OVERVIEW:
Co. reported 1Q19 adjusted common diluted EPS of $4.48. Expects 2019 adjusted common diluted EPS to be $17.25-17.50.
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Brian Andrew Kane  Humana Inc. - CFO
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PRESENTATION
Operator

Good morning. My name is Mary, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Humana’s First Quarter Earnings Call. (Operator Instructions) Thank you.

I will now turn the call over to Amy Smith, Vice President of Investor Relations. Ma'am, you may begin.

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 2019 results and our updated financial outlook for 2019. Following these prepared remarks, we will open up the line 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 first quarter 2019 earnings press release as well as in our filings with the Securities and Exchange Commission. 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. Good morning, and thank you for joining us.

Today, we reported adjusted earnings per share of $4.48 for the first quarter of 2019 and raised our full year 2019 adjusted EPS guidance to $17.25 to $17.50 primarily reflecting improved results in our Retail segment. We continue to expect strong industry-leading individual Medicare Advantage membership growth and today are raising our full year 2019 guidance to a range of 415,000 to 440,000 members primarily reflecting improved rest-of-the-year growth projections as a result of solid performance in the open enrollment period that ended in March.

We take pride in the fact that we are leaders in Medicare Advantage, the fastest-growing sector of health care as a result of the significant value that Medicare Advantage plans provide to over 22 million seniors across the nation. Seniors who participate in Medicare Advantage receive a higher level of benefits relative to fee-for-service with a cap on the total amount of expenses the member will incur in a given year. At the same time, the Medicare Advantage program drives quality-improved health outcomes, lowering the cost of the health care system by effectively managing the members’ care, saving the system millions while helping seniors achieve their best health. For example, Humana MA members in value-based care settings are going to the ER 7% less, and hospital admissions are 5% lower than traditional fee-for-service Medicare. Our members are also getting 11% more colorectal cancer screenings and 10% more breast cancer screenings.

As you know, under Medicare Advantage, members are able to participate in a variety of programs and services, including in-home care coordination services; proactive care management programs such as remote monitoring medication adherence; and various supplemental benefits, including dental and vision coverage.

As a result of the payment model in MA, private organizations are motivated to treat seniors with more complex conditions and to go beyond traditional health care needs to address the whole health of an individual, including social determinants of health, financial support and transportation. Today, approximately 2/3 of our individual Medicare Advantage members have access to physicians incentivized to spend more time with each patient.

Take Betty as an example. Betty is a 78-year-old who lives with her disabled son and his primary caregiver. She likes to be independent and self-sufficient and wants to spend time with her grandchildren and great-grandchildren but is living with multiple chronic conditions, including congestive heart failure, diabetes and COPD. A stroke has left her with shoulder and sciatic pain. In addition, she struggles with depression and anxiety. We enrolled Betty in our Humana At Home telephonic chronic care management program and assigned a care manager to her to tackle Betty’s fear of doctors, develop an action plan for COPD, educate Betty regarding monitoring her blood sugar, blood pressure and weight as the importance of – and the importance of regular primary care specialist follow-ups, finding transportation and eyeglass resources, apply for financial grants for medication, sign Betty up for an in-home well-being assessment and enroll her in Humana’s mail order pharmacy. As a result of these actions, Betty experienced reduced financial strain, significantly lowered her A1C, lost 15 pounds, was able to get her blood pressure in the normal range and stopped smoking after 60 years. She was so happy with her improved health outcomes and service as she then recommended Humana to her sister, and now she is a member.
This is example of one of many that demonstrates the effectiveness of our integrated care delivery model. The results experienced by Betty and millions of seniors are why Humana and Medicare Advantage continue to grow.

As we look ahead to 2020, we are pleased that CMS enabled plans to offer greater flexibility and benefits so that we may continue to focus on areas to improve the health of seniors and people with disabilities we serve. The final rate notice for 2020 reflects an increase of approximately 2.5% for the industry. We expect the impact on Humana to be slightly lower given small differences in various components.

In addition, for 2020, CMS has added telemedicine as a covered benefit, and we continue to work with them on broadening the scope of these services; expanded the benefits that plan may offer to address social determinants of health; improved interoperability with Blue Button for MA, putting more data at members’ fingertips and in their control; and added a demonstration program that narrows our risk via the corridors in Part D and point-of-sale rebate regulations become effective after bids have been submitted. With the increased likelihood of this policy change, we believe the implementation of drug rebates at the point of sale in January 2020 creates certainty for both the industry and the members. In result, we stand ready to implement.

In the interim, we recognize that we may still be exposed to manufacturer actions in 2019. In addition, while we appreciate the changes from CMS, we would caution that all the recent changes add more complexity to the bid process, particularly as it relates to how the various components of the Part D bids interrelate, including premiums, formulary design and risk corridors.

As we navigate this transition, we believe that PBMs will continue to play an important role as an advocate for lower prices for members at the counter through both retailer and manufacturer negotiations. Perhaps more importantly, robust clinical programs related to medication therapy management, drug adherence and specialty drugs are essential to the PBMs’ ability to impact health outcomes. In this respect, our clinical and pharmacy capabilities position us well to lower health care costs and improve member health.

Despite these updates from CMS, the rate notice alone is not enough to overcome the formidable headwind from the return of the health insurance industry fee in 2020, estimated at $1.2 billion for us and is not tax deductible. While we will continue to work on designing new programs to improve health outcomes and lower costs as well as productivity initiatives, we do expect seniors nationwide to experience a decline in benefits and/or increase in premiums in 2020 as a result of the return of the HIF.

Now I’ll offer a few words on Medicare for All. Humana does not support any bill that would eliminate Medicare Advantage or make private insurance illegal, and here is why. Insurance and Medicare Advantage create an incentive to have a holistic view of a member, which is critical to the long-term success of the program and the ability to offer greater benefits and more security for individuals. MA is a program where the payment model motivates plans to engage with individuals with complex chronic conditions while driving quality improvement at clinical outcomes, resulting in lower costs and higher customer satisfaction.

The success of this program is evidenced by the continued increase in MA penetration. The percent of Medicare eligibles enrolled in Medicare Advantage has grown from 22% to 34% in the last decade, nearly doubling membership. Looking ahead, the increasing number of Medicare beneficiaries participating in programs like Medicare Advantage, coupled with the rapid advancement in technology, only serve to reinforce the strength of our integrated care platform. Our investments in this platform, a consumer-centric operating model and deeply integrated technology and analytics to enable personalized care in high-value services such as primary care, home, pharmacy, behavioral health and social determinants of health will significantly improve health outcomes.

The end goal of our strategy is to slow the rising cost of health care and enable expansion of coverage while positioning the organization for growth and sustainability to deliver long-term value for our shareholders. Over the past 30 years, our company’s commitment to improving the health of those we serve has meant working in private and public partnerships that transcend party lines. And we look forward to continuing that work.

With that, I’ll turn the call over to Brian.
Thank you, Bruce, and good morning, everyone. Today, we reported adjusted earnings per share of $4.48 for the first quarter. This exceeds our previous expectations primarily due to favorable utilization in our Medicare Advantage business. Consequently, we raised our full year 2019 adjusted EPS guidance to $17.25 to $17.50 from our previous guidance of $17 to $17.50. We expect second quarter adjusted EPS to be in the low 30s relative to the full year number on a percentage basis. I also would like to echo Bruce’s remarks that we are excited about our ability to guide to full year expected adjusted EPS growth of 19% to 20%, well in excess of our long-term growth target of 11% to 15%, while also delivering industry-leading individual Medicare Advantage membership growth. This reflects continued solid execution around our strategy of improving health outcomes and delivering significant value for our customers.

I will now turn to our segment results. In our Retail segment, all lines of business are performing well. And as I've already mentioned, we are experiencing lower utilization relative to our initial expectations, particularly in our Medicare Advantage business. In addition, we performed well during the open enrollment period, or OEP, for individual Medicare Advantage and are raising our membership guidance range to an increase of 415,000 to 440,000 from our previous range of 375,000 to 400,000.

As a result of our first quarter outperformance, we've increased our Retail segment revenue guidance by $200 million to a range of $55.1 billion to $55.7 billion and lowered our benefit ratio guidance for the segment by 20 basis points to a range of 86.4% to 87.4%. We also raised our Retail pretax guidance by $50 million at the midpoint.

Turning to our Group and Specialty segment. Our level-funded ASO product for small groups continues to gain traction in the marketplace as healthier groups migrate out of the community-rated segment. As a result of greater-than-expected ASO growth, we now expect net medical membership losses of 60,000 to 80,000, an improvement from our previous guidance of 80,000 to 100,000. This migration has resulted in a modest deterioration of our community-rated block, which is reflected in a small amount of negative prior period development this quarter. How this ultimately manifests in the 2018 risk adjustment settlement this June will be an important marker to understand how our book is developing relative to the broader market. As a result, we increased our segment benefit ratio guidance by approximately 30 basis points to a range of 81.3% to 81.8%. We continue to expect to fulfill year 2019 pretax earnings of approximately $300 million to $350 million for the Group and Specialty segment with core trend of 6% plus or minus 50 basis points.

Lastly, from a segment perspective, Healthcare Services is performing in line with expectations, and our adjusted EBITDA guidance remains unchanged for the full year at $1 billion to $1.05 billion. Our home business, including both Kindred at Home and Humana At Home, is outperforming our initial expectations primarily reflecting higher-than-anticipated volume and increased deal synergies relative to expectations. Similarly, results for our care delivery organization and Conviva are coming in slightly better than we previously anticipated driven by positive prior period development.

Our pharmacy business, however, is slightly behind relative to our initial expectations primarily due to overall lower network volume in the PBM as a result of better-than-expected utilization, which is a positive for the health plan and Humana overall. Accordingly, we are lowering our full year largely intersegment revenue guidance to approximately $25.1 billion to $25.6 billion versus previous guidance of $25.95 billion to $26.25 billion.

Briefly touching on operating costs. We increased our full year operating cost ratio guidance by 10 basis points to a range of 10.7% to 11.5%. This primarily reflects accelerated investments in our integrated care delivery model to position us for 2020 and beyond, contemplating the return of health insurance fee in 2020, which I will discuss in a moment.

From a capital deployment perspective, in the first quarter, we completed our $750 million accelerated share repurchase program that began in the fourth quarter of 2018. Our full year guidance does not contemplate any additional share repurchase. With regard to sources of parent cash, we expect subsidiary dividends to the parent in 2019 to be approximately $1.6 billion to $1.8 billion, with payment expected both in the second and fourth quarters of this year, though disproportionately weighted to the second quarter, similarly to 2018 subsidiary dividends that were paid to the parent. Additionally, the parent company receives the cash from the nonregulated earnings of our Healthcare Service segment immediately. We will continue to evaluate strategic opportunities to deploy our capital.
Lastly, as we look to 2020, I would again echo Bruce's remarks in reference to the return of the health insurance fee, which, as we had previously stated, is approximately $1.2 billion with a $2.15 EPS impact from the nondeductibility of the fee for tax purposes. While we continue to develop and execute trend benders and meaningful productivity initiatives, these actions, together with the final rate notice of just over 2%, are not sufficient to overcome the HIF and medical cost trend without impacting member benefits and earnings growth. In light of this, and keeping in mind that 2020 bids have not yet been submitted, while we do expect to grow earnings per share reasonably in 2020 off of our original $17.25 baseline midpoint, it will be below our long-term target of 11% to 15%. I would remind you, however, that we have delivered adjusted EPS growth in excess of our long-term growth rate for each of the last 4 years. This includes, as I've already mentioned, our expectation of adjusted EPS growth rate of 19% to 20% for 2019 together with individual MA membership growth of approximately 14%.

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

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question is from the line of Matt Borsch from BMO Capital Markets.

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

Could you maybe step back and just give us your sense of where we are with Group Medicare Advantage? I know it’s early in the year, and I’m not expecting you to give a guidance point for 2020. But how is that market developing now? How much is impacted by the HIF? And do you see adoption accelerating there?

**Brian Andrew Kane - Humana Inc. - CFO**

It’s Brian. Our Group MA business continues to perform quite well. We’re seeing similar trends in our Group MA business that we see in our individual MA business. I would say the pipeline for 2020 looks good. There are a fewer large jumbo accounts out there, but there are some sizable accounts that we're pursuing as well as our standard growth of small and midsized accounts. So from that perspective, I think we feel very good. The HIF and frankly rebates at point of sale do impact Group MA disproportionately relative to, say, individual MA or PDP because the risk corridor proposal that -- or ability that CMS has given us in terms of risk corridor protection does not apply to Group MA. And so we will see, if that goes into effect, likely significant premium increases on the Group MA side. That being said, I think people generally view the Group MA product as compelling. We see growth continuing there, and we continue to play there pretty aggressively.

**Operator**

Our next question is from the line of Charles Rhyee from Cowen.

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

Maybe sticking with MA. Given sort of the benefit investment this year and obviously the continued upwardly revised MA growth this year and now that we also have the final rate, how should we think about the improvements as we think about 2020 MA margins and maybe sort of in line with sort of getting overall target margins here? And then secondly, maybe touch on the announcement you made the other day with a little bit more details around the partnership with Doctor On Demand. And how do you see that fitting in? Is that sort of -- so we just think of it really as another physician practice into your network that happens to be virtual? Or how do you see it being posed differently?
Sure. On the margin question, we continue to make good progress towards our target margins. As we said, coming into 2019, we expected a reasonable margin improvement off our 2018 baseline. Obviously, today, as we raise our Retail pretax number, those margins continue to improve. As we go into 2020, I would just say that in order to deliver EPS growth as we’ve said we would for 2020, you’re going to have to increase your pretax profits obviously in excess of your after-tax just given the significant tax headwind that we have. And so that will require continued improvement in the margin profile of the business from a pretax perspective. But overall, I think that the business is tracking well. We have very important principle of balancing that margin improvement with top line membership growth. We believe we struck that balance appropriately in 2019. We’ll continue to do that, we believe, in 2020.

As it relates to Doctor on Demand, that’s really for our commercial business. And we’re excited about that partnership. I think we’re in a position on the commercial side to disrupt the existing commercial infrastructure and commercial plans that are in place. And I think this is just one example of our ability to do that and give our members additional choices as they look to choose their various health plans. And I would add that these doctors on demand is just in Florida and Texas at this point, but we’re excited about the partnership and we’ll see how it goes.

Operator

Our next question is from the line of Ana Gupte from SVB Leerink.

Anagha A. Gupte - SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst

My question is on the membership growth for Medicare that you raised your guidance based on first quarter. Can you talk about what percentage of your growth is coming from dual special needs plans and what the outlook is for the rest of the year? And then if you can just comment on your Medicaid strategy as it’s dovetailed with the dual special needs in light of the Centene-WellCare announcement and the upcoming cost-plus contract award?

Brian Andrew Kane - Humana Inc. - CFO

Sure. I’ll take the D-SNP question and turn it to Bruce to talk about Medicaid. On the D-SNP side, as we pointed out in our release, we did see a nice increase in our D-SNP annual enrollment period growth of, call it, 30,000 members versus only 1,400 last year, which obviously is a very significant increase. I would say we are bullish about our ability to continue that growth in the rest of year period where that’s an opportunity, unlike the more traditional Medicare, with a few exceptions, you can’t enroll members. So we are excited about our ability to do that. We expect that growth to continue. But if you look at our overall MA growth of 415,000 to 440,000, a majority of that is in the traditional Medicare space. But again, we are seeing nice traction in our D-SNP product.

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

And Ana, this is Bruce. A few things related to our Medicaid strategy. First, we are continuing to orient to how do we expand our D-SNP presence both in adding additional needs plans and what the outlook is for the rest of the year? Then if you can just comment on your Medicaid strategy as it’s dovetailed with the dual special needs in light of the Centene-WellCare announcement and the upcoming cost-plus contract award? The second area is in the Medicaid and the contractual area with states. And as you all know, in Florida, we had a wonderful year -- growth this year. We grew 37% on a membership basis as a result of our contract win last year. That contract is actually going quite well, and our quality measurements and so on are aligned with what we -- our expectations are and what the state expectations are. We are participating in RFPs. Louisiana and Texas are the 2 RFPs that we’re participating in from an organic point of view. And we’re very bullish about those RFPs as we are engaged at both the community level and the state level in that particular population.
You mentioned and asked about the WellCare-Centene transaction. We continue to be confident in our organic direction. We are always looking at the market and the M&A side like no different than we have in the past. So we continue to believe what our strategy is, is very, very exciting and I think we’ll be very competitive in the future.

Operator

Our next question is from the line of Ralph Giacobbe from Citigroup.

Ralph Giacobbe - Citigroup Inc, Research Division - Director

I want to go -- the 3.5% hospital inpatient rate proposal for 2020 came a little bit higher than what we had expected and higher than recent history. And I think the spread of that rate in your 2.2% bump is a little bit wider than what we’ve seen. Could you just flesh out and talk about the dynamics there and whether those payment rates directly tie -- or whether your payment rates directly tie to IPs and how you offset that difference and/or whether we should think about that as a headwind for 2020?

Brian Andrew Kane - Humana Inc. - CFO

I won’t comment a lot on that other than to say clearly it’s input into our overall cost structure. There are -- many of our contracts are tied to Medicare, and so there will be an impact there. That is something that we would have to price for. But what we’ve seen on the inpatient side is really a significant reduction year-over-year in admissions per thousand. And obviously, we’re working very hard to ensure that continues. And so year-over-year, it’s becoming less of a driver of our results but obviously still critical and a big component. But we are working through to mitigate any unit cost increases through continued utilization, transfers out of hospital and some more of an outpatient setting.

Operator

Next question is from the line of Gary Taylor from JPMorgan.


This wasn’t really the question I was going to ask but I might as well because I know it’s going to come up. When we talked about 2020, Brian, you had said a reasonable growth rate was below the 11% to 15% long-term guidance. I think the rationale for that is reasonable and understandable. So The Street currently is at 10% to 12% above your latest 2019 guidance. So can you help us triangulate a little more? You -- is a reasonable rate below where The Street is today? Oftentimes, you’ve commented if you think the forward year is in a reasonable place or not, so just trying to get a little more precise on that.

Brian Andrew Kane - Humana Inc. - CFO

Obviously, there’s a wide range of estimates out on The Street. We look at our growth relative to our $17.25 baseline because as we go towards the fees for 2020, we typically price for what we call emerging experience. As we see emerging experience good or bad, we will put that into the pricing of our products. The good news is we’re seeing good emerging experience this year, as I’ve mentioned. And what I -- what we just said was we would grow reasonably off that $17.25 baseline. We’re not prepared to give any more guidance than that. And so we’re giving technically more color than we typically give. There’s been a lot of questions around it, so we’re trying to help investors and analysts with that. But beyond that, we don’t want to comment further. Still very early.
Operator

Our next question is from the line of Steve Tanal from Goldman Sachs.

Stephen Vartan Tanal - Goldman Sachs Group Inc., Research Division - Equity Analyst

Just one follow-up on that. I mean, is it fair to sort of think about 2018 as maybe analogous to '20 just with the HIF returning? In '18, if we think about sort of 24% adjusted EPS growth, it seemed like tax reform net of investments is sort of 17-ish percent. And so maybe reasonable then to sort of think about a 7% sort of net underlying growth in the year when the HIF came back. And the other sort of variables here would be obviously a much worse MA rate update that year than in '20 and slower growth in the prior year '17 than you'll have this year, so the margin ramp maybe better in '20. Is that a fair enough thought process? Or is there anything else you'd say to sort of sway that in one way or another?

Brian Andrew Kane - Humana Inc. - CFO

Look, I think that is one way to look at it. I do think '18 is analogous to '20 other than obviously, as you said, the tax reform. HIF, as we continue to grow because we're growing MA so rapidly, becomes a bigger portion and therefore is a bigger tax deductibility impact there or nondeductibility. But broadly, as you thought about, it's not unreasonable -- but again, I think we're still working through exactly how we're going to price our products, achieving that balance between sort of top line and bottom line. And so again, beyond what we've said, which is a reasonable growth rate off the $17.25, is all what we're prepared to say today.

Operator

Our next question is from the line of Justin Lake from Wolfe Research.

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

First off, Brian, thank you for that 2020 commentary. I know that it isn’t typical, Amy must have -- really had to twist your arm to get you to say that. The question I had was on Part D. With the HHS regs basically giving you some increased protection in terms of a corridor on margins, everybody is searching for Part D membership with synergies, whether it’s through a retail business or through a PBM, do you think there’s the potential that you’ll see more kind of aggressive pricing for 2020 with the thought process that you can grab some membership for a couple of years? Or do you think people can stay the course and there’s not a significant increase in membership volatility via pricing?

Brian Andrew Kane - Humana Inc. - CFO

Look, I would say that there are a lot of variables that -- as Bruce indicated in his opening remarks, there are a lot of variables in the pricing this year that are -- create additional uncertainty versus prior years. And I think people can handle that in different ways. We are obviously thinking about our strategy and whether there are opportunities that we can pursue. It’s really hard to say how people will price various things. We obviously are very supportive of CMS’ notion of narrowing the risk corridors and giving more protection that provides really support from a premium perspective and also allows plans to bid with more certainty. So that’s obviously helpful. But this is one of those years where there’s a lot of game theory that I think everyone is going through and it’s not entirely clear what will come out of it. But I will tell you that we have internally here a lot of smart people working on this and thinking about different scenarios. And I would just say we’ll have more things to talk about after bids are submitted.

Operator

Next question is from the line of Kevin Fischbeck from Bank of America.
Kevin Mark Fischbeck - BofA Merrill Lynch, Research Division - MD in Equity Research

Just wanted to follow up on that point there. I guess it wasn’t clear to me exactly what your comments meant when you kind of said that it felt like point-of-sale rebates are going to be increasingly likely for 2020 and that you’re prepared to move in that direction. Does that mean that if the rule comes out before the bids, you’re moving in that direction? But if not, you’re going to bid under current law? Or that you’re looking to actually move to points of rebates kind of regardless of whether the reg comes out in time because it’s just a matter of time before the industry moves in that direction?

Brian Andrew Kane - Humana Inc. - CFO

So we’re going to bid under current law because that’s the instructions we’ve been given. But our expectation -- and we are supportive of rebates going point of sale for 2020 and we’ll be ready for that. The CMS risk corridor program has provided a requisite protection if rebates go point of sale for 2020. So industry participants can feel more confident about bidding sort of under the old rules, but if the new rules happen, you’re protected. And I think that’s why we’re supportive of the CMS program. And as Bruce said, we want to get rid of the uncertainty. Let’s just go there and get it done. We’re ready to implement for 2020. And we think bringing that certainty to the industry, at least from our perspective, will be a positive. So that’s what we were indicating.

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

Okay. And then just to maybe clarify that, the corridors, to your point earlier, apply to certain parts of the MA and Part D businesses but not Group MA and there’s certain other components that go in the bid that aren’t included. What percent of kind of the pricing is kind of insulated by that reg versus what you have to do to maintain margins and think about your book in total?

Brian Andrew Kane - Humana Inc. - CFO

Well, that’s a really complicated question. I don’t mean to dodge it, but it depends on the various components of your existing book that you have in terms of how all the hydraulics work. And again, I -- we distinguish individual MA from PDP, from Group MA. All the dynamics are different there. And it really depends on your membership mix, the nature of the drug-utilizing population that you have. And then as I said, in the Group MA side, just the -- corridors just don’t apply. So it really varies. And again, we are doing all sorts of simulations in working through how various things may work out, and we’ll be prepared to bid and feel good about our bids when we submit in June.

Operator

Next question is from the line of Josh Raskin from Nephron Research.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Question about the PDP but more about sort of building of that business. In the past, I mean, you’ve talked about some of the weakness this year and maybe relative to competitors around sort of a difference in retail strategy and assumptions, et cetera. I know you guys have talked about retail strategies clearly in a couple of stores in Kansas City, et cetera, but maybe just any progress. I know we’re only a month away now till bids are due. But are you thinking that your sort of retail network of pharmacies is going to look any different in 2020? And just updates there.

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

We probably can’t give you a lot of details as we’re in the bid process. But I would tell you that we are looking at different strategies to reunite the Part D membership growth. As Brian articulated a few questions, it is complicated because of the changes in the point of sale and the rebates and then all the hydraulics that comes from a risk corridor being inserted into that. I would just probably leave it at this, is that as the year progresses,
you'll -- we'll be able to give you more details. But I do -- we as an organization are committed to trying to find that strategy that will reignite the Part D growth.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst
All right. I won't put words in your mouth, but it sounds like stuff in the works, and we'll find out when we can. Is that fair?

Bruce Dale Broussard - Humana Inc. - President, CEO & Director
That's -- you're not going to put words in my mouth.

Operator
Next question is from Dave Windley from Jefferies.

David Anthony Styblo - Jefferies LLC, Research Division - Equity Analyst
It's Dave Styblo on for David Windley. Just wanted to come back to the MA growth, and I'm sure there's been a nice benefit from the improved broker relationships. You guys have obviously talked about the investments there. I'm just curious how you think you are positioned versus your peers. It seems like you may have leapfrogged them in some regards. Can you talk about what is different to the extent that you can and how you feel about sustaining that advantage in 2020 and beyond as that contributes to outsized MA growth?

Bruce Dale Broussard - Humana Inc. - President, CEO & Director
Well, I'll start, and then Brian can add. I would say that it is market-by-market dependent. So we -- I think in some markets, we are leading, but in most markets, we're in the -- competing with everybody else in a reasonable comparison between our premiums in medicine. So I wouldn't say that we're just highly differentiated in the marketplace. I would tell you that one thing that we've seen this year is our retention is stronger. We've seen our broker sales be stronger. In the markets where we have traditionally been strong market share-wise and have really good relationships with providers, that's also been a great add for us. So I think in general, it's a lot of different things. It's not just the benefits and premiums. We see going into 2020 as being -- carrying that forward, our strength with our brokers and the strength with the providers. I can't really speak about the benefit design as we're in that process now. But we -- as Brian has said on many occasions, both in calls and in investor meetings, that we will be balanced in how we approach our benefits, both in looking at margin expansion and at the same time being competitive in the marketplace as we look at our competition.

Operator
Our next question is from the line of A.J. Rice from Crédit Suisse.

Albert J. William Rice - Crédit Suisse AG, Research Division - Research Analyst
I guess I'll just continue on with the HIF discussion. Two aspects to it. One, you commented you couldn't -- you wouldn't be able to deliver the 11% to 15% if it comes back next year in terms of long-term growth. But I'm assuming there's nothing on an ongoing basis that would move you away from the 11% to 15%. It's just a 1-year impact of that coming back, and then you'd assume that you can deliver that type of growth beyond that. And second, I guess I'd just ask, is there comments today or reflection of anything you're picking up in Washington in terms of a willingness to address the HIF? I mean I guess it's pretty obvious they're not going to get it done -- anything done before the bids are due. And your commentary and others have been that if it got done, it would probably be something like the debt ceiling, which now looks like it's going to be addressed later.
in the year. Is the assumption if they address it later in the year through the debt ceiling because the bids are already in, they’d probably looking at 2021 instead of 2020 in terms of addressing it? Or are you less optimistic that they’ll even address it at all?

Brian Andrew Kane - Humana Inc. - CFO

So I'll -- let me take the 11% to 15%. We are reaffirming, as we have, our 11% to 15%. That hasn't changed. I think it is important that investors understand the earnings growth that we delivered over the last number of years well in excess of 15% on a compound annual basis. And so obviously, the HIF is a material headwind that we're dealing with. And our goal is to strike a balance this year as it comes back to continue our advancement in the marketplace. As it relates to policy, I think the way you characterize it is right. We would -- we believe that there is bipartisan support to get rid of the HIF. It needs a vehicle to be attached to. And as you said, it certainly doesn't look like that will happen before the bids happen, and therefore, we're bidding as if it's coming back. We're obviously hopeful and are very focused on making sure people understand the impact that the HIF has on member benefits and the like. And so we continue to be advocates for appealing the HIF. And we're hopeful there this year as once legislation is taken up that, that will be part of it.

Operator

Our next question is from the line of Frank Morgan from RBC Capital Markets.

Frank George Morgan - RBC Capital Markets, LLC, Research Division - MD of Healthcare Services Equity Research

Your expectations around the moderation of utilization for the MA business, is that more a function of your existing book of business? Or is that in some way related to your expectations around these new members you've added during this special open enrollment period? Presumably, these are all switches from other plans. So is the ramp-up and profitability of that population perhaps better than what a traditional agent is? That's question number one. And then just number two, it seems like your commentary seems more encouraging around your health segment business. Just was wondering about maybe add some color and commentary around some of these investments you're having to make in the either Homecare Homebase as well as your preparation for PDGM?

Brian Andrew Kane - Humana Inc. - CFO

Sure. So on the utilization side, I would say it's really across the board. We are seeing utilization of our new members, which are both switchers as well as folks new to MA or agent. And both -- really both -- all components of the business are performing better than our expectations. Obviously, when you get the significant growth that we got, you ask yourself whether you in any way attracted an unbalanced risk pool, and that certainly doesn't appear to be the case. And so the new members are running quite well as our -- what we call our concurrent members.

As it relates to Healthcare Services, we are seeing really nice performance in our Kindred business, in our Humana At Home businesses. Homecare Homebase is being implemented. That's going well. We're committed to getting on Homecare Homebase. That's one of the investments, as you point out, that we made this year. We think that will create a better clinical model ultimately for us as we continue to integrate with Humana. And so that's going well. As we've said from the get-go, we're supportive of PDGM. We believe that, that better aligns our clinical focus and focus on health outcomes with the home care model. And when the payment model works, we encourage home health providers to run towards the more complicated and chronic members of patients. And so we're very supportive of that. Overall, we feel good about the investments we're making, some of which are in Healthcare Services, some of which are in the Retail and Group segments. But as you said, I think Healthcare Services is off to a good start. We are seeing a little bit of softness in pharmacy. That's just around the number of scripts we're filling because we said we're seeing lower utilization across the board on our MA book. But other than that, we feel very good about how broadly our businesses is developing here.

Operator

Next question is from Scott Fidel from Stephens.
Scott J. Fidel - Stephens Inc., Research Division - MD & Analyst

Just had a question on the PYD transfer reserve development and trying to tie that together. I guess sort of 2 parts. One, just on the Retail segment just given how much higher the PYD was year-over-year, Brian, when you sort of add that back into last year, how did the MA margins actually look relative to the update you had given us that they were significantly below the long-term 4.5% to 5% range? So that's the first part of the question. And then just secondly, just given the negative PYD on the Group and Specialty segment, and I know that you mentioned sort of looking at the risk adjuster settlement for some signals there, but just interested in how you guys are approaching either pricing or reserve assumptions just to get back on the right side here in terms of the negative development in the Group and Specialty side.

Brian Andrew Kane - Humana Inc. - CFO

Sure. On the MA side, we're not -- I'd rather not sort of put everything back into the incurred year. I think you can get a sense of that. We have PYD -- positive PYD every year, but the good news is our book did develop favorably. So you are correct that what we call the incurred results for 2018 was better than where we finished the year given the positive development. But -- and I really don't want to comment any further other than to say our book continues to develop favorably. Utilization assumptions that we made closing the books for '18 turned out to be better as we get more results as we go into '19. Remember, it takes a number of months before the actual claims mature and develop before you really know how you did. And so we're happy to see that '18 is developing favorably on the MA side. It is true that Group had -- again, it's a small amount and immaterial for the company, but Group commercial did have some negative PYD in the quarter. And again, I think what we're seeing is that bifurcation in the marketplace on the community-rated side. What for us will be interesting to understand is how our book is progressing well to the rest of the market. And is the whole market deteriorating faster than the market? I think the assumptions we have around our risk accrual are very reasonable, and we'll see again what happens in June when that occurs. Obviously, as we think about pricing our book both for MA and for Group, we incorporate prior period development and our views of -- as I mentioned earlier, of emerging experience because that sets the new baseline off of which we trend. And so we do put that into the pricing. And so we will incorporate all our best information that we have into pricing and make sure we're appropriately priced.

Operator

Next question is from the line of Sarah James from Piper Jaffray.

Sarah Elizabeth James - Piper Jaffray Companies, Research Division - Senior Research Analyst

Speaking on the home health topic. One of your peers recently quantified their company-specific PDGM impact, and it looks like one factor is where your home health patients are coming from, whether it's acute or not. Can you give us some insight onto your mix of home health, whether they're coming from acute or other sources and if you think that Humana's PDGM impact could be better or worse than the industry average?

Brian Andrew Kane - Humana Inc. - CFO

We don't go into that level of detail. I would tell you that Humana's mix will be more weighted to more acute settings, and that's where our focus is as we think about our discharges and certainly where the opportunities are versus some of the more community-based settings that some of the home health companies have. Again, we don't -- I can't give that level of detail. I would just say that the Kindred team is ready for PDGM. They're embracing PDGM. Obviously, there are some perhaps near-term financial impacts that frankly were anticipated in our deal model. We knew this -- some form of this was going to happen, so we anticipated the 2020 impacts. And we feel good about the assumptions we've made. But again, we're very focused on the incentives it provides, the home health providers can take complicated patients. And so we're excited about that.
Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Yes. Just to add to that. I know there's a lot of details in the reimbursement and especially if you're highly oriented fee-for-service payment model, which the Kindred management team, as Brian has said, is really managing that transition. More importantly, for Humana as a whole, we feel there's a wonderful opportunity to address admissions, ER visits and other preventable events through home health. And what we see in our initial tests within beta sites that we have going is that it's actually the case, is that we can reduce the utilization and institutions that are very reactive. That is one of the things that I think is coming from this reimbursement change is really encouraging nursing to be more oriented to areas that like COPD, diabetes and CHF, which today has been much more oriented to therapy. So within the home health sector as a whole, I think that's much of a Kindred issue. They are managing that transition, feel comfortable with them managing the transition. We have invested in it based on a reimbursement change that would have some impact on lowering the impact from a therapy. But in addition, we see a great opportunity in being able to assist us in what our core business, and that is really driving down the cost of care through preventing hospital admissions.

Operator

Our next question is from the line of Steven Valiquette from Barclays.

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

So just a question around your PBM operations. There has been some discussion around this moderation of generic drug deflation in the U.S. markets so far in 2019. A couple of questions around that, I guess. Just first, can you speak at a high level how it may be impacting your PBM business and also your mail order profitability in particular? But also curious to hear about your overall pharmacy cost trend for your overall book of business in 2019 just when balancing this moderating generic deflation with what we've seen also as moderating brand inflation this year versus 2018.

Brian Andrew Kane - Humana Inc. - CFO

Yes. On the second question, we -- again, we don't break out the trend by service category. But you are correct that we are seeing favorable pharmacy trends as a general matter. And particularly, on the specialty side where we can have very significant costs, the pipeline has not developed as we forecasted in that it's lighter than we expected. And so from a trend perspective, that's obviously a good thing. The question of generic deflation and lack of inflation is actually quite complicated. We think about it as holistically from both the PBM and then the impact on the plan. And depending on the contracts you have in place with various manufacturers, it can be a good thing, it can be a bad thing. I'd rather not comment further than that other than to say I think our PBM business more broadly, I think, is gear up. It's working to drive more volume into the mail setting. Historically, in the last really year or so, as we mentioned, we are not getting the mail order penetration that we want to get. We are very focused on driving that mail order penetration. We have really state-of-the-art facilities to be able to service that mail order opportunity. And so we think over time, it will be -- continue to be a source of growth for the enterprise.

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

That's one of the strengths of having the insurance component with the PBM side is that you are the beneficiary of an ability to effectively manage the utilization on the price of a drug, which shows up into the insurance product Part D and MA. And so as you think about the integration that we have together, our -- we have a different perspective than somebody that is a retailer, for example, that is having an impact, that the volume and the price is an important part. That shows up in the profitability of our insurance side. And so as -- we're a little bit of a different breed as a result of it being integrated. Most of it is really our members, and therefore, they sort of work in harmony.

Operator

Your next question is from the line of Michael Newshel from Evercore.
Michael Anthony Newshel - Evercore ISI Institutional Equities, Research Division - Associate

Can you give us an update on how you view your core cost trend in your MA membership versus the growth factors that CMS is using in the rate setting process? I know the fee-for-service trend has accelerated into the 4% range. In recent updates, it's actually closer to 5% in CMS projections in the outer years. So are there demographics rather and other factors influencing that? Where do you see the actual core trend in MA that you have to manage on a like-for-like basis?

Brian Andrew Kane - Humana Inc. - CFO

The way CMS formulates the rates in that fee-for-service trend factor is -- doesn't necessarily always fully correlate to the trend that we use in our pricing. And so it's sometimes hard to understand exactly how that trend has developed. We effectively take the rate we are given and then assess for ourselves what our core trend is. And that's really the key assumption that we're focused on. I would just say that we continue to see moderate trends. We see movement from the inpatient setting to the outpatient setting. We have seen moderating specialty trends. What we have seen, as we commented, higher outpatient and physician trends. And so we balance all those various factors. Obviously, what matters is what you price and the development relative to that pricing. And I think we've been very successful ascertaining what the various trend components are and then pricing accordingly.

Operator

There are no further questions. At this time, I turn the call back over to Bruce Broussard.

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

Well, thank you. And I would like to thank all our shareholders who are continuing to be strong supporters of the organization. And like every quarter, our results, and especially this quarter with the great results we have, could not be attained without the 55,000 people that are working every day to help us. So we really thank their dedication and efforts in allowing the organization to continue to be successful and -- with quarters like these. So thank you. And everyone, have a wonderful day.

Operator

This concludes today's conference call. Thank you, everyone, for joining. You may now disconnect.

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