UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-0647538**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

500 West Main Street
Louisville, Kentucky 40202
(Address of principal executive offices, including zip code)

(502) 580-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, $0.16 2/3 par value	HUM	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class of Common Stock	Outstanding at June 30, 2021
$0.16 2/3 par value	128,504,664 shares

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Humana Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2021	December 31, 2020
	(in millions, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,378	$ 4,673
Investment securities	13,471	12,554
Receivables, less allowance for doubtful accounts of $78 in 2021 and $72 in 2020	2,438	1,138
Other current assets	6,503	5,276
Total current assets	25,790	23,641
Property and equipment, net	2,690	2,371
Long-term investment securities	1,182	1,212
Equity method investments	1,240	1,170
Goodwill	4,914	4,447
Other long-term assets	2,254	2,128
Total assets	$ 38,070	$ 34,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Benefits payable	$ 8,485	$ 8,143
Trade accounts payable and accrued expenses	4,898	4,013
Book overdraft	236	320
Unearned revenues	323	318
Short-term debt	1,109	600
Total current liabilities	15,051	13,394
Long-term debt	6,063	6,060
Other long-term liabilities	2,113	1,787
Total liabilities	23,227	21,241
Stockholders' equity:		
Preferred stock, $1 par; 10,000,000 shares authorized; none issued	—	—
Common stock, $0.16 2/3 par; 300,000,000 shares authorized; 198,648,742 shares issued at June 30, 2021 and December 31, 2020	33	33
Capital in excess of par value	3,018	2,705
Retained earnings	21,751	20,517
Accumulated other comprehensive income	216	391
Treasury stock, at cost, 70,144,078 shares at June 30, 2021 and 69,787,614 shares at December 31, 2020	(10,175)	(9,918)
Total stockholders' equity	14,843	13,728
Total liabilities and stockholders' equity	$ 38,070	$ 34,969

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(in millions, except per share results)			
Revenues:				
Premiums	$ 19,978	$ 18,556	$ 40,102	$ 36,918
Services	491	450	957	874
Investment income	176	77	254	226
Total revenues	20,645	19,083	41,313	38,018
Operating expenses:				
Benefits	17,149	14,175	34,445	29,804
Operating costs	2,116	2,354	4,123	4,471
Depreciation and amortization	144	119	286	234
Total operating expenses	19,409	16,648	38,854	34,509
Income from operations	1,236	2,435	2,459	3,509
Interest expense	79	76	147	136
Other expense (income), net	419	(227)	534	70
Income before income taxes and equity in net earnings	738	2,586	1,778	3,303
Provision for income taxes	183	783	416	1,035
Equity in net earnings	33	25	54	33
Net income	$ 588	$ 1,828	$ 1,416	$ 2,301
Basic earnings per common share	$ 4.57	$ 13.83	$ 11.00	$ 17.41
Diluted earnings per common share	$ 4.55	$ 13.75	$ 10.94	$ 17.31

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(in millions)			
Net income	$ 588	$ 1,828	$ 1,416	$ 2,301
Other comprehensive income:				
Change in gross unrealized investment gains/losses	136	358	(184)	266
Effect of income taxes	(31)	(85)	42	(63)
Total change in unrealized investment gains/losses, net of tax	105	273	(142)	203
Reclassification adjustment for net realized gains	(9)	(2)	(64)	(47)
Effect of income taxes	2	—	15	10
Total reclassification adjustment, net of tax	(7)	(2)	(49)	(37)
Other comprehensive gain (loss), net of tax	98	271	(191)	166
Comprehensive income (loss) attributable to equity method investments	10	(2)	16	(5)
Comprehensive income	$ 696	$ 2,097	$ 1,241	$ 2,462

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total Stockholders' Equity
	Issued Shares	Amount					
			(dollars in millions, share amounts in thousands)				
Three months ended June 30, 2021							
Balances, March 31, 2021	198,649	$ 33	$ 2,712	$ 21,252	$ 108	$ (9,915)	$ 14,190
Net income				588			588
Other comprehensive income					108		108
Common stock repurchases			263			(265)	(2)
Dividends and dividend equivalents				(89)			(89)
Stock-based compensation			45				45
Restricted stock unit vesting	—	—	(3)			3	—
Stock option exercises	—	—	1			2	3
Balances, June 30, 2021	198,649	$ 33	$ 3,018	$ 21,751	$ 216	$ (10,175)	$ 14,843
Three months ended June 30, 2020							
Balances, March 31, 2020	198,630	$ 33	$ 2,857	$ 17,871	$ 48	$ (8,454)	$ 12,355
Net income				1,828			1,828
Other comprehensive income					269		269
Common stock repurchases			—			(8)	(8)
Dividends and dividend equivalents				(83)			(83)
Stock-based compensation			46				46
Restricted stock unit vesting	—	—	(9)			9	—
Stock option exercises	—	—	4			5	9
Balances, June 30, 2020	198,630	$ 33	$ 2,898	$ 19,616	$ 317	$ (8,448)	$ 14,416

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock						
	Issued Shares	Amount	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	(dollars in millions, share amounts in thousands)						
Six months ended June 30, 2021							
Balances, December 31, 2020	198,649	$ 33	$ 2,705	$ 20,517	$ 391	$ (9,918)	$ 13,728
Net income				1,416			1,416
Other comprehensive loss					(175)		(175)
Common stock repurchases			263			(296)	(33)
Dividends and dividend equivalents				(182)			(182)
Stock-based compensation			84				84
Restricted stock unit vesting	—	—	(36)			36	—
Stock option exercises	—	—	2			3	5
Balances, June 30, 2021	198,649	$ 33	$ 3,018	$ 21,751	$ 216	$ (10,175)	$ 14,843
Six months ended June 30, 2020							
Balances, December 31, 2019	198,630	$ 33	$ 2,820	$ 17,483	$ 156	$ (8,455)	$ 12,037
Net income				2,301			2,301
Impact of adopting ASC 326 - Current expected credit loss standard (CECL)				(2)			(2)
Other comprehensive income					161		161
Common stock repurchases			—			(25)	(25)
Dividends and dividend equivalents				(166)			(166)
Stock-based compensation			82				82
Restricted stock unit vesting	—	—	(15)			15	—
Stock option exercises	—	—	11			17	28
Balances, June 30, 2020	198,630	$ 33	$ 2,898	$ 19,616	$ 317	$ (8,448)	$ 14,416

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30, 2021	2020
	(in millions)	
Cash flows from operating activities		
Net income	$ 1,416	$ 2,301
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gains on investment securities, net	(86)	(51)
Equity in net earnings	(54)	(33)
Stock-based compensation	84	82
Depreciation	308	252
Amortization	30	43
Benefit for deferred income taxes	—	(3)
Changes in operating assets and liabilities, net of effect of businesses acquired and dispositions:		
Receivables	(1,285)	(1,185)
Other assets	(879)	(2,124)
Benefits payable	300	1,976
Other liabilities	(301)	2,267
Unearned revenues	5	19
Other	(15)	(3)
Net cash (used in) provided by operating activities	(477)	3,541
Cash flows from investing activities		
Acquisitions, net of cash acquired	(325)	(709)
Purchases of property and equipment	(619)	(418)
Purchases of investment securities	(5,307)	(5,464)
Maturities of investment securities	1,627	1,645
Proceeds from sales of investment securities	2,421	2,084
Net cash used in investing activities	(2,203)	(2,862)
Cash flows from financing activities		
Receipts from contract deposits, net	1,183	389
Proceeds from issuance of senior notes, net	—	1,088
Proceeds from issuance of commercial paper, net	508	21
Proceeds from term loan	—	1,000
Debt issue costs	(21)	—
Change in book overdraft	(84)	85
Common stock repurchases	(33)	(25)
Dividends paid	(173)	(156)
Proceeds from stock option exercises and other, net	5	28
Net cash provided by financing activities	1,385	2,430
(Decrease) increase in cash and cash equivalents	(1,295)	3,109
Cash and cash equivalents at beginning of period	4,673	4,054
Cash and cash equivalents at end of period	$ 3,378	$ 7,163
Supplemental cash flow disclosures:		
Interest payments	$ 132	$ 115
Income tax payments, net	$ 386	$ 36

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT EVENTS

The accompanying condensed consolidated financial statements are presented in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America, or GAAP, or those normally made in an Annual Report on Form 10-K. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, the reader of this Form 10-Q should refer to our Form 10-K for the year ended December 31, 2020, that was filed with the Securities and Exchange Commission, or the SEC, on February 18, 2021. We refer to the Form 10-K as the “2020 Form 10-K” in this document. References throughout this document to “we,” “us,” “our,” “Company,” and “Humana” mean Humana Inc. and its subsidiaries.

The preparation of our condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The areas involving the most significant use of estimates are the estimation of benefits payable, the impact of risk adjustment provisions related to our Medicare contracts, the valuation and related impairment recognition of investment securities, and the valuation and related impairment recognition of long-lived assets, including goodwill. These estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results may ultimately differ materially from those estimates. Refer to Note 2 to the consolidated financial statements included in our 2020 Form 10-K for information on accounting policies that we consider in preparing our consolidated financial statements.

The financial information has been prepared in accordance with our customary accounting practices and has not been audited. In our opinion, the information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature.

Kindred at Home Acquisition

On April 27, 2021, we entered into a definitive agreement to acquire the remaining 60% interest in Kindred at Home, or KAH, the nation’s largest home health and hospice provider, from TPG Capital, the private equity platform of global alternative asset firm, or TPG, and Welsh, Carson, Anderson & Stowe, or WCAS, two private equity funds, or the Sponsors, for an enterprise value of $8.1 billion, which includes our existing equity value of $2.4 billion associated with our 40% minority ownership interest. KAH has locations in 40 states, providing extensive geographic coverage with approximately 65% overlap with our individual Medicare Advantage membership. The acquisition, which is expected to close in the third quarter of 2021, is subject to customary state and federal regulatory approvals. We expect to fund the approximate $5.7 billion transaction (net of our existing equity stake) through a combination of parent company cash, debt financing, and the assumption of existing KAH indebtedness.

COVID-19

The emergence and spread of the novel coronavirus, or COVID-19, beginning in the first quarter of 2020 has impacted our business. During periods of increased incidences of COVID-19, non-essential care from a reduction in non-COVID-19 hospital admissions and lower overall healthcare system consumption decreased utilization. Likewise COVID-19 treatment and testing cost increased utilization. The significant disruption in utilization during 2020 also impacted our ability to implement clinical initiatives to manage health care costs and chronic conditions of our members, and appropriately document their risk profiles, and, as such, affecting our 2021 revenue under the risk adjustment payment model for Medicare Advantage plans.

Revenue Recognition

Our revenues include premium and service revenues. Service revenues include administrative service fees that are recorded based upon established per member per month rates and the number of members for the month and are recognized as services are provided for the month. Additionally, service revenues include net patient service revenues that are recorded based upon established billing rates, less allowances for contractual adjustments, and are recognized as services are provided. For more information about our revenues, refer to Note 2 to the consolidated financial statements included in our 2020 Form 10-K for information on accounting policies that we consider in preparing our consolidated financial statements. See Note 14 for disaggregation of revenue by segment and type.

At June 30, 2021, accounts receivable related to services were $192 million. For the three and six months ended June 30, 2021, we had no material bad-debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the condensed consolidated balance sheet at June 30, 2021.

For the three and six months ended June 30, 2021, services revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price), was not material. Further, services revenue expected to be recognized in any future year related to remaining performance obligations was not material.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2018, the FASB issued new guidance related to accounting for long-duration contracts of insurers which revises key elements of the measurement models and disclosure requirements for long-duration contracts issued by insurers and reinsurers. The new guidance is effective for us beginning with annual and interim periods in 2023, with earlier adoption permitted, and requires retrospective application to previously issued annual and interim financial statements. We are currently evaluating the impact on our results of operations, financial position and cash flows.

There are no other recently issued accounting standards that apply to us or that are expected to have a material impact on our results of operations, financial condition, or cash flows.

3. ACQUISITIONS AND DIVESTITURES

During 2021 and 2020, we acquired various health and wellness related businesses which, individually or in the aggregate, have not had a material impact on our results of operations, financial condition, or cash flows. The results of operations and financial condition of these businesses acquired in 2021 and 2020 have been included in our condensed consolidated statements of income and condensed consolidated balance sheets from the respective acquisition dates. Acquisition-related costs recognized in 2021 and 2020 were not material to our results of operations. The pro forma financial information assuming the acquisitions had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenues and earnings generated during the year of acquisition, were not material for disclosure purposes.

4. INVESTMENT SECURITIES

Investment securities classified as current and long-term were as follows at June 30, 2021 and December 31, 2020, respectively:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
June 30, 2021				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 646	$ 2	$ (7)	$ 641
Mortgage-backed securities	3,493	79	(42)	3,530
Tax-exempt municipal securities	1,052	43	(1)	1,094
Mortgage-backed securities:				
Residential	257	—	(1)	256
Commercial	1,415	43	(5)	1,453
Asset-backed securities	1,450	8	—	1,458
Corporate debt securities	5,280	179	(31)	5,428
Total debt securities	$ 13,593	$ 354	$ (87)	13,860
Common stock				793
Total investment securities				$ 14,653
December 31, 2020				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 616	$ 1	$ (1)	$ 616
Mortgage-backed securities	3,115	140	(1)	3,254
Tax-exempt municipal securities	1,393	54	—	1,447
Mortgage-backed securities:				
Residential	17	—	—	17
Commercial	1,260	59	(1)	1,318
Asset-backed securities	1,364	10	(2)	1,372
Corporate debt securities	4,672	256	(1)	4,927
Total debt securities	$ 12,437	$ 520	$ (6)	12,951
Common stock				815
Total investment securities				$ 13,766

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Gross unrealized losses and fair values aggregated by investment category and length of time of individual debt securities that have been in a continuous unrealized loss position for which no allowances for credit loss has been recorded were as follows at June 30, 2021 and December 31, 2020, respectively:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
June 30, 2021						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 373	$ (7)	$ 17	$ —	$ 390	$ (7)
Mortgage-backed securities	2,336	(39)	114	(3)	2,450	(42)
Tax-exempt municipal securities	81	(1)	4	—	85	(1)
Mortgage-backed securities:						
Residential	79	(1)	—	—	79	(1)
Commercial	255	(5)	74	—	329	(5)
Asset-backed securities	231	—	149	—	380	—
Corporate debt securities	1,388	(31)	19	—	1,407	(31)
Total debt securities	$ 4,743	$ (84)	$ 377	$ (3)	$ 5,120	$ (87)
December 31, 2020						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 225	$ (1)	$ —	$ —	$ 225	$ (1)
Mortgage-backed securities	199	(1)	—	—	199	(1)
Tax-exempt municipal securities	16	—	19	—	35	—
Mortgage-backed securities:						
Residential	17	—	—	—	17	—
Commercial	193	(1)	43	—	236	(1)
Asset-backed securities	65	—	498	(2)	563	(2)
Corporate debt securities	342	(1)	16	—	358	(1)
Total debt securities	$ 1,057	$ (4)	$ 576	$ (2)	$ 1,633	$ (6)

Approximately 95% of our debt securities were investment-grade quality, with a weighted average credit rating of AA- by Standard & Poor's Rating Service, or S&P, at June 30, 2021. Most of the debt securities that were below investment-grade were rated BB, the higher end of the below investment-grade rating scale. Tax-exempt municipal securities were diversified among general obligation bonds of states and local municipalities in the United States as well as special revenue bonds issued by municipalities to finance specific public works projects such as utilities, water and sewer, transportation, or education. Our general obligation bonds are diversified across the United States with no individual state exceeding 1% of our total debt securities. Our investment policy limits investments in a single issuer and requires diversification among various asset types.

Our unrealized losses from all debt securities were generated from approximately 405 positions out of a total of approximately 1,700 positions at June 30, 2021. All issuers of debt securities we own that were trading at an unrealized loss at June 30, 2021 remain current on all contractual payments. After taking into account these and other factors previously described, we believe these unrealized losses primarily were caused by an increase in market interest rates in the current markets since the time these debt securities were purchased. At June 30, 2021, we did not intend to sell any debt securities with an unrealized loss position in accumulated other comprehensive income, and it is not likely that we will be required to sell these debt securities before recovery of their amortized cost basis. Additionally, we did not record any material credit allowances for debt securities that were in an unrealized loss position for the three and six months ended June 30, 2021 and 2020.

The detail of gains (losses) related to investment securities and included within investment income was as follows for the three and six months ended June 30, 2021 and 2020:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(in millions)		(in millions)	
Gross gains on investment securities	$ 14	$ 13	$ 109	$ 69
Gross losses on investment securities	—	(11)	—	(18)
Net gains (losses) on equity securities	62	—	(23)	—
Net gains on investment securities	$ 76	$ 2	$ 86	$ 51

Purchases of and proceeds from investment securities for the three and six months ended June 30, 2021 and 2020 relate to debt securities.

The contractual maturities of debt securities available for sale at June 30, 2021, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$ 461	$ 465
Due after one year through five years	2,061	2,134
Due after five years through ten years	2,958	3,035
Due after ten years	1,498	1,529
Mortgage and asset-backed securities	6,615	6,697
Total debt securities	$ 13,593	$ 13,860

5. FAIR VALUE

Financial Assets

The following table summarizes our fair value measurements at June 30, 2021 and December 31, 2020, respectively, for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(in millions)			
June 30, 2021				
Cash equivalents	$ 3,191	$ 3,191	$ —	$ —
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	641	—	641	—
Mortgage-backed securities	3,530	—	3,530	—
Tax-exempt municipal securities	1,094	—	1,094	—
Mortgage-backed securities:				
Residential	256	—	256	—
Commercial	1,453	—	1,453	—
Asset-backed securities	1,458	—	1,458	—
Corporate debt securities	5,428	—	5,428	—
Total debt securities	13,860	—	13,860	—
Common stock	793	793	—	—
Total invested assets	$ 17,844	$ 3,984	$ 13,860	$ —
December 31, 2020				
Cash equivalents	$ 4,548	$ 4,548	$ —	$ —
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	616	—	616	—
Mortgage-backed securities	3,254	—	3,254	—
Tax-exempt municipal securities	1,447	—	1,447	—
Mortgage-backed securities:				
Residential	17	—	17	—
Commercial	1,318	—	1,318	—
Asset-backed securities	1,372	—	1,372	—
Corporate debt securities	4,927	—	4,927	—
Total debt securities	12,951	—	12,951	—
Common stock	815	815	—	—
Total invested assets	$ 18,314	$ 5,363	$ 12,951	$ —

Financial Liabilities

Our debt is recorded at carrying value in our consolidated balance sheets. The carrying value of our senior notes debt outstanding, net of unamortized debt issuance costs, was $6.1 billion at June 30, 2021 and December 31, 2020. The fair value of our senior notes debt was $7.1 billion at June 30, 2021 and $7.4 billion at December 31, 2020. The fair value of our senior notes debt is determined based on Level 2 inputs, including quoted market prices for the same or similar debt, or if no quoted market prices are available, on the current prices estimated to be available to us for debt with similar terms and remaining maturities. Due to the short-term nature, carrying value approximates fair value for our term note and commercial paper borrowings. The commercial paper borrowings were $1.1 billion and $0.6 billion as of June 30, 2021 and December 31, 2020, respectively.

Put and Call Options Measured at Fair Value

Effective April 27, 2021, with the signing of the definitive agreement to acquire the remaining 60% interest of KAH, the put and call options were terminated. As such, the $63 million put and $440 million call fair values as of the first quarter of 2021 were reduced to zero, resulting in $377 million in "Other (income) expense, net" in our condensed consolidated statements of income during the three months ended June 30, 2021.

The put and call options were measured at fair value using a Monte Carlo simulation which resulted in fair values of $45 million and $503 million, respectively, at December 31, 2020. The put option is included within other long-term liabilities and the call option is included within other long-term assets at December 31, 2020. The change in fair value of the put and call options is reflected as "Other (income) expense, net" in our condensed consolidated statements of income.

Other Assets and Liabilities Measured at Fair Value

Other than the immaterial assets acquired and liabilities assumed in the acquisitions in Note 3, there were no other material assets or liabilities measured at fair value on a recurring or nonrecurring basis during 2021.

6. MEDICARE PART D

We cover prescription drug benefits in accordance with Medicare Part D under multiple contracts with the Centers for Medicare and Medicaid Services, or CMS, as described further in Note 2 to the consolidated financial statements included in our 2020 Form 10-K. The accompanying condensed consolidated balance sheets include the following amounts associated with Medicare Part D at June 30, 2021 and December 31, 2020. CMS subsidies/discounts in the table below include the reinsurance and low-income cost subsidies funded by CMS for which we assume no risk as well as brand name prescription drug discounts for Part D plan participants in the coverage gap funded by CMS and pharmaceutical manufacturers.

	June 30, 2021		December 31, 2020	
	Risk Corridor Settlement	CMS Subsidies/ Discounts	Risk Corridor Settlement	CMS Subsidies/ Discounts
	(in millions)			
Other current assets	$ 169	$ 1,635	$ 216	$ 1,420
Trade accounts payable and accrued expenses	(13)	(1,653)	(39)	(253)
Net current asset (liability)	156	(18)	177	1,167
Other long-term assets	317	—	8	—
Other long-term liabilities	(198)	—	(90)	—
Net long-term asset (liability)	119	—	(82)	—
Total net asset (liability)	$ 275	$ (18)	$ 95	$ 1,167

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7. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for our reportable segments for the six months ended June 30, 2021 were as follows:

	Retail	Group and Specialty	Healthcare Services	Total
	(in millions)			
Balance at January 1, 2021	$ 1,535	$ 261	$ 2,651	$ 4,447
Acquisitions	112	—	355	467
Balance at June 30, 2021	$ 1,647	$ 261	$ 3,006	$ 4,914

The following table presents details of our other intangible assets included in other long-term assets in the accompanying condensed consolidated balance sheets at June 30, 2021 and December 31, 2020.

		June 30, 2021			December 31, 2020		
	Weighted Average Life	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	($ in millions)						
Other intangible assets:							
Customer contracts/ relationships	9.4 years	$ 875	$ 596	$ 279	$ 849	$ 572	$ 277
Trade names and technology	6.7 years	136	92	44	122	89	33
Provider contracts	11.8 years	69	53	16	69	50	19
Noncompetes and other	7.1 years	32	29	3	29	29	—
Total other intangible assets	9.1 years	$ 1,112	$ 770	$ 342	$ 1,069	$ 740	$ 329

For the three months ended June 30, 2021 and 2020, amortization expense for other intangible assets was approximately $15 million and $22 million, respectively. For the six months ended June 30, 2021 and 2020, amortization expense for other intangible assets was approximately $30 million and $43 million, respectively. The following table presents our estimate of amortization expense remaining for 2021 and each of the five next succeeding years:

	(in millions)
For the years ending December 31,	
2021	$ 33
2022	62
2023	48
2024	40
2025	39
2026	27

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8. BENEFITS PAYABLE

On a consolidated basis, activity in benefits payable, was as follows for the six months ended June 30, 2021 and 2020:

	For the six months ended June 30,	
	2021	2020
	(in millions)	
Balances, beginning of period	$ 8,143	$ 6,004
Less: Reinsurance recoverables	—	(68)
Balances, beginning of period, net	8,143	5,936
Acquisitions	42	—
Incurred related to:		
Current year	35,164	30,039
Prior years	(719)	(235)
Total incurred	34,445	29,804
Paid related to:		
Current year	(27,556)	(22,665)
Prior years	(6,589)	(5,098)
Total paid	(34,145)	(27,763)
Reinsurance recoverable	—	3
Balances, end of period	$ 8,485	$ 7,980

Amounts incurred related to prior periods vary from previously estimated liabilities as the claims ultimately are settled. Negative amounts reported for incurred related to prior years result from claims being ultimately settled for amounts less than originally estimated (favorable development).

Our reserving practice is to consistently recognize the actuarial best estimate of our ultimate liability for claims. Actuarial standards require the use of assumptions based on moderately adverse experience, which generally results in favorable reserve development, or reserves that are considered redundant.

The higher prior year favorable development for the six months ended June 20, 2021 was primarily attributable to the reversal of actions taken in 2020, including the suspension of certain financial recovery programs for a period of time. The suspension during 2020 was intended to provide financial and administrative relief for providers facing unprecedented strain as a result of the COVID-19 pandemic.

Incurred and Paid Claims Development

The following discussion provides information about incurred and paid claims development for our Retail and Group and Specialty segments as of June 30, 2021 and 2020, net of reinsurance, and the total estimate of benefits payable for claims incurred but not reported, or IBNR, included within the net incurred claims amounts.

Retail Segment

Activity in benefits payable for our Retail segment was as follows for the six months ended June 30, 2021 and 2020:

	For the six months ended June 30,	
	2021	2020
	(in millions)	
Balances, beginning of period	$ 7,428	$ 5,363
Less: Reinsurance recoverables	—	(68)
Balances, beginning of period, net	7,428	5,295
Acquisitions	42	—
Incurred related to:		
Current year	32,986	27,921
Prior years	(619)	(205)
Total incurred	32,367	27,716
Paid related to:		
Current year	(25,953)	(21,063)
Prior years	(5,990)	(4,528)
Total paid	(31,943)	(25,591)
Reinsurance recoverable	—	3
Balances, end of period	$ 7,894	$ 7,423

At June 30, 2021, benefits payable for our Retail segment included IBNR of approximately $4.9 billion, primarily associated with claims incurred in 2021.

Group and Specialty Segment

Activity in benefits payable for our Group and Specialty segment was as follows for the six months ended June 30, 2021 and 2020:

	For the six months ended June 30,	
	2021	2020
	(in millions)	
Balances, beginning of period	$ 715	$ 641
Incurred related to:		
Current year	2,492	2,434
Prior years	(100)	(30)
Total incurred	2,392	2,404
Paid related to:		
Current year	(1,917)	(1,918)
Prior years	(599)	(570)
Total paid	(2,516)	(2,488)
Balances, end of period	$ 591	$ 557

At June 30, 2021, benefits payable for our Group and Specialty segment included IBNR of approximately $514 million, primarily associated with claims incurred in 2021.

9. EARNINGS PER COMMON SHARE COMPUTATION

Detail supporting the computation of basic and diluted earnings per common share was as follows for the three and six months ended June 30, 2021 and 2020:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(dollars in millions, except per common share results; number of shares in thousands)			
Net income available for common stockholders	$ 588	$ 1,828	$ 1,416	$ 2,301
Weighted average outstanding shares of common stock used to compute basic earnings per common share	128,692	132,248	128,811	132,192
Dilutive effect of:				
Employee stock options	74	89	63	90
Restricted stock	621	686	595	635
Shares used to compute diluted earnings per common share	129,387	133,023	129,469	132,917
Basic earnings per common share	$ 4.57	$ 13.83	$ 11.00	$ 17.41
Diluted earnings per common share	$ 4.55	$ 13.75	$ 10.94	$ 17.31
Number of antidilutive stock options and restricted stock excluded from computation	103	130	317	395

10. STOCKHOLDERS' EQUITY

Dividends

The following table provides details of dividend payments, excluding dividend equivalent rights for unvested stock awards, in 2020 and 2021 under our Board approved quarterly cash dividend policy:

Record Date	Payment Date	Amount per Share	Total Amount
			(in millions)
2020 payments			
12/31/2019	1/31/2020	$ 0.550	$ 73
3/31/2020	4/24/2020	0.625	83
6/30/2020	7/31/2020	0.625	83
9/30/2020	10/30/2020	0.625	83
2021 payments			
12/31/2020	1/29/2021	$ 0.625	$ 81
3/31/2020	4/30/2021	0.700	90

In April 2021, the Board declared a cash dividend of $0.70 per share payable on July 30, 2021 to stockholders of record on June 30, 2021.

Stock Repurchases

Our Board of Directors may authorize the purchase of our common stock shares. Under the share repurchase authorization, shares may be purchased from time to time at prevailing prices in the open market, by block purchases, through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, or in privately-negotiated transactions, including pursuant to accelerated share repurchase agreements with investment banks, subject to certain regulatory restrictions on volume, pricing, and timing.

On July 30, 2019, the Board of Directors replaced a previous share repurchase authorization of up to $3 billion (of which approximately $1.03 billion remained unused) with a new authorization for repurchases of up to $3 billion of our common shares exclusive of shares repurchased in connection with employee stock plans, expiring on June 30, 2022.

On July 31, 2019, we entered into an accelerated stock repurchase agreement, the July 2019 ASR, with Citibank, N.A., or Citi, to repurchase $1 billion of our common stock. On August 2, 2019, we made a payment of $1 billion to Citi and received an initial delivery of 2.7 million shares of our common stock. We recorded the payment to Citi as a reduction to stockholders' equity, consisting of an $800 million increase in treasury stock, which reflects the value of the initial 2.7 million shares received upon initial settlement, and a $200 million decrease in capital in excess of par value, which reflects the value of stock held back by Citi pending final settlement of the July 2019 ASR. Upon final settlement of the July 2019 ASR on December 26, 2019, we received an additional 0.7 million shares as determined by the average daily volume weighted-averages share price of our common stock during the term of the agreement, less a discount, of $296.19, bringing the total shares received under the July 2019 ASR to 3.4 million. In addition, upon settlement we reclassified the $200 million value of stock initially held back by Citi from capital in excess of par value to treasury stock.

On December 22, 2020, we entered into separate accelerated stock repurchase agreements, ("the December 2020 ASR Agreements"), with Citibank, N.A., or Citi, and JPMorgan Chase Bank, or JPM, to repurchase $1.75 billion of our common stock as part of the $3 billion repurchase program authorized by the Board of Directors on July 30, 2019. On December 23, 2020, in accordance with the December 2020 ASR Agreements, we made a payment of $1.75 billion ($875 million to Citi and $875 million to JPM) and received an initial delivery of 3.8 million shares of our common stock (1.9 million shares each from Citi and JPM). We recorded the payments to Citi and JPM as a reduction to stockholders' equity, consisting of an $1.5 billion increase in treasury stock, which reflects the value of the initial 3.8 million shares received upon initial settlement, and a $262.5 million decrease in capital in excess of par value, which reflects the value of stock held back by Citi and JPM pending final settlement of the December 2020 ASR Agreements. Upon final settlement of the December 2020 ASR agreements with Citi and JPM on May 4, 2021 and May 5, 2021, respectively, we received an additional 0.3 million shares and 0.3 million shares, respectively, as determined by the average daily volume weighted-averages share price of our common stock during the term of the agreement, less a discount, of $400.07 and 401.49, respectively, bringing the total shares received under the December 2020 ASR agreements to 4.4 million. In addition, upon settlement we reclassified the $262.5 million value of stock initially held back by Citi and JPM from capital in excess of par value to treasury stock.

On February 18, 2021, the Board of Directors replaced the previous share repurchase authorization of up to $3 billion (of which approximately $250 million remained unused) with a new authorization for repurchases of up to $3 billion of our common shares exclusive of shares repurchased in connection with employee stock plans, expiring as of February 18, 2024. Our remaining repurchase authorization was $3 billion as of July 27, 2021.

In connection with employee stock plans, we acquired 0.09 million common shares for $33 million and 0.08 million common shares for $25 million during the six months ended June 30, 2021 and 2020, respectively.

11. INCOME TAXES

The effective income tax rate was 23.7% and 22.7% for the three and six months ended June 30, 2021, respectively, compared to 30.0% and 31.0% for the three and six months ended June 30, 2020, respectively, primarily due to the termination of the non-deductible health insurance industry fee in 2021.

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12. DEBT

The carrying value of debt outstanding, net of unamortized debt issuance costs, was as follows at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
	(in millions)	
Short-term debt:		
Commercial paper	$ 1,109	$ 600
Total short-term debt	$ 1,109	$ 600
Long-term debt:		
Senior notes:		
$600 million, 3.15% due December 1, 2022	$ 598	$ 598
$400 million, 2.90% due December 15, 2022	398	398
$600 million, 3.85% due October 1, 2024	598	598
$600 million, 4.50% due April 1, 2025	595	595
$600 million, 3.95% due March 15, 2027	596	596
$500 million, 3.125% due August 15, 2029	496	495
$500 million, 4.875% due April 1, 2030	495	494
$250 million, 8.15% due June 15, 2038	262	262
$400 million, 4.625% due December 1, 2042	396	396
$750 million, 4.95% due October 1, 2044	740	739
$400 million, 4.80% due March 15, 2047	396	396
$500 million, 3.95% due August 15, 2049	493	493
Total long-term debt	$ 6,063	$ 6,060

Senior Notes

Our senior notes, which are unsecured, may be redeemed at our option at any time at 100% of the principal amount plus accrued interest and a specified make-whole amount. The 8.15% senior notes are subject to an interest rate adjustment if the debt ratings assigned to the notes are downgraded (or subsequently upgraded). In addition, our senior notes contain a change of control provision that may require us to purchase the notes under certain circumstances.

Revolving Credit Agreements

In June 2021, we entered into two separate revolving credit agreements: (i) a 5-year, $2.5 billion unsecured revolving credit agreement and (ii) a 364-day $1.5 billion unsecured revolving credit agreement. Under the revolving credit agreements, at our option, we can borrow on either a competitive advance basis or a revolving credit basis. The revolving credit portion bears interest at either LIBOR plus a spread or the base rate plus a spread. The competitive advance portion of any borrowings will bear interest at market rates prevailing at the time of borrowing on either a fixed rate or a floating rate based on LIBOR, at our option. The revolving credit agreements provide for the transition from LIBOR and do not require amendment in connection with such transition.

The LIBOR spread, currently 110.0 basis points under the 5-year revolving credit agreements and 115.0 basis points under the 364-day revolving credit agreement, varies depending on our credit ratings ranging from 91.0 to 140.0 basis points under the 5-year revolving credit agreement and from 93.0 to 145.0 basis points under the 364-day revolving credit agreement. We also pay an annual facility fee regardless of utilization. This facility fee, currently 15.0 basis points, under the 5-year revolving credit agreement and 10.0 basis points under the 364-day revolving agreement, various depending on our credit ratings ranging from 9.0 to 22.5 basis points under the 5-year revolving credit agreement and from 7.0 to 17.5 basis points under the 364-day revolving credit agreement.

The terms of the revolving credit agreements include standard provisions related to conditions of borrowing which could limit our ability to borrow additional funds. In addition, the credit agreements contain customary restrictive covenants and a financial covenant regarding maximum debt to capitalization of 60%, as well as customary events of default. We are in compliance with this financial covenant, with actual debt to capitalization of 33% as measured in accordance with the revolving credit agreements as of June 30, 2021. Upon our agreement with one or more financial institutions, we may expand the aggregate commitments under the revolving credit agreements by up to $750 million in the aggregate, to a maximum of $4.75 billion, across the 5-year and 364-day revolving credit agreements.

At June 30, 2021, we had no borrowings and less than $1 million of letters of credit outstanding under the revolving credit agreements. Accordingly, as of June 30, 2021, we had $2.5 billion of remaining borrowing capacity under the 5-year revolving credit agreement and $1.5 billion of remaining borrowing capacity under the 364-day revolving credit agreement (which excludes the uncommitted $750 million of incremental loan facilities), none of which would be restricted by our financial covenant compliance requirement.

We have other customary, arms-length relationships, including financial advisory and banking, with some parties to the revolving credit agreements.

Delayed Draw Term Loan Credit Agreement

In May 2021, we entered into a $500 million unsecured delayed draw term loan credit agreement. Under the term loan credit agreement, loans bear interest at either LIBOR plus a spread or the base rate plus a spread. The loans under the term loan credit agreement mature on the third anniversary of the funding date. The LIBOR spread, currently 125 basis points, varies depending on our credit ratings ranging from 100.0 to 162.5 basis points. The term loan credit agreement provides for the transition from LIBOR and does not require amendment in connection with such transition.

The term loan credit agreement contains customary restrictive covenants and a financial covenant regarding maximum debt to capitalization of 60%, as well as customary events of default. We are in compliance with this financial covenant, with actual debt to capitalization of 33% as measured in accordance with the term loan credit agreement as of June 30, 2021. At June 30, 2021, we had no borrowings under the delayed term loan credit agreement.

We have other customary, arms-length relationships, including financial advisory and banking, with some parties to the term loan agreement.

Commercial Paper

Under our commercial paper program we may issue short-term, unsecured commercial paper notes privately placed on a discount basis through certain broker dealers at any time not to exceed $2 billion. Amounts available under the program may be borrowed, repaid and re-borrowed from time to time. The net proceeds of issuances have been and are expected to be used for general corporate purposes. The maximum principal amount outstanding at any one time during the six months ended June 30, 2021 was $1.3 billion, with $1.1 billion outstanding at June 30, 2021 compared to $600 million outstanding at December 31, 2020. The outstanding commercial paper at June 30, 2021 had a weighted average annual interest rate of 0.32%.

Other Short-term Borrowings

We are a member, through one subsidiary, of the Federal Home Loan Bank of Cincinnati, or FHLB. As a member we have the ability to obtain short-term cash advances, subject to certain minimum collateral requirements. At June 30, 2021 we had no outstanding short-term FHLB borrowings.

Bridge Loan Financing

In April 2021, we entered into a commitment letter with Goldman Sachs Bank USA, or Goldman Sachs, pursuant to which, and subject to the terms and conditions set forth therein, Goldman Sachs committed to lend us up to $3.5 billion under a new senior unsecured 364-day bridge loan facility, or Bridge Loan. If we enter into the Bridge Loan, the proceeds of the Bridge Loan will be used to finance a portion of the cash consideration payable for the KAH transaction. The outstanding Bridge Loan commitments under the commitment letter were reduced to $3.0 billion in connection with the effectiveness of the delayed draw term loan credit agreement in May 2021.

13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Government Contracts

Our Medicare products, which accounted for approximately 83% of our total premiums and services revenue for the six months ended June 30, 2021, primarily consisted of products covered under the Medicare Advantage and Medicare Part D Prescription Drug Plan contracts with the federal government. These contracts are renewed generally for a calendar year term unless CMS notifies us of its decision not to renew by May 1 of the calendar year in which the contract would end, or we notify CMS of our decision not to renew by the first Monday in June of the calendar year in which the contract would end. All material contracts between Humana and CMS relating to our Medicare products have been renewed for 2022. Our product offerings under those contracts are subject to approval by CMS in the third quarter of 2021.

CMS uses a risk-adjustment model which adjusts premiums paid to Medicare Advantage, or MA, plans according to health status of covered members. The risk-adjustment model, which CMS implemented pursuant to the Balanced Budget Act of 1997 (BBA) and the Benefits Improvement and Protection Act of 2000 (BIPA), generally pays more where a plan's membership has higher expected costs. Under this model, rates paid to MA plans are based on actuarially determined bids, which include a process whereby our prospective payments are based on our estimated cost of providing standard Medicare-covered benefits to an enrollee with a "national average risk profile." That baseline payment amount is adjusted to reflect the health status of our enrolled membership. Under the risk-adjustment methodology, all MA plans must collect from providers and submit the necessary diagnosis code information to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to MA plans, which CMS adjusts for coding pattern differences between the health plans and the government fee-for-service program. We generally rely on providers, including certain providers in our network who are our employees, to code their claim submissions with appropriate diagnoses, which we send to CMS as the basis for our payment received from CMS under the actuarial risk-adjustment model. We also rely on these providers to document appropriately all medical data, including the diagnosis data submitted with claims. In addition, we conduct medical record reviews as part of our data and payment accuracy compliance efforts, to more accurately reflect diagnosis conditions under the risk adjustment model. These compliance efforts include the internal contract level audits described in more detail below, as well as ordinary course reviews of our internal business processes.

CMS is phasing-in the process of calculating risk scores using diagnoses data from the Risk Adjustment Processing System, or RAPS, to diagnoses data from the Encounter Data System, or EDS. The RAPS process requires MA plans to apply a filter logic based on CMS guidelines and only submit diagnoses that satisfy those guidelines. For submissions through EDS, CMS requires MA plans to submit all the encounter data and CMS will apply the risk adjustment filtering logic to determine the risk scores. For 2020, 50% of the risk score was calculated from claims data submitted through EDS. CMS increased that percentage to 75% for 2021 and will complete the phased-in transition from RAPS to EDS by using only EDS data to calculate risk scores in 2022. The phase-in from RAPS to EDS could result in different risk scores from each dataset as a result of plan processing issues, CMS processing issues, or filtering logic differences between RAPS and EDS, and could have a material adverse effect on our results of operations, financial position, or cash flows.

CMS and the Office of the Inspector General of Health and Human Services, or HHS-OIG, are continuing to perform audits of various companies' selected MA contracts related to this risk adjustment diagnosis data. We refer to these audits as Risk-Adjustment Data Validation Audits, or RADV audits. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to MA plans.

In 2012, CMS released a “Notice of Final Payment Error Calculation Methodology for Part C Medicare Advantage Risk Adjustment Data Validation (RADV) Contract-Level Audits.” The payment error calculation methodology provided that, in calculating the economic impact of audit results for an MA contract, if any, the results of the RADV audit sample would be extrapolated to the entire MA contract after a comparison of the audit results to a similar audit of the government's traditional fee-for-service Medicare program, or Medicare FFS. We refer to the process of accounting for errors in FFS claims as the "FFS Adjuster." This comparison of RADV audit results to the FFS error rate is necessary to determine the economic impact, if any, of RADV audit results because the government used the Medicare FFS program data set, including any attendant errors that are present in that data set, to estimate the costs of various health status conditions and to set the resulting adjustments to MA plans' payment rates in order to establish actuarial equivalence in payment rates as required under the Medicare statute. CMS already makes other adjustments to payment rates based on a comparison of coding pattern differences between MA plans and Medicare FFS data (such as for frequency of coding for certain diagnoses in MA plan data versus the Medicare FFS program dataset).

The final RADV extrapolation methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to CMS RADV contract level audits conducted for contract year 2011 and subsequent years. CMS is currently conducting RADV contract level audits for certain of our Medicare Advantage plans.

Estimated audit settlements are recorded as a reduction of premiums revenue in our consolidated statements of income, based upon available information. We perform internal contract level audits based on the RADV audit methodology prescribed by CMS. Included in these internal contract level audits is an audit of our Private Fee-For Service business which we used to represent a proxy of the FFS Adjuster which has not yet been finalized. We based our accrual of estimated audit settlements for each contract year on the results of these internal contract level audits and update our estimates as each audit is completed. Estimates derived from these results were not material to our results of operations, financial position, or cash flows. We report the results of these internal contract level audits to CMS, including identified overpayments, if any.

On October 26, 2018, CMS issued a proposed rule and accompanying materials (which we refer to as the “Proposed Rule”) related to, among other things, the RADV audit methodology described above. If implemented, the Proposed Rule would use extrapolation in RADV audits applicable to payment year 2011 contract-level audits and all subsequent audits, without the application of a FFS Adjuster to audit findings. We believe that the Proposed Rule fails to address adequately the statutory requirement of actuarial equivalence, and have provided substantive comments to CMS on the Proposed Rule as part of the notice-and-comment rulemaking process. Whether, and to what extent, CMS finalizes the Proposed Rule, and any related regulatory, industry or company reactions, could have a material adverse effect on our results of operations, financial position, or cash flows.

In addition, as part of our internal compliance efforts, we routinely perform ordinary course reviews of our internal business processes related to, among other things, our risk coding and data submissions in connection with the risk adjustment model. These reviews may also result in the identification of errors and the submission of corrections to CMS, that may, either individually or in the aggregate, be material. As such, the result of these reviews may have a material adverse effect on our results of operations, financial position, or cash flows.

We believe that CMS's statements and policies regarding the requirement to report and return identified overpayments received by MA plans are inconsistent with CMS's 2012 RADV audit methodology, and the Medicare statute's requirements. These statements and policies, such as certain statements contained in the preamble to CMS’s final rule release regarding Medicare Advantage and Part D prescription drug benefit program regulations for Contract Year 2015 (which we refer to as the "Overpayment Rule"), and the Proposed Rule, appear to equate each Medicare Advantage risk adjustment data error with an “overpayment” without addressing the principles underlying the FFS Adjuster referenced above. On September 7, 2018, the Federal District Court for the District of Columbia vacated CMS's Overpayment Rule, concluding that it violated the Medicare statute, including the requirement for actuarial equivalence, and that the Overpayment Rule was also arbitrary and capricious in departing from CMS's RADV methodology without adequate explanation (among other reasons). CMS has appealed the decision to the Circuit Court of Appeals.

We will continue to work with CMS to ensure that MA plans are paid accurately and that payment model principles are in accordance with the requirements of the Social Security Act, which, if not implemented correctly could have a material adverse effect on our results of operations, financial position, or cash flows.

Our state-based Medicaid business, which accounted for approximately 6% of our total premiums and services revenue for the six months ended June 30, 2021 primarily consisted of serving members enrolled in Medicaid, and in certain circumstances members who qualify for both Medicaid and Medicare, under contracts with various states.

At June 30, 2021, our military services business, which accounted for approximately 1% of our total premiums and services revenue for the six months ended June 30, 2021, primarily consisted of the TRICARE T2017 East Region contract. The T2017 East Region contract comprising 32 states and approximately 6 million TRICARE beneficiaries, under which delivery of health care services commenced on January 1, 2018. The T2017 East Region contract is a 5-year contract set to expire on December 31, 2022 and is subject to renewals on January 1 of each year during its term at the government's option.

The loss of any of the contracts above or significant changes in these programs as a result of legislative or regulatory action, including reductions in premium payments to us, regulatory restrictions on profitability, including reviews by regulatory bodies that may compare our Medicare Advantage profitability to our non-Medicare Advantage business profitability, or compare the profitability of various products within our Medicare Advantage business, and require that they remain within certain ranges of each other, or increases in member benefits or member eligibility criteria without corresponding increases in premium payments to us, may have a material adverse effect on our results of operations, financial position, and cash flows.

Legal Proceedings and Certain Regulatory Matters

As previously disclosed, the Civil Division of the United States Department of Justice provided us with an information request in December 2014, concerning our Medicare Part C risk adjustment practices. The request relates to our oversight and submission of risk adjustment data generated by providers in our Medicare Advantage network, as well as to our business and compliance practices related to risk adjustment data generated by our providers and by us, including medical record reviews conducted as part of our data and payment accuracy compliance efforts, the use of health and well-being assessments, and our fraud detection efforts. We believe that this request for information is in connection with a wider review of Medicare Risk Adjustment generally that includes a number of Medicare Advantage plans, providers and vendors. We continue to cooperate with the Department of Justice. These matters are expected to result in additional qui tam litigation.

As previously disclosed, on January 19, 2016, an individual filed a qui tam suit captioned United States of America ex rel. Steven Scott v. Humana, Inc., in United States District Court, Central District of California, Western Division. The complaint alleges certain civil violations by us in connection with the actuarial equivalence of the plan benefits under Humana's Basic PDP plan, a prescription drug plan offered by us under Medicare Part D. The action seeks damages and penalties on behalf of the United States under the False Claims Act. The court ordered the qui tam action unsealed on September 13, 2017, so that the relator could proceed, following notice from the U.S. Government that it was not intervening at that time. On January 29, 2018, the suit was transferred to the United States District Court, Western District of Kentucky, Louisville Division. We take seriously our obligations to comply with applicable CMS requirements and actuarial standards of practice, and continue to vigorously defend against these allegations since the transfer to the Western District of Kentucky. We have substantially completed discovery with the relator who has pursued the matter on behalf of the United States following its unsealing, and expect the Court to consider our motion for summary judgment.

Other Lawsuits and Regulatory Matters

Our current and past business practices are subject to review or other investigations by various state insurance and health care regulatory authorities and other state and federal regulatory authorities. These authorities regularly scrutinize the business practices of health insurance, health care delivery and benefits companies. These reviews focus on numerous facets of our business, including claims payment practices, statutory capital requirements, provider contracting, risk adjustment, competitive practices, commission payments, privacy issues, utilization management practices, pharmacy benefits, access to care, and sales practices, among others. Some of these reviews have historically resulted in fines imposed on us and some have required changes to some of our practices. We continue to be subject to these reviews, which could result in additional fines or other sanctions being imposed on us or additional changes in some of our practices.

We also are involved in various other lawsuits that arise, for the most part, in the ordinary course of our business operations, certain of which may be styled as class-action lawsuits. Among other matters, this litigation may include employment matters, claims of medical malpractice, bad faith, nonacceptance or termination of providers, anticompetitive practices, improper rate setting, provider contract rate and payment disputes, including disputes over reimbursement rates required by statute, disputes arising from competitive procurement process, general contractual matters, intellectual property matters, and challenges to subrogation practices. Under state guaranty assessment laws, including those related to state cooperative failures in the industry, we may be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of insolvent insurance companies that write the same line or lines of business as we do.

As a government contractor, we may also be subject to qui tam litigation brought by individuals who seek to sue on behalf of the government, alleging that the government contractor submitted false claims to the government including, among other allegations, those resulting from coding and review practices under the Medicare risk adjustment model. Qui tam litigation is filed under seal to allow the government an opportunity to investigate and to decide if it wishes to intervene and assume control of the litigation. If the government does not intervene, the individual may continue to prosecute the action on his or her own, on behalf of the government. We also are subject to other allegations of nonperformance of contractual obligations to providers, members, and others, including failure to properly pay claims, improper policy terminations, challenges to our implementation of the Medicare Part D prescription drug program and other litigation.

A limited number of the claims asserted against us are subject to insurance coverage. Personal injury claims, claims for extra contractual damages, care delivery malpractice, and claims arising from medical benefit denials are covered by insurance from our wholly owned captive insurance subsidiary and excess carriers, except to the extent that claimants seek punitive damages, which may not be covered by insurance in certain states in which insurance coverage for punitive damages is not permitted. In addition, insurance coverage for all or certain forms of liability has become increasingly costly and may become unavailable or prohibitively expensive in the future.

We record accruals for the contingencies discussed in the sections above to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described above because of the inherently unpredictable nature of legal proceedings, which also may be exacerbated by various factors, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes.

The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting judgments, penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities or as a result of actions by third parties. Nevertheless, it is reasonably possible that any such outcome of litigation, judgments, penalties, fines or other sanctions could be substantial, and the outcome of these matters may have a material adverse effect on our results of operations, financial position, and cash flows, and may also affect our reputation.

14. SEGMENT INFORMATION

We manage our business with three reportable segments: Retail, Group and Specialty, and Healthcare Services. The reportable segments are based on a combination of the type of health plan customer and adjacent businesses centered on well-being solutions for our health plans and other customers, as described below. These segment groupings are consistent with information used by our Chief Executive Officer, the Chief Operating Decision Maker, to assess performance and allocate resources.

The Retail segment consists of Medicare benefits, marketed to individuals or directly via group Medicare accounts. In addition, the Retail segment also includes our contract with CMS to administer the Limited Income Newly Eligible Transition, or LI-NET, prescription drug plan program and contracts with various states to provide Medicaid, dual eligible, and Long-Term Support Services benefits, which we refer to collectively as our state-based contracts. The Group and Specialty segment consists of employer group commercial fully-insured medical and specialty health insurance benefits marketed to individuals and employer groups, including dental, vision, and other supplemental health benefits, as well as administrative services only, or ASO products. In addition, our Group and Specialty segment includes our military services business, primarily our TRICARE T2017 East Region contract. The Healthcare Services segment includes services offered to our health plan members as well as to third parties, including pharmacy solutions, provider services, and clinical care service, such as home health and other services and capabilities to promote wellness and advance population health, including our non-consolidating minority investment in Kindred at Home and the strategic partnership with WCAS to develop and operate senior-focused, payor-agnostic, primary care centers.

Our Healthcare Services intersegment revenues primarily relate to managing prescription drug coverage for members of our other segments through Humana Pharmacy Solutions®, or HPS, and includes the operations of Humana Pharmacy, Inc., our mail order pharmacy business. These revenues consist of the prescription price (ingredient cost plus dispensing fee), including the portion to be settled with the member (co-share) or with the government (subsidies), plus any associated administrative fees. Services revenues related to the distribution of prescriptions by third party retail pharmacies in our networks are recognized when the claim is processed and product revenues from dispensing prescriptions from our mail order pharmacies are recorded when the prescription or product is shipped. Our pharmacy operations, which are responsible for designing pharmacy benefits, including defining member co-share responsibilities, determining formulary listings, contracting with retail pharmacies, confirming member eligibility, reviewing drug utilization, and processing claims, act as a principal in the arrangement on behalf of members in our other segments. As principal, our Healthcare Services segment reports revenues on a gross basis, including co-share amounts from members collected by third party retail pharmacies at the point of service.

In addition, our Healthcare Services intersegment revenues include revenues earned by certain owned providers derived from risk-based and non-risk-based managed care agreements with our health plans. Under risk based

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

agreements, the provider receives a monthly capitated fee that varies depending on the demographics and health status of the member, for each member assigned to these owned providers by our health plans. The owned provider assumes the economic risk of funding the assigned members’ healthcare services. Under non risk-based agreements, our health plans retain the economic risk of funding the assigned members' healthcare services. Our Healthcare Services segment reports provider services revenues associated with risk-based agreements on a gross basis, whereby capitation fee revenue is recognized in the period in which the assigned members are entitled to receive healthcare services. Provider services revenues associated with non-risk-based agreements are presented net of associated healthcare costs.

We present our condensed consolidated results of operations from the perspective of the health plans. As a result, the cost of providing benefits to our members, whether provided via a third party provider or internally through a stand-alone subsidiary, is classified as benefits expense and excludes the portion of the cost for which the health plans do not bear responsibility, including member co-share amounts and government subsidies of $4.4 billion and $4.0 billion for the three months ended June 30, 2021 and 2020, respectively. For the six months ended June 30, 2021 and 2020 these amounts were $8.0 billion and $7.4 billion, respectively. In addition, depreciation and amortization expense associated with certain businesses in our Healthcare Services segment delivering benefits to our members, primarily associated with our provider services and pharmacy operations, are included with benefits expense. The amount of this expense was $26 million and $31 million for the three months ended June 30, 2021 and 2020, respectively. For the six months ended June 30, 2021 and 2020, the amount of this expense was $52 million and $61 million, respectively.

Other than those described previously, the accounting policies of each segment are the same and are described in Note 2 to the consolidated financial statements included in our 2020 Form 10-K. Transactions between reportable segments primarily consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and clinical care services, to our Retail and Group and Specialty segment customers. Intersegment sales and expenses are recorded at fair value and eliminated in consolidation. Members served by our segments often use the same provider networks, enabling us in some instances to obtain more favorable contract terms with providers. Our segments also share indirect costs and assets. As a result, the profitability of each segment is interdependent. We allocate most operating expenses to our segments. Assets and certain corporate income and expenses are not allocated to the segments, including the portion of investment income not supporting segment operations, interest expense on corporate debt, and certain other corporate expenses. These items are managed at a corporate level. These corporate amounts are reported separately from our reportable segments and are included with intersegment eliminations in the tables presenting segment results below.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Our segment results were as follows for the three and six months ended June 30, 2021 and 2020:

	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
Three months ended June 30, 2021			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 14,585	$ —	$ —	$ —	$ 14,58
Group Medicare Advantage	1,775	—	—	—	1,77
Medicare stand-alone PDP	662	—	—	—	66
Total Medicare	17,022	—	—	—	17,02
Fully-insured	182	1,078	—	—	1,26
Specialty	—	432	—	—	43
Medicaid and other	1,264	—	—	—	1,26
Total premiums	18,468	1,510	—	—	19,97
Services revenue:					
Provider	—	—	122	—	12
ASO and other	12	194	—	—	20
Pharmacy	—	—	163	—	16
Total services revenue	12	194	285	—	49
Total external revenues	18,480	1,704	285	—	20,46
Intersegment revenues					
Services	—	10	4,977	(4,987)	-
Products	—	—	2,261	(2,261)	-
Total intersegment revenues	—	10	7,238	(7,248)	-
Investment income	65	4	1	106	17
Total revenues	18,545	1,718	7,524	(7,142)	20,64
Operating expenses:					
Benefits	16,068	1,247	—	(166)	17,14
Operating costs	1,533	409	7,205	(7,031)	2,11
Depreciation and amortization	108	22	41	(27)	14
Total operating expenses	17,709	1,678	7,246	(7,224)	19,40
Income from operations	836	40	278	82	1,23
Interest expense	—	—	—	79	7
Other expense, net	—	—	—	419	41
Income (loss) before income taxes and equity in net earnings	836	40	278	(416)	73
Equity in net earnings	—	—	33	—	3
Segment earnings (loss)	$ 836	$ 40	$ 311	$ (416)	$ 77

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Three months ended June 30, 2020	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 13,005	$ —	$ —	$ —	$ 13,00
Group Medicare Advantage	1,976	—	—	—	1,97
Medicare stand-alone PDP	731	—	—	—	73
Total Medicare	15,712	—	—	—	15,71
Fully-insured	169	1,208	—	—	1,37
Specialty	—	425	—	—	42
Medicaid and other	1,042	—	—	—	1,04
Total premiums	16,923	1,633	—	—	18,55
Services revenue:					
Provider	—	—	105	—	10
ASO and other	6	192	—	—	19
Pharmacy	—	—	147	—	14
Total services revenue	6	192	252	—	45
Total external revenues	16,929	1,825	252	—	19,00
Intersegment revenues					
Services	—	6	4,712	(4,718)	—
Products	—	—	1,977	(1,977)	—
Total intersegment revenues	—	6	6,689	(6,695)	—
Investment income	32	4	—	41	7
Total revenues	16,961	1,835	6,941	(6,654)	19,08
Operating expenses:					
Benefits	13,251	1,094	—	(170)	14,17
Operating costs	1,638	435	6,603	(6,322)	2,35
Depreciation and amortization	83	19	46	(29)	11
Total operating expenses	14,972	1,548	6,649	(6,521)	16,64
Income (loss) from operations	1,989	287	292	(133)	2,43
Interest expense	—	—	—	76	7
Other income, net	—	—	—	(227)	(22
Income before income taxes and equity in net earnings	1,989	287	292	18	2,58
Equity in net earnings	—	—	25	—	2
Segment earnings	$ 1,989	$ 287	$ 317	$ 18	$ 2,61

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Six months ended June 30, 2021	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 29,400	$ —	$ —	$ —	$ 29,400
Group Medicare Advantage	3,530	—	—	—	3,530
Medicare stand-alone PDP	1,326	—	—	—	1,326
Total Medicare	34,256	—	—	—	34,256
Fully-insured	360	2,177	—	—	2,537
Specialty	—	866	—	—	866
Medicaid and other	2,443	—	—	—	2,443
Total premiums	37,059	3,043	—	—	40,102
Services revenue:					
Provider	—	—	237	—	237
ASO and other	17	384	—	—	401
Pharmacy	—	—	319	—	319
Total services revenue	17	384	556	—	957
Total external revenues	37,076	3,427	556	—	41,059
Intersegment revenues					
Services	—	20	9,751	(9,771)	—
Products	—	—	4,413	(4,413)	—
Total intersegment revenues	—	20	14,164	(14,184)	—
Investment income	117	8	2	127	254
Total revenues	37,193	3,455	14,722	(14,057)	41,313
Operating expenses:					
Benefits	32,367	2,392	—	(314)	34,445
Operating costs	2,984	806	14,115	(13,782)	4,123
Depreciation and amortization	212	43	81	(50)	286
Total operating expenses	35,563	3,241	14,196	(14,146)	38,854
Income from operations	1,630	214	526	89	2,459
Interest expense	—	—	—	147	147
Other expense, net	—	—	—	534	534
Income (loss) before income taxes and equity in net earnings	1,630	214	526	(592)	1,778
Equity in net earnings	—	—	54	—	54
Segment earnings (loss)	$ 1,630	$ 214	$ 580	$ (592)	$ 1,832

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Six months ended June 30, 2020	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External Revenues					
Premiums:					
Individual Medicare Advantage	$ 25,799	$ —	$ —	$ —	$ 25,799
Group Medicare Advantage	3,987	—	—	—	3,987
Medicare stand-alone PDP	1,486	—	—	—	1,486
Total Medicare	31,272	—	—	—	31,272
Fully-insured	332	2,437	—	—	2,769
Specialty	—	854	—	—	854
Medicaid and other	2,023	—	—	—	2,023
Total premiums	33,627	3,291	—	—	36,918
Services revenue:					
Provider	—	—	209	—	209
ASO and other	10	387	—	—	397
Pharmacy	—	—	268	—	268
Total services revenue	10	387	477	—	874
Total external revenues	33,637	3,678	477	—	37,792
Intersegment revenues					
Services	—	13	9,662	(9,675)	—
Products	—	—	3,887	(3,887)	—
Total intersegment revenues	—	13	13,549	(13,562)	—
Investment income	86	9	—	131	226
Total revenues	33,723	3,700	14,026	(13,431)	38,018
Operating expenses:					
Benefits	27,715	2,405	—	(316)	29,804
Operating costs	3,170	864	13,403	(12,966)	4,471
Depreciation and amortization	164	39	89	(58)	234
Total operating expenses	31,049	3,308	13,492	(13,340)	34,509
Income (loss) from operations	2,674	392	534	(91)	3,509
Interest expense	—	—	—	136	136
Other expense, net	—	—	—	70	70
Income (loss) before income taxes and equity in net earnings	2,674	392	534	(297)	3,303
Equity in net earnings	—	—	33	—	33
Segment earnings (loss)	$ 2,674	$ 392	$ 567	$ (297)	$ 3,336

Humana Inc.
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The condensed consolidated financial statements of Humana Inc. in this document present the Company’s financial position, results of operations and cash flows, and should be read in conjunction with the following discussion and analysis. References to “we,” “us,” “our,” “Company,” and “Humana” mean Humana Inc. and its subsidiaries. This discussion includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in filings with the Securities and Exchange Commission, or SEC, in our press releases, investor presentations, and in oral statements made by or with the approval of one of our executive officers, the words or phrases like “believes,” “expects,” “anticipates,” “intends,” “likely will result,” “estimates,” “projects” or variations of such words and similar expressions are intended to identify such forward–looking statements. These forward–looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including, among other things, information set forth in Item 1A. – Risk Factors in our 2020 Form 10-K, as modified by any changes to those risk factors included in this document and in other reports we filed subsequent to February 18, 2021, in each case incorporated by reference herein. In making these statements, we are not undertaking to address or update such forward-looking statements in future filings or communications regarding our business or results. In light of these risks, uncertainties and assumptions, the forward–looking events discussed in this document might not occur. There may also be other risks that we are unable to predict at this time. Any of these risks and uncertainties may cause actual results to differ materially from the results discussed in the forward–looking statements.

Executive Overview

General

Humana Inc., headquartered in Louisville, Kentucky, is a leading health and well-being company committed to helping our millions of medical and specialty members achieve their best health. Our successful history in care delivery and health plan administration is helping us create a new kind of integrated care with the power to improve health and well being and lower costs. Our efforts are leading to a better quality of life for people with Medicare, families, individuals, military service personnel, and communities at large. To accomplish that, we support physicians and other health care professionals as they work to deliver the right care in the right place for their patients, our members. Our range of clinical capabilities, resources and tools, such as in home care, behavioral health, pharmacy services, data analytics and wellness solutions, combine to produce a simplified experience that makes health care easier to navigate and more effective.

Our industry relies on two key statistics to measure performance. The benefit ratio, which is computed by taking total benefits expense as a percentage of premiums revenue, represents a statistic used to measure underwriting profitability. The operating cost ratio, which is computed by taking total operating costs, excluding depreciation and amortization, as a percentage of total revenue less investment income, represents a statistic used to measure administrative spending efficiency.

Kindred at Home Acquisition

On April 27, 2021, we entered into a definitive agreement to acquire the remaining 60% interest in Kindred at Home, or KAH, the nation’s largest home health and hospice provider, from TPG Capital, the private equity platform of global alternative asset firm, or TPG, and Welsh, Carson, Anderson & Stowe, or WCAS, two private equity funds, or the Sponsors, for an enterprise value of $8.1 billion, which includes our existing equity value of $2.4 billion associated with our 40% minority ownership interest. KAH has locations in 40 states, providing extensive geographic coverage with approximately 65% overlap with our individual Medicare Advantage membership. The acquisition, which is expected to close in the third quarter of 2021, is subject to customary state and federal regulatory approvals. We expect to fund the approximate $5.7 billion transaction (net of our existing equity stake) through a combination of parent company cash, debt financing, and the assumption of existing KAH indebtedness. A mark to market gain on our existing 40% ownership interest, currently expected to approximate $1 billion, will be recorded upon closing of the transaction.

COVID-19

The emergence and spread of the novel coronavirus, or COVID-19, beginning in the first quarter of 2020 has impacted our business. During periods of increased incidences of COVID-19, non-essential care from a reduction in non-COVID-19 hospital admissions and lower overall healthcare system consumption decreased utilization. Likewise COVID-19 treatment and testing cost increased utilization. The significant disruption in utilization during 2020 also impacted our ability to implement clinical initiatives to manage health care costs and chronic conditions of our members, and appropriately document their risk profiles, and, as such, affecting our 2021 revenue under the risk adjustment payment model for Medicare Advantage plans.

Business Segments

We manage our business with three reportable segments: Retail, Group and Specialty, and Healthcare Services. The reportable segments are based on a combination of the type of health plan customer and adjacent businesses centered on well-being solutions for our health plans and other customers, as described below. These segment groupings are consistent with information used by our Chief Executive Officer, the Chief Operating Decision Maker, to assess performance and allocate resources.

The Retail segment consists of Medicare benefits, marketed to individuals or directly via group Medicare accounts. In addition, the Retail segment also includes our contract with CMS to administer the Limited Income Newly Eligible Transition, or LI-NET, prescription drug plan program and contracts with various states to provide Medicaid, dual eligible, and Long-Term Support Services benefits, which we refer to collectively as our state-based contracts. The Group and Specialty segment consists of employer group commercial fully-insured medical and specialty health insurance benefits marketed to individuals and employer groups, including dental, vision, and other supplemental health benefits, as well as administrative services only, or ASO products. In addition, our Group and Specialty segment includes our military services business, primarily our TRICARE T2017 East Region contract. The Healthcare Services segment includes services offered to our health plan members as well as to third parties, including pharmacy solutions, provider services, and clinical care service, such as home health and other services and capabilities to promote wellness and advance population health, including our non-consolidating minority investment in Kindred at Home and the strategic partnership with WCAS to develop and operate senior-focused, payor-agnostic, primary care centers.

The results of each segment are measured by segment earnings, and for our Healthcare Services Segment, also include equity in net earnings from our equity method investees. Transactions between reportable segments primarily consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and clinical care services, to our Retail and Group and Specialty segment customers. Intersegment sales and expenses are recorded at fair value and eliminated in consolidation. Members served by our segments often use the same provider networks, enabling us in some instances to obtain more favorable contract terms with providers. Our segments also share indirect costs and assets. As a result, the profitability of each segment is interdependent. We allocate most operating expenses to our segments. Assets and certain corporate income and expenses are not allocated to the segments, including the portion of investment income not supporting segment operations, interest expense on corporate debt, and certain other corporate expenses. These items are managed at a corporate level. These corporate amounts are reported separately from our reportable segments and are included with intersegment eliminations.

Seasonality

COVID-19 disrupted the pattern of our quarterly earnings and operating cash flows largely due to the temporary deferral of non-essential care which resulted in reductions in non-COVID-19 hospital admissions and lower overall healthcare system utilization during higher levels of COVID-19 hospital admissions. Likewise, during periods of increased incidences of COVID-19, COVID-19 treatment and testing costs increase. Similar impacts and seasonal disruptions from either higher or lower utilization are expected to persist as we respond to and recover from the COVID-19 global health crisis.

One of the product offerings of our Retail segment is Medicare stand-alone prescription drug plans, or PDPs, under the Medicare Part D program. Our quarterly Retail segment earnings and operating cash flows are impacted by the Medicare Part D benefit design and changes in the composition of our membership. The Medicare Part D benefit design results in coverage that varies as a member’s cumulative out-of-pocket costs pass through successive stages of a member's plan period, which begins annually on January 1 for renewals. These plan designs generally result in us sharing a greater portion of the responsibility for total prescription drug costs in the early stages and less in the latter stages. As a result, the PDP benefit ratio generally decreases as the year progresses. In addition, the number of low income senior members as well as year-over-year changes in the mix of membership in our standalone PDP products affects the quarterly benefit ratio pattern.

In addition, the Retail segment also experiences seasonality in the operating cost ratio as a result of costs incurred in the second half of the year associated with the Medicare marketing season.

Our Group and Specialty segment also experiences seasonality in the benefit ratio pattern. However, the effect is opposite of Medicare stand-alone PDP in the Retail segment, with the Group and Specialty segment's benefit ratio increasing as fully-insured members progress through their annual deductible and maximum out-of-pocket expenses.

2021 Highlights

- Our strategy offers our members affordable health care combined with a positive consumer experience in growing markets. At the core of this strategy is our integrated care delivery model, which unites quality care, high member engagement, and sophisticated data analytics. Our approach to primary, physician-directed care for our members aims to provide quality care that is consistent, integrated, cost-effective, and member-focused, provided by both employed physicians and physicians with network contract arrangements. The model is designed to improve health outcomes and affordability for individuals and for the health system as a whole, while offering our members a simple, seamless healthcare experience. We believe this strategy is positioning us for long-term growth in both membership and earnings. We offer providers a continuum of opportunities to increase the integration of care and offer assistance to providers in transitioning from a fee-for-service to a value-based arrangement. These include performance bonuses, shared savings and shared risk relationships. At June 30, 2021, approximately 2,914,300 members, or 67%, of our individual Medicare Advantage members were in value-based relationships under our integrated care delivery model, as compared to 2,552,300 members, or 66%, at June 30, 2020. Medicare Advantage and dual demonstration program membership enrolled in a Humana care management program was 947,400 at June 30, 2021, an increase of 5.1% from 901,000 at June 30, 2020. These members may not be unique to each program since members have the ability to enroll in multiple programs. The increase is primarily driven by growth in Special Needs Plans, or SNP, membership, partially offset by improved predictive modeling leading to a reduction in members being managed by legacy care management programs.

- Net income was $588 million, or $4.55 per diluted common share, and $1.8 billion, or $13.75, for the three months ended June 30, 2021, and 2020, respectively. Net income was $1.4 billion, or $10.94 per diluted common share, and $2.3 billion, or $17.31 per diluted common share for the six months ended June 30, 2021, and 2020, respectively. This comparison was significantly impacted by the put/call valuation adjustments associated with certain equity method investments, the change in the fair value of publicly-traded equity securities, and transaction and integration costs associated with the pending Kindred at Home acquisition. The put/call valuation adjustments included the impact of the termination of the put/call agreement related to Kindred at Home as a result of the transaction announced on April 27, 2021. The impact of these adjustments to our consolidated income before income taxes and equity in net earnings and diluted earnings per common share was as follows for the 2021 quarter and period.

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Consolidated income before income taxes and equity in net earnings:				
Change in the fair value of publicly-traded equity securities	$ 63	$ —	$ (22)	$ —
Transaction and integration costs associated with pending KAH acquisition	(22)	—	(22)	—
Put/call valuation adjustments	(419)	227	(534)	(70)
Total	$ (378)	$ 227	$ (578)	$ (70)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Diluted earnings per common share:				
Change in the fair value of publicly-traded equity securities	$ 0.37	$ —	$ (0.13)	$ —
Transaction and integration costs associated with pending KAH acquisition	(0.13)	—	(0.13)	—
Put/call valuation adjustments	(2.49)	1.32	(3.18)	(0.40)
Total	$ (2.25)	$ 1.32	$ (3.44)	$ (0.40)

Excluding these adjustments, comparisons of our results of operations were materially impacted by the significant, temporary deferral of care in 2020 resulting from stay-at-home orders, physical distancing measures, and other restrictions implemented to reduce the spread of COVID-19, as well as the impact of COVID-19 testing and treatment costs, which on a net basis significantly and favorably impacted the 2020 quarter and period results when compared to the 2021 quarter and period results.

In addition, our results of operations for 2021 were favorably impacted by individual Medicare Advantage and state-based contract membership growth and improved operating performance in the Group and Specialty and Healthcare Services segments. Further, 2021 was also favorably impacted by the lower tax rate resulting from the termination of the non-deductible health insurance industry fee in 2021, as well as a lower number of shares used to compute dilutive earnings per common share, primarily reflecting share repurchases.

Health Care Reform

The Health Care Reform Law enacted significant reforms to various aspects of the U.S. health insurance industry. Certain significant provisions of the Health Care Reform Law include, among others, mandated coverage requirements, mandated benefits and guarantee issuance associated with commercial medical insurance, rebates to policyholders based on minimum benefit ratios, adjustments to Medicare Advantage premiums, the establishment of federally facilitated or state-based exchanges coupled with programs designed to spread risk among insurers, and the introduction of plan designs based on set actuarial values. In addition, the Health Care Reform Law established insurance industry assessments, including an annual health insurance industry fee. The annual health insurance industry fee, which was not deductible for income tax purposes and significantly increased our effective tax rate, was in effect for 2020, but was permanently repealed beginning in calendar year 2021.

It is reasonably possible that the Health Care Reform Law and related regulations, as well as other current or future legislative, judicial or regulatory changes such as the Families First Coronavirus Response Act (the "Families First Act"), the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and other legislative or regulatory action taken in response to COVID-19 including restrictions on our ability to manage our provider network or otherwise operate our business, or restrictions on profitability, including reviews by regulatory bodies that may compare our Medicare Advantage profitability to our non-Medicare Advantage business profitability, or compare the profitability of various products within our Medicare Advantage business, and require that they remain within certain ranges of each other, increases in member benefits or changes to member eligibility criteria without corresponding increases in premium payments to us, or increases in regulation of our prescription drug benefit businesses, in the aggregate may have a material adverse effect on our results of operations (including restricting revenue, enrollment and premium growth in certain products and market segments, restricting our ability to expand into new markets, increasing our medical and operating costs, further lowering our Medicare payment rates and increasing our expenses associated with assessments); our financial position (including our ability to maintain the value of our goodwill); and our cash flows.

We intend for the discussion of our financial condition and results of operations that follows to assist in the understanding of our financial statements and related changes in certain key items in those financial statements from year to year, including the primary factors that accounted for those changes. Transactions between reportable segments primarily consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and clinical care services, to our Retail and Group and Specialty segment customers and are described in Note 14 to the condensed consolidated financial statements included in this report.

Comparison of Results of Operations for 2021 and 2020

The following discussion primarily deals with our results of operations for the three months ended June 30, 2021, or the 2021 quarter, and the three months ended June 30, 2020, or the 2020 quarter, the six months ended June 30, 2021, or the 2021 period, and the six months ended June 30, 2020, or the 2020 period.

Consolidated

	For the three months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(dollars in millions, except per common share results)			
Revenues:				
Premiums:				
Retail	$ 18,468	$ 16,923	$ 1,545	9.1 %
Group and Specialty	1,510	1,633	(123)	(7.5)%
Total premiums	19,978	18,556	1,422	7.7 %
Services:				
Retail	12	6	6	100.0 %
Group and Specialty	194	192	2	1.0 %
Healthcare Services	285	252	33	13.1 %
Total services	491	450	41	9.1 %
Investment income	176	77	99	128.6 %
Total revenues	20,645	19,083	1,562	8.2 %
Operating expenses:				
Benefits	17,149	14,175	2,974	21.0 %
Operating costs	2,116	2,354	(238)	(10.1)%
Depreciation and amortization	144	119	25	21.0 %
Total operating expenses	19,409	16,648	2,761	16.6 %
Income from operations	1,236	2,435	(1,199)	(49.2)%
Interest expense	79	76	3	3.9 %
Other expense (income), net	419	(227)	646	284.6 %
Income before income taxes and equity in net earnings	738	2,586	(1,848)	(71.5)%
Provision for income taxes	183	783	(600)	(76.6)%
Equity in net earnings	33	25	8	32.0 %
Net income	$ 588	$ 1,828	$ (1,240)	(67.8)%
Diluted earnings per common share	$ 4.55	$ 13.75	$ (9.20)	(66.9)%
Benefit ratio (a)	85.8 %	76.4 %		9.4 %
Operating cost ratio (b)	10.3 %	12.4 %		(2.1)%
Effective tax rate	23.7 %	30.0 %		(6.3)%

	For the six months ended June 30, 2021	For the six months ended June 30, 2020	Change Dollars	Change Percentage
	(dollars in millions, except per common share results)			
Revenues:				
Premiums:				
Retail	$ 37,059	$ 33,627	$ 3,432	10.2 %
Group and Specialty	3,043	3,291	(248)	(7.5)%
Total premiums	40,102	36,918	3,184	8.6 %
Services:				
Retail	17	10	7	70.0 %
Group and Specialty	384	387	(3)	(0.8)%
Healthcare Services	556	477	79	16.6 %
Total services	957	874	83	9.5 %
Investment income	254	226	28	12.4 %
Total revenues	41,313	38,018	3,295	8.7 %
Operating expenses:				
Benefits	34,445	29,804	4,641	15.6 %
Operating costs	4,123	4,471	(348)	(7.8)%
Depreciation and amortization	286	234	52	22.2 %
Total operating expenses	38,854	34,509	4,345	12.6 %
Income from operations	2,459	3,509	(1,050)	(29.9)%
Interest expense	147	136	11	8.1 %
Other expense, net	534	70	464	662.9 %
Income before income taxes and equity in net earnings	1,778	3,303	(1,525)	(46.2)%
Provision for income taxes	416	1,035	(619)	(59.8)%
Equity in net earnings	54	33	21	63.6 %
Net income	$ 1,416	$ 2,301	$ (885)	(38.5)%
Diluted earnings per common share	$ 10.94	$ 17.31	$ (6.37)	(36.8)%
Benefit ratio (a)	85.9 %	80.7 %		5.2 %
Operating cost ratio (b)	10.0 %	11.8 %		(1.8)%
Effective tax rate	22.7 %	31.0 %		(8.3)%

(a) Represents benefits expense as a percentage of premiums revenue.
(b) Represents operating costs as a percentage of total revenues less investment income.

Premiums Revenue

Consolidated premiums increased $1.4 billion, or 7.7%, from $18.6 billion in the 2020 quarter to $20.0 billion in the 2021 quarter and increased $3.2 billion, or 8.6%, from $36.9 billion in the 2020 period to $40.1 billion in the 2021 period. These increases were primarily due to individual Medicare Advantage and state-based contracts membership growth, as well as higher per member individual Medicare Advantage premiums as a result of the improving CMS benchmark rate for 2021, net of Medicare Risk Adjustment, or MRA, headwinds resulting from COVID-19 related utilization disruption in 2020. These increases were partially offset by declining stand-alone PDP, group commercial medical, and group Medicare Advantage membership. The 2021 period was further impacted by the Medicare sequestration relief in the first quarter of 2021 that was not enacted until the second quarter of 2020.

Consolidated services revenue increased $41 million, or 9.1%, from $450 million in the 2020 quarter to $491 million in the 2021 quarter and increased $83 million, or 9.5%, from $874 million in the 2020 period to $957 million in the 2021 period. These increases were primarily due to higher revenues associated with our pharmacy and provider businesses. The 2021 period further reflects additional pharmacy revenues associated with the acquisition of Enclara which was closed during the first quarter of 2020.

Investment Income

Investment income increased $99 million, or 128.6%, from $77 million in the 2020 quarter to $176 million in the 2021 quarter primarily reflecting changes in the fair value of our common stock investments and higher realized capital gains, partially offset by lower average invested balances. Investment income increased $28 million, or 12.4%, from $226 million in the 2020 period to $254 million in the 2021 period primarily reflecting higher realized capital gains, partially offset by changes in the fair value of our common stock investments and lower average invested balances.

Benefit Expense

Consolidated benefits expense increased $3.0 billion, or 21.0%, from $14.2 billion in the 2020 quarter to $17.1 billion in the 2021 quarter and increased $4.6 billion, or 15.6%, from $29.8 billion in the 2020 period to $34.4 billion in the 2021 period. The consolidated benefit ratio increased 940 basis points from 76.4% for the 2020 quarter to 85.8% for the 2021 quarter and increased 520 basis points from 80.7% for the 2020 period to 85.9% for the 2021 period. These increases reflect the significant impact of the deferral of non-essential care, net of COVID-19 treatment and testing costs and our pandemic relief efforts in 2020, amid the COVID-19 pandemic, and the termination in 2021 of the non-deductible health insurance industry fee which, along with a portion of the related tax benefit, was contemplated in the pricing and benefit design of our products. The increases were also due to the impact in 2021 associated with the competitive nature of the group Medicare Advantage business, particularly in large group accounts that were recently procured, as well as in the stand-alone PDP business. These factors were partially offset by higher favorable prior-period medical claims reserve development in 2021.

The higher favorable prior-period medical claims reserve development was primarily attributable to the reversal of actions taken in 2020, including the suspension of certain financial recovery programs for a period of time. The suspension during 2020 was intended to provide financial and administrative relief for provider facing unprecedented strain as a result of the COVID-19 pandemic. The favorable prior-period medical claims reserve development decreased the consolidated benefit ratio by approximately 80 basis points in the 2021 quarter whereas the unfavorable prior-period medical claims reserve development increased the consolidated benefit ratio by approximately 30 basis points in the 2020 quarter. The favorable prior-period medical claims reserve development decreased the consolidated benefit ratio by approximately 180 basis points in the 2021 period versus approximately 60 basis points in the 2020 period.

Operating Costs

Our segments incur both direct and shared indirect operating costs. We allocate the indirect costs shared by the segments primarily as a function of revenues. As a result, the profitability of each segment is interdependent.

Consolidated operating costs decreased $238 million, or 10.1%, from $2.4 billion in the 2020 quarter to $2.1 billion in the 2021 quarter and decreased $348 million, or 7.8%, from $4.5 billion in the 2020 period to $4.1 billion in the 2021 period. The consolidated operating cost ratio decreased 210 basis points from 12.4% for the 2020 quarter to 10.3% for the 2021 quarter and decreased 180 basis points from 11.8% for the 2020 period to 10.0% for the 2021 period. These decreases were primarily due to the termination of the non-deductible health insurance industry fee in 2021, the impact of a $150 million contribution in the 2020 quarter to the Humana Foundation to support communities served by us particularly those with social and health disparities, as well as the impact of lower COVID-19 related administrative costs in 2021 compared to 2020. Administrative costs in 2020 included costs associated with personal protective equipment, member response efforts, and the build-out of infrastructure necessary to support employees working remotely. These decreases were further impacted by scale efficiencies associated with growth in our Medicare Advantage membership and operating cost efficiencies in 2021 from previously implemented productivity initiatives. These factors were partially offset by continued strategic investments made to position us for long-term success. The non-deductible health insurance industry fee impacted the operating cost ratio by 150 basis points in the 2020 quarter and by 160 basis points in the 2020 period.

Depreciation and Amortization

Depreciation and amortization increased $25 million, or 21.0%, from $119 million in the 2020 quarter to $144 million in the 2021 quarter and increased $52 million, or 22.2%, from $234 million in the 2020 period to $286 million in the 2021 period primarily due to capital expenditures.

Interest Expense

Interest expense increased $3 million, or 3.9%, from $76 million in the 2020 quarter to $79 million in the 2021 quarter and increased $11 million, or 8.1%, from $136 million in the 2020 period to $147 million in the 2021 period.

Income Taxes

The effective income tax rate was 23.7% and 30.0% for the three months ended June 30, 2021, and 2020, respectively and was 22.7% and 31.0% for the six months ended June 30, 2021, and 2020, respectively. The decreases were primarily due to the termination of the non-deductible health insurance industry fee in 2021.

Retail Segment

	June 30,		Change	
	2021	2020	Members	Percentage
Membership:				
Medical membership:				
Individual Medicare Advantage	4,341,600	3,877,200	464,400	12.0 %
Group Medicare Advantage	557,300	608,300	(51,000)	(8.4)%
Medicare stand-alone PDP	3,653,100	3,888,400	(235,300)	(6.1)%
Total Retail Medicare	8,552,000	8,373,900	178,100	2.1 %
State-based Medicaid and other	877,300	689,200	188,100	27.3 %
Medicare Supplement	330,400	324,600	5,800	1.8 %
Total Retail medical members	9,759,700	9,387,700	372,000	4.0 %

	For the three months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Individual Medicare Advantage	$ 14,585	$ 13,005	$ 1,580	12.1 %
Group Medicare Advantage	1,775	1,976	(201)	(10.2)%
Medicare stand-alone PDP	662	731	(69)	(9.4)%
Total Retail Medicare	17,022	15,712	1,310	8.3 %
State-based Medicaid and other	1,264	1,042	222	21.3 %
Medicare Supplement	182	169	13	7.7 %
Total premiums	18,468	16,923	1,545	9.1 %
Services	12	6	6	100.0 %
Total premiums and services revenue	18,480	$ 16,929	$ 1,551	9.2 %
Segment earnings	$ 836	$ 1,989	$ (1,153)	(58.0)%
Benefit ratio	87.0 %	78.3 %		8.7 %
Operating cost ratio	8.3 %	9.7 %		(1.4)%

	For the six months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Individual Medicare Advantage	$ 29,400	$ 25,799	$ 3,601	14.0 %
Group Medicare Advantage	3,530	3,987	(457)	(11.5)%
Medicare stand-alone PDP	1,326	1,486	(160)	(10.8)%
Total Retail Medicare	34,256	31,272	2,984	9.5 %
State-based Medicaid and other	2,443	2,023	420	20.8 %
Medicare Supplement	360	332	28	8.4 %
Total premiums	37,059	33,627	3,432	10.2 %
Services	17	10	7	70.0 %
Total premiums and services revenue	$ 37,076	$ 33,637	$ 3,439	10.2 %
Segment earnings	$ 1,630	$ 2,674	$ (1,044)	(39.0)%
Benefit ratio	87.3 %	82.4 %		4.9 %
Operating cost ratio	8.0 %	9.4 %		(1.4)%

Segment Earnings

- Retail segment earnings decreased $1.2 billion, or 58.0%, from $2.0 billion in the 2020 quarter to $836 million in the 2021 quarter and decreased $1.0 billion, or 39.0%, from $2.7 billion in the 2020 period to $1.6 billion in the 2021 period. These decreases primarily resulted from the same factors that led to the segment's higher benefit ratio, partially offset by the segment's lower operating cost ratio as more fully described below.

Enrollment

- Individual Medicare Advantage membership increased 464,400 members, or 12.0%, from June 30, 2020 to June 30, 2021, primarily due to membership additions associated with the most recent Annual Election Period, or AEP, and Open Election Period, or OEP, for Medicare beneficiaries. The membership growth was further impacted by continued enrollment resulting from special elections, age-ins, and Dual Eligible Special Need Plans, or D-SNP, members. The OEP sales period, which ran from January 1 to March 31, 2021 added approximately 36,000 members compared to the 2020 OEP that added approximately 30,000 members. Individual Medicare Advantage membership includes 532,900 D-SNP members as of June 30, 2021, a net increase of 167,600, or 45.9%, from 365,300 as of June 30, 2020.

- Group Medicare Advantage membership decreased 51,000, or 8.4%, from June 30, 2020 to June 30, 2021, primarily due to the net loss of certain large accounts in January 2021, partially offset by continued growth in small group accounts.

- Medicare stand-alone PDP membership decreased 235,300 members, or 6.1%, from June 30, 2020 to June 30, 2021, primarily due to anticipated declines as a result of the Walmart Value plan no longer being the low cost leader in 2021.

- State-based Medicaid membership increased 188,100 members, or 27.3%, from June 30, 2020 to June 30, 2021, primarily reflecting additional enrollment resulting from the economic downturn due to the COVID-19 pandemic, as well as the recently completed acquisition in Wisconsin.

Premiums Revenue

- Retail segment premiums increased $1.5 billion, or 9.1%, from $16.9 billion in the 2020 quarter to $18.5 billion in the 2021 quarter and increased $3.4 billion, or 10.2%, from $33.6 billion in the 2020 period to $37.1 billion in the 2021 period. These increases were primarily due to higher premiums as a result of individual Medicare Advantage and state-based contracts membership growth and higher per member individual Medicare Advantage premiums as a result of the improving CMS benchmark rate for 2021, net of MRA headwinds resulting from COVID-19 related utilization disruption in 2020. These favorable items were partially offset by the decline in membership in our stand-alone PDP and group Medicare Advantage offerings. The 2021 period was further impacted by the Medicare sequestration relief in the first quarter of 2021 that was not enacted until the second quarter of 2020.

Benefits Expense

- The Retail segment benefit ratio increased 870 basis points from 78.3% for the 2020 quarter to 87.0% for the 2021 quarter and increased 490 basis points from 82.4% for the 2020 period to 87.3% for the 2021 period. These increases were primarily due to the significant impact of the deferral of non-essential care, net of COVID-19 treatment and testing costs and our pandemic relief efforts in the 2020 quarter, amid the COVID-19 pandemic. These comparisons were further impacted by the termination in 2021 of the non-deductible health insurance industry fee which, along with a portion of the related tax benefit, was contemplated in the pricing and benefit design of our products, as well as the impact in 2021 associated with the competitive nature of the group Medicare Advantage business, particularly in large group accounts that were recently procured, as well as in the stand-alone PDP business. These factors were partially offset by higher favorable prior-period medical claims reserve development.

- The Retail segment's benefits expense for the 2021 quarter includes $156 million in favorable prior-period medical claims reserve development versus $33 million in unfavorable prior-period medical claims development in the 2020 quarter. For the 2021 period, the Retail segment's benefit expense includes the beneficial effect of $619 million in favorable prior-period medical claims reserve development versus $205 million in the 2020 period. Prior-period medical claims reserve development decreased the Retail segment's benefit ratio by approximately 80 basis points in the 2021 quarter but increased the Retail segment's benefit ratio by approximately 20 basis points in the 2020 quarter. Favorable prior-period medical claims reserve development decreased the Retail segment benefit ratio by approximately 170 basis points in the 2021 period versus approximately 60 basis points in the 2020 period.

Operating Costs

- The Retail segment operating cost ratio decreased 140 basis points from 9.7% for the 2020 quarter to 8.3% for the 2021 quarter and decreased 140 basis points from 9.4% for the 2020 period to 8.0% for the 2021 period. These decreases were primarily due to the termination of the non-deductible health insurance industry fee in 2021, lower COVID-19 related administrative costs in the 2021 quarter, as previously discussed, scale efficiencies associated with growth in our individual Medicare Advantage membership, and operating cost efficiencies in the 2021 quarter driven by previously implemented productivity initiatives. These improvements were partially offset by continued strategic investments made to position us for long-term success. The non-deductible health insurance industry fee impacted the operating cost ratio by 160 basis points in the 2020 quarter and period.

Group and Specialty Segment

	June 30,		Change	
	2021	2020	Members	Percentage
Membership:				
Medical membership:				
Fully-insured commercial group	706,100	820,800	(114,700)	(14.0)%
ASO	497,800	506,200	(8,400)	(1.7)%
Military services	6,038,500	6,033,300	5,200	0.1 %
Total group medical members	7,242,400	7,360,300	(117,900)	(1.6)%
Specialty membership (a)	5,327,500	5,344,900	(17,400)	(0.3)%

(a) Specialty products include dental, vision, and other supplemental health. Members included in these products may not be unique to each product since members have the ability to enroll in multiple products.

	For the three months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Fully-insured commercial group	$ 1,078	$ 1,208	$ (130)	(10.8)%
Group specialty	432	425	7	1.6 %
Total premiums	1,510	1,633	(123)	(7.5)%
Services	194	192	2	1.0 %
Total premiums and services revenue	$ 1,704	$ 1,825	$ (121)	(6.6)%
Segment earnings	$ 40	$ 287	$ (247)	(86.1)%
Benefit ratio	82.6 %	67.0 %		15.6 %
Operating cost ratio	23.9 %	23.8 %		0.1 %

	For the six months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Fully-insured commercial group	$ 2,177	$ 2,437	$ (260)	(10.7)%
Group specialty	866	854	12	1.4 %
Total premiums	3,043	3,291	(248)	(7.5)%
Services	384	387	(3)	(0.8)%
Total premiums and services revenue	$ 3,427	$ 3,678	$ (251)	(6.8)%
Segment earnings	$ 214	$ 392	$ (178)	(45.4)%
Benefit ratio	78.6 %	73.1 %		5.5 %
Operating cost ratio	23.4 %	23.4 %		— %

Segment Earnings

- Group and Specialty segment earnings decreased $247 million, or 86.1%, from $287 million in the 2020 quarter to $40 million in the 2021 quarter and decreased $178 million, or 45.4%, from $392 million in the 2020 period to $214 million in the 2021 period. These decreases were primarily due the same factors that led to the segment's higher benefit ratio.

Enrollment

- Fully-insured commercial group medical membership decreased 114,700 members, or 14.0%, from June 30, 2020 to June 30, 2021 reflecting lower small group quoting activity and sales attributable to depressed economic activity from the COVID-19 pandemic, partially offset by higher retention of existing customers, particularly in larger groups. The portion of group fully-insured commercial medical membership in small group accounts was approximately 52% at June 30, 2021 and 57% at June 30, 2020.

- Group ASO commercial medical membership decreased 8,400 members, or 1.7%, from June 30, 2020 to June 30, 2021. Small group membership comprised 45% of group ASO medical membership at June 30, 2021 and 45% at June 30, 2020. The membership change reflects intensified competition for small group accounts, partially offset by strong retention among large group accounts.

- Military services membership increased 5,200 members, or 0.1%, from June 30, 2020 to June 30, 2021. Membership includes military service members, retirees, and their families to whom we are providing healthcare services under the current TRICARE East Region contract.

- Specialty membership decreased 17,400 members, or 0.3%, from June 30, 2020 to June 30, 2021 due primarily to the loss of dental and vision groups cross-sold with medical, as reflected in the loss of group fully-insured commercial medical membership described above, as well as the loss of certain groups with stand-alone dental and vision. The decrease also reflects the impact of the economic downturn driven by the COVID-19 pandemic.

Premiums Revenue

- Group and Specialty segment premiums decreased $123 million, or 7.5%, from $1.6 billion in the 2020 quarter to $1.5 billion in the 2021 quarter and decreased $248 million, or 7.5%, from $3.3 billion in the 2020 period to $3.0 billion in the 2021 period. These decreases were primarily due to the decline in our fully-insured group commercial membership, partially offset by higher per member premiums across the fully-insured commercial business.

Services Revenue

- Group and Specialty segment services revenue increased $2 million, or 1.0%, from $192 million in the 2020 quarter to $194 million in the 2021 quarter and decreased $3 million, or 0.8%, from $387 million in the 2020 period to $384 million in the 2021 period.

Benefits Expense

- The Group and Specialty segment benefit ratio increased 1,560 basis points from 67.0% in the 2020 quarter to 82.6% in the 2021 quarter and increased 550 basis points from 73.1% in the 2020 period to 78.6% in the 2021 period. These increases were primarily due to the significant impact of the deferral of non-essential care, net of COVID-19 treatment and testing costs and our pandemic relief efforts in the 2020 quarter, amid the COVID-19 pandemic, and the termination in 2021 of the non-deductible health insurance industry fee in which, along with a portion of the related tax benefit, was contemplated in the pricing and benefit design of our products. These increases were partially offset by higher favorable prior-period medical claims reserve development, as well as deliberate pricing and benefit design efforts to increase profitability and position the commercial business for long-term success.

- The Group and Specialty segment's benefits expense included $8 million in favorable prior-period medical claims reserve development in the 2021 quarter versus $16 million in unfavorable prior-period medical claims reserve development in the 2020 quarter. This prior-period medical claims reserve development decreased the Group and Specialty segment benefit ratio by approximately 50 basis points in the 2021 quarter but increased the Group Specialty segment benefit ratio by approximately 100 basis points in the 2020 quarter. The Group and Specialty segment's benefits expense included the effect of a favorable prior-period medical claims reserve development of $100 million in the 2021 period versus $30 million in the 2020 period. The favorable prior period medical claims reserve development for the 2021 period decreased the Group and Specialty segment benefit ratio by approximately 330 basis points and 90 basis points in the 2020 period.

Operating Costs

- The Group and Specialty segment operating cost ratio increased 10 basis points from 23.8% for the 2020 quarter to 23.9% for the 2021 quarter primarily reflecting the continued strategic investments made to position us for long-term success. The impact of the strategic investments was partially offset by the termination of the non-deductible health insurance industry fee in 2021, lower COVID-19 related administrative costs in 2021, as previously discussed, and operating cost efficiencies driven by previously implemented productivity initiatives. The Group and Specialty segment operating cost ratio was unchanged from 23.4% for the 2020 period. The non-deductible health insurance industry fee impacted the operating cost ratio by 130 basis points in the 2020 quarter and period.

Healthcare Services Segment

	For the three months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Revenues:				
Services:				
Pharmacy solutions	$ 163	$ 147	$ 16	10.9 %
Provider services	97	79	18	22.8 %
Clinical care services	25	26	(1)	(3.8)%
Total services revenues	285	252	33	13.1 %
Intersegment revenues:				
Pharmacy solutions	6,458	5,977	481	8.0 %
Provider services	642	575	67	11.7 %
Clinical care services	138	137	1	0.7 %
Total intersegment revenues	7,238	6,689	549	8.2 %
Total services and intersegment revenues	$ 7,523	$ 6,941	$ 582	8.4 %
Segment earnings	$ 311	$ 317	$ (6)	(1.9)%
Operating cost ratio	95.8 %	95.1 %		0.7 %

	For the six months ended June 30,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Revenues:				
Services:				
Pharmacy solutions	$ 319	$ 268	$ 51	19.0 %
Provider services	188	155	33	21.3 %
Clinical care services	49	54	(5)	(9.3)%
Total services revenues	556	477	79	16.6 %
Intersegment revenues:				
Pharmacy solutions	12,675	12,117	558	4.6 %
Provider services	1,228	1,151	77	6.7 %
Clinical care services	261	281	(20)	(7.1)%
Total intersegment revenues	14,164	13,549	615	4.5 %
Total services and intersegment revenues	$ 14,720	$ 14,026	$ 694	4.9 %
Segment earnings	$ 580	$ 567	$ 13	2.3 %
Operating cost ratio	95.9 %	95.6 %		0.3 %

Segment Earnings

- Healthcare Services segment earnings decreased $6 million, or 1.9%, from $317 million in the 2020 quarter to $311 million in the 2021 quarter resulting from the same factors that led to the segment's increased operating cost ratio in the 2021 quarter, partially offset by higher earnings from equity method investments. Healthcare Services segment earnings increased $13 million, or 2.3%, from $567 million in the 2020 period to $580 million in the 2021 period primarily due to improved operating performance in the provider business, as well as higher earnings from equity method investments.

Script Volume

- Humana Pharmacy Solutions script volumes on an adjusted 30-day equivalent basis increased to approximately 129 million in the 2021 quarter, up 11.2%, versus scripts of approximately 116 million in the 2020 quarter. For the 2021 period, script volumes increased to approximately 255 million, up 7.8%, versus scripts of approximately 236 million in the 2020 period. These increases were primarily due to higher individual Medicare Advantage and state-based contracts membership, partially offset by the decline in stand-alone PDP and group Medicare Advantage membership and the impact of early prescription refills in the second quarter of 2020 as members prepared for extended supply needs in response to COVID-19 restrictions.

Services Revenues

- Services revenues increased $33 million, or 13.1%, from $252 million in the 2020 quarter to $285 million in the 2021 quarter and increased $79 million, or 16.6%, from $477 million in the 2020 period to $556 million in the 2021 period. These increases were primarily due to higher revenues associated with our pharmacy and provider businesses. The 2021 period further reflects additional pharmacy revenues associated with the acquisition of Enclara which was closed during the first quarter of 2020.

Intersegment Revenues

- Intersegment revenues increased $549 million, or 8.2%, from $6.69 billion in the 2020 quarter to $7.24 billion in the 2021 quarter and increased $615 million, or 4.5%, from $13.5 billion in the 2020 period to $14.2 billion in the 2021 period. These increases were primarily due to individual Medicare Advantage and state-based contracts membership growth, as well as higher revenues associated with our provider business. These increases were partially offset by the loss of intersegment revenues associated with the decline in stand-alone PDP and group Medicare Advantage membership as previously discussed and the impact of increased pharmacy revenues in the 2020 quarter as a result of allowing early prescription refills to permit our members to prepare for extended supply needs due to COVID-19 restrictions.

Operating Costs

- The Healthcare Services segment operating cost ratio increased 70 basis points from 95.1% for the 2020 quarter to 95.8% for the 2021 quarter and increased 30 basis points from 95.6% for the 2020 period to 95.9% for the 2021 period. These increases reflect increased administrative costs in the pharmacy operations as a result of incremental spend to accelerate growth within the business, additional shipping costs incurred in pharmacy operations to ensure members' timely receipt of prescriptions, and increased utilization levels in our provider business in 2021 compared to depressed levels in 2020 amid the COVID-19 pandemic. These increases were partially offset by the impact on the 2020 ratios associated with COVID-19 administrative related costs, including expenses associated with additional safety measures taken for our pharmacy, provider, and clinical teams who continued to provide services to members throughout the crisis, as well as operational improvement in our provider services business, largely related to Conviva, along with operating cost efficiencies driven by previously implemented productivity initiatives in 2021. The 2021 period was further impacted by pharmacy labor-related overtime costs due to weather disruptions occurring in the first quarter of 2021.

Liquidity

Historically, our primary sources of cash have included receipts of premiums, services revenue, and investment and other income, as well as proceeds from the sale or maturity of our investment securities, and borrowings. Our primary uses of cash historically have included disbursements for claims payments, operating costs, interest on borrowings, taxes, purchases of investment securities, acquisitions, capital expenditures, repayments on borrowings, dividends, and share repurchases. Because premiums generally are collected in advance of claim payments by a period of up to several months, our business normally should produce positive cash flows during periods of increasing premiums and enrollment. Conversely, cash flows would be negatively impacted during periods of decreasing premiums and enrollment. From period to period, our cash flows may also be affected by the timing of working capital items including premiums receivable, benefits payable, and other receivables and payables. Our cash flows are impacted by the timing of payments to and receipts from CMS associated with Medicare Part D subsidies for which we do not assume risk. The use of cash flows may be limited by regulatory requirements of state departments of insurance (or comparable state regulators) which require, among other items, that our regulated subsidiaries maintain minimum levels of capital and seek approval before paying dividends from the subsidiaries to the parent. Our use of cash flows derived from our non-insurance subsidiaries, such as in our Healthcare Services segment, is generally not restricted by state departments of insurance (or comparable state regulators).

For additional information on our liquidity risk, please refer to the section entitled "Risk Factors" in our 2020 Form 10-K and Item 1A of Part II of this document.

Cash and cash equivalents decreased to approximately $3.4 billion at June 30, 2021 from $4.7 billion at December 31, 2020. The change in cash and cash equivalents for the six months ended June 30, 2021 and 2020 is summarized as follows:

	Six Months Ended	
	2021	2020
	(in millions)	
Net cash (used in) provided by operating activities	$ (477)	$ 3,541
Net cash used in investing activities	(2,203)	(2,862)
Net cash provided by financing activities	1,385	2,430
(Decrease) increase in cash and cash equivalents	$ (1,295)	$ 3,109

Cash Flow from Operating Activities

Cash flows used in operations of $477 million in the 2021 period decreased $4.0 billion from cash flows provided by operations of $3.5 billion in the 2020 period primarily due to the negative impact of working capital items and lower earnings in the 2021 period compared to the 2020 period. Our 2021 period operating cash flows were significantly impacted by changes to working capital levels, primarily as a result of prior year disruptions caused by COVID-19. These impacts include paying down claims inventory and capitation for provider surplus amounts earned in 2020 as well as additional provider support. Further, quarterly tax payment estimates typically paid in the 2020 period were deferred to the third quarter of 2020 due to COVID-19.

The most significant drivers of changes in our working capital are typically the timing of payments of benefits expense and receipts for premiums. We illustrate these changes with the following summaries of benefits payable and receivables.

The detail of benefits payable was as follows at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020	2021 Period Change	2020 Period Change
	(in millions)			
IBNR (1)	$ 5,419	$ 5,290	$ 129	$ 698
Reported claims in process (2)	1,244	816	428	331
Other benefits payable (3)	1,822	2,037	(215)	947
Total benefits payable	$ 8,485	$ 8,143	$ 342	$ 1,976
Payables from acquisition			(42)	—
Change in benefits payable per cash flow statement resulting in cash from operations			$ 300	$ 1,976

(1) IBNR represents an estimate of benefits payable for claims incurred but not reported (IBNR) at the balance sheet date and includes unprocessed claim inventories. The level of IBNR is primarily impacted by membership levels, medical claim trends and the receipt cycle time, which represents the length of time between when a claim is initially incurred and when the claim form is received and processed (i.e. a shorter time span results in a lower IBNR).

(2) Reported claims in process represents the estimated valuation of processed claims that are in the post claim adjudication process, which consists of administrative functions such as audit and check batching and handling, as well as amounts owed to our pharmacy benefit administrator which fluctuate due to bi-weekly payments and the month-end cutoff.

(3) Other benefits payable primarily include amounts owed to providers under capitated and risk sharing arrangements.

The increase in benefits payable in 2021 was primarily due to an increase in reported claims in process and higher IBNR, partially offset by reduction in capitation accruals. Higher reported claims in process was a function of month-end cutoff. IBNR increased primarily as a result of individual Medicare Advantage membership growth partially offset by paying down claim inventories. The 2020 period was significantly impacted by higher capitation accruals as significantly lower utilization caused by COVID-19 resulted in higher surplus accruals to providers.

The detail of total net receivables was as follows at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020	2021 Period Change	2020 Period Change
	(in millions)			
Medicare	$ 2,153	$ 928	$ 1,225	$ 1,179
Commercial and other	200	122	78	13
Military services	163	160	3	9
Allowance for doubtful accounts	(78)	(72)	(6)	(19)
Total net receivables	$ 2,438	$ 1,138	$ 1,300	$ 1,182
Reconciliation to cash flow statement:				
Receivables from acquisition			(15)	3
Change in receivables per cash flow statement resulting in cash from operations			$ 1,285	$ 1,185

The changes in Medicare receivables for both the 2021 period and the 2020 period reflect the typical pattern caused by the timing of accruals and related collections associated with the CMS risk-adjustment model. Significant collections occur with the mid-year and final settlements with CMS in the second and third quarter. We received the 2021 $1.3 billion mid-year settlement in July 2021.

Cash Flow from Investing Activities

During 2021, we acquired various health and wellness related businesses for cash consideration of approximately $325 million, net of cash received.

During 2020, we acquired privately held Enclara Healthcare for cash consideration of approximately $709 million, net of cash received.

Our ongoing capital expenditures primarily relate to our information technology initiatives, support of services in our provider services operations including medical and administrative facility improvements necessary for activities such as the provision of care to members, claims processing, billing and collections, wellness solutions, care coordination, regulatory compliance and customer service. Total capital expenditures, excluding acquisitions, were $619 million in the 2021 period and $418 million in the 2020 period.

Net purchases of investment securities were $1.3 billion and $1.7 billion in the 2021 and 2020 period, respectively.

Cash Flow from Financing Activities

Receipts from CMS associated with Medicare Part D claim subsidies for which we do not assume risk were higher than claim payments by $1.2 billion and $412 million in the 2021 and 2020 period, respectively.

Under our administrative services only TRICARE contracts, health care costs payments for which we do not assume risk exceeded reimbursements from the federal government by $2 million and $23 million in the 2021 and 2020 period, respectively.

Net proceeds from the issuance of commercial paper were $508 million in the 2021 period and $21 million in the 2020 period. The maximum principal amount outstanding at any one time during the 2021 period was $1.3 billion.

In March 2020, we issued $600 million of 4.500% senior notes due April 1, 2025 and $500 million of 4.875% senior notes due April 1, 2030. Our net proceeds, reduced for the underwriters' discount and commission and offering expenses paid as of June 30, 2020 were $1,088 million.

We acquired common shares in connection with employee stock plans for an aggregate cost of $33 million in the 2021 period and $25 million in the 2020 period.

We paid dividends to stockholders of $173 million during the 2021 period and $156 million during the 2020 period.

In March 2020, we drew $1 billion on our existing term loan commitment, which was repaid in November 2020.

The remainder of the cash used in or provided by financing activities in 2021 and 2020 primarily resulted from proceeds from stock option exercises and the change in book overdraft.

Future Sources and Uses of Liquidity

Dividends

For a detailed discussion of dividends to stockholders, please refer to Note 10 to the condensed consolidated financial statements.

Stock Repurchases

For a detailed discussion of stock repurchases, please refer to Note 10 to the condensed consolidated financial statements.

Debt

For a detailed discussion of our debt, including our senior notes, credit agreements, commercial paper program, and other short-term borrowings, please refer to Note 12 to the condensed consolidated financial statements.

Kindred at Home Acquisition

On April 27, 2021, we entered into a definitive agreement to acquire the remaining 60% interest in KAH, the nation's largest home health and hospice provider, from TPG and WCAS, two private equity funds, or the Sponsors, for an enterprise value of $8.1 billion, which includes our existing equity value of $2.4 billion associated with our 40% minority ownership interest. KAH has locations in 40 states, providing extensive geographic coverage with approximately 65% overlap with our individual Medicare Advantage membership. The acquisition, which is expected to close in the third quarter of 2021, is subject to customary state and federal regulatory approvals. We expect to fund the approximate $5.7 billion transaction (net of our existing equity stake) through a combination of parent company cash and debt financing.

In April 2021, we entered into a commitment letter with Goldman Sachs Bank USA, or Goldman Sachs, pursuant to which, and subject to the terms and conditions set forth therein, Goldman Sachs committed to lend us up to $3.5 billion under a new senior unsecured 364-day bridge loan facility, or Bridge Loan. If we enter into the Bridge Loan, the proceeds of the Bridge Loan will be used to finance a portion of the cash consideration payable for the KAH transaction. The outstanding Bridge Loan commitments under the commitment letter were reduced to $3.0 billion in connection with the effectiveness of the delayed draw term loan credit agreement described below.

In May 2021, we entered into a $500 million unsecured delayed draw term loan credit agreement. If we draw on the delayed term loan, the proceeds will be used to finance a portion of the cash consideration payable for the KAH transaction.

Liquidity Requirements

We believe our cash balances, investment securities, operating cash flows, and funds available under our credit agreement and our commercial paper program or from other public or private financing sources, taken together, provide adequate resources to fund ongoing operating and regulatory requirements, acquisitions, future expansion opportunities, and capital expenditures for at least the next twelve months, as well as to refinance or repay debt, and repurchase shares.

Adverse changes in our credit rating may increase the rate of interest we pay and may impact the amount of credit available to us in the future. Our investment-grade credit rating at June 30, 2021 was BBB+ according to Standard & Poor's Rating Services, or S&P, and Baa3 according to Moody's Investors Services, Inc., or Moody's. A downgrade by S&P to BB+ or by Moody's to Ba1 triggers an interest rate increase of 25 basis points with respect to $250 million of our senior notes. Successive one notch downgrades increase the interest rate an additional 25 basis points, or annual interest expense by less than $1 million, up to a maximum 100 basis points, or annual interest expense by $3 million.

In addition, we operate as a holding company in a highly regulated industry. Humana Inc., our parent company, is dependent upon dividends and administrative expense reimbursements from our subsidiaries, most of which are subject to regulatory restrictions. We continue to maintain significant levels of aggregate excess statutory capital and surplus in our state-regulated operating subsidiaries. Cash, cash equivalents, and short-term investments at the parent company were $1.3 billion at June 30, 2021 compared to $772 million at December 31, 2020. This increase primarily was due to dividends received from regulated subsidiaries, earnings in non-regulated Healthcare Services subsidiaries, and the issuance of commercial paper, partially offset by acquisitions, capital expenditures, cash dividends to shareholders, and capital contributions to certain subsidiaries. Our use of operating cash derived from our non-insurance subsidiaries, such as our Healthcare Services segment, is generally not restricted by departments of insurance (or comparable state regulators).

Regulatory Requirements

Certain of our subsidiaries operate in states that regulate the payment of dividends, loans, or other cash transfers to Humana Inc., our parent company, and require minimum levels of equity as well as limit investments to approved securities. The amount of dividends that may be paid to Humana Inc. by these subsidiaries, without prior approval by state regulatory authorities, or ordinary dividends, is limited based on the entity’s level of statutory income and statutory capital and surplus. If the dividend, together with other dividends paid within the preceding twelve months, exceeds a specified statutory limit or is paid from sources other than earned surplus, it is generally considered an extraordinary dividend requiring prior regulatory approval. In most states, prior notification is provided before paying a dividend even if approval is not required.

Although minimum required levels of equity are largely based on premium volume, product mix, and the quality of assets held, minimum requirements vary significantly at the state level. Based on the most recently filed statutory financial statements as of March 31, 2021, our state regulated subsidiaries had aggregate statutory capital and surplus of approximately $10.0 billion, which exceeded aggregate minimum regulatory requirements of $7.2 billion. The amount of ordinary dividends paid to our parent company was approximately $1.3 billion during the six months ended June 30, 2021 compared to $360 million during the six months ended June 30, 2020. The amount, timing and mix of ordinary and extraordinary dividend payments will vary due to state regulatory requirements, the level of excess statutory capital and surplus and expected future surplus requirements related to, for example, premium volume and product mix.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our earnings and financial position are exposed to financial market risk, including those resulting from changes in interest rates.

Interest rate risk also represents a market risk factor affecting our consolidated financial position due to our significant investment portfolio, consisting primarily of fixed maturity securities of investment-grade quality with a weighted average S&P credit rating of AA- at June 30, 2021. Our net unrealized position decreased $247 million from a net unrealized gain position of $514 million at December 31, 2020 to a net unrealized gain position of $267 million at June 30, 2021. At June 30, 2021, we had gross unrealized losses of $87 million on our investment portfolio primarily due to an increase in market interest rates since the time the securities were purchased. There were no material credit allowances during the six months ended June 30, 2021. While we believe that these securities in an unrealized loss will recover in value over time and we currently do not have the intent to sell such securities, given the current market conditions and the significant judgments involved, there is a continuing risk that future declines in fair value may occur and material realized losses from sales or credit allowances may be recorded in future periods.

Duration is the time-weighted average of the present value of the bond portfolio’s cash flow. Duration is indicative of the relationship between changes in fair value and changes in interest rates, providing a general indication of the sensitivity of the fair values of our fixed maturity securities to changes in interest rates. However, actual fair values may differ significantly from estimates based on duration. The average duration of our investment portfolio, including cash and cash equivalents, was approximately 3.6 years as of June 30, 2021 and approximately 3.0 years as of December 31, 2020. The increase in the average duration is reflective of the decreased holdings of cash and cash equivalents, along with other portfolio management activities. Based on the duration, including cash equivalents, a 1% increase in interest rates would generally decrease the fair value of our securities by approximately $619 million at June 30, 2021.

Item 4. Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer, or CEO, our Chief Financial Officer, or CFO, and our Principal Accounting Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures for the quarter ended June 30, 2021.

Based on our evaluation, our CEO, CFO, and our Principal Accounting Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information the Company is required to disclose in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including, without limitation, ensuring that such information is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company’s internal control over financial reporting during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

For a description of the legal proceedings pending against us and certain other pending or threatened litigation, investigations, or other matters, see “Legal Proceedings and Certain Regulatory Matters” in Note 13 to the condensed consolidated financial statements beginning on page 25 of this Form 10-Q.

Item 1A. Risk Factors

There have been no changes to the risk factors included in our 2020 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) N/A

(c) The following table provides information about our purchases of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the three months ended June 30, 2021:

Period	Total Number of Shares Purchased (1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 2021	—	$ —	—	$ —
May 2021	—	—	—	—
June 2021	—	—	—	—
Total	—	$ —	—	

(1) On December 22, 2020, we entered into separate accelerated stock repurchase agreements, ("the December 2020 ASR Agreements"), with Citibank, N.A., or Citi, and JPMorgan Chase Bank, or JPM, to repurchase $1.75 billion of our common stock as part of the $3 billion repurchase program authorized by the Board of Directors on July 30, 2019. On December 23, 2020, in accordance with the December 2020 ASR Agreements, we made a payment of $1.75 billion ($875 million to Citi and $875 million to JPM) and received an initial delivery of 3.8 million shares of our common stock (1.9 million shares each from Citi and JPM). We recorded the payments to Citi and JPM as a reduction to stockholders’ equity, consisting of an $1.5 billion increase in treasury stock, which reflects the value of the initial 3.8 million shares received upon initial settlement, and a $262.5 million decrease in capital in excess of par value, which reflects the value of stock held back by Citi and JPM pending final settlement of the December 2020 ASR Agreements. Upon final settlement of the December 2020 ASR agreements with Citi and JPM on May 4, 2021 and May 5, 2021, respectively, we received an additional 0.3 million shares and 0.3 million shares, respectively, as determined by the average daily volume weighted-averages share price of our common stock during the term of the agreement, less a discount, of $400.07 and 401.49, respectively, bringing the total shares received under the December 2020 ASR agreements to 4.4 million. In addition, upon settlement we reclassified the $262.5 million value of stock initially held back by Citi and JPM from capital in excess of par value to treasury stock. On February 18, 2021, the Board of Directors replaced the previous share repurchase authorization of up to $3 billion (of which approximately $250 million remained unused) with a new authorization for repurchases of up to $3 billion of our common shares exclusive of shares repurchased in connection with employee stock plans, expiring as of February 18, 2024. Our remaining repurchase authorization was $3 billion as of July 27, 2021.

(2) Excludes 90,000 shares repurchased in connection with employee stock plans.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6: Exhibits

3(i)	Restated Certificate of Incorporation of Humana Inc. filed with the Secretary of State of Delaware on November 9, 1989, as restated to incorporate the amendment of January 9, 1992, and the correction of March 23, 1992 (incorporated herein by reference to Exhibit 4(i) to Humana Inc.'s Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (Reg. No. 33-49305) filed February 2, 1994).
3(ii)	By-Laws of Humana Inc., as amended on December 14, 2017 (incorporated herein by reference to Exhibit 3(b) to Humana Inc.'s Current Report on Form 8-K, filed December 14, 2017).
10.1	Five-Year $2.5 Billion Amended and Restated Credit Agreement, dated as of June 4, 2021, among Humana Inc., and JPMorgan Chase Bank, N.A. as Agent and as CAF Loan Agent, Bank of America, N.A. and Goldman Sachs Bank USA as Syndication Agents, Citibank, N.A., PNC Bank, National Association, U.S. Bank National Association and Wells Fargo Securities, LLC, as Documentation Agents, and JPMorgan Chase Bank, N.A., BofA Securities, Inc., Goldman Sachs Bank USA, Citigroup Global Markets, Inc., PNC Capital Markets LLC, U.S. Bank National Association and Wells Fargo Securities, LLC, as Joint-Lead Arrangers and Joint Bookrunners (incorporated herein by reference to Exhibit 10 to Humana Inc.'s Current Report on Form 8-K filed on June 4, 2021).
10.2	364-Day $1.5 Billion Revolving Credit Agreement, dated as of June 4, 2021, among Humana Inc., and JPMorgan Chase Bank, N.A. as Agent and as CAF Loan Agent, Bank of America, N.A. and Goldman Sachs Bank USA as Syndication Agents, Citibank, N.A., PNC Bank, National Association, U.S. Bank National Association and Wells Fargo Securities, LLC, as Documentation Agents, and JPMorgan Chase Bank, N.A., BofA Securities, Inc., Goldman Sachs Bank USA, Citigroup Global Markets, Inc., PNC Capital Markets LLC, U.S. Bank National Association and Wells Fargo Securities, LLC, as Joint-Lead Arrangers and Joint Bookrunners (incorporated herein by reference to Exhibit 10 to Humana Inc.'s Current Report on Form 8-K filed on June 4, 2021).
10.3	$500 Million Delayed Draw Term Loan Credit Agreement, dated as of May 28, 2021, among Humana Inc., and JPMorgan Chase Bank, N.A. as Agent, Bank of America, N.A. and Goldman Sachs Bank USA as Syndication Agents, Citibank, N.A., PNC Capital Markets LLC, Trust Bank, U.S. Bank, National Association and Wells Fargo Securities, LLC, as Documentation Agents, and Goldman Sachs Bank USA, BofA Securities, Inc., JPMorgan Chase Bank, N.A., Citibank, N.A., PNC Capital Markets LLC, Trust Securities, Inc., U.S. Bank National Association and Wells Fargo Securities, LLC, as Joint-Lead Arrangers and Joint Bookrunners (incorporated herein by reference to Exhibit 10 to Humana Inc.'s Current Report on Form 8-K filed on June 4, 2021).
31.1	Principal Executive Officer certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
32	Principal Executive Officer and Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	The following materials from Humana Inc.'s Quarterly Report on Form 10-Q formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at June 30, 2021 and December 31, 2020; (ii) the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2021 and 2020; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2021 and 2020; (iv) the Consolidated Statements of Equity for the three and six months ended June 30, 2021 and 2020; (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020; and (vi) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File formatted in Inline XBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			HUMANA INC. (Registrant)
Date:	July 28, 2021	By:	/s/ CYNTHIA H. ZIPPERLE
			Cynthia H. Zipperle Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Bruce D. Broussard, principal executive officer of Humana Inc., certify that:

1. I have reviewed this Report of Humana Inc. (the "Company") on Form 10-Q for the period ending June 30, 2021;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	July 28, 2021
Signature:	/s/ Bruce D. Broussard
	Bruce D. Broussard Principal Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Susan M. Diamond, principal financial officer of Humana Inc., certify that:

1. I have reviewed this Report of Humana Inc. (the "Company") on Form 10-Q for the period ending June 30, 2021;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	July 28, 2021
Signature:	/s/ Susan M. Diamond
	Susan M. Diamond Principal Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of Humana Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Humana Inc., that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Bruce D. Broussard

Bruce D. Broussard
Principal Executive Officer

July 28, 2021

/s/ Susan M. Diamond

Susan M. Diamond
Principal Financial Officer

July 28, 2021

A signed original of this written statement required by Section 906 has been provided to Humana Inc. and will be retained by Humana Inc. and furnished to the Securities and Exchange Commission or its staff upon request.