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HUM - Q1 2020 Humana Inc Earnings Call

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OVERVIEW:

Co. reported 1Q20 adjusted common diluted EPS of $5.40. Expects 2020 adjusted common diluted EPS to be $18.25-18.75.

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CORPORATE PARTICIPANTS

Amy K. Smith *Humana Inc. - VP of IR*

Brian Andrew Kane *Humana Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

Albert J. William Rice *Crédit Suisse AG, Research Division - Research Analyst*

Benjamin Whitman Mayo *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare Facilities and Managed Care*

Charles Rhyee *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

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

Gary Paul Taylor *JP Morgan Chase & Co, Research Division - Analyst*

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

Joshua Richard Raskin *Nephron Research LLC - Research Analyst*

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

Kevin Mark Fischbeck *BofA Merrill Lynch, Research Division - MD in Equity Research*

Ralph Giacobbe *Citigroup Inc, Research Division - Director*

Rivka Regina Goldwasser *Morgan Stanley, Research Division - MD*

Sarah Elizabeth James *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

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

Stephen Barr Willoughby *Cleveland Research Company - Senior Research Analyst*

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Humana First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your host, Vice President of Investor Relations, Ms. Amy Smith. Ma'am, the floor is yours.

Amy K. Smith - *Humana Inc. - VP of IR*

Thank you, and good morning. In a moment, Bruce Broussard, Humana's President and Chief Executive Officer; and Brian Kane, Chief Financial Officer, will discuss our first quarter 2020 results and our updated financial outlook for 2020 as well as our pandemic relief efforts. Following these prepared remarks, we will open up the lines for a question-and-answer session with industry analysts. Our Chief Legal Officer, Joe Ventura, will also be joining Bruce and Brian for the Q&A session. We encourage the investing public and media to listen to both management's prepared remarks and the related Q&A with analysts. This call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana's website, humana.com, later today.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the detailed risk factors discussed in our latest Form 10-K, our other filings with the Securities and Exchange Commission, and our first quarter 2020 earnings press release as they relate to forward-looking statements, and to note in particular that these forward-looking statements could be impacted by risks related to the spread of and response to the COVID-19 pandemic, including the potential impacts to us of: one, actions taken by federal, state and local governments to mitigate the spread of COVID-19 and in turn relax those restrictions; two, actions taken by us to expand benefits for our members and provide relief for the health care provider community in connection with COVID 19; three, disruptions in our ability to operate our business effectively; and four, negative pressure in economic, employment and financial markets, among others, all of which creates additional uncertainties and risks for our business. Our forward-looking statements should therefore be considered in light of these additional uncertainties and risks, along with other risks discussed in our SEC filings. We undertake no obligation to publicly address or update any forward-looking statements and future filings or communications regarding our business or results.

Today's press release, our historical financial news releases and our filings with the SEC are all also available on our Investor Relations site. Call participants should note that today's discussion includes financial measures that are not in accordance with generally accepted accounting principles or GAAP. Management's explanation for the use of these non-GAAP measures and reconciliations of GAAP to non-GAAP financial measures are included in today's press release. Finally, any references to earnings per share or EPS made during this conference call refer to diluted earnings per common share.

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

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

Thank you, Amy, and good morning, and thank you for joining us. First, let me say that these unprecedented times, we are grateful for the tireless efforts of the many clinicians who have been front and center in treating patients with COVID-19. We are all better off for their compassionate and unwavering commitment to the health of others. At Humana, we've been working relentlessly to ease some of the burden on all stakeholders by being proactive and transparent in our engagement as we navigate the global coronavirus pandemic, including the recovery and reentry efforts as we emerge into a new normal that is yet to be defined. I'm thankful for and proud of the extraordinary efforts of our associates in addressing this generational challenge. This crisis has confirmed the strength of our integrated care delivery strategy, with a deep focus on member and provider experiences and a multifaceted personalized approach to care that combines digital, data analytics and telehealth across home and clinic settings to deliver quality care and improved clinical outcomes to those we serve.

As an organization focused on serving vulnerable populations, including over 8 million Medicare beneficiaries, we recognize that safety and particularly consumer confidence in the ability to once again safely begin using the health care system are top of mind with everyone, and we play a pivotal role in ensuring both. Humana will continue to persist in addressing health and financial concerns for members, providers and employer groups, while also supporting our associates who are critical to our success. We are being proactive in our actions to support all these stakeholders, including our outreach to nearly 500,000 members, most at risk for COVID-19 across our segments as identified by their proximity to COVID-19 hotspots and those with multiple chronic conditions.

One of our key learnings from the crisis is that a significant number of beneficiaries have concerns about food insecurity, social isolation and access to needed prescription medicines. To help address these concerns around social determinants of health, we've taken several actions. Specifically, we fulfilled orders for over 0.5 million meals, initiated efforts to address loneliness by connecting members with emotional support services like the Friendship Line and the national disaster hotline, and have several pharmacy efforts underway, including early refills and increased mail order delivery. In addition, we've contributed $50 million to the Humana Foundation to support coronavirus relief and recovery efforts during and in the immediate aftermath of the health crisis, including support of health care workers, seniors and those experiencing food insecurity. We, along with other payers, have taken numerous proactive steps to do our part. To address our members' financial and health concerns, in addition to the meal delivery and the pharmacy efforts discussed previously, we waived member cost related to COVID-19 diagnostic testing and treatment, expanded access to telehealth services by waiving out-of-pocket cost for services delivered by participating in-network providers, pivoted our Medicaid long-term support services in-person care management program to a telephonic model to connect our care coaches and members via FaceTime, increased the use of digital health for military families including behavioral services, and helped convene TRICARE policy changes such as disenrollment waivers for military families unable to pay premiums.

To support providers, we took steps to ease liquidity concerns, alleviate capacity issues across the system and allow them to focus on the immediate needs of their patients, including releasing approximately $1 billion in advanced funding for providers at a time when cash flow is meaningfully challenged, lifting certain provider administrative requirements, simplifying and expediting claims processing, suspending in-network clinical authorization requirements, and accepting audio-only telephone visits for reimbursement equivalent to an in-person visit. And lastly, to support our employer groups, we've extended our 30-day grace period for premiums for small commercial groups facing financial hardship, temporarily waived certain active work requirements for employees to maintain coverage, and assisted small businesses with resources to help navigate the CARES Act and Paycheck Protection Program as well as other sources of funding.

Given the changes made to promote and advance the continuation of care, while social distancing our providers, especially those in value based arrangements, have seen incredible upticks in telehealth for both care related to COVID-19 as well as general health concerns. Telehealth visits with traditional telehealth partners have more than doubled and the growth is even more compelling when you factor in brick-and-mortar providers that have pivoted to telehealth. Telehealth, together with increased use of our mail order pharmacy and early fills, allows our members with chronic conditions to continue to receive care to prevent long-term negative health implications. Since the declaration of the national emergency in mid-March, we have closed approximately 630,000 gaps in care. Further, the providers in our value-based arrangements saw the benefit of predictable cash flow streams, and were the fastest to innovate and create thoughtful digital telehealth strategies in response to the crisis.

To underscore the meaningful and lasting impact of these actions, let me share a story from our proactive outreach to our most vulnerable members. One member e-mailed me to let me know that he never felt more like an important family member than the day he received a call from one of our associates during the crisis, who was simply calling to see how he was doing and asked whether he needed anything. Thankfully, he was doing fine and even noted that the Humana mail order pharmacy had renewed his prescription the day before. Our associate had "made his day" with one simple action and he described Humana as wonderful. This is one of countless stories that show the proactive actions [we are taking during the crisis] (added by company after the call) are having a positive impact. I share this not to pat ourselves on the back, but rather to demonstrate the importance of working together with our industry peers to deliver solutions, building our relationships with our members as key touch points for determining and meeting their needs.

Perhaps what's most inspiring is the way the health care sector and the general business community have come together to address the crisis and the meaningful public partnership led by the federal government. For example, providers and lab companies prioritizing COVID lab tests;, manufacturers changing production lines to create respirators and ventilators, retailers expanding testing [capabilities] (corrected by company after the call) by facilitating drive-through testing sites, and not-for-profits working to distribute food in their local markets. We believe this cross-industry collaboration and public-private partnership has enabled agility and innovation as we navigate this crisis. And we're not done. Health plans can play a major role in developing a comprehensive and actionable plan as we serve as a critical link between the individual and the provider, and can leverage our data capabilities to inform and guide the recovery.

We will continue to invest to help our constituency during and in the aftermath of the crisis, including recovery and reentry efforts while also building upon the digital, data and analytics, telehealth and value-based care advances that were accelerated due to the pandemic. These advances will help us progress our strategy as we emerge into a new normal. Before I turn the call over to Brian, I'll briefly touch on our operating performance over the last quarter. As social distancing emerged mid-March, we successfully and rapidly migrated nearly all our 46,000 associates to work-at-home settings, and implemented social -- physical distancing standards and deep cleaning to protect those essential associates needed in the office. We also work to secure additional personal protective equipment for our clinicians on the front lines and implemented new protocols for their safety, allowing us to keep our wholly-owned alliance and joint venture clinics open to serve the patients during the crisis. Our systems and technology are performing well, our associate engagement scores remain best-in-class, and our Net Promoter Scores continue to be strong.

Now turning to our financial performance. All of our businesses started the year strong from both a strategic and financial perspective. And as we navigate through these uncertain times, we believe that this underlying strength sets us up well for 2021 and beyond. As Brian will discuss in a moment, while acknowledging the uncertainties as to the duration of the crisis and to the extent to which deferred procedures may resume, we are maintaining our previous full year 2020 adjusted EPS guidance range of $18.25 to $18.75. This also reflects our expected continued investment to help our constituencies and communities that may be disproportionately affected by this crisis. For example, to the extent we continue to see reduced utilization for an extended time, we are committed to taking actions similar to those we've taken to date to address health and financial concerns. These actions can -- could include incremental benefits for members or employer groups, further local community support, continued assistance to providers to ensure ample liquidity, further outreach to members to ensure they have access to quality care.

In closing, I want to reiterate that a meaningful public-private partnership is the key to long-term successful response to COVID-19. The leadership of the administration, Congress, governors and mayors across the nation, combined with the ingenuity and agility of the private sector is the right foundation to build on moving forward. Humana stands ready to be a strong and willing partner to federal, state and local governments and community nonprofits. Together, we can take the lessons learned to reshape the health care system to provide meaningful access to care and to holistically manage health and lifestyle needs. We thank them for their partnership and look forward to our work together on these shared goals.

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

Brian Andrew Kane - *Humana Inc. - CFO*

Thank you, Bruce, and good morning, everyone. I would also like to begin by acknowledging the unique and challenging times we are facing, during which we are guided by the best interest of all the constituencies that we serve. As Bruce described, and as I will discuss later in my remarks, we are committed to continuing to invest to minimize the impact of this global crisis on our members, provider partners, employer groups and the communities we serve, while advancing the long-term sustainability of our company and the health care system as a whole.

I will first discuss our results for the quarter. Today, we reported adjusted EPS of $5.40, ahead of our previous expectations, and as Bruce indicated, reflects a strong start to the year for all of our businesses prior to the impact of COVID. Our January through mid-March fundamentals, including strategic, operational and financial metrics were solid and outperforming our previous expectations. During the last 2 weeks of March, the spread of COVID-19 began to affect our business, though the impact occurred late enough in the quarter, such that in totality, the virus did not have a material impact on our financial results.

In our Retail segment, prior to COVID, the individual Medicare Advantage business was running ahead of plan with per member per month premiums and utilization favorable to expectations. The members that enrolled with us in 2019 as well as the new members who joined Humana this year are also performing well. During the last 2 weeks of March and continuing into April, we experienced a meaningful decline in utilization with the exception of pharmacy costs, which ran higher than expected, as our members, with our encouragement, refilled their prescriptions early to ensure they had adequate supply during the crisis.

With respect to membership, during the open enrollment period from January through March, we experienced better sales and higher retention than previously expected. As a result, we are increasing our full year 2020 expected individual MA membership growth to a range of 300,000 to 350,000 from our previous range of 270,000 to 330,000. Not surprisingly, sales slowed in the latter half of March through the month of April on account of COVID affecting brokers in the field as face-to-face meetings were restricted. We have also seen a decline in member terminations during this period. We will be watching these dynamics closely as the pandemic progresses and as more brokers adopt digital channels, which we are helping to facilitate. We are also reaffirming our projected full year 2020 group MA membership growth of approximately 90,000 members as well as our expected decline in stand-alone PDP membership of approximately 550,000 members.

With respect to Medicaid, the results include the transition of the risk for the Kentucky contract from CareSource as of January 1, and the business is performing well. While Medicaid membership was in line with expectations pre-COVID, we are withdrawing our membership guidance for full year 2020, acknowledging the tremendous uncertainty created by COVID-19 and the resulting economic trends. We expect these trends to be a tailwind to our previous Medicaid membership guidance of 150,000 to 200,000 for the full year, recognizing that states are not disenrolling individuals from Medicaid at this time, and more individuals are beginning to qualify for coverage each day.

In our Group and Specialty segment, we are similarly pleased with our performance in the quarter. Our prior period development was favorable, and our current year metrics through mid-March were running consistent with expectations, including the benefit ratio for our fully-insured commercial group medical business. In addition, our commercial medical membership was running in line with expectations. We are executing the first phase of a multiyear plan to sustainable growth following years of declining commercial membership. We've seen early traction in our prioritized markets as evidenced by improved volume of quotes, close ratios and retention. This progress is driven by new detailed market operating plans in these prioritized markets, key hires at the market level, and targeted pricing investments to support retention.

Through March, we are on track to achieve membership targets, but now anticipate COVID-19 headwinds will be challenging for this segment, including potential small group health plan terminations and large group workforce reductions, primarily driven by the duration of the social distancing restrictions across the nation and the speed of recovery and reentry. As you will recall, we are heavily weighted to the small group business, which we expect will disproportionately be impacted by the pandemic. And accordingly, as Bruce explained, we have taken actions to assist small businesses during the crisis. Given this inherent uncertainty, we are not prepared to comment on our full year 2020 membership or pretax expectations post COVID and are withdrawing our guidance for this segment. We are closely watching how unemployment trends develop, differentiating between layoffs and furloughs, as furloughs enabled by the federal Payroll Protection Program result in employees generally continuing to receive health coverage through their employer.

Lastly, our Healthcare Services segment businesses were performing well prior to COVID, with pharmacy, provider, and home results in line with expectations and showing nice improvement year-over-year. COVID has meaningfully impacted our pharmacy business. As many of our members availed themselves of the option to refill early when the pandemic spread to give them peace of mind, though in the last few weeks of April, we have seen pharmacy use slow. We have also seen a material increase in mail order usage, which we believe offer members a better experience and higher medication adherence rates. Additionally, Kindred has been adversely impacted by the virus, in particular, as new home health admissions slowed dramatically. And our provider businesses, which are largely at risk, saw lower utilization in the last 2 weeks of March and throughout April.

I will now provide more specifics around how COVID impacted the quarterly financials and our expected 2020 results. As I mentioned, the virus had an immaterial impact on the first quarter, given that most of the COVID-related developments occurred late in March. Although sadly, some of our members have been diagnosed and treated for COVID, it is a very small percentage of our membership base, in part due to the geographic hotspots for the outbreak being in areas where our membership is relatively small. As I noted, we have experienced elevated pharmacy costs as members refilled their scripts early as well as higher administrative spend, including both a $50 million Foundation donation that Bruce mentioned to assist our multiple stakeholders as well as higher costs broadly to address the needs caused by the pandemic. In the quarter, however, these costs were offset by the deferral of medical procedures in the back half of March as the country went into lockdown. Specifically, with respect to medical utilization, we have seen overall declines by at least 30% depending on the service category.

We expect the trend of lower utilization to persist while stay-at-home and other restrictions remain in place in the near term, followed by a period of recovery in utilization rates over the coming weeks as previously deferred nonessential procedures resume with a backlog of demand. We also expect testing to ramp up as more tests become available.

With respect to the full year, we are reaffirming our adjusted EPS guidance of $18.25 to $18.75. However, given the likelihood of significant variability by financial statement line item, including operating costs and benefit expense, we are withdrawing all other detailed guidance points with the exception of the Medicare membership projections discussed previously. We acknowledge that a number of variables and uncertainties will impact our results, including, among others, the severity and duration of the pandemic, the continued actions taken to mitigate the spread of COVID-19 and subsequent lessening of those restrictions, the timing and degree in resumption of demand for deferred health care services, the ability of our commercial members to pay their premium, the degree of diagnostic testing, and the cost and timing of any new therapeutic treatments or vaccines. All these items are highly variable and difficult to predict, and our reaffirmation of guidance is subject to the significant uncertainty associated with these items. As such, our response to this global health crisis and the subsequent recovery will continue to evolve over the coming months, and we fully expect that any impact we experience from lower utilization will be entirely offset by our support for our Medicare members, providers, employer groups and the communities that we serve.

From a seasonality perspective, we expect that a disproportionate amount of our full year 2020 earnings will now occur in the first half, heavily weighted to the second quarter. There was significant variability in quarterly estimates based on various potential scenarios and how quickly deferred utilization bounces back and our subsequent response to any imbalances that may occur, including the timing of our staged support measures. Our current expectation is that nonessential procedures will resume and ultimately ramp-up in the coming weeks and months as the system could run modestly above normal levels over a period of time. The system's ability to run at greater than normal levels will be dependent on the degree of consumer confidence, and once again safely using the health care system as well as the system's ability to flex supply to meet demand.

I will now touch briefly on our liquidity position. We significantly increased our liquidity during March with the issuance of $1.1 billion in senior notes and a $1 billion draw under our 1-year term loan bank commitment we have in place. We felt it was prudent to tap the credit markets when faced with significant uncertainty from a global pandemic and volatility in the commercial paper market. As a result, while our debt-to-cap ratio of approximately 39% is higher than normal, we believe we are strongly positioned from a liquidity standpoint with the ability to bring the ratio down over the course of the year based on the progression of the virus and the recovery. We have approximately $2.4 billion of cash and short-term investments at our parent company and have access to an additional $2 billion under our credit agreement. I would note, however, that we expect lower dividends from our subsidiaries to the parent this year relative to the last couple of years in light of significant membership and premium growth in 2019 and 2020. As you are aware, we are required to hold approximately $0.12 of every dollar of incremental premium as statutory capital in our subsidiaries.

Finally, a quick word about our 2021 Medicare Advantage bids. The team is working exceedingly hard to understand the potential impacts that COVID may have on our premium and costs next year. As is customary, our philosophy is to take a prudent approach to our bids that is financially sound, but also offers a compelling product to our customers. We are also proceeding under the assumption that $18.50 of 2020 EPS is the jumping-off point as we think about our 2021 adjusted EPS growth. We will provide more commentary about our 2021 pricing on our second quarter call. With that, we will open the lines up for your questions. (Operator Instructions) Also, please note that Bruce, Amy and I are in separate locations, but we will endeavor to make the Q&A as smooth as possible. Operator, please introduce the first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question will come from the line of Justin Lake from Wolfe Research.

Brian Andrew Kane - *Humana Inc. - CFO*

Justin, you there?

Amy K. Smith - *Humana Inc. - VP of IR*

Let's go to the next question. And we can come back to Justin.

Operator

Your next question comes from the line of Kevin Fischbeck from Bank of America.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

So it does seem like COVID is creating some disruption in a lot of different ways. I guess, specifically, when I think about the way that you submit your bids and how you think about both coding and data capture and then Stars and quality, how is that factoring into what you're thinking about 2021 bids? And I guess, specifically around coding, how does that impact your view on the ramp-up of the new membership you got last year and this year, if it's difficult to get the right encounter data?

Brian Andrew Kane - *Humana Inc. - CFO*

Kevin, first, with respect to Stars, there won't be a stars impact for 2021 as that's already locked in. In fact, as you think about bonus year 2022, CMS also made some adjustments such that the HEDIS and CAHPS scores are going to be using the 2021 bonus year numbers. And so that reduces the volatility around bonus year 2022. It does impact potentially bonus year 2023 because that's based on the service periods for 2020. And so we're working with CMS now as well as thinking through plans as the system opens up, how do we ensure that the members get the care they need and we close those gaps in care that drive Stars results.

With respect to coding, you are correct, that is one of the variables as we think about 2021 bids and the impact of COVID on those. It really will depend how quickly the system opens up. Because as you alluded to, the conditions that we document this year impact next year's payment. And so that's both the significant number of new members that we received last year and this year, but also redocumenting conditions that our concurrent membership base has. So it's something we're very, very focused on. We obviously are working hard to make sure that we can engage with all the members we can. We're embracing telehealth which now qualifies on video telehealth for risk adjustment purposes. So as you can imagine, it's top of mind for us.

Operator

And we can go ahead and go back to Mr. Justin Lake from Wolfe Search.

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

Okay. Is this any better?

Amy K. Smith - *Humana Inc. - VP of IR*

We can hear you.

Brian Andrew Kane - *Humana Inc. - CFO*

We can hear you.

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

Yes, we hear you.

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

Sorry about that. So Brian, just wanted to specifically -- I know you talked about more information on the bids for 2021 as you go forward. But a couple of things here. One, just on the HIF benefit, I think a lot of question around how much of that you might take to the bottom line, given you usually letting it flow through historically, but I think we all expect probably less than the $2-plus flowing to the bottom line next year. Curious if you have any updated color there? And then any early thoughts on how the potential COVID impact, depending on how long it lasts, could impact membership growth next year in terms of the ability of brokers to get in front of the seniors during this crisis?

Brian Andrew Kane - *Humana Inc. - CFO*

Well, with respect to the HIF and the bottom line and what we take to the bottom line and what we pass back to members, that's just not something we're prepared to comment on. What you said about all that going to the bottom line, that won't happen. I think we've been very clear about that.

And we always take a balanced approach to top and bottom line growth. And I think you'll see us take a similar approach. That's really the way we've typically managed the HIF coming in and out, and you can expect a similar balance that we try to strike as well as ensuring that we invest in our long-term sustainability in our integrated model, which is very, very important.

With respect to COVID membership, it's -- it really will depend on how long this lasts. As I mentioned in my remarks, we have seen a decline in sales because the field brokers can't get in front of members. But we've also seen a really strong telephonic sales channel, and they've done quite well and continue to keep strong sales. And so we're monitoring that very closely and what the impact might be. I think, again, it depends whether this lockdown extends into the fall or will people be comfortable out and about in engaging with brokers in person. But we're very focused on making sure that all of our brokers have the digital capabilities to be able to engage with our members telephonically and digitally, if they can't do it in person. So we'll see where it goes. But I think it's really too early to comment on that for 2021.

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

All right.

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

And Justin, I'd just like to reemphasize, we are doing a lot of planning right now to be able to plan for more electronic and virtual visit sales than in the past. Our MarketPoint sales and our partners are all walking side by side with us on this.

Operator

And your next question comes from the line of Mr. Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

I guess just one quick one here. Are you hoping or advocating for bids getting pushed out? And what's the likelihood of that in your mind? And then just the real question, your business mix is obviously weighted to Medicare. So just wondering if you can give us a rough estimate of what percentage of your total consolidated medical costs you do consider elective? And what has history suggested in terms of how much deferred or canceled procedures come back?

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

I'll take that first question and I'll let Brian spend a little bit of time on the second. Obviously, we have more time with the bids just as we can see how this evolves and we really would embrace that with CMS. It does create some difficulties as a result of just the timing. If we delay the bids, then there's really a work process that goes through that ultimately, doesn't have a lot of time separated between one to another and ends up being -- going right up to the September time frame. So we would love to see it happen. We are not planning on it to happen. And we are planning to submit our bids the first week in June (inaudible)

Brian, do you want to talk a little bit about the utilization side?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. So the definition of elective procedures, obviously, has changed a bit. I think traditionally, what we would view as elective would be probably in the mid-teens percentage of our spend. So a relatively low dollar spend or low percentage spend, but still a high dollar spend. I think in this crisis, there have been a number of procedures that are necessary, but have been deferred and are not urgent. So I think what you'll see is a number of those procedures start to get rescheduled. And so we wouldn't consider those elective because they have to get done. They'll just go back into the queue effectively as to when they get performed. So things like cardio procedures is a perfect example where they don't necessarily have to be done from an emergent perspective, emergency perspective, but they have to get done. So we wouldn't consider those elective. And so really, the question then is just how much of this utilization bounces back and how quickly? And what we've said today is that our expectations is that there will likely be a bounce back in the coming weeks and months. It could run over normal, I'll call it a modest premium to what would be normal utilization, but then ultimately settle back down. And what will be interesting to watch is not only the confidence of members and patients coming back into the health care system, but also their comfort about using institutional settings versus more non-institutional settings. So embracing telehealth, the home, for example. And so that's something we're monitoring very closely as well to understand the demand patterns of the utilization.

Operator

And your next question comes from the line of Steven Valiquette from Barclays.

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

Actually, two questions. One, just to follow-up quickly on that last question. Just overall for a more senior population and more Medicare-focused book of business, would you expect elective procedure percent of total cost to be lower for a senior population versus a more diversified population overall? Or would you be sort of in line with overall averages?

Brian Andrew Kane - *Humana Inc. - CFO*

I would say it should be lower, just given this -- the nature of the chronic conditions of the members that we serve, the over 65 set. So we would expect the percentage of truly electives to be less.

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

Okay. I just wanted to confirm that. Okay. And the question I really wanted to ask though was really just around your comment that your JV physician clinics have kind of remained open during the crisis. Given that some other physician practices may have opted to close, at least temporarily, I don't know if you're able to reconcile whether you've actually taken any share within the ambulatory setting, knowing that your volumes might still be down versus your baselines, if overall utilization is just down overall. But just any extra color around just how you've kind of performing relative to the overall physician practice environment right now might be sort of helpful.

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

Our clinics are quite big from the standpoint that they are all volume-based payments and really, for the most part, a full risk model. They are also there in that relationship are very oriented to much more holistic and much more proactive care model as opposed to a premium care model. And the main reason we stay on is to ensure that we do keep that proactivity out there. Our members are attributed for a lack of a better description to our clinics. And therefore, they are more oriented to a sales side where they begin to come in and as they've selected both their insurance plan and an insurance selected a particular clinic that they want to join. So the share does not move as quick as a fee-for-service, volume-based where if someone's not open, they need to go down the street to go to another area that's just not the way this business model works. And the beauty of this -- our clinics remaining open is they're very active in preventing downstream costs from happening and the maturing and the progression of specific diseases, and they can get to it much more proactive, as is our outreach program, it's so much more oriented to how do we continue to maintain our care in this time where a lot of providers are (inaudible).

Operator

And your next question comes from the line of Mr. Josh Raskin from Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

I wanted to follow-up on the line of question around provider groups. And not necessarily the ones that are capitated that continue to receive their monthly payments, but more around other groups that you're using in your networks. And curious what sort of stresses you're seeing? I know you talked about accelerating payments. Were those sort of prepayment of fee-for-service like cost typically? Or was that just the capitative groups? And maybe any comments on network disruption and how you're dealing with that?

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. A few things there. I think, first, we did accelerate all payments for -- I mean, accelerated payments for all providers. So first, we didn't differentiate between one provider or not and how we accelerated the payments. And the same thing on the removal of any kind of authorization and any administrative matters that were getting in the way of getting access to care. The second thing is, and we did accelerate as part of our payments, the area of bonus payments for performance and risk providers. So they naturally, since they are one of the only ones that would be getting those bonus payments would benefit from that. But the primary acceleration came from just accelerating our payment faster than what we normally do.

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

From a sort of a network stability, we haven't fully been able to assess that because we're waiting for the system to open back up. We obviously have fulfilled a lot of the care gaps temporarily through telehealth and other means to ensure that we're continuing to maintain the access to health in the area. I think over the coming months and maybe even possibly longer, we'll see what that disruption is and have a better impact on that. But in general, I will tell you, we do see some providers and some significant financial challenges, and we assisted them in many different ways. But I suspect that will have longer-term impact both in how people operate the business. Hopefully, we'll see more come to value-based payment models. And in addition maybe some of the older physicians deciding to retire.

Operator

And your next question comes from the line of Mr. Charles Rhyee from Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Maybe staying on telehealth for a second here. A lot of the regulations were relaxed in trying to deal with this -- with obviously the pandemic, and you mentioned how you're kind of accelerating your efforts here. If I'm not mistaken, a lot of these rules, obviously, were not necessarily intended, right? Opening it up in Medicare fee-for-service. Obviously, Medicare Advantage was planned. But other areas like in home health, allowing first time visits in home health to be done virtually, et cetera. When this kind of passes, what part of these kind of regulations do you think will stay? And are there ones that you think the federal government will kind of reinforce again, I know like some of the HIPAA rules on licensing and things like that have been sort of -- are being non-enforced right now. Maybe give a sense on how you think things will shape up in this area once we get past the worst of it?

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

Yes. I can't give specifics on every one of them. But I would say, in general, what we're hoping and we're working with the governmental partners here. I think a number of these will stay and then be waived permanently because I do believe what has come out of this circumstance, is a renewed focus on how do we expand the access points for members, specifically, members that are -- don't have transportation or limited mobility. And I do believe that, that will structurally change the way care is provided in the long run. In addition, what we've seen is as a result of the circumstances, the physicians embracing telehealth has actually increased greatly for many that were not interested in at the outset. And I think both of those constraints, waivers that have been allowed, allowed us to be much more flexible in our approach, and in addition, physicians being more comfortable to using it, I think, will continue to go forward, and I think we'll see structural changes.

I do think some of the protection areas, as you identified, the HIPAA area, I think some areas to ensure per check between a visit like in home health that requires a, you need to have a home visit. I think there will be a combination of those things that will continue and probably be a little more restrictive. But I think in general, we're going to see more support for telehealth on both the regulation side and on the physician adoptability.

Operator

And your next question comes from the line of Mr. A.J. Rice from Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Maybe just a specific question then a broader one. On the commercial business, can you give us any updated numbers as to how many people are -- what percentage are taking advantage of grace periods in terms of paying premiums? And has that increased in any meaningful way? And then I appreciate the comments on the virtual care and telemedicine. Is there any other areas where you would say in these early days as you think about how this crisis is impacting the health care system that you would be worth highlighting as potential changes, long term, that could persist after the crisis?

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

I'll take the first one...

Brian Andrew Kane - *Humana Inc. - CFO*

Maybe I'll take the first one.

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

Okay. Yes. Brian, go ahead.

Brian Andrew Kane - *Humana Inc. - CFO*

So on the commercial side, with respect to grace period, we've seen some -- I'd rather not give the specifics. We are still seeing payments for effectively April effectives, and we're getting into May effectives. We have worked with certain of our customers to provide that grace period, but I'd rather not give a percentage. Obviously, it's an increase from what we typically see, but I think it's still early, candidly, in terms of where that might shake out, particularly as this wears on, you could see more of that. I'd say it's been reasonably modest, but nonetheless, we've been working with a number of our customers in that regard.

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

Yes. I would say a few things there. I would say, first, as you mentioned, telehealth. I also would say home is continuing to be an area where we're seeing a lot more interest in the ability to provide more acute services. Those services are primary care services that would normally be in an office setting, even getting to having a hospital in the home kind area, even a SNF in the home. And what we're seeing in our business and there's (inaudible) ability to offer alternative setting to an institution. We see that as a great (inaudible) to the telehealth side. For our organization, I would also say, a thing that we really saw in this crisis is the ability to be much more personalized and direct in the cohorts that we were focused on to be able to provide a care model that is much more harder than a specific (inaudible) look much more at the condition, the needs of the individual and then become focused on how do we deliver that in a way that it's got a number of different services to it. So both -- that's the analytic area. But in addition, the care plan and the other area. And then in addition, the providers that provide that. So we saw a much deeper opportunity to be more helpful with the members in a much more proactive fashion.

And then the last thing I would really emphasize is value-based payment model. What we have seen and heard back from providers and from both sides, the fee-for-service, traditional model and then also the members -- I mean, the physicians that have relationships with us that are risk-based, that on the risk-based side, they say, I am so thankful I was in a risk-based model where, a, I was getting a consistent cash flow being paid as a percentage of premiums. In addition, I was able to be much more proactive and going and reaching out to my patients. I have both had the motivation and the reason to do it that allowed me to not only have the cash flow, but in addition, the proactive nature of it also benefits me longer term. So we saw this awareness of what value-based relationships are and the ability to leverage that. So in summary, I would say, telehealth, home, analytics and value-based payments.

Operator

And your next question comes from the line of Mr. Scott Fidel from Stephens Inc.

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

I wanted to just ask a question just -- I know it's hard to ask sort of non-COVID questions, but just interested in your assessment on the final 2021 rates. And then in just particular, how comfortable you are at this point in terms of how CMS addressed ESRD for next year? I know that prior to the preliminary rates, you had expressed quite a bit of concern, and then you sounded a bit more comfortable after the prelims came out. So just interested in where your sentiments are now post the final rates?

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

Brian, do you want to take that?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. So with respect to broad rates, they're -- obviously, they're less than the last 2 years, but still, from a historical perspective, largely in line. It does vary year-over-year. The rates are below our trend. And so that forces us to ensure that we're being effective at managing the health of our members and ensuring that their medical costs stay in line with the rates that we get. And so that's always a challenge. And so obviously, we'd like to see higher rates because our unmanaged trends are meaningfully higher than the rates that were provided. But nonetheless, we understand year-to-year, it's going to vary.

With respect to ESRD, there was a modest increase from the preliminary to the final, more meaningful potentially if these are finalized, and we're hopeful that they will be around the network adequacy rules and what would qualify for dialysis and allowing us to use more innovative sites of care for dialysis. And so we've been a strong proponent of those. It's clearly something that we're very focused on for our 2021 pricing. I think the teams have worked very hard to do everything they can to ensure that we can provide a really good care for our members in a cost-efficient way. And so we're working through that, but it's something that we're eagerly anticipating the final network adequacy rules being finalized.

Operator

And your next question comes from the line of Ms. Sarah James from Piper Sandler.

Sarah Elizabeth James - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

I'm wondering if you guys can help us think about the sizing of the impact of extended lengths of stay at acute due to the CDC guidelines on requiring 2 negative tests before patients can be admitted into a SNF or an IRF. So are you seeing that pressure, your hospital costs or extend length of stay?

Brian Andrew Kane - *Humana Inc. - CFO*

Sarah, I'll have to get back to you that. I don't have the answer to that. I have not heard that directly, but we can come back to you and get you the answer.

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

As Brian articulated in his opening comments, for us, we have seen not a significant number of COVID cases. And so the impact would be small in any event.

Sarah Elizabeth James - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Got it. And then on continuing on the telehealth theme. I know you guys have this innovative product on hand, partnership with doctor on demand that is sort of a telemedicine first type of product. How are you thinking about expanding that or bringing it to the Medicare book now that more seniors have been forced into adopting and installing and understanding telemedicine? So how much of a priority is that when you think about your 2021 product profile?

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

I would say telehealth over the last few years has been an important attribute within our benefit plan even before this. So we are always very oriented in incorporating telehealth in there. With that being said, I think it's less about getting it into the, I would say, into the benefit, more getting adoptability with our members. What we do find is that the adoptability of pure telehealth with a video is much less than what you'd see in the commercial space as a result of both access to technology and just the comfort of using technology. And so one of the areas that we're working really hard on is to continue to find ways that we can increase the adoption of pure telehealth as opposed to just telephonic there. So I would say for us, it's not as much about the benefit itself as much as how can we get people to use it and utilize it. And we have a number of initiatives going on even before this, but now even more intensely after the crisis.

Operator

And your next question comes from the line of Mr. Ricky Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

So two questions here. One, when we think about the benefit from telehealth, I mean, you talked about the fact that primary care physicians are now feeling more comfortable and incorporating it into the workflow. Part of it is a necessity, part of it is also the fact that now their reimbursement rates have been brought up and are at the same level. So as you think about kind of like benefit design for the future, do you expect that component of primary care rates for telehealth visit or some sort of a virtual visit to be in line with the current levels? It will encourage them to continue and use telehealth and advocate it to their patients. That's one. And then the second question is around testing. We've been hearing in the last few days a lot about drug retailers and labs and some plants working together on both the molecular and serology testing. So any color or any plans of what you're doing in that area?

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

The first question around the telehealth visit and is it going to be equal to in-office. We have to study that. I think there's a number of motivations outside of just payment of using telehealth. And I think the awareness of the power of telehealth, I think, has increased in the physician area. And their workflow, I think, is being adapted for it. And I don't know, does payment have to be at that level or not. I think we'll find the right motivators for that because everyone is keen on continuing to find a more distributed access point for health care, and we'll obviously keep you guys updated on that and don't have a full analysis on that. So that one we'll talk about it some time in the future.

And then on the serology testing, we are very supportive of it. We feel that the serology testing is an important part of being able to reopen the economy and be able to know if you're safe in going into both the health care system, but in the public side. I think we are very supportive of our lab partners, and in addition, other distribution (inaudible) that are able to deliver those tests to be -- to work with them. I would say one of the things that we continue to try to understand is how impactful they are because of their accuracy. And in addition, the percentage of the population that is truly immune to this. And I think we are eagerly watching a few studies out there, Providence out on the West Coast is doing a study with their providers and being able to understand how the test works there. I know there's a large study in the New York City area that is also going about doing that. But we will be very supportive if it's the right thing to do, but we are also observing the -- is it effective.

Operator

And your next question will come from the line of Mr. George Hill from Deutsche Bank.

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

I guess, my first question would be, could you talk about what you saw in the Q1 reselection season as it relates to Medicare Advantage individual market? I saw that you guys raised the outlook there. And I guess, was that related to more people opting into Humana plans during the reselection season? And then just my tack on would be, you alluded to trying to step up electronic selection in the MA open enrollment period process. Any comments around the plans that you expect to make there in the back half of the year would be helpful.

Brian Andrew Kane - *Humana Inc. - CFO*

Well, yes, as we mentioned, the open enrollment period, which is where you're referring to the January to March period, we did see higher sales and better terms or lower terminations than we had expected. I think the broker teams have done a great job in really conveying to potential members our value prop. And so they've really exceeded our expectations, and our members have stuck with us. And so that's been positive relative to our expectations. And that's why we were able to raise guidance today in terms of our Medicare growth. As we -- as COVID really started the social distancing and forced some of our brokers who go into people's homes, they weren't able to do that. We've had to encourage them and work with them to adopt digital channels, telephonic, digital, any way we can get to potential members, not in person. And so for some of our distribution channel, that's a different -- that's a very different distribution mechanism than they typically do. And so we've been working closely with them, and we'll continue to do so as the year progresses, particularly as if this continues, as I think Kevin asked earlier, if this continues into the fall, we're prepared to have a strong annual enrollment period for 2021. We also think that members are becoming more receptive to digital channels and telephonic sales. We have seen a significant increase and migration from in-person to more telephonic and digital channels. And so we think that is a good thing. And so we expect that to continue. And COVID could potentially accelerate that trend.

Operator

And your next question...

Amy K. Smith - *Humana Inc. - VP of IR*

Sorry, can I interrupt. Bruce, were you able to rejoin? I think Bruce accidentally got disconnected. I just want to make sure he got back on.

Operator

Mr. Broussard is not back on madam. Give me one quick second please?

Amy K. Smith - *Humana Inc. - VP of IR*

Okay.

Operator

Ms. Amy, Mr. Broussard is back online.

Amy K. Smith - *Humana Inc. - VP of IR*

Okay, great. The next question?

Operator

Absolutely. Your next question will come from the line of Mr. Gary Taylor from JP Morgan.

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

Most of my questions answered. Just wanted to maybe have you help us think about a little further out '21 and '22. I know, Brian, you'd said $18.50 would be the jumping-off point from 2020, which I think sort of alludes to the possibility you might over earn this year if utilization remains low. That raises the possibility under earn next year if cost trend is higher and then maybe everything is back to normal in 2022. Is that a rough framework makes sense? And how does the 1-year MA rebate play into that? Because we have a little bit of concern that if utilization remains really low this year, you can end up paying a rebate, but you don't get that back if cost trend is higher because the recovery rolls into 2021. So as we kind of think about this normalized earnings, does that make sense? Or any additional color you'd provide?

Brian Andrew Kane - *Humana Inc. - CFO*

Well, I guess I would say that 2020 is going to be a unique year for sure. And I think we said very clearly that we anticipate staying within our guidance range of the $18.25 to $18.75. And there are a number of variables that can impact that. And so we're going to manage that. And it's important to ensure our various constituents are taken care of. And so we plan to provide support there. I think as you roll forward to 2021, assuming things stabilize and get back to normal, I think it's possible to anchor off the $18.50, more of a -- think about 2020 as a more traditional year and then price off that. To the extent there are MER rebates or other challenges, I think we would effectively reset expectations back at the $18.50 baseline for 2020. So that's how we're thinking about our pricing. And that's why we said it's a jumping off point for 2021. So really only to the extent that there are premium issues with respect to COVID and utilization differences than what we would have expected for 2021, I think that's where it might impact the 2021 earnings. But as we've said, I think we're trying to be very prudent about how we think about the potential COVID impacts for 2021 and incorporate those into our pricing. So I think we're able to create a stable baseline here, notwithstanding the potential meaningful volatility we'll see in 2020.

Operator

And your next question will come from the line of Mr. Dave Windley from Jefferies.

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

I'm wondering, is it possible in the first maybe a couple of months before you started to see a little bit of COVID impact to tell whether the repositioning in your PDP business actually achieved what you wanted it to achieve? And then how that might influence further strategy for '21 bids? And do you think that you can return that to membership growth going forward?

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

I'll say a few things about PDP. I think as we indicated on our fourth quarter call that we we did see meaningful growth in the new plan we set up, the low-price plan, and that actually did quite well. And the terminations really came from the plan that we had the increase in the premiums, significant increase in the premiums there. And (inaudible) were, I would say that we had to raise our estimates as a result of that. As we've entered the first quarter, we've continued to see the same aspect of that, and we'd love to be in the lower premium plan to compete and as we enter the bid season, that is something we're constantly analyzing and seeing how we could be in the low-priced premium plan. I would say, in general, what we are seeing in PDP, and you saw an industry decrease in membership overall, is that we're starting to see that there's more movement into Medicare Advantage and away from just the PDP side. And we see that as a great positive. We see it industry-wide, but more importantly, as we look at our numbers, we've seen some great conversions coming from PDP to MAPD. And so I would say that as we think about Part D, we look at that as an opportunity to grow. It's very competitive and going into both this year, and we anticipate going into next year. But we see the real value as continuing to be able to move more and more than our members into the Medicare Advantage side.

Operator

And your next question will come from the line of Mr. Steve Willoughby from Cleveland.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Just wondering if you could provide a little bit more color on something Brian was mentioning. As it relates to the drop-off you're potentially going to see here in utilization, you made some comments about providing additional support for members, providers and I believe the community. What does that actually mean going forward? And how do you decide sort of who's getting what and how and when? Just providing a little bit more color on how you're kind of balancing that offset there.

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

Yes. We believe first, just put context around continuing to support broad constituency(inaudible) that we touch (inaudible) providers to our members to like communities that our community support. But that is just an area that we look at and say that's sort of the broad area. As we think about what is most in backlog we operate in our initial stages we found that the access to food was very, very important, social isolation and behavioral health interventions are important, ensuring people had access to the pharmacy and the continuation of the ability to receive care (inaudible) to care as we look at the same thing as being an important that because we believe that social distancing will continue. We believe that the mobility of our patients will continue to be challenged as a result of that and believe that all those things lead to (inaudible) depression at the same time the ability to fill that (inaudible) to that. And so we support those in the communities that for that, we also see some very large in the provider side and an ability that (inaudible) lost income. And we feel that there are a number of charitable organizations that can help us get the proper (inaudible) those individuals, and so we'll support the (inaudible). As Brian has articulated and I articulated, is it's important for us to also stage those investment, that those investments will be staged (inaudible) that as we see the evolution of the health care system come back and that we can reinvest any kind of depression and the utilization to the opportunity to put it in those (inaudible) is that are being supportive because it and some of the impact of the utilization being depressed. We'll continue to invest in areas around if we see benefits needing to be changed and encouraging to ensure that there are not financial barriers, that will be another area that we'll also focus on.

Amy K. Smith - *Humana Inc. - VP of IR*

Bruce, you were breaking up a little bit there. So I just want to make sure, Steve, that you don't have any follow-ups, anything you might have missed?

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

No, I don't think so. I mean I think he provided color.

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

Amy, I apologize for that. I'm on a landline, so I don't know why I'm breaking up.

Operator

And your next question will come from the line of with Whit Mayo from UBS.

Benjamin Whitman Mayo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare Facilities and Managed Care*

I really just have one question. With some of the MedSup or Medigap plans being phased out, is that having any impact on seniors buying decisions around those plans versus MA coverage? Do you think that the potential economic challenges that we'll face may influence any changes that favors MA over Medigap? Just kind of curious your perspective on that dynamic.

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

Brian, I want you to add since I am having phone problems.

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. I would say the phase out of the -- effectively the full coverage plan on MedSup, I would say it's more on the margin. There might be some marginal transfer to MA. There still are very rich plans on the MedSup side that allow people, if they want, MedSup, can get it. They're not full coverage, but very close with the deductible. And so I think there's probably some benefit, but it's on the margin. I think the question is, as you go into economic uncertainty, I mean, I think depending on the member, but in many, many cases, MA saves members money. And so from that perspective, I think on the margin we could see incremental growth because of any economic downturn on the MA side. But again, I think it's on the margin that would be our assessment there.

Operator

Thank you. And presenters, there are no further questions on the queue. I will be turning the call back to Mr. Broussard for the closing remarks.

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

(inaudible) just saying, we really appreciate of our teammates of 45,000 associates had to (inaudible) the transition and really the outreach to our members. And I can't say enough to the government is both state and federal and local that have found ways to how the system making the response much more quicker, and in addition, the ability for us to have much more impact. And lastly, we always appreciate that (inaudible) our shareholders have given us over years, especially this last quarter. So with that, I hope everyone (inaudible) and stay safe. Thank you.

Operator

Thank you, everyone, for participating. This concludes today's conference. You may now disconnect. You have a lovely day, and stay safe.
