment is finalized in 2023.

In conclusion, I would leave you with the following: First, we are pleased with the momentum we have executing our strategy. Our strong year-to-date results, positive outlook for the remainder of the year and in the significant progress we’ve made in our $1 billion value creation initiative to improve membership growth for 2023. Second, we are confident that the evolution of our organizational structure will accelerate the advancement of our strategy and result in a more efficient and integrated organization.

And finally, we remain confident in our ability to drive compelling returns for our shareholders. We invite you to join us at our virtual investor update on September 15 where we plan to give you more insight into our go-forward strategy and our positioning for continued success. We will
provide you with a deeper view into our attractive financial outlook and appropriate KPIs, our leadership position in the industry, and our long-term strategy, including additional detail into our home and primary care businesses.

With that, I'll turn the call over to Susan.

Susan Marie Diamond - Humana Inc. - CFO

Thank you, Bruce, and good morning, everyone. I will start by echoing Bruce’s confidence in our current year performance, the steps we have taken to improve membership growth in 2023 and our ability to drive compelling returns for our shareholders. Our second quarter 2022 adjusted earnings per share of $8.67 represents 26% growth over second quarter 2021 and is approximately $1 higher than our previous expectations.

The favorable results in the quarter were supported by strong performance across many of our lines of business and were driven primarily by lower-than-anticipated medical cost trends in our individual Medicare Advantage and Medicaid businesses, partially offset by higher-than-expected non-inpatient costs in group Medicare Advantage. We also experienced lower-than-anticipated administrative costs, some of which was timing in nature.

Importantly, I want to reiterate that utilization in our core, individual Medicare Advantage business is running favorable to expectations. The lower utilization trends and lack of COVID headwinds seen to date give us confidence in raising our full year adjusted EPS guide by $0.25 to approximately $24.75 while still maintaining a $0.50 EPS COVID headwind for the back half of the year.

In addition, the revised guide contemplates an investment of approximately $0.75 EPS in additional marketing and distribution in the back half of the year to further support our improved 2023 Medicare Advantage product offerings. Finally, the revised guide covers $0.65 EPS dilution related to the pending hospice divestiture versus the $0.50 contemplated in our previous guide, which is expected to close in the third quarter.

Our updated full year guidance reflects a compelling 20% growth in adjusted earnings for 2022, while funding additional investments to support our long-term growth. If we see additional favorability emerge in the back half of the year, including the remaining $0.50 in embedded COVID headwind, we will be prudent in balancing further investments in support of long-term growth and additional shareholder returns in 2022.

We are focused on maximizing long-term value and will be transparent in our approach. With respect to quarterly earnings seasonality, at this time, we expect third quarter earnings to be approximately 25% of our full year estimate. Finally, as Bruce shared, we have made significant progress toward our $1 billion value creation plan.

Actions during the quarter resulted in certain onetime costs of $203 million which have been adjusted for non-GAAP purposes. These expenses were primarily driven by consolidation and retirement of technology assets during the quarter, resulting in more efficient operations and lower investment requirements going forward.

As we continue to advance the value creation plan, we expect to incur additional onetime costs in the back half of the year, which will also be adjusted for non-GAAP purposes. With that, I will now provide additional details on our second quarter performance by segment, beginning with retail.

Medicare Advantage membership growth and revenue are trending in line with expectations. As previously mentioned, total medical costs in our individual Medicare Advantage business ran favorable to expectations in the second quarter. We continue to see lower-than-anticipated inpatient utilization, partially offset by higher inpatient unit costs, while non-inpatient costs were slightly favorable to expectations.

With respect to intra-year development, you will recall that our first quarter estimates considered the higher unit costs experienced in the fourth quarter of 2021. We were encouraged to see the first quarter restate favorably and have seen some moderation in inpatient unit costs relative to our previous estimates, while non-inpatient costs also restated slightly lower.
With respect to COVID, we have seen an uptick in cases in recent weeks, but hospitalization rates remain lower than we have seen in previous surges. While we are not concerned with the utilization patterns observed to date, we acknowledge the continued uncertainty related to the pandemic and therefore maintained $0.50 of COVID contingency in our revised EPS guidance. We are pleased with the performance of our individual Medicare Advantage business to date and remain on track to deliver at least 50 basis points of improvement in pretax margin in 2022.

Group Medicare Advantage non-inpatient costs were higher in the quarter than our initial expectations, in part due to higher surgical volumes, which we have assumed will continue for the remainder of the year. In 2021, we saw more significant depressed utilization in Group Medicare than Individual Medicare and expected some normalization in 2022. While group Medicare inpatient costs are consistent with our expectations year-to-date, non-inpatient costs have been higher in recent months, some of which may be reflective of pent-up demand post the Omicron surge.

We will continue to monitor emerging group Medicare trends to determine if the higher than initially expected utilization continues as currently contemplated in our full year guide or if we ultimately see the trends moderate. Our Medicaid business performed well in the quarter, experiencing lower-than-expected medical costs. We updated our full year Medicaid membership guidance from a range of down 25,000 to 50,000 to a range of up 75,000 to 100,000 to reflect the extension of the Public Health Emergency to mid-October.

We increased our Retail segment revenue guidance by $350 million at the midpoint from a range of $81.2 billion to $82.2 billion to a range of $81.7 billion to $82.4 billion primarily reflecting the increase in Medicaid membership expectations for the year. Despite the increase in expected Medicaid membership for the year, which carries a higher benefit ratio as well as the higher-than-anticipated non-inpatient costs in Group Medicare, we have maintained our original full year retail benefit ratio guidance as outperformance in our individual Medicare Advantage business is providing an offset in the segment.

Group and Specialty segment results were slightly favorable for the quarter, largely driven by the specialty business and lower dental utilization trends in particular. As previously shared, we are focused on margin stability in the Employer Group Medical business near term and as a result of rating actions taken in the back half of 2021 to incorporate expected ongoing COVID costs, we are experiencing higher attrition in our fully insured group medical business than originally anticipated.

We are updating our full year commercial medical membership guidance from down 125,000 to 165,000 to down approximately 200,000. In addition, we are reducing our revenue guidance for the segment by $200 million at the midpoint reflective of the lower membership expectations. Full year pretax earnings for this segment remain on track, aided by the specialty outperformance. I will now discuss our Healthcare Services businesses.

Recall that this segment had a strong start to the year with pharmacy meaningfully outperforming in the first quarter, which we expected to persist throughout the year, although with some moderation. Pharmacy results in the second quarter tracked in line with our increased expectations. Mail-order penetration was 38.5% year-to-date for our individual Medicare Advantage members, a 90 basis point increase year-over-year.

Primary Care organization results were slightly favorable to expectations for the quarter, driven by ongoing operational improvements combined with administrative expense favorability. We added 4 de novo centers and 10 wholly owned centers through acquisition in the second quarter, bringing our total center count to 222 after center consolidations. We are on pace with our targets for the year and continue to expect to operate approximately 250 centers by year-end.

Turning to the home. Home health episodic admissions are up 3.1% year-over-year, while total admissions are up 4.9% year-over-year, consistent with expectations. For the full year, we continue to expect total home health admissions to be up mid-single digits. The hospice business performed well in the quarter with total admissions up approximately 5% year-over-year driven by increased access to facility-based referral sources and incremental investments in the business to expand clinical capacity.

The Kindred Hospice divestiture is on pace to close in the third quarter. We have updated our full year guidance ranges to reflect this anticipated transaction, resulting in a reduction in Healthcare Services segment revenue of approximately $400 million at the midpoint, which reflects the hospice divestiture, partially offset by the increased pharmacy expectations discussed in the first quarter. In addition, we have reduced our full
year consolidated adjusted operating cost ratio guidance from a range of 13.2% to 14.2% to a range of 13% to 13.5% as the hospice business carries a higher operating cost ratio than the company’s consolidated operating cost ratio.

From a capital deployment perspective, we anticipate a customary level of share repurchases in 2022 and expect our debt to capitalization ratio to be in the low 40s at the end of the year as we utilize proceeds from the Kindred hospice divestiture to deleverage.

Before closing, I would again reiterate that we are pleased with our performance to date, fueled by broad-based strength across the enterprise, supporting our full year guidance raise and providing capacity to make additional investments in marketing and distribution in the back half of 2022 to further support our improved 2023 Medicare Advantage product offerings.

We are well positioned to achieve our $1 billion value creation goal, which has allowed further investment in our Medicare Advantage offerings for 2023 and expansion of our health care services capabilities while remaining on track to generate earnings growth in 2023 within our long-term target range.

With that, we will open the lines up for your questions. (Operator Instructions) operator, please introduce the first caller.

**QUESTIONS AND ANSWERS**

**Operator**

Our first question comes with Matt BMO Capital Markets. (Operator Instructions) Our next question comes from the line of Justin Lake with Wolfe Research.

**Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst**

So I'm going to try to squeeze in a couple of numbers questions. First on MLR in the quarter. It sounded like the MLR had some moving parts, but was in line-ish, give or take, with your own expectations. Obviously, consensus is a little bit lower than this. So I was hoping, you gave us some EPS seasonality. Given your retail business still has 100 basis points of a range, maybe you could tell us where you think you're going to be in that range for the back half of the year and to think about 3Q versus 4Q?

So people like me don't mismodel it again for the back half. And then on the divestiture, Susan, can you walk us through the numbers a little bit more? I mean the $0.65 is a little bit bigger than I had expected. And just trying to understand how much revenue are you selling annualized, how much profit was there. What are you doing with the divestiture proceeds in terms of just like mapping out because if you're a $0.65 for, let's just say, 1/3 of the year of dilution, that would indicate to me that you have another $1.30 on next year of dilution. So that's a pretty decent headwind to next year. And just how do you offset that? Because it sounds like you reiterated the 11% to 15% growth next year.

**Susan Marie Diamond - Humana Inc. - CFO**

Sure, Justin. I'll try to address those. So yes, in terms of MLR, as you said internally, it is meeting our expectation. As you mentioned, analyst expectations did vary. I think there was on the consolidated MER, about a 200 basis point spread in analyst expectations at about 150% basis point spread in retail.

So people like me don't mismodel it again for the back half. And then on the divestiture, Susan, can you walk us through the numbers a little bit more? I mean the $0.65 is a little bit bigger than I had expected. And just trying to understand how much revenue are you selling annualized, how much profit was there. What are you doing with the divestiture proceeds in terms of just like mapping out because if you're a $0.65 for, let's just say, 1/3 of the year of dilution, that would indicate to me that you have another $1.30 on next year of dilution. So that's a pretty decent headwind to next year. And just how do you offset that? Because it sounds like you reiterated the 11% to 15% growth next year.

**Susan Marie Diamond - Humana Inc. - CFO**

Sure, Justin. I'll try to address those. So yes, in terms of MLR, as you said internally, it is meeting our expectation. As you mentioned, analyst expectations did vary. I think there was on the consolidated MER, about a 200 basis point spread in analyst expectations at about 150% basis point spread in retail.

There is a wide variation. What came out in terms of consensus was based on just a few who happened to respond to this survey. So we do want to reiterate that what we are seeing internally from an individual Medicare Advantage perspective, we are seeing better-than-expected results and better-than-expected MERs based on the -- primarily the lower inpatient utilization we mentioned.
Within the segment, though, as we said, there is some mix impact in terms of the higher Medicaid membership that comes with a higher MER typically as well as the group Medicare pressure that we mentioned in my commentary.

But when you consider all of that, as we said, we are very pleased with our performance, in particular, the strength of the individual MA improvement, which is reflective of the more conservative pricing approach we took in our bids that we've been talking about all year.

For the full year, we also remain confident in what we are seeing, we'll certainly continue to watch the emerging trends to see if that results in any additional favorability in the back half of the year relative to our estimates. But currently, we are forecasting that we will be in line with our expectations for the retail segment for the year despite the higher Medicaid membership and group MA pressure.

On the hospice transaction, as far as the divestiture, you're correct, the $0.65 is reflective of the expectation that we will close that divestiture in the third quarter. It is a little bit higher than you might expect if you just run rate some of the numbers that we shared when we did the initial transaction. There's about $1.5 billion in revenue associated with that segment.

The reason there's a little bit higher dilution is the fact that the entity expects to take on debt once they divest. So the interest expense, particularly in this rate environment, is a little bit higher than we had initially expected in our guide at the first quarter and then also some of the dissynergies that will occur as a result of operating independently from the home health organization.

All of that was considered when we contemplated the divestiture. And so as we've been thinking about 2023 planning, we were contemplating the divestiture of that position. And so we still expect to deliver within our long-term target range and be able to cover the impact of the hospice transaction, which we continue to believe is the right thing to do strategically.

As for the proceeds, as we've said before, we do intend to use the majority of those proceeds to pay down debt to deliver on the Humana side, which will allow us to get back down to at the low 40s as we mentioned in my commentary.

Operator

And our next question comes from the line of Matt Borsch with BMO Capital Markets.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Research Analyst

All right. Let's try at this time. Can you hear me?

Susan Marie Diamond - Humana Inc. - CFO

Matt, we can hear you.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Research Analyst

Okay. Great. Sorry about my mute button malfunction. [I was just] obviously quite a bit here. Maybe I could just ask about the inpatient higher unit costs that you mentioned. Is that simply a function of lower admissions and therefore, higher acuity on what remains? Or is that reflecting some other factors that maybe you could touch on?
Susan Marie Diamond - Humana Inc. - CFO

Yes, Matt, good question. And we spoke to some of this in the first quarter as we were seeing this and accounted for in our first quarter estimates. So if you recall, some of it is, as you said, just a reflection of when you see lower inpatient utilization, typically some of the lower-cost admissions are the ones that are no longer occurring and so you tend to see a little bit higher unit cost than what’s left over.

So we did see some of that. But we did see some higher just unit cost for certain underlying procedures, and we continue to evaluate that. And as I mentioned in our second quarter intra-year development, we were pleased to see some of that moderate relative to what we had seen and booked as of the first quarter. So we will continue to watch that.

The one other thing I would point out, and we mentioned this in the first quarter, some of the reasons we’re seeing lower inpatient volumes is a continued shift of procedures from the inpatient to the outpatient setting. And when that occurs, that typically results in activity that is lower than average unit cost with an inpatient setting shifting to that outpatient setting, also putting pressure on the unit cost.

That was something that we had not fully anticipated as we entered the year. CMS, if you recall, reinstated the inpatient-only list. And so we did not expect to see continued shifting both in our utilization and unit cost estimates. And so as we’ve seen that continue to transition despite CMS’ actions, we saw the benefits of that on utilization, but then some increase to the unit cost.

The unit costs are still higher than all of that said, then we would have expected. So we’ll continue to watch that and see if in the coming months that doesn’t continue to moderate. We have great visibility in real-time to inpatient utilization, but to fully evaluate the unit cost, we’re dependent on those claims coming in over time. And so we’ll continue to watch that and keep you apprised of what we’re seeing.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Research Analyst

Just a quick follow-up. Is there any driver that you know for the shift to outpatient?

Susan Marie Diamond - Humana Inc. - CFO

It’s primarily orthopedic, which we saw in 2021 as well. And so we saw a significant shift in ’21 and continue to see additional shifts, and it is primarily in the orthopedic space.

Operator

And our next question comes from the line of Kevin Fischbeck with Bank of America.

Kevin Mark Fischbeck - BofA Securities, Research Division - MD in Equity Research

I want to try and better understand what you’re doing around 2023 growth. Are you committed to reaccelerating growth? And obviously, part of that is driven by the $1 billion of cost saves that you’ve identified. But then trying to understand a little bit how the outperformance and reinvestment into growth affects that. It sounds like that’s in addition to whatever you did on the benefit side, and we’re already planning to do from the marketing side. I just want to make sure I understand that. And then also, the outperformance in retail or individual MA, was that captured when you submitted your bids? Or is that something that’s kind of developed more favorably since you submitted your bid?
Sure, Kevin. Happy to take that. In terms of 2023 growth, we are very pleased with the progress we’ve made on the $1 billion value creation goal. And as we’ve been saying, the intent is to use the benefit of that work to primarily support investment in our Medicare business, but also support some acceleration within our health care services capabilities.

And within the Medicare business, we’ve commented that the majority of the dollars that will be directed to Medicare will support improved value proposition in our Medicare Advantage offerings, but also support increased investment in marketing and distribution to support that. As we completed all of the planning work by the Medicare organization, as they thought through their product strategy, I would say the Medicare team was really pleased with the capacity that, that $1 billion value creation effort created for them, and they feel really good about the investments it allowed them to make and are feeling confident that we will be able to demonstrate significant improvement in our Medicare growth in 2023.

As Bruce mentioned in his comments, we had a chance to meet with our external distribution partners recently and share some of those details and we’re really pleased with the reaction and positive sentiment and optimism expressed and commitment to returning to growth that our investments demonstrated. In our commentary this morning, we were pleased to announce that given the outperformance we’ve seen in 2022 and the second quarter in particular that did give us some capacity to invest some of that outperformance into additional marketing and distribution that’s anticipated to support the 2023 AEP.

And we felt really strongly that given the amount of investment we made in our Medicare products for ’23, we’re going to certainly make sure we appropriately support it with marketing and distribution investments to ensure that we maximize the return off of those investments. So the team is really thrilled with what we’ve been able to do, and we’re feeling confident. We’ll obviously have to see how the landscape data comes out just exactly how we’re positioned and refine our estimates and we typically give you some sense in our third quarter call.

I’m not prepared to do that today. But do want to express that we feel very optimistic and confident that we’ll see significantly higher growth relative to 2022 off the strength of the investments that we’ve made. In terms of the lower utilization, I would say, we’ve certainly talked in our first quarter commentary of some of the utilization, depression that we saw. I would say that generally, we attributed that to COVID at that time.

As you recall, we were seeing a much faster decline in COVID hospitalizations with this latest surge than we’ve seen previously. And so we attributed the lower non-COVID utilization to simply a slower bounce back because that was not anticipated generally.

So when you think about our bids, we would not have anticipated any of the favorability we’ve seen this year to signal sort of sustained below baseline utilization or medical costs and would have assumed in 2023 a more steady state sort of normal course level of medical cost trend. So to the degree we see further improvement that we think is reflective of just lower core trend then that would be favorable to what we would have anticipated at the time of bids.

And our next question comes from the line of A.J. Rice with Credit Suisse.

Maybe just to clean up quickly. Some of the questions have been already asked. I know you're saying hospice is a headwind for next year and value creation is a positive. I wonder if I could broaden it out and get you to talk about at this early day without giving guidance, what your headwinds and tailwinds are in major buckets for next year and maybe also with the 11% to 15% growth target, what’s the jumping off point in your mind for 2022 to get to that?

And then Bruce, you've mentioned the reorganization insurance business and services business. It sounds like that's mostly to facilitate better coordination internally. Can you tell us where some of those opportunities are. And then second, is this a prelude to the services business is
beginning to focus on external clients. I know home health does that already. But I wondered the PBM and some of those other areas that have historically just supported Humana. Are you thinking about opening that up?

**Bruce Dale Broussard** - **Humana Inc. - President, CEO & Director**

Let's Susan take the first question.

**Susan Marie Diamond** - **Humana Inc. - CFO**

Yes, A.J., I'll take the first one then transition to Bruce. As it reflects 2023, our first quarter commentary did confirm that you can think about the baseline for '23 as the $24.50 that we adjusted to you then. I would say that for right now, we're not going to comment on any further adjustment to the 2023 baseline or 2022 baseline rather for '23. And that's just because we've got our Investor Day conference scheduled for September 15, where we do intend to talk about or expect long-term growth expectations.

And so I don't want to get in front of any of that. But I will say that broadly speaking, as we think of -- thought about our bid planning and our planning for 2023, we were mindful of our stated long-term growth target. There's always a variety of puts and takes that go into every -- the planning every year. I would say some of the known headwinds would have been obviously the anticipated hospice divestiture that has always been contemplated in our thinking for '23. So that's not a surprise.

More recently, we have seen the proposed rate -- negative rate adjustment for home health that would not have been something we previously contemplated. And we'll have to see ultimately where the final proposal comes out and whether that see some improvement relative to the current proposal. But that would be something that we hadn't contemplated and one of those puts and takes we have to manage.

From a positive perspective, certainly, membership growth in 2023, we're expecting to see improvement. We'll have to see as AEP plays out, whether that is more favorable than we might have expected, which could be a positive. And also the medical cost trends, obviously, that we're seeing this year, as I mentioned in my commentary, we'll continue to evaluate those and see whether some of that continues to be positive through 2023.

We always have to think about then any risk adjustment implications of any utilization variation that we see and we'll certainly be mindful of that. And I would say the one other thing we continue to watch is flu. We've seen very low flu the last few years. Some of the early indicators from Australia in particular do suggest a higher flu season for the fourth -- potentially for the fourth quarter. So we continue to watch that.

But again, that would be one of those puts and takes that we continue to watch. So a variety of things, but I would say nothing that's such an outlier that is giving us concern at this point, but rather normal course things that we would manage through for 2023. And then Bruce, do you want to...

**Bruce Dale Broussard** - **Humana Inc. - President, CEO & Director**

Yes, A.J., just on the segmentation and the recruiting of a new president, a few things from that. First, we are seeing in our work on the $1 billion some really great opportunity to create some simplification and the ability to leverage a number of our different areas within the insurance area. So there's a lot of work now going into really consolidating service centers into one service center, the ability to use our clinical programs not only in the Medicare side, but also in our commercial book of business in a much more integrated way.

And then the third area we're seeing a lot of work being done and being able to utilize a lot of our consumer technology. And so in the work that we've done in the simplification through our $1 billion initiative, we just saw some great opportunity to be able to bring it together in a much more efficient way. In addition, what we do see in our work in the local markets of being able to integrate are various different health care services that there's a wonderful opportunity we refer to as the flywheel and we'll provide you a further update at the Investor Meeting on September 15 about the ability to integrate across the various different services and be able to create a much more holistic approach in being able to move from primary care to home and even into our pharmacy utilization, both mail order and on-site.
And so we see the opportunity to leverage that along with the fact that you brought up the payer agnostic. We do see some great opportunity today, both CenterWell primary care and the home are agnostic and continue to see great growth, serving both other payers and other parts of the Medicare system.

And at the same time, we’re also seeing opportunity within our primary – within our pharmacy area to offer some agnostic opportunities there. So the ability for it to integrate and also to expand beyond the Medicare side of the business is really at the heart of what you see us more formally creating the CenterWell service side. While on the insurance side, continuing to leverage the efficiencies across the various different insurance platforms.

Operator

And our next question comes from the line of Nathan Rich with Goldman Sachs.


You talked about utilization in the individual MA business running favorable to expectations. Is the lower admits per 1,000 that you called out. Is that related to COVID? Or are you also seeing favorability on non-COVID utilization as well? And can you talk about what you expect over the balance of the year? And then Susan, could you also address the increase in days claims payable in the quarter? What drove that and what you were expecting in the guidance? And given that it is sort of above the longer-term rate that you target, how you expect that to trend over the balance of the year.

Susan Marie Diamond - Humana Inc. - CFO

Sure, Nathan. Happy to answer that. So as you mentioned, we are seeing lower inpatient utilization, which we have seen all year. The first quarter, we did see certainly a faster decline in COVID that’s obviously now subsided. As we’ve gotten further away from that last surge, we’ve continued to see lower inpatient utilization. As we’ve analyzed it, there are a few things that are primarily driving that. One is lower flu. As I mentioned, we have seen lower levels than historical that impacted the first half of the year.

That will certainly moderate in the third quarter because you see low flu activity in general. And as I mentioned, we’ll have to watch and see how flu develops in the fourth quarter. So right now, we are assuming that we don’t return fully to sort of pre-COVID levels, but rather it’s some moderation from that, but we are assuming it doesn’t run quite as low as we have seen through the pandemic.

We have to watch and see how flu develops in the fourth quarter. Right now, we are assuming that we don’t return fully to sort of pre-COVID levels, but rather it’s some moderation from that, but we are assuming it doesn’t run quite as low as we have seen through the pandemic. We also saw, as I mentioned, continued inpatient-to-outpatient shifts. That was something, as I said, we did not contemplate in our initial guide. And so that’s positively impacting the inpatient utilization.

We are seeing some higher unit costs as a result in utilization -- we are seeing some higher unit costs as a result. But as I mentioned, on the non-inpatient side, while we’re seeing that higher utilization, we are seeing in total, though, slightly positive overall non-inpatient costs relative to expectations. So we’ve been able to absorb that higher volume shift within the non-inpatient estimates as well.

And then we are seeing some improved impact from some of our utilization management programs. They’re also positively impacting inpatient activity. So other than the flu that we’ll moderate some, we don’t have any reason to think that inpatient to outpatient or the positive utilization management impacts won’t continue for the rest of the year, and so that is contemplated in our full year guide.

In terms of DCP, as you said, it is up 3 days sequentially, and that was primarily driven as you can see in some of our disclosures by additional provider accruals as well as fee-for-service days and claims payable. And so is reflective of a stronger reserve positioning as of the end of the second quarter versus what you saw first quarter. You can also see that reflected in the higher IBNR trends relative to premium. I think our IBNR trends
were up 2.9% versus premium trends of about 1.9%. So we think reflective of an appropriately conservative posture with respect to reserves at the end of the second quarter.

Operator
Our next question comes from the line of Joshua Raskin with Nephron Research.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst
My question is how do you accelerate the movement of membership to value-based care providers other than sort of building out the capacity? How are you working with the centers or external partners to get more of the MA lives into value-based care next year?

Bruce Dale Broussard - Humana Inc. - President, CEO & Director
Yes. That's a constant work for us, and we are up a little bit this quarter as a result of our efforts. A few things there. We continue to look at our partners that are -- wanting to move to value base. And we've seen some really great opportunities there, especially over the last year or so as we've exited out of COVID. The ability for us to then provide resources for them in the -- both the technology area and the human resource area to allow them to make that transition and then provide them a contract that allows them to appropriately manage that risk.

Sometimes they want to take -- to subside risk, sometimes they want to take up and down risk with some kind of [color] or full risk. So we really want to walk with them as they evolve into their risk tolerance. But what we see the most is really building on the partnerships that we have and growing our membership base in those partnerships.

And what we've seen in a number of markets where we've had once a fairly antagonistic relationship with both hospital systems and physician groups that they have evolved to be very positive. And as they evolve are positive, we see much more membership growth in that relationship, which has been very positive for us. What we also measured there, Josh, is not only what -- how many members we have in value based, but also their surplus because we could get them into value based, but if they're not really performing both in the STARS, risk adjustment and in addition, the health outcomes it's really for not.

And so a lot of the work we're doing, not only is by getting more members in there, but also making it more effective for our members to be -- I mean our value-based relationships to be more effective. We've been averaging in the 60s, the mid-60s. We've increased a little bit this year. I would suspect that we will continue to see more members, but also as our membership growth grows that percentage doesn't move as much.

And so we are getting more and more members in there. But on a percentage basis, it might not look like we're moving as much. But we are actually both effectively getting more members in there, but as importantly, being much more effective in the way that we're performing as value-based providers are getting more into the surplus.

Susan Marie Diamond - Humana Inc. - CFO
And Josh, I would add to what Bruce mentioned. I think in terms of some specific things we do to try to encourage the utilization of those high-performing providers, we certainly work with our distribution partners who have an opportunity at the time of enrollment to help with PCP selection. And so they're certainly educated on all the benefits of those high-performing primary care providers and know who they are in each market and can help with that.

We certainly work to make sure our provider sort of physician finder tools that both agents and consumers use properly reflect for the quality and the services that are available by those providers, and you'll see that if you ever go out to the site and how those providers are ranked based on cost and quality.
And then finally, I would say, certainly, our provider organization and our health plans work in coordination on marketing efforts and continue to try various campaigns and learn what's proving to be effective in driving greater awareness and adoption of those high-performing models. So all of those things, I think, contribute in addition to what Bruce mentioned to some of the progress that we've seen.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Got you. And then if I could just sneak in. I just want to confirm, Susan, did you say that the baseline for '22 is still the $24.50 and has not changed? Or were you just saying we'll update it on September 15?

Susan Marie Diamond - Humana Inc. - CFO

Yes. I think given that we've got the September 15 Investor Day coming up, where we've committed to providing an update on how we think about our long-term EPS growth range, we would just prefer to wait and have that discussion at Investor Day more comprehensively versus a discrete sort of commentary on the baseline today. So it's not that we're saying -- it won't change, we just want to go ahead and provide a more comprehensive update on September 15.

Operator

And our next question comes from the line of Ricky Goldwasser.

Rivka Regina Goldwasser - Morgan Stanley, Research Division - MD

Yes. So Bruce, a question for you. I mean, clearly, there's a lot of moving parts in core utilization. But just as we think kind of like big picture, 2.5 years into the pandemic, you're seeing that move to sort of lower cost inpatient. You talk a lot about home, telehealth. What are you seeing in the market? As you think about things, how do you think about sort of just kind of like structurally sort of core utilization because I'm assuming that, that's something that will be part of how you're thinking about those long-term targets that you're going to provide us in September?

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Yes, we continue to believe 2 things are happening and that are structural changes in health care. One is around the continued movement to a specialty-oriented mindset to more generalist, whether that's primary care, but also the ability to leverage nursing and physician assistance, et cetera. So just who's doing the work, we see that continuing to be pushed down.

And then the second thing that we see is where it's being conducted and how the procedures are being and the interventions are being offered. And we see a continued movement to more convenient settings that are also more cost effective. So moving -- obviously, the outpatient has been a long-term trend. But in addition, moving to the primary care office, but moving to the home, moving to telehealth and in addition to leveraging digital.

And so we see that all moving towards a much more proactive and convenient setting, leveraging many other professional clinicians into the health care system. And we see that as an opportunity to continue to not only drive down where the cost is but also the health outcomes where we can continue to be much more proactive in the ability to slow down disease progression and really prevent preventable events.
Rivka Regina Goldwasser - Morgan Stanley, Research Division - MD

So I'm just kind of like thinking how you're kind of thinking about that as you think about the MLR. I mean, clearly, you saw kind of like the MLR in the quarter that was a little bit higher than Street expectations. But are you starting to see that impacting the MLR when you parse out the membership mix?

Susan Marie Diamond - Humana Inc. - CFO

Sure. I'll take that. So I would say, as you mentioned, while MLR was different and didn't meet consensus, that's again reflective of how I mentioned earlier. There's a wide range in the consensus estimate. Those are not necessarily reflective of internal estimates. And so relative to our internal estimates, we did see outperformance particularly in our individual MA business. And so it's important to keep that in mind. I would say that we are seeing so far, certainly in ER use and observations. They are continuing to run lower than we saw pre-COVID. Some of that, I do think it's probably reflective of people seeking out other sites of care that are more appropriate, whether that's physician and urgent care that they became accustomed to during the pandemic and has continued.

We do acknowledge, however, that we know there is capacity constraints within the health care system today. How much impact that's having on some of the lower utilization, it's hard to know for sure. And that is something, I think, on the longer-term trajectory we're going to have to continue to monitor and see ultimately where the utilization levels come in. The other thing to keep in mind is the higher mortality as a result of COVID, as we've said, has an impact on medical cost trend and overall utilization and a negative trend because those that passed way due to COVID tended to be higher utilizers, they had multiple comorbidities. And so that's also reflected in our estimates and we'll see continued impacts from that going forward.

But otherwise, I would say a lot still to be learned. We are seeing some favorability and we'll have to continue to assess the team's thinking on how much of that will continue into 2023, but might see some moderation as capacity hopefully starts to return within the clinical community.

Operator

Our next question comes from the line of Stephen Baxter with Wells Fargo.

Stephen C. Baxter - Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

I just wanted to ask about the guidance to make sure I can follow what you're doing there. It sounds like the quarter was $1 better and then I think you also removed $0.50 of the conservatism. So that sounds like $1.50 is favorability, although maybe there's some double counting between those items.

And then you're reinvesting $0.75. And I think I heard you say there's an extra $0.15 of dilution from the hospice divestiture. It seems like those items in aggregate would result in the guidance increase above the $0.25. So I'm clearly missing something. Can you understand -- help us understand how you see the moving parts there and how we should be thinking about that?

Susan Marie Diamond - Humana Inc. - CFO

Stephen, happy to do that. So yes, so the outperformance for the quarter was $1. That does though include what you can think of as the $0.50 conservatism that we had included in our original guide in the first half of the year related to COVID. So you can consider that as us releasing the $0.50 of conservatism within the second quarter results and part of the dollar, not additive to it. We have maintained the $0.50 in our back half year estimates, as I mentioned in my commentary, however.

So as you think about the dollar and then how we've used the dollar, $0.25 goes to the guidance raise, the $0.75 of additional marketing and distribution investments that was not previously contemplated in our full year guidance and so $0.75 is being used for that. And then as you
mentioned, we have acknowledged $0.15 of additional hospice dilution that was not contemplated in the revised guide as of the end of the first quarter.

So technically, that's a little bit more than $1, and that just recognizes that we do have still the $0.50 of COVID contingency in the back half. And we also have any continuation of the outperformance we've seen in the second quarter that might trend into the third and fourth quarters, which is reasonable to think that we may see some additional improvement relative to our current estimates. So that's how we think about the dollar and how we've spent it based on the current performance.

Operator

And our next question comes from the line of Scott Fidel with Stephens.

Scott J. Fidel - Stephens Inc., Research Division - MD & Analyst

I was hoping you could just drill a little bit more into the proposed 4% home health cuts for next year. And I guess sort of 2 parts to that. One, if those costs actually did go forward in the final, how much impact you would see on home health margins or EBITDA. And then how that influences the shift that you're making over to value-based care. I would assume that, that would even sort of further motivate the acceleration over to [VBC] contracting from fee-for-service, but just interested in how you would think about that if the cuts could go through.

Susan Marie Diamond - Humana Inc. - CFO

Scott, yes, happy to take that. So as you said, this is a 4% rate reduction is proposed. We certainly are -- will continue to advocate and educate in terms of just some -- while it's predicated on the behavioral adjustment is the driver of that. We certainly want to make sure that people also consider the inflationary environment, the challenges with clinician labor. I think there's broad support for continued shift of care to the home and the benefits of home health care.

And so we do hope to see some moderation that's more reflective of the current cost trends within the space. But if it were to move forward as proposed at about the 4% cut for the enterprise, you can think of that as about a $30 million impact. It's slightly higher for the Kindred business specifically. But within our Medicare business, we did not contemplate that level of rate reduction in our thinking for the health plan for '23. And so there is some mitigation within the year relative to that.

So that net impact at the proposed rate is about $30 million. As you said, given that rate cut, certainly, there's more emphasis on value-based payment models. We've seen that from other providers as well, which we're pleased to see. As respect to our plans, we were already well down the path of working on a value-based payment model. And as we -- Bruce said in his commentary, we were pleased to see that we were able to expand our value-based -- broader value-based home health, DME and infusion model in the State of Virginia this quarter as we had initially planned and remain committed to expanding that model to about 50% of our MA members within the next 5 years.

So we're, I think, ahead of that curve, but we are encouraged by some of the discussions we're having with some other home health providers who, I think, are becoming more focused on value-based payment models, which we do think is important and we'll provide an opportunity to get after some of the adverse implications in terms of hospitalizations and avoidable admissions that we think home health has an opportunity to impact if they become more focused on it. So we're pleased with that.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

And Scott, just to add to Susan's comments, I think over time, you're going to continue to see this as being a great opportunity to leverage home health as being much more proactive as opposed to oriented to just the fee-for-service side and that more payment begins to be paid on outcomes
relative to lower emergency room visits and admissions, et cetera. We’re excited about that change. Obviously, there's static in the air as a result of rate changes, but we do think rate changes will accelerate the move to value based.

Operator
And our next question comes from Steven Valiquette with Barclays.

Steven James Valiquette - Barclays Bank PLC, Research Division - Research Analyst

In this earnings season, we heard one of your major peers talk about the annual wellness visits among their MA members only now tracking back to pre-pandemic levels. So I guess I was curious to hear how that’s progressing for you guys so far this year relative to your book. What the early implications might be for MRA payments you might receive next year in ’23 versus ’22? And also I'm not sure if I missed this. But if you have any -- just the color on the MRA payments that you might have just received in ’22 relative to your expectations, that would also be great.

Susan Marie Diamond - Humana Inc. - CFO

Steven, happy to answer that. So in terms of annual wellness visits, I would say our experience this year is in line with expectations, so no significant outperformance or underperformance, but generally in line and haven’t heard anything in terms of any concerns in terms of the ability to get into patient time. So I think that’s tracking as expected.

In terms of MRA for 2023, certainly, as I mentioned, to the degree we continue to see lower utilization in 2022 relative to expectations, we'll certainly do the assessment to understand whether there would be any implications to ’23 risk adjustment, but I would expect net-net for that still to be positive even after considering MRA.

On the group MA side, where we're seeing higher utilization as you think about 2023, we would expect to see some mitigation as a result of that with increased MRA expectations as well. So it works both ways. In terms of 2022, we did receive the midyear payment. And I would say it's generally in line with expectations, maybe just slightly positive, but broadly in line with expectations, so no meaningful variance there.

Operator
And our next question comes from the line of David Windley with Jefferies.

David Howard Windley - Jefferies LLC, Research Division - MD & Equity Analyst

I was hoping to follow up on margin progression as a topic and thinking particularly in retail, you'll expect to have a bigger incoming membership cohort in ’23, which will not be coded in a relatively lower margin. You'll have a smaller cohort kind of maturing out of ’22. And then I presume you'll have some offsets from investments from the value creation $1 billion.

I guess I'm just wondering how we should think about the relative toggle of revenue growth versus margin expansion contribution to your earnings growth in ’23 if you're willing to talk about it.

Susan Marie Diamond - Humana Inc. - CFO

David, yes, happy to address that. So as we think about it, as you said, the higher ’23 membership growth, as you mentioned, does tend to bring members who have lower margins until they're appropriately coded over time. We get their STAR scores up, et cetera. So that is true. But keep in
mind that we are also anticipating as a result of our product investments that we will also see higher retention. And so the higher retention that we'll see those are going to be members who will positively contribute.

So ultimately, we'll just have to see what the ultimate mix is from a combination of sales and retention in terms of any year-over-year change that, that might imply in terms of the margin. In terms of the investment that we've made, as you mentioned, the $1 billion value creation goal, that is going to generate savings across the enterprise. So it will not obviously be fully generated within the Medicare organization, but we intend to disproportionately invest those savings into the Medicare organization.

So all in, you would think of that from just a pure individual MA perspective as being somewhat dilutive to the margin because we will be investing more dollars in that product than the savings that, that line of business alone will generate. Within retail, we'll get some further offset, obviously, from the savings that the rest of the retail organization will contribute. But then some will obviously be outside of that retail segment. So we'll certainly give you some more visibility to that as we talk in September about how we're thinking about our margin progression and EPS growth over time. But for right now, those are some of the bigger things that you can think about impacting 2023.

Operator

And our next question comes from the line of George Hill with Deutsche Bank.

George Robert Hill - Deutsche Bank AG, Research Division - MD & Equity Research Analyst

I think a lot of my topics have been covered. Just 2 quick numbers ones. I guess, Susan, on the $0.75 in marketing spend, I guess can you talk about where that's going more specifically? How much do you think about is going to brokers versus maybe member outreach given that retention was an issue in '22?

Susan Marie Diamond - Humana Inc. - CFO

Yes, George. Happy to do that. So we've been talking a lot about just our distribution strategy and the goal of over time trying to see a little bit more volume shift back to our proprietary channels to create a little bit more balance and also recognizing that we tend to see better retention and customer satisfaction in our proprietary channels versus external.

So as you think about the incremental investment that we're making year-over-year, that will be more weighted towards our internal channels in terms of the marketing and the investment in resources in our proprietary channels. But some of it will be going to external partners as well to make sure that we get the return that we would expect and the growth out of that channel as well. Within the external partner support that we're providing, I would say some of it is going towards making sure that our reimbursement is sort of the sales partner level is on par with peers.

I think we've talked before about the fact that we were trailing behind the compensation level that some of our peers are providing. So some of the dollars are going to address that and get to more of a parity position and also support some increased marketing in order to make sure that we can get the sales volume out of that channel that we would expect in order to achieve our overall improvement in Medicare growth.

Operator

Our next question comes from the line of Gary Taylor with Cowen.

Gary Paul Taylor - Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care

Just a quick 2-parter just one numbers question, and then my real question. It looked like the proprietary shared risk providers went down 200 sequentially, and I presume most of those were like employed in your own centers. So just wondering why that went down. And then the broader
question I wanted to ask about ‘23, glad to hear you’re still optimistic and confident about higher growth in ‘23. But just wondering, conceptually, is there an enrollment growth number that’s too high, that’s too much.

I mean I think there’s over under on a growth number where -- the Street would be worried about adverse selection and your benefit offering and impact on margin and that trade-off. But wondering if you really change, that’s the case? Or do you just look at the net present value of an incremental member and your ability to retain them in the earnings contribution over time and you’re not really thinking about higher bound as being an issue for ‘23?

Susan Marie Diamond - Humana Inc. - CFO

Yes, I’ll take your second question first, and we may get back to you on the first one. But for the second question, I'll say, certainly, as I said a minute ago, new members do tend to pressure, they come within a lower underwriting margin and tend to be about breakeven as we said, I think, in years past. So they can pressure sort of some of the returns that you might expect. I would say though, given how the trends we've seen in the last number of years, and I think we’ve been really smart about the investments we've made in 2023, we weren’t trying to position ourselves to be in the #1 sort of product value position everywhere that would result in outsized growth or anything that I can think of from an anti-selection perspective.

So I’m not overly concerned about that. I think we’ve stated our goal is to get back to industry-leading growth as quickly as we can. We’d love to do that in 1 year. We’ll just have to see whether peers made other investments for 2023 and how our ultimate offering stack up. But I would say that’s not something that I’m concerned about.

In terms of your first question, Lisa, can you address that?

Lisa M. Stoner - Humana Inc. - VP of IR

Gary. So I think all that is, it’s just differences the way we’re kind of showing our PCPs related to some IPA. This is really to ensure we’re aligned with the new disclosures we’re giving around our primary care business back in the (inaudible) pages. So no big shift there. It’s just a little reporting difference that you’re seeing there.

Operator

Our next question comes from the line of Rob Cottrell with Cleveland Research.

Robert Sohngen Cottrell - Cleveland Research Company LLC - Research Associate

Just wanted to dig into the divergent experience you’re seeing in the individual MA book versus group MA. What is it about the group MA membership that you utilization is higher than expected in 2Q? And do you expect that to continue through the rest of the year?

Susan Marie Diamond - Humana Inc. - CFO

Sure, Rob, happy to take that. So as I mentioned in my commentary, in 2021, we did see different utilization patterns across individual MA and group. And as I mentioned, in group MA, we saw significantly more depressed utilization relative to individual. Some of that we attribute to the fact that we did see lower overall COVID hospitalizations in the group MA population, and we attribute that to the fact that they tend to have a higher vaccination rate than the individual.

So we had lower COVID utilization, but similar levels of sort of depression in non-COVID utilization resulting in overall lower utilization in group MA. As we assess that going into 2022, we also had assessed the impact of mortality as a result of COVID and what the resulting impact was to
morbidity. And as we've been able to review the trends that we're seeing, as we entered the year, we believe that some of that lower utilization was reflective of lower morbidity.

And I think based on the trends we've seen, what we would say is some of what we thought was lower morbidity has turned out to be more reflective of just deferred utilization and pent-up demand that's working its way through now. We are seeing higher surgical volumes, in particular, in group MA relative to individual. The volumes are about 600 basis points higher year-to-date in the group MA side than individual. That's one of the reasons we have some reason to believe that this may be, to some degree, reflective of a pent-up demand that may still moderate in the back half of the year, and we'll certainly continue to monitor it.

But as I said, it is trending a little bit differently. Some of that was probably just a reflection of sort of what we anticipated and allocated and attributed to morbidity versus pent-up demand. We'll continue to watch it. As I said, as you think about '23, if this does persist, we would expect to mitigate some portion of it through higher risk adjustment than we previously contemplated, and we view it as on a net basis, manageable within our 2023, but it is particularly reflective in the non-inpatient side. And like I said, we are seeing, in particular, some higher surgical volumes.

Operator

I'm showing no further questions at this time. So with that, I'll hand the call back over to CEO, Bruce Broussard, for any closing remarks.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Well, thank you, and thanks, everyone, for your support and continued confidence in the organization. And obviously, I want to thank our 70,000 teammates that make this a successful company and this quarter be such a successful quarter. And then we do look forward to seeing each of you at our September 15 virtual investor conference that we'll go over a lot of more details about our longer-range views along with our continued services businesses.

So again, I thank you and look forward to seeing you on September 15.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect.