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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from __________ to __________

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Class of Common Stock	Outstanding at March 31, 2021
$0.16 2/3 par value	129,014,427 shares

Humana Inc.
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Humana Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2021	December 31, 2020
	(in millions, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,877	$ 4,673
Investment securities	13,251	12,554
Receivables, less allowance for doubtful accounts of $71 in 2021 and $72 in 2020	2,196	1,138
Other current assets	6,202	5,276
Total current assets	25,526	23,641
Property and equipment, net	2,507	2,371
Long-term investment securities	1,120	1,212
Equity method investments	1,205	1,170
Goodwill	4,602	4,447
Other long-term assets	2,455	2,128
Total assets	$ 37,415	$ 34,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Benefits payable	$ 8,651	$ 8,143
Trade accounts payable and accrued expenses	4,777	4,013
Book overdraft	343	320
Unearned revenues	325	318
Short-term debt	1,204	600
Total current liabilities	15,300	13,394
Long-term debt	6,062	6,060
Other long-term liabilities	1,863	1,787
Total liabilities	23,225	21,241
Stockholders' equity:		
Preferred stock, $1 par; 10,000,000 shares authorized; none issued	—	—
Common stock, $0.16 2/3 par; 300,000,000 shares authorized; 198,648,742 shares issued at March 31, 2021 and December 31, 2020	33	33
Capital in excess of par value	2,712	2,705
Retained earnings	21,252	20,517
Accumulated other comprehensive income	108	391
Treasury stock, at cost, 69,634,315 shares at March 31, 2021 and 69,787,614 shares at December 31, 2020	(9,915)	(9,918)
Total stockholders' equity	14,190	13,728
Total liabilities and stockholders' equity	$ 37,415	$ 34,969

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended March 31,	
	2021	2020
	(in millions, except per share results)	
Revenues:		
Premiums	$ 20,124	$ 18,362
Services	466	424
Investment income	78	149
Total revenues	20,668	18,935
Operating expenses:		
Benefits	17,296	15,629
Operating costs	2,007	2,117
Depreciation and amortization	142	115
Total operating expenses	19,445	17,861
Income from operations	1,223	1,074
Interest expense	68	60
Other expense, net	115	297
Income before income taxes and equity in net earnings	1,040	717
Provision for income taxes	233	252
Equity in net earnings	21	8
Net income	$ 828	$ 473
Basic earnings per common share	$ 6.42	$ 3.58
Diluted earnings per common share	$ 6.39	$ 3.56

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2021	2020
	(in millions)	
Net income	$ 828	$ 473
Other comprehensive income:		
Change in gross unrealized investment gains/losses	(320)	(92)
Effect of income taxes	73	22
Total change in unrealized investment gains/losses, net of tax	(247)	(70)
Reclassification adjustment for net realized gains	(55)	(45)
Effect of income taxes	13	10
Total reclassification adjustment, net of tax	(42)	(35)
Other comprehensive loss, net of tax	(289)	(105)
Comprehensive income (loss) attributable to equity method investments	6	(3)
Comprehensive income	$ 545	$ 365

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock						
	Issued Shares	Amount	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	(dollars in millions, share amounts in thousands)						
Three months ended March 31, 2021							
Balances, December 31, 2020	198,649	$ 33	$ 2,705	$ 20,517	$ 391	$ (9,918)	$ 13,728
Net income				828			828
Other comprehensive loss					(283)		(283)
Common stock repurchases			—			(30)	(30)
Dividends and dividend equivalents				(93)			(93)
Stock-based compensation			39				39
Restricted stock unit vesting	—	—	(33)			33	—
Stock option exercises	—	—	1			—	1
Balances, March 31, 2021	198,649	$ 33	$ 2,712	$ 21,252	$ 108	$ (9,915)	$ 14,190
Three months ended March 31, 2020							
Balances, December 31, 2019	198,630	$ 33	$ 2,820	$ 17,483	$ 156	$ (8,455)	$ 12,037
Net income				473			473
Impact of adopting ASC 326 - Current expected credit loss standard (CECL)				(2)			(2)
Other comprehensive loss					(108)		(108)
Common stock repurchases			—			(17)	(17)
Dividends and dividend equivalents				(83)			(83)
Stock-based compensation			36				36
Restricted stock unit vesting	—	—	(6)			6	—
Stock option exercises	—	—	7			12	19
Balances, March 31, 2020	198,630	$ 33	$ 2,857	$ 17,871	$ 48	$ (8,454)	$ 12,355

See accompanying notes to condensed consolidated financial statements.

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

	For the three months ended March 31,	
	2021	2020
	(in millions)	
Cash flows from operating activities		
Net income	$ 828	$ 473
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gains on investment securities, net	(10)	(49)
Equity in net earnings	(21)	(8)
Stock-based compensation	39	36
Depreciation	153	124
Amortization	15	21
Benefit for deferred income taxes	—	(3)
Changes in operating assets and liabilities, net of effect of businesses acquired and dispositions:		
Receivables	(1,049)	(953)
Other assets	(1,095)	(1,470)
Benefits payable	466	1,086
Other liabilities	(151)	1,203
Unearned revenues	7	27
Other	(19)	(13)
Net cash (used in) provided by operating activities	(837)	474
Cash flows from investing activities		
Acquisitions, net of cash acquired	(123)	(709)
Purchases of property and equipment	(290)	(192)
Purchases of investment securities	(3,720)	(2,459)
Maturities of investment securities	692	735
Proceeds from sales of investment securities	1,953	1,415
Net cash used in investing activities	(1,488)	(1,210)
Cash flows from financing activities		
Receipts from contract deposits, net	1,015	574
Proceeds from issuance of senior notes, net	—	1,090
Proceeds from issuance of commercial paper, net	603	198
Proceeds from term loan	—	1,000
Change in book overdraft	23	(55)
Common stock repurchases	(30)	(17)
Dividends paid	(83)	(73)
Proceeds from stock option exercises and other, net	1	19
Net cash provided by financing activities	1,529	2,736
(Decrease) increase in cash and cash equivalents	(796)	2,000
Cash and cash equivalents at beginning of period	4,673	4,054
Cash and cash equivalents at end of period	$ 3,877	$ 6,054
Supplemental cash flow disclosures:		
Interest payments	$ 40	$ 40
Income tax payments, net	$ (1)	$ (6)

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT EVENTS

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

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

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

Kindred at Home Acquisition

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

COVID-19

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

Revenue Recognition

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

At March 31, 2021, accounts receivable related to services were $180 million. For the three months ended March 31, 2021, we had no material bad-debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the condensed consolidated balance sheet at March 31, 2021.

For the three months ended March 31, 2021, services revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price), was not material. Further, services revenue expected to be recognized in any future year related to remaining performance obligations was not material.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

3. ACQUISITIONS AND DIVESTITURES

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

During the first quarter of 2021, Conviva Medical Centers Management, LLC, or Conviva, a wholly owned subsidiary of Humana Inc., acquired substantially all of the assets of Health Promoters Limited Liability Company; Jupiter Medical Group, Inc.; Primary Care Associates, Inc.; and Richard M. Hays, M.D., P.A., all of which were under the beneficial ownership of Rajendra Bansal, M.D. The acquisition provides Conviva with 12 new centers and over 200 new Conviva team members, including more than 40 physicians, physician assistants and advanced practice registered nurses. The transaction also added 49 affiliate practices to Conviva's network through downstream participation arrangements.

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

4. INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
March 31, 2021				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 660	$ 2	$ (11)	$ 651
Mortgage-backed securities	3,809	84	(57)	3,836
Tax-exempt municipal securities	1,137	35	(2)	1,170
Mortgage-backed securities:				
Residential	93	—	(1)	92
Commercial	1,284	35	(12)	1,307
Asset-backed securities	1,423	10	(1)	1,432
Corporate debt securities	5,095	139	(81)	5,153
Total debt securities	$ 13,501	$ 305	$ (165)	13,641
Common stock				730
Total investment securities				$ 14,371
December 31, 2020				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 616	$ 1	$ (1)	$ 616
Mortgage-backed securities	3,115	140	(1)	3,254
Tax-exempt municipal securities	1,393	54	—	1,447
Mortgage-backed securities:				
Residential	17	—	—	17
Commercial	1,260	59	(1)	1,318
Asset-backed securities	1,364	10	(2)	1,372
Corporate debt securities	4,672	256	(1)	4,927
Total debt securities	$ 12,437	$ 520	$ (6)	12,951
Common stock				815
Total investment securities				$ 13,766

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

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
March 31, 2021						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 401	$ (11)	$ 4	$ —	$ 405	$ (11)
Mortgage-backed securities	2,588	(57)	11	—	2,599	(57)
Tax-exempt municipal securities	77	(2)	5	—	82	(2)
Mortgage-backed securities:						
Residential	86	(1)	—	—	86	(1)
Commercial	362	(12)	55	—	417	(12)
Asset-backed securities	112	(1)	193	—	305	(1)
Corporate debt securities	1,824	(80)	45	(1)	1,869	(81)
Total debt securities	$ 5,450	$ (164)	$ 313	$ (1)	$ 5,763	$ (165)
December 31, 2020						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 225	$ (1)	$ —	$ —	$ 225	$ (1)
Mortgage-backed securities	199	(1)	—	—	199	(1)
Tax-exempt municipal securities	16	—	19	—	35	—
Mortgage-backed securities:						
Residential	17	—	—	—	17	—
Commercial	193	(1)	43	—	236	(1)
Asset-backed securities	65	—	498	(2)	563	(2)
Corporate debt securities	342	(1)	16	—	358	(1)
Total debt securities	$ 1,057	$ (4)	$ 576	$ (2)	$ 1,633	$ (6)

Approximately 96% of our debt securities were investment-grade quality, with a weighted average credit rating of AA- by Standard & Poor's Rating Service, or S&P, at March 31, 2021. Most of the debt securities that were below investment-grade were rated BB, the higher end of the below investment-grade rating scale. Tax-exempt municipal securities were diversified among general obligation bonds of states and local municipalities in the United States as well as special revenue bonds issued by municipalities to finance specific public works projects such as utilities, water and sewer, transportation, or education. Our general obligation bonds are diversified across the

United States with no individual state exceeding 1% of our total debt securities. Our investment policy limits investments in a single issuer and requires diversification among various asset types.

Our unrealized losses from all debt securities were generated from approximately 415 positions out of a total of approximately 1,735 positions at March 31, 2021. All issuers of debt securities we own that were trading at an unrealized loss at March 31, 2021 remain current on all contractual payments. After taking into account these and other factors previously described, we believe these unrealized losses primarily were caused by an increase in market interest rates in the current markets since the time these debt securities were purchased. At March 31, 2021, we did not intend to sell any debt securities with an unrealized loss position in accumulated other comprehensive income, and it is not likely that we will be required to sell these debt securities before recovery of their amortized cost basis. Additionally, we did not record any material credit allowances for debt securities that were in an unrealized loss position for the three months ended March 31, 2021 and 2020.

The detail of gains (losses) related to investment securities and included within investment income was as follows for the three months ended March 31, 2021 and 2020:

	Three months ended March 31,	
	2021	2020
	(in millions)	
Gross gains on investment securities	$ 95	$ 56
Gross losses on investment securities	(85)	(7)
Net gains on investment securities	$ 10	$ 49

For the three months ended March 31, 2021, net gains on investment securities included $85 million of net recognized losses related to equity securities. We had no recognized gains or losses on equity securities for the three months ended March 31, 2020.

All purchases of and proceeds from investment securities for the three months ended March 31, 2021 and 2020 relate to debt securities.

The contractual maturities of debt securities available for sale at March 31, 2021, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$ 632	$ 635
Due after one year through five years	2,267	2,340
Due after five years through ten years	2,543	2,570
Due after ten years	1,450	1,429
Mortgage and asset-backed securities	6,609	6,667
Total debt securities	$ 13,501	$ 13,641

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5. FAIR VALUE

Financial Assets

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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(in millions)			
March 31, 2021				
Cash equivalents	$ 3,536	$ 3,536	$ —	$ —
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	651	—	651	—
Mortgage-backed securities	3,836	—	3,836	—
Tax-exempt municipal securities	1,170	—	1,170	—
Mortgage-backed securities:				
Residential	92	—	92	—
Commercial	1,307	—	1,307	—
Asset-backed securities	1,432	—	1,432	—
Corporate debt securities	5,153	—	5,153	—
Total debt securities	13,641	—	13,641	—
Common stock	730	730	—	—
Total invested assets	$ 17,907	$ 4,266	$ 13,641	$ —
December 31, 2020				
Cash equivalents	$ 4,548	$ 4,548	$ —	$ —
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	616	—	616	—
Mortgage-backed securities	3,254	—	3,254	—
Tax-exempt municipal securities	1,447	—	1,447	—
Mortgage-backed securities:				
Residential	17	—	17	—
Commercial	1,318	—	1,318	—
Asset-backed securities	1,372	—	1,372	—
Corporate debt securities	4,927	—	4,927	—
Total debt securities	12,951	—	12,951	—
Common stock	815	815	—	—
Total invested assets	$ 18,314	$ 5,363	$ 12,951	$ —

Financial Liabilities

Our debt is recorded at carrying value in our consolidated balance sheets. The carrying value of our senior notes debt outstanding, net of unamortized debt issuance costs, was $6.1 billion at March 31, 2021 and at December 31, 2020. The fair value of our senior notes debt was $6.9 billion at March 31, 2021 and $7.4 billion at December 31, 2020. The fair value of our senior notes debt is determined based on Level 2 inputs, including quoted market prices for the same or similar debt, or if no quoted market prices are available, on the current prices estimated to be available to us for debt with similar terms and remaining maturities. Due to the short-term nature, carrying value approximates fair value for our term note and commercial paper borrowings. The commercial paper borrowings were $1.2 billion and $0.6 billion as of March 31, 2021 and December 31, 2020, respectively.

Put and Call Options Measured at Fair Value

As part of our investment in KAH, we entered into a shareholders agreement with TPG and WCAS, the Sponsors, that provides for certain rights and obligations of each party. The shareholders agreement with the Sponsors includes a put option under which they have the right to require us to purchase their interest in the joint venture beginning on July 2, 2021 and ending on July 1, 2022. Likewise, we have a call option under which we have the right to require the Sponsors to sell their interest in the joint venture to Humana beginning on July 2, 2022 and ending on July 1, 2023. The put and call options, which are exercisable at a fixed EBITDA multiple and provide a minimum return on the Sponsor's investment if exercised, are measured at fair value each period using a Monte Carlo simulation.

The put and call options fair values were $63 million and $440 million, respectively, at March 31, 2021, and $45 million and $503 million, respectively, at December 31, 2020. The put option is included within other long-term liabilities and the call option is included within other long-term assets. The change in fair value of the put and call options is reflected as "Other (income) expense, net" in our condensed consolidated statements of income.

The significant unobservable inputs utilized in these Level 3 fair value measurements (and selected values) include the enterprise value of Kindred at Home, annualized volatility and secured credit rate. Enterprise value was derived from a discounted cash flow model, which utilized significant unobservable inputs for long-term net operating profit after tax margin, or NOPAT, to measure underlying cash flows, weighted average cost of capital and long term growth rate. The table below presents the assumptions used for each reporting period.

	March 31, 2021	December 31, 2020
Annualized volatility	33.2 %	29.9 %
Secured credit rate	0.6 %	0.4 %
NOPAT	12.0 %	12.0 %
Weighted average cost of capital	9.5 %	9.5 %
Long term growth rate	3.0 %	3.0 %

The calculation of NOPAT utilized net income plus after tax interest expense. We regularly evaluate each of the assumptions used in establishing these assets and liabilities. Significant changes in assumptions for weighted average cost of capital, long term growth rates, NOPAT, volatility, credit spreads, risk free rate, and underlying cash flow estimates, could result in significantly lower or higher fair value measurements. A change in one of these assumptions is not necessarily accompanied by a change in another assumption.

Other Assets and Liabilities Measured at Fair Value

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

6. MEDICARE PART D

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

	March 31, 2021		December 31, 2020	
	Risk Corridor Settlement	CMS Subsidies/ Discounts	Risk Corridor Settlement	CMS Subsidies/ Discounts
	(in millions)			
Other current assets	$ 230	$ 1,670	$ 216	$ 1,420
Trade accounts payable and accrued expenses	(37)	(1,523)	(39)	(253)
Net current asset	193	147	177	1,167
Other long-term assets	217	—	8	—
Other long-term liabilities	(153)	—	(90)	—
Net long-term asset (liability)	64	—	(82)	—
Total net asset	$ 257	$ 147	$ 95	$ 1,167

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for our reportable segments for the three months ended March 31, 2021 were as follows:

	Retail	Group and Specialty	Healthcare Services	Total
	(in millions)			
Balance at January 1, 2020	$ 1,535	$ 261	$ 2,651	$ 4,447
Acquisitions	112	—	43	155
Balance at March 31, 2021	$ 1,647	$ 261	$ 2,694	$ 4,602

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(Unaudited)

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

		March 31, 2021			December 31, 2020		
	Weighted Average Life	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
		($ in millions)					
Other intangible assets:							
Customer contracts/ relationships	9.4 years	$ 873	$ 584	$ 289	$ 849	$ 572	$ 277
Trade names and technology	6.9 years	124	90	34	122	89	33
Provider contracts	11.8 years	69	52	17	69	50	19
Noncompetes and other	7.1 years	32	29	3	29	29	—
Total other intangible assets	9.2 years	$ 1,098	$ 755	$ 343	$ 1,069	$ 740	$ 329

For the three months ended March 31, 2021 and 2020, amortization expense for other intangible assets was approximately $15 million and $21 million, respectively. The following table presents our estimate of amortization expense remaining for 2021 and each of the five next succeeding years:

	(in millions)
For the years ending December 31,	
2021	$ 46
2022	59
2023	45
2024	38
2025	38
2026	26

8. BENEFITS PAYABLE

On a consolidated basis, activity in benefits payable, was as follows for the three months ended March 31, 2021 and 2020:

	For the three months ended March 31,	
	2021	2020
	(in millions)	
Balances, beginning of period	$ 8,143	$ 6,004
Less: Reinsurance recoverables	—	(68)
Balances, beginning of period, net	8,143	5,936
Acquisitions	42	—
Incurred related to:		
Current year	17,851	15,913
Prior years	(555)	(284)
Total incurred	17,296	15,629
Paid related to:		
Current year	(10,842)	(10,205)
Prior years	(5,988)	(4,280)
Total paid	(16,830)	(14,485)
Reinsurance recoverable	—	10
Balances, end of period	$ 8,651	$ 7,090

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

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

Incurred and Paid Claims Development

The following discussion provides information about incurred and paid claims development for our Retail and Group and Specialty segments as of March 31, 2021 and 2020, net of reinsurance, and the total estimate of benefits payable for claims incurred but not reported, or IBNR, included within the net incurred claims amounts.

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(Unaudited)

Retail Segment

Activity in benefits payable for our Retail segment was as follows for the three months ended March 31, 2021 and 2020:

	For the three months ended March 31,	
	2021	2020
	(in millions)	
Balances, beginning of period	$ 7,428	$ 5,363
Less: Reinsurance recoverables	—	(68)
Balances, beginning of period, net	7,428	5,295
Acquisitions	42	—
Incurred related to:		
Current year	16,762	14,698
Prior years	(463)	(238)
Total incurred	16,299	14,460
Paid related to:		
Current year	(10,330)	(9,490)
Prior years	(5,401)	(3,778)
Total paid	(15,731)	(13,268)
Reinsurance recoverable	—	10
Balances, end of period	$ 8,038	$ 6,497

At March 31, 2021, benefits payable for our Retail segment included IBNR of approximately $5.0 billion, primarily associated with claims incurred in 2021.

Group and Specialty Segment

Activity in benefits payable for our Group and Specialty segment was as follows for the three months ended March 31, 2021 and 2020:

	For the three months ended March 31,	
	2021	2020
	(in millions)	
Balances, beginning of period	$ 715	$ 641
Incurred related to:		
Current year	1,237	1,357
Prior years	(92)	(46)
Total incurred	1,145	1,311
Paid related to:		
Current year	(660)	(857)
Prior years	(587)	(502)
Total paid	(1,247)	(1,359)
Balances, end of period	$ 613	$ 593

At March 31, 2021, benefits payable for our Group and Specialty segment included IBNR of approximately $532 million, primarily associated with claims incurred in 2021.

Reconciliation to Consolidated

The reconciliation of the net incurred and paid claims development tables to benefits payable in the consolidated statement of financial position is as follows:

Reconciliation of the Disclosure of Incurred and Paid Claims Development to Benefits Payable

	March 31, 2021
Net outstanding liabilities	(in millions)
Retail	$ 8,038
Group and Specialty	613
Total benefits payable	$ 8,651

9. EARNINGS PER COMMON SHARE COMPUTATION

Detail supporting the computation of basic and diluted earnings per common share was as follows for the three months ended March 31, 2021 and 2020:

	Three months ended March 31,	
	2021	2020
	(dollars in millions, except per common share results; number of shares in thousands)	
Net income available for common stockholders	$ 828	$ 473
Weighted average outstanding shares of common stock used to compute basic earnings per common share	128,931	132,135
Dilutive effect of:		
Employee stock options	52	92
Restricted stock	568	584
Shares used to compute diluted earnings per common share	129,551	132,811
Basic earnings per common share	$ 6.42	$ 3.58
Diluted earnings per common share	$ 6.39	$ 3.56
Number of antidilutive stock options and restricted stock excluded from computation	531	660

10. STOCKHOLDERS' EQUITY

Dividends

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

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

In February 2021, the Board declared a cash dividend of $0.70 per share payable on April 30, 2021 to stockholders of record on March 31, 2021.

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

Stock Repurchases

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

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

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

On December 22, 2020, we entered into separate accelerated stock repurchase agreements, ("the December 2020 ASR Agreements"), with Citibank, N.A., or Citi, and JPMorgan Chase Bank, or JPM, to repurchase $1.75 billion of our common stock as part of the $3 billion repurchase program authorized by the Board of Directors on July 30, 2019. On December 23, 2020, in accordance with the December 2020 ASR Agreements, we made a payment of $1.75 billion ($875 million to Citi and $875 million to JPM) and received an initial delivery of 3.8 million shares of our common stock (1.9 million shares each from Citi and JPM). We recorded the payments to Citi and JPM as a reduction to stockholders' equity, consisting of an $1.5 billion increase in treasury stock, which reflects the value of the initial 3.8 million shares received upon initial settlement, and a $262.5 million decrease in capital in excess of par value, which reflects the value of stock held back by Citi and JPM pending final settlement of the December 2020 ASR Agreements. The final number of shares that we may receive, or be required to remit, under the December 2020 ASR Agreements, will be determined based on the daily volume-weighted average share price of our common stock over the term of the December 2020 ASR Agreements, less a discount and subject to adjustments pursuant to the terms and conditions of the December 2020 ASR Agreements. We expect final settlement under the December 2020 Agreements to occur during the second quarter of 2021. The December 2020 Agreements contain provisions customary for agreements of this type, including provisions for adjustments to the transaction terms upon certain specified events, the circumstances generally under which final settlement of the agreement may be accelerated, extended, or terminated early by Citi, JPM or Humana as well as various acknowledgments and representations made by the parties to each other. At final settlement, under certain circumstances, we may be entitled to receive additional shares of our common stock from Citi and JPM or we may be required to make a payment. If we are obligated to make a payment, we may elect to satisfy such obligation in cash or shares of our common stock.

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

In connection with employee stock plans, we acquired 0.08 million common shares for $30 million and 0.04 million common shares for $17 million during the three months ended March 31, 2021 and 2020, respectively.

11. INCOME TAXES

The effective income tax rate was 22.0% and 34.8% for the three months ended March 31, 2021 and 2020, respectively. The decrease is primarily due to the termination of the non-deductible health insurance industry fee in 2021.

12. DEBT

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

	March 31, 2021	December 31, 2020
	(in millions)	
Short-term debt:		
Commercial paper	$ 1,204	$ 600
Total short-term debt	$ 1,204	$ 600
Long-term debt:		
Senior notes:		
$600 million, 3.15% due December 1, 2022	$ 599	$ 598
$400 million, 2.90% due December 15, 2022	399	398
$600 million, 3.85% due October 1, 2024	598	598
$600 million, 4.50% due April 1, 2025	595	595
$600 million, 3.95% due March 15, 2027	596	596
$500 million, 3.125% due August 15, 2029	495	495
$500 million, 4.875% due April 1, 2030	495	494
$250 million, 8.15% due June 15, 2038	262	262
$400 million, 4.625% due December 1, 2042	396	396
$750 million, 4.95% due October 1, 2044	739	739
$400 million, 4.80% due March 15, 2047	395	396
$500 million, 3.95% due August 15, 2049	493	493
Total long-term debt	$ 6,062	$ 6,060

Senior Notes

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

Credit Agreement

Our 5-year, $2.0 billion unsecured revolving credit agreement expires May 2022. Under the credit agreement, at our option, we can borrow on either a competitive advance basis or a revolving credit basis. The revolving credit portion bears interest at either LIBOR plus a spread or the base rate plus a spread. If drawn upon, the revolving credit would revert to using the alternative base rate once LIBOR is discontinued. The LIBOR spread, currently 110.0 basis points, varies depending on our credit ratings ranging from 91.0 to 150.0 basis points. We also pay an annual facility fee regardless of utilization. This facility fee, currently 15.0 basis points, may fluctuate between 9.0 and 25.0 basis points, depending upon our credit ratings. The competitive advance portion of any borrowings will bear interest at market rates prevailing at the time of borrowing on either a fixed rate or a floating rate based on LIBOR, at our option.

The terms of the credit agreement include standard provisions related to conditions of borrowing which could limit our ability to borrow additional funds. In addition, the credit agreement contains customary restrictive covenants and a financial covenant regarding maximum debt to capitalization of 50%, as well as customary events of default. We are in compliance with this financial covenant, with actual debt to capitalization of 34% as measured in accordance with the credit agreement as of March 31, 2021. Upon our agreement with one or more financial institutions, we may expand the aggregate commitments under the credit agreement to a maximum of $2.5 billion, through a $500 million incremental loan facility.

At March 31, 2021, we had no borrowings and no letters of credit outstanding under the credit agreement. Accordingly, as of March 31, 2021, we had $2.0 billion of remaining borrowing capacity (which excludes the uncommitted $500 million incremental loan facility under the credit agreement), none of which would be restricted by our financial covenant compliance requirement. We have other customary, arms-length relationships, including financial advisory and banking, with some parties to the credit agreement.

Commercial Paper

Under our commercial paper program we may issue short-term, unsecured commercial paper notes privately placed on a discount basis through certain broker dealers at any time not to exceed $2 billion. Amounts available under the program may be borrowed, repaid and re-borrowed from time to time. The net proceeds of issuances have been and are expected to be used for general corporate purposes. The maximum principal amount outstanding at any one time during the three months ended March 31, 2021 was $1.2 billion, with $1.2 billion outstanding at March 31, 2021 compared to $600 million outstanding at December 31, 2020. The outstanding commercial paper at March 31, 2021 had a weighted average annual interest rate of 0.31%.

Other Short-term Borrowings

We are a member, through one subsidiary, of the Federal Home Loan Bank of Cincinnati, or FHLB. As a member we have the ability to obtain short-term cash advances, subject to certain minimum collateral requirements. At March 31, 2021 we had no outstanding short-term FHLB borrowings.

13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Government Contracts

Our Medicare products, which accounted for approximately 84% of our total premiums and services revenue for the three months ended March 31, 2021, primarily consisted of products covered under the Medicare Advantage and Medicare Part D Prescription Drug Plan contracts with the federal government. These contracts are renewed generally for a calendar year term unless CMS notifies us of its decision not to renew by May 1 of the calendar year in which the contract would end, or we notify CMS of our decision not to renew by the first Monday in June of the calendar year in which the contract would end. All material contracts between Humana and CMS relating to our Medicare products have been renewed for 2021 and all of our product offerings have been approved.

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

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

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

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

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

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

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

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

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

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

Our state-based Medicaid business, which accounted for approximately 6% of our total premiums and services revenue for the three months ended March 31, 2021 primarily consisted of serving members enrolled in Medicaid, and in certain circumstances members who qualify for both Medicaid and Medicare, under contracts with various states.

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

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

Legal Proceedings and Certain Regulatory Matters

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

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

Other Lawsuits and Regulatory Matters

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

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

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

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

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

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

14. SEGMENT INFORMATION

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

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

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

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

We present our condensed consolidated results of operations from the perspective of the health plans. As a result, the cost of providing benefits to our members, whether provided via a third party provider or internally through a stand-alone subsidiary, is classified as benefits expense and excludes the portion of the cost for which the health plans do not bear responsibility, including member co-share amounts and government subsidies of $3.6 billion and $3.5 billion for the three months ended March 31, 2021 and 2020, respectively. In addition, depreciation and amortization expense associated with certain businesses in our Healthcare Services segment delivering benefits to our members, primarily associated with our provider services and pharmacy operations, are included with benefits expense. The amount of this expense was $26 million and $30 million for the three months ended March 31, 2021 and 2020, respectively.

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

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

Our segment results were as follows for the three months ended March 31, 2021 and 2020:

Three months ended March 31, 2021	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 14,815	$ —	$ —	$ —	$ 14,815
Group Medicare Advantage	1,755	—	—	—	1,755
Medicare stand-alone PDP	664	—	—	—	664
Total Medicare	17,234	—	—	—	17,234
Fully-insured	178	1,099	—	—	1,277
Specialty	—	434	—	—	434
Medicaid and other	1,179	—	—	—	1,179
Total premiums	18,591	1,533	—	—	20,124
Services revenue:					
Provider	—	—	115	—	115
ASO and other	5	190	—	—	195
Pharmacy	—	—	156	—	156
Total services revenue	5	190	271	—	466
Total external revenues	18,596	1,723	271	—	20,590
Intersegment revenues					
Services	—	10	4,774	(4,784)	—
Products	—	—	2,152	(2,152)	—
Total intersegment revenues	—	10	6,926	(6,936)	—
Investment income	52	4	1	21	78
Total revenues	18,648	1,737	7,198	(6,915)	20,668
Operating expenses:					
Benefits	16,299	1,145	—	(148)	17,296
Operating costs	1,451	397	6,910	(6,751)	2,007
Depreciation and amortization	104	21	40	(23)	142
Total operating expenses	17,854	1,563	6,950	(6,922)	19,445
Income from operations	794	174	248	7	1,223
Interest expense	—	—	—	68	68
Other expense, net	—	—	—	115	115
Income (loss) before income taxes and equity in net earnings	794	174	248	(176)	1,040
Equity in net earnings	—	—	21	—	21
Segment earnings (loss)	$ 794	$ 174	$ 269	$ (176)	$ 1,061

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

Three months ended March 31, 2020	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External Revenues					
Premiums:					
Individual Medicare Advantage	$ 12,794	$ —	$ —	$ —	$ 12,794
Group Medicare Advantage	2,011	—	—	—	2,011
Medicare stand-alone PDP	755	—	—	—	755
Total Medicare	15,560	—	—	—	15,560
Fully-insured	163	1,229	—	—	1,392
Specialty	—	429	—	—	429
Medicaid and other	981	—	—	—	981
Total premiums	16,704	1,658	—	—	18,362
Services revenue:					
Provider	—	—	104	—	104
ASO and other	4	195	—	—	199
Pharmacy	—	—	121	—	121
Total services revenue	4	195	225	—	424
Total external revenues	16,708	1,853	225	—	18,786
Intersegment revenues					
Services	—	7	4,950	(4,957)	—
Products	—	—	1,910	(1,910)	—
Total intersegment revenues	—	7	6,860	(6,867)	—
Investment income	54	5	—	90	149
Total revenues	16,762	1,865	7,085	(6,777)	18,935
Operating expenses:					
Benefits	14,464	1,311	—	(146)	15,629
Operating costs	1,532	429	6,800	(6,644)	2,117
Depreciation and amortization	81	20	43	(29)	115
Total operating expenses	16,077	1,760	6,843	(6,819)	17,861
Income from operations	685	105	242	42	1,074
Interest expense	—	—	—	60	60
Other expense, net	—	—	—	297	297
Income (loss) before income taxes and equity in net earnings	685	105	242	(315)	717
Equity in net earnings	—	—	8	—	8
Segment earnings (loss)	$ 685	$ 105	$ 250	$ (315)	$ 725

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

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

Executive Overview

General

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

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

Kindred at Home Acquisition

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

COVID-19

The emergence and spread of the novel coronavirus, or COVID-19, beginning in the first quarter of 2020 has impacted our business. During periods of increased incidences of COVID-19, non-essential care from a reduction in non-COVID-19 hospital admissions and lower overall healthcare system consumption decreases utilization.

Likewise COVID-19 treatment and testing cost increase utilization. The significant disruption in utilization during 2020 also impacted our ability to implement clinical initiatives to manage health care costs and chronic conditions of our members, and appropriately document their risk profiles, and, as such, effecting our 2021 revenue under the risk adjustment payment model for Medicare Advantage plans.

Business Segments

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

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

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

Seasonality

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

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

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

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

2021 Highlights

- Our strategy offers our members affordable health care combined with a positive consumer experience in growing markets. At the core of this strategy is our integrated care delivery model, which unites quality care, high member engagement, and sophisticated data analytics. Our approach to primary, physician-directed care for our members aims to provide quality care that is consistent, integrated, cost-effective, and member-focused, provided by both employed physicians and physicians with network contract arrangements. The model is designed to improve health outcomes and affordability for individuals and for the health system as a whole, while offering our members a simple, seamless healthcare experience. We believe this strategy is positioning us for long-term growth in both membership and earnings. We offer providers a continuum of opportunities to increase the integration of care and offer assistance to providers in transitioning from a fee-for-service to a value-based arrangement. These include performance bonuses, shared savings and shared risk relationships. At March 31, 2021, approximately 2,810,700 members, or 65%, of our individual Medicare Advantage members were in value-based relationships under our integrated care delivery model, as compared to 2,514,000 members, or 66%, at March 31, 2020. Medicare Advantage and dual demonstration program membership enrolled in a Humana chronic care management program was 925,100 at March 31, 2021, an increase of 2.8% from 899,700 at March 31, 2020. These members may not be unique to each program since members have the ability to enroll in multiple programs. The increase is primarily driven by growth in Special Needs Plans, or SNP, membership, partially offset by improved predictive modeling leading to a reduction in members being managed by legacy care management programs.

- Net income was $828 million, or $6.39 per diluted common share, for the three months ended March 31, 2021, compared to $473 million, or $3.56 per diluted common share, for the three months ended March 31, 2020. This comparison was significantly impacted by the the put/call valuation adjustments associated with certain equity method investments as well as the change in the fair value of publicly-traded equity securities. The impact of these adjustments to our consolidated income before income taxes and equity in net earnings and diluted earnings per common share was as follows for the 2021 quarter.

	For the three months ended March 31,	
	2021	2020
Consolidated income before income taxes and equity in net earnings:		
Change in the fair value of publicly-traded equity securities	$ 85	$ —
Put/call valuation adjustments	115	297
Total	$ 200	$ 297

	For the three months ended March 31,	
	2021	2020
Diluted earnings per common share:		
Change in the fair value of publicly-traded equity securities	$ 0.51	$ —
Put/call valuation adjustments	0.69	1.72
Total	$ 1.20	$ 1.72

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

Health Care Reform

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

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

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

Comparison of Results of Operations for 2021 and 2020

The following discussion primarily deals with our results of operations for the three months ended March 31, 2021, or the 2021 quarter, and the three months ended March 31, 2020, or the 2020 quarter.

Consolidated

	For the three months ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(dollars in millions, except per common share results)			
Revenues:				
Premiums:				
Retail	$ 18,591	$ 16,704	$ 1,887	11.3 %
Group and Specialty	1,533	1,658	(125)	(7.5)%
Total premiums	20,124	18,362	1,762	9.6 %
Services:				
Retail	5	4	1	25.0 %
Group and Specialty	190	195	(5)	(2.6)%
Healthcare Services	271	225	46	20.4 %
Total services	466	424	42	9.9 %
Investment income	78	149	(71)	(47.7)%
Total revenues	20,668	18,935	1,733	9.2 %
Operating expenses:				
Benefits	17,296	15,629	1,667	10.7 %
Operating costs	2,007	2,117	(110)	(5.2)%
Depreciation and amortization	142	115	27	23.5 %
Total operating expenses	19,445	17,861	1,584	8.9 %
Income from operations	1,223	1,074	149	13.9 %
Interest expense	68	60	8	13.3 %
Other expense, net	115	297	(182)	61.3 %
Income before income taxes and equity in net earnings	1,040	717	323	45.0 %
Provision for income taxes	233	252	(19)	(7.5)%
Equity in net earnings	21	8	13	162.5 %
Net income	$ 828	$ 473	$ 355	75.1 %
Diluted earnings per common share	$ 6.39	$ 3.56	$ 2.83	79.5 %
Benefit ratio (a)	85.9 %	85.1 %		0.8 %
Operating cost ratio (b)	9.7 %	11.3 %		(1.6)%
Effective tax rate	22.0 %	34.8 %		(12.8)%

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

Premiums Revenue

Consolidated premiums increased $1.8 billion, or 9.6%, from $18.4 billion in the 2020 quarter to $20.1 billion in the 2021 quarter primarily due to individual Medicare Advantage and state-based contracts membership growth, as well as higher per member individual Medicare Advantage premiums as a result of of the improving CMS benchmark rate for 2021 and the impact of Medicare sequestration relief in the 2021 quarter that was enacted during the second quarter of 2020, partially offset by Medicare Risk Adjustment, or MRA, headwinds resulting from COVID-19 related utilization disruption in 2020. These increases were partially offset by declining stand-alone PDP, group commercial medical, and group Medicare Advantage membership.

Consolidated services revenue increased $42 million, or 9.9%, from $424 million in the 2020 quarter to $466 million in the 2021 quarter primarily due to an increase in services revenue in the Healthcare Services segment associated with higher external pharmacy revenues resulting from the Enclara Healthcare acquisition which was closed during the 2020 quarter.

Investment Income

Investment income decreased $71 million, or 47.7%, from $149 million in the 2020 quarter to $78 million in the 2021 quarter primarily reflecting lower realized capital gains and lower interest rates, partially offset by higher average invested balances.

Benefit Expense

Consolidated benefits expense increased $1.7 billion, or 10.7%, from $15.6 billion in the 2020 quarter to $17.3 billion in the 2021 quarter. The consolidated benefit ratio increased 80 basis points from 85.1% for the 2020 quarter to 85.9% for the 2021 quarter reflecting the termination in 2021 of the non-deductible health insurance industry fee which, along with a portion of the related tax benefit, was contemplated in the pricing and benefit design of our products. The increase also reflects the impact in the 2021 quarter associated with the competitive nature of the group Medicare Advantage business, particularly in large group accounts that were recently procured, as well as in the stand-alone PDP business. These factors were partially offset by higher favorable prior-period medical claims reserve development in the 2021 quarter.

The favorable prior-period medical claims reserve development decreased the consolidated benefit ratio by approximately 280 basis points in the 2021 quarter versus approximately 150 basis points in the 2020 quarter.

Operating Costs

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

Consolidated operating costs decreased $110 million, or 5.2%, from $2.1 billion in the 2020 quarter to $2.0 billion in the 2021 quarter. The consolidated operating cost ratio decreased 160 basis points from 11.3% for the 2020 quarter to 9.7% for the 2021 quarter primarily due to the termination of the non-deductible health insurance industry fee in 2021, scale efficiencies associated with growth in our Medicare Advantage membership, operating cost efficiencies in the 2021 quarter from previously implemented productivity initiatives, and lower COVID-19 related administrative costs in the 2021 quarter as compared to the 2020 quarter. These improvements were partially offset by continued strategic investments made to position us for long-term success. The non-deductible health insurance industry fee impacted the operating cost ratio by 160 basis points in the 2020 quarter.

Depreciation and Amortization

Depreciation and amortization increased $27 million, or 23.5%, from $115 million in the 2020 quarter to $142 million in the 2021 quarter primarily due to capital expenditures.

Interest Expense

Interest expense increased $8 million, or 13.3%, from $60 million in the 2020 quarter to $68 million in the 2021 quarter.

Income Taxes

The effective income tax rate was 22.0% and 34.8% for the three months ended March 31, 2021, and 2020, respectively. The decrease was primarily due to the termination of the non-deductible health insurance industry fee in 2021.

Retail Segment

	March 31,		Change	
	2021	2020	Members	Percentage
Membership:				
Medical membership:				
Individual Medicare Advantage	4,291,300	3,838,100	453,200	11.8 %
Group Medicare Advantage	556,700	607,400	(50,700)	(8.3)%
Medicare stand-alone PDP	3,666,200	3,895,100	(228,900)	(5.9)%
Total Retail Medicare	8,514,200	8,340,600	173,600	2.1 %
State-based Medicaid	838,900	617,300	221,600	35.9 %
Medicare Supplement	328,100	314,000	14,100	4.5 %
Total Retail medical members	9,681,200	9,271,900	409,300	4.4 %

	For the three months ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Individual Medicare Advantage	$ 14,815	$ 12,794	$ 2,021	15.8 %
Group Medicare Advantage	1,755	2,011	(256)	(12.7)%
Medicare stand-alone PDP	664	755	(91)	(12.1)%
Total Retail Medicare	17,234	15,560	1,674	10.8 %
State-based Medicaid	1,179	981	198	20.2 %
Medicare Supplement	178	163	15	9.2 %
Total premiums	18,591	16,704	1,887	11.3 %
Services	5	4	1	25.0 %
Total premiums and services revenue	$ 18,596	$ 16,708	$ 1,888	11.3 %
Segment earnings	$ 794	$ 685	$ 109	15.9 %
Benefit ratio	87.7 %	86.6 %		1.1 %
Operating cost ratio	7.8 %	9.2 %		(1.4)%

Segment Earnings

- Retail segment earnings increased $109 million, or 15.9%, from $685 million in the 2020 quarter to $794 million in the 2021 quarter primarily resulting from the net favorable impact of a lower operating cost ratio, partially offset by a higher benefit ratio as more fully described below.

Enrollment

- Individual Medicare Advantage membership increased 453,200 members, or 11.8%, from March 31, 2020 to March 31, 2021, primarily due to membership additions associated with the most recent Annual Election Period, or AEP, and Open Election Period, or OEP, for Medicare beneficiaries. The membership growth was further impacted by continued enrollment resulting from special elections, age-ins, and Dual Eligible Special Need Plans, or D-SNP, members. The OEP sales period, which ran from January 1 to March 31, 2021 added approximately 21,000 members. An additional 15,000 members became effective April 1, 2021 (not included in the March 31, 2021 membership detailed above), for a total 2021 OEP impact of 36,000 members. In comparison, the 2020 OEP added approximately 30,000 members. Individual Medicare Advantage membership includes 501,100 D-SNP members as of March 31, 2021, a net increase of 158,600, or 46.3%, from 342,500 as of March 31, 2020.

- Group Medicare Advantage membership decreased 50,700, or 8.3%, from March 31, 2020 to March 31, 2021, primarily due to the net loss of certain large accounts in January 2021, partially offset by continued growth in small group accounts.

- Medicare stand-alone PDP membership decreased 228,900 members, or 5.9%, from March 31, 2020 to March 31, 2021, primarily due to anticipated declines as a result of the Walmart Value plan no longer being the low cost leader in 2021.

- State-based Medicaid membership increased 221,600 members, or 35.9%, from March 31, 2020 to March 31, 2021, primarily reflecting additional enrollment resulting from the current economic downturn due to the COVID-19 pandemic, as well as a recently completed acquisition in Wisconsin.

Premiums Revenue

- Retail segment premiums increased $1.9 billion, or 11.3%, from $16.7 billion in the 2020 quarter to $18.6 billion in the 2021 quarter primarily due to higher premiums as a result of individual Medicare Advantage and state-based contracts membership growth, higher per member individual Medicare Advantage premiums as a result of the improving CMS benchmark rate for 2021, and the impact of Medicare sequestration relief in the 2021 quarter that was not enacted until the second quarter of 2020, partially offset by MRA headwinds resulting from COVID-19 related utilization disruption in 2020. These favorable items were partially offset by the decline in membership in our stand-alone PDP and group Medicare Advantage offerings.

Benefits Expense

- The Retail segment benefit ratio increased 110 basis points from 86.6% for the 2020 quarter to 87.7% for the 2021 quarter primarily due to the termination in 2021 of the non-deductible health insurance industry fee which, along with a portion of the related tax benefit, was contemplated in the pricing and benefit design of our products. In addition, the increase reflects the impact in the 2021 quarter associated with the competitive nature of the group Medicare Advantage business, particularly in large group accounts that were recently procured, as well as in the stand-alone PDP business. These factors were partially offset by higher favorable prior-period medical claims reserve development.

- The Retail segment's benefits expense for the 2021 quarter included $463 million in favorable prior-period medical claims reserve development versus $238 million in the 2020 quarter. Prior-period medical claims reserve development decreased the Retail segment benefit ratio by approximately 250 basis points in the 2021 quarter versus approximately 140 basis points in the 2020 quarter.

Operating Costs

- The Retail segment operating cost ratio decreased 140 basis points from 9.2% for the 2020 quarter to 7.8% for the 2021 quarter primarily due to the termination of the non-deductible health insurance industry fee in 2021, scale efficiencies associated with growth in our individual Medicare Advantage membership, and operating cost efficiencies in the 2021 quarter driven by previously implemented productivity initiatives. These improvements were partially offset by continued strategic investments made to position us for long-term success. The non-deductible health insurance industry fee impacted the operating cost ratio by 170 basis points in the 2020 quarter.

Group and Specialty Segment

	March 31,		Change	
	2021	2020	Members	Percentage
Membership:				
Medical membership:				
Fully-insured commercial group	721,300	861,600	(140,300)	(16.3)%
ASO	500,600	506,100	(5,500)	(1.1)%
Military services	6,047,400	5,999,200	48,200	0.8 %
Total group medical members	7,269,300	7,366,900	(97,600)	(1.3)%
Specialty membership (a)	5,326,100	5,470,700	(144,600)	(2.6)%

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

	For the three months ended March 31,		Change	
	2021	2020	Dollars	Percentage
		(in millions)		
Premiums and Services Revenue:				
Premiums:				
Fully-insured commercial group	$ 1,099	$ 1,229	$ (130)	(10.6)%
Group specialty	434	429	5	1.2 %
Total premiums	1,533	1,658	(125)	(7.5)%
Services	190	195	(5)	(2.6)%
Total premiums and services revenue	$ 1,723	$ 1,853	$ (130)	(7.0)%
Segment earnings	$ 174	$ 105	$ 69	65.7 %
Benefit ratio	74.7 %	79.1 %		(4.4)%
Operating cost ratio	22.9 %	23.1 %		(0.2)%

Segment Earnings

- Group and Specialty segment earnings increased $69 million, from $105 million in the 2020 quarter to $174 million in the 2021 quarter primarily due the same factors that led to the segment's lower benefit and operating cost ratios in the 2021 quarter

Enrollment

- Fully-insured commercial group medical membership decreased 140,300 members, or 16.3%, from March 31, 2020 to March 31, 2021 reflecting lower small group quoting activity and sales attributable to depressed economic activity from the COVID-19 pandemic, partially offset by higher retention of existing customers, particularly in larger groups. The portion of group fully-insured commercial medical membership in small group accounts was approximately 53% at March 31, 2021 and 57% at March 31, 2020.

- Group ASO commercial medical membership decreased 5,500 members, or 1.1%, from March 31, 2020 to March 31, 2021. Small group membership comprised 45% of group ASO medical membership at March 31, 2021 and 2020. Membership as of March 31, 2021 reflects intensified competition for small group accounts, partially offset by strong retention among large group accounts.

- Military services membership increased 48,200 members, or 0.8%, from March 31, 2020 to March 31, 2021. Membership includes military service members, retirees, and their families to whom we are providing healthcare services under the current TRICARE East Region contract.

- Specialty membership decreased 144,600 members, or 2.6%, from March 31, 2020 to March 31, 2021 due primarily to the impact of the current economic downturn driven by the COVID-19 pandemic as previously discussed. The decrease further reflects the loss of dental and vision groups cross-sold with medical, as reflected in the loss of group fully-insured commercial medical membership, as well as the loss of certain groups with stand-alone dental and vision.

Premiums Revenue

- Group and Specialty segment premiums decreased $125 million, or 7.5%, from $1.7 billion in the 2020 quarter to $1.5 billion in the 2021 quarter primarily due to the decline in our fully-insured group commercial membership, partially offset by higher per member premiums across the fully-insured commercial business.

Services Revenue

- Group and Specialty segment services revenue decreased $5 million, or 2.6%, from $195 million in the 2020 quarter to $190 million in the 2021 quarter primarily due to lower ASO membership described previously.

Benefits Expense

- The Group and Specialty segment benefit ratio decreased 440 basis points from 79.1% in the 2020 quarter to 74.7% in the 2021 quarter primarily due to higher favorable prior-period medical claims reserve development and deliberate pricing and benefit design efforts to increase profitability and position the commercial business for long-term success. These improvements were partially offset by the termination in 2021 of the non-deductible health insurance industry fee in which, along with a portion of the related tax benefit, was contemplated in the pricing and benefit design of our products and higher utilization in the 2021 quarter driven by COVID-19 treatment and testing costs, net of the impact of the temporary deferral of non-COVID utilization. The temporary deferral of non-COVID utilization was primarily associated with dental services.

- The Group and Specialty segment's benefits expense included $92 million in favorable prior-period medical claims reserve development in the 2021 quarter versus $46 million in the 2020 quarter. This favorable prior-period medical claims reserve development decreased the Group and Specialty segment benefit ratio by approximately 600 basis points in the 2021 quarter and by approximately 280 basis points in the 2020 quarter.

Operating Costs

- The Group and Specialty segment operating cost ratio decreased 20 basis points from 23.1% for the 2020 quarter to 22.9% for the 2021 quarter primarily due to the termination of the non-deductible health insurance industry fee in 2021 and operating cost efficiencies driven by previously implemented productivity initiatives. These improvements were partially offset by continued strategic investments made to position us for long-term success. The non-deductible health insurance industry fee impacted the operating cost ratio by 140 basis points in the 2020 quarter.

Healthcare Services Segment

	For the three months ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(in millions)			
Revenues:				
Services:				
Pharmacy solutions	$ 156	$ 121	$ 35	28.9 %
Provider services	91	76	15	19.7 %
Clinical care services	24	28	(4)	(14.3)%
Total services revenues	271	225	46	20.4 %
Intersegment revenues:				
Pharmacy solutions	6,217	6,140	77	1.3 %
Provider services	586	576	10	1.7 %
Clinical care services	123	144	(21)	(14.6)%
Total intersegment revenues	6,926	6,860	66	1.0 %
Total services and intersegment revenues	$ 7,197	$ 7,085	$ 112	1.6 %
Segment earnings	$ 269	$ 250	$ 19	7.6 %
Operating cost ratio	96.0 %	96.0 %		— %

Segment Earnings

- Healthcare Services segment earnings increased $19 million, or 7.6%, from $250 million in the 2020 quarter to $269 million in the 2021 quarter primarily due to improved operating performance in the provider business as well as higher earnings from equity method investments in the 2021 quarter.

Script Volume

- Humana Pharmacy Solutions script volumes on an adjusted 30-day equivalent basis increased to approximately 126 million in the 2021 quarter, up 4%, versus scripts of approximately 120 million in the 2020 quarter primarily due to higher individual Medicare Advantage and state-based contracts membership, partially offset by the decline in stand-alone PDP and group Medicare Advantage membership and the impact of early prescription refills in the 2020 quarter as members prepared for extended supply needs in response to COVID-19 restrictions.

Services Revenues

- Services revenues increased $46 million, or 20.4%, from $225 million in the 2020 quarter to $271 million in the 2021 quarter primarily due to the additional pharmacy revenues associated with the acquisition of Enclara which was closed during the 2020 quarter.

Intersegment Revenues

- Intersegment revenues increased $66 million, or 1.0%, from $6.86 billion in the 2020 quarter to $6.93 billion in the 2021 quarter primarily due to individual Medicare Advantage membership growth and higher revenues associated with our provider business. These increases were partially offset by the loss of intersegment revenues associated with the decline in stand-alone PDP and group Medicare Advantage membership as previously discussed, and the impact of increased pharmacy revenues in the 2020 quarter as a result of allowing early prescription refills to permit our members to prepare for extended supply needs due to COVID-19 restrictions.

Operating Costs

- The Healthcare Services segment operating cost ratio of 96.0% for the 2021 quarter was unchanged from the 2020 quarter. The benefit ratio for the 2021 quarter reflects operational improvements in our provider services business, largely related to Conviva, along with operating cost efficiencies in the 2021 quarter driven by previously implemented productivity initiatives. These improvements were offset by increased administrative costs in the pharmacy operations as a result of incremental spend to accelerate growth within the business, labor-related overtime and shipping costs due to weather related disruption in February 2021, and COVID-related staffing and personal protective equipment costs.

Liquidity

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

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

Cash and cash equivalents decreased to approximately $3.9 billion at March 31, 2021 from $4.7 billion at December 31, 2020. The change in cash and cash equivalents for the three months ended March 31, 2021 and 2020 is summarized as follows:

	Three Months Ended	
	2021	2020
	(in millions)	
Net cash (used in) provided by operating activities	$ (837)	$ 474
Net cash used in investing activities	(1,488)	(1,210)
Net cash provided by financing activities	1,529	2,736
(Decrease) increase in cash and cash equivalents	$ (796)	$ 2,000

Cash Flow from Operating Activities

Cash flows used in operations of $837 million in the 2021 quarter decreased $1.3 billion from cash flows provided by operations of $474 million in the 2020 quarter primarily due to the negative impact of working capital items, partially offset by higher earnings in the 2021 quarter compared to the 2020 quarter. Our 2021 quarter operating cash flows were significantly impacted by changes to working capital levels, primarily as a result of prior year disruptions caused by COVID-19. These impacts include paying down claims inventory and capitation for provider surplus amounts earned in 2020 as well as additional provider support. Other working capital items also contributed to the decline in operating cash flows in the 2021 quarter, including typical working capital activity that tends to decrease operating cash flows in the first quarter of each year.

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

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

	March 31, 2021	December 31, 2020	2021 Quarter Change	2020 Quarter Change
	(in millions)			
IBNR (1)	$ 5,516	$ 5,290	$ 226	$ 737
Reported claims in process (2)	1,218	816	402	228
Other benefits payable (3)	1,917	2,037	(120)	121
Total benefits payable	$ 8,651	$ 8,143	$ 508	$ 1,086
Payables from acquisition			(42)	—
Change in benefits payable per cash flow statement resulting in cash from operations			$ 466	$ 1,086

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

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

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

The increase in benefits payable in 2021 was primarily due to an increase in reported claims in process and higher IBNR, partially offset by reduction in capitation accruals. Higher reported claims in process was a function of month-end cutoff. IBNR increased primarily as a result of individual Medicare Advantage membership growth partially offset by paying down claim inventories.

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

	March 31, 2021	December 31, 2020	2021 Quarter Change	2020 Quarter Change
	(in millions)			
Medicare	$ 1,942	$ 928	$ 1,014	$ 932
Commercial and other	159	122	37	20
Military services	166	160	6	5
Allowance for doubtful accounts	(71)	(72)	1	(4)
Total net receivables	$ 2,196	$ 1,138	$ 1,058	$ 953
Reconciliation to cash flow statement:				
Receivables from acquisition of business			(9)	—
Change in receivables per cash flow statement resulting in cash from operations			$ 1,049	$ 953

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

Cash Flow from Investing Activities

In the first quarter of 2020, we acquired privately held Enclara Healthcare for cash consideration of approximately $709 million, net of cash received and in the first quarter of 2021, we acquired immaterial businesses of approximately $123 million, net of cash received.

Our ongoing capital expenditures primarily relate to our information technology initiatives, support of services in our provider services operations including medical and administrative facility improvements necessary for activities such as the provision of care to members, claims processing, billing and collections, wellness solutions, care coordination, regulatory compliance and customer service. Total capital expenditures, excluding acquisitions, were $290 million in the 2021 quarter and $192 million in the 2020 quarter.

Net purchases of investment securities were $1.1 billion and $309 million in the 2021 and 2020 quarter, respectively.

Cash Flow from Financing Activities

Receipts from CMS associated with Medicare Part D claim subsidies for which we do not assume risk were higher than claim payments by $1.02 billion and $575 million in the 2021 and 2020 quarters, respectively.

Under our administrative services only TRICARE contracts, health care costs payments for which we do not assume risk exceeded reimbursements from the federal government by $5 million and $1 million in the 2021 and 2020 quarters, respectively.

Net proceeds from the issuance of commercial paper were $603 million in the 2021 quarter and $198 million in the 2020 quarter. The maximum principal amount outstanding at any one time during the 2021 quarter was $1.2 billion.

In March 2020, we issued $600 million of 4.500% senior notes due April 1, 2025 and $500 million of 4.875% senior notes due April 1, 2030. Our net proceeds, reduced for the underwriters' discount and commission and offering expenses paid as of March 2020 were $1,090 million.

We acquired common shares in connection with employee stock plans for an aggregate cost of $30 million in the 2021 quarter and $17 million in the 2020 quarter.

We paid dividends to stockholders of $83 million during the 2021 quarter and $73 million during the 2020 quarter.

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

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

Future Sources and Uses of Liquidity

Dividends

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

Stock Repurchases

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

Debt

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

Kindred at Home Acquisition

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

Liquidity Requirements

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

Adverse changes in our credit rating may increase the rate of interest we pay and may impact the amount of credit available to us in the future. Our investment-grade credit rating at March 31, 2021 was BBB+ according to Standard & Poor's Rating Services, or S&P, and Baa3 according to Moody's Investors Services, Inc., or Moody's. A downgrade by S&P to BB+ or by Moody's to Ba1 triggers an interest rate increase of 25 basis points with respect to $250 million of our senior notes. Successive one notch downgrades increase the interest rate an additional 25 basis points, or annual interest expense by less than $1 million, up to a maximum 100 basis points, or annual interest expense by $3 million.

In addition, we operate as a holding company in a highly regulated industry. Humana Inc., our parent company, is dependent upon dividends and administrative expense reimbursements from our subsidiaries, most of which are subject to regulatory restrictions. We continue to maintain significant levels of aggregate excess statutory capital and surplus in our state-regulated operating subsidiaries. Cash, cash equivalents, and short-term investments at the parent company were $547 million at March 31, 2021 compared to $772 million at December 31, 2020. This decrease primarily was due to acquisitions, capital expenditures, cash dividends to shareholders, and capital contributions to certain subsidiaries, partially offset by the issuance of commercial paper and an increase in non-regulated subsidiary earnings in our Healthcare Services segment. Our use of operating cash derived from our non-insurance subsidiaries, such as our Healthcare Services segment, is generally not restricted by departments of insurance (or comparable state regulators).

Regulatory Requirements

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

Although minimum required levels of equity are largely based on premium volume, product mix, and the quality of assets held, minimum requirements vary significantly at the state level. Based on the most recently filed statutory financial statements as of December 31, 2020, our state regulated subsidiaries had aggregate statutory capital and surplus of approximately $9.4 billion, which exceeded aggregate minimum regulatory requirements of $7.0 billion. The amount of ordinary dividends that may be paid to our parent company in 2021 is approximately $1.4 billion in the aggregate. The amount, timing and mix of ordinary and extraordinary dividend payments will vary due to state regulatory requirements, the level of excess statutory capital and surplus and expected future surplus requirements related to, for example, premium volume and product mix. Actual dividends that were paid to our parent company were approximately $1.3 billion in 2020.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest rate risk also represents a market risk factor affecting our consolidated financial position due to our significant investment portfolio, consisting primarily of fixed maturity securities of investment-grade quality with a weighted average S&P credit rating of AA- at March 31, 2021. Our net unrealized position decreased $374 million from a net unrealized gain position of $514 million at December 31, 2020 to a net unrealized gain position of $140 million at March 31, 2021. At March 31, 2021, we had gross unrealized losses of $165 million on our investment portfolio primarily due to an increase in market interest rates since the time the securities were purchased. There were no material credit allowances during the three months ended March 31, 2021. While we believe that these securities in an unrealized loss will recover in value over time and we currently do not have the intent to sell such securities, given the current market conditions and the significant judgments involved, there is a continuing risk that future declines in fair value may occur and material realized losses from sales or credit allowances may be recorded in future periods.

Duration is the time-weighted average of the present value of the bond portfolio's cash flow. Duration is indicative of the relationship between changes in fair value and changes in interest rates, providing a general indication of the sensitivity of the fair values of our fixed maturity securities to changes in interest rates. However, actual fair values may differ significantly from estimates based on duration. The average duration of our investment portfolio, including cash and cash equivalents, was approximately 3.6 years as of March 31, 2021 and approximately 3.0 years as of December 31, 2020. The increase in the average duration is reflective of the decreased holdings of cash and cash equivalents, along with other portfolio management activities. Based on the duration, including cash equivalents, a 1% increase in interest rates would generally decrease the fair value of our securities by approximately $640 million at March 31, 2021.

Item 4. Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer, or CEO, our Chief Financial Officer, or CFO, and our Principal Accounting Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures for the quarter ended March 31, 2021.

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

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

For a description of the legal proceedings pending against us and certain other pending or threatened litigation, investigations, or other matters, see “Legal Proceedings and Certain Regulatory Matters” in Note 13 to the condensed consolidated financial statements beginning on page 26 of this Form 10-Q.

Item 1A. Risk Factors

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

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

(a) None.

(b) N/A

(c) The following table provides information about our purchases of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the three months ended March 31, 2021:

Period	Total Number of Shares Purchased (1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 2021	—	$ —	—	$ —
February 2021	—	—	—	—
March 3021	—	—	—	—
Total	—	$ —	—	

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

(2) Excludes 80,000 shares repurchased in connection with employee stock plans.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6: Exhibits

3(i)	Restated Certificate of Incorporation of Humana Inc. filed with the Secretary of State of Delaware on November 9, 1989, as restated to incorporate the amendment of January 9, 1992, and the correction of March 23, 1992 (incorporated herein by reference to Exhibit 4(i) to Humana Inc.'s Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (Reg. No. 33-49305) filed February 2, 1994).
3(ii)	By-Laws of Humana Inc., as amended on December 14, 2017 (incorporated herein by reference to Exhibit 3(b) to Humana Inc.'s Current Report on Form 8-K, filed December 14, 2017).
10.1	Transition & Separation Agreement between Brian A. Kane and Humana Inc. and its affiliates and subsidiaries, dated as of March 22, 2021.
31.1	Principal Executive Officer certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
32	Principal Executive Officer and Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Humana Inc.'s Quarterly Report on Form 10-Q formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at March 31, 2021 and December 31, 2020; (ii) the Condensed Consolidated Statements of Income for the three months ended March 31, 2021 and 2020; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2021 and 2020; (iv) the Consolidated Statements of Equity for the three months ended March 31, 2021 and 2020; (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2021 and 2020; and (vi) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File formatted in Inline XBRL and contained in Exhibit 101.

SIGNATURES

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

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

TRANSITION & SEPARATION AGREEMENT

This Transition & Separation Agreement (the "**Agreement**") sets forth the understanding between you, **Brian A. Kane**, and Humana Inc. and its affiliates and subsidiaries ("**Humana**") with respect to your separation from employment with Humana.

RECITALS:

A. The Parties have mutually agreed that your position will be eliminated and therefore your employment with Humana will terminate as of an agreed upon date; and

B. In order to ensure a smooth transition prior to your exit, Humana has requested that you continue your employment as Chief Financial Officer through May 31, 2021 (the "**Transition Date**") and subsequently in an interim role as "Strategic Advisor" to the Company reporting to the Chief Executive Officer.

NOW, THEREFORE, in consideration of your agreement to the terms set forth below and the mutual benefits to be derived hereunder, it is agreed:

A. EMPLOYMENT STATUS

1. *Acceptance of Interim and Variable Staffing Pool Roles*. You agree to accept employment as a "Strategic Advisor," effective June 1, 2021 ("**Interim Role**"), advising Humana with respect to the finance and reporting functions. Humana agrees that you will remain employed in the Interim Role until December 31, 2021 and that effective January 1, 2022, Humana will transition you to a Variable Staffing Pool associate (the "**VSP Role**"), as defined in Humana's Requisition Policy, assigned to advise Humana with respect to the finance and reporting functions. In order to maintain your employment while in the VSP Role, you agree to perform at least one hour of work every 60 days until February 28, 2022, at which time your employment will be terminated (the "**Separation Date**"). You agree and acknowledge that you are not eligible for payments under any Humana severance policy or Humana's Change In Control Policy while you are in either the Interim or VSP Role, except as provided in this Agreement and/or the Executive Severance Policy. In the event that during the period that you are in the Interim Role (a) Humana elects to change your status in Humana to the VSP Role or (b) you obtain other employment and intend to accept such other employment and continue your status at Humana in the VSP Role (a "Voluntary VSP Status Change"), the party electing to so change your status shall give at least 30 days prior written notice to the other party, which notice shall set forth the date of such change in status. Effective on such date, your status will change to the VSP Role. Notwithstanding the change of such status prior to December 31, 2021, if Humana has elected to change your status as contemplated by clause (a) above, you shall still be entitled to all compensation, equity and benefits described in this Agreement as if your status was in the Interim Role through December 31, 2021, and you will be treated as

continuing in the VSP Role through the Separation Date, which shall remain February 28, 2022.

2. *Compensation*.

(a) Subject to your compliance with Section B (3) of this Agreement, your current base salary of $765,000.00 will continue in the Interim Role and will be paid bi-weekly through December 31, 2021 while in the Interim Role. You acknowledge and agree that you will not be eligible for future salary increases while you are in the Interim Role.

(b) Effective January 1, 2022, you will receive an hourly rate of $367.79 for work performed in the VSP Role, which will be paid bi-weekly. You acknowledge and agree that you will not be eligible for future salary increases or to participate in the Annual Incentive Plan (the "**AIP**") for the year 2022.

(c) In the event incentive compensation for the year 2021 is paid pursuant to the terms and provisions of the AIP, you will be entitled to receive an incentive compensation payment (without proration) for the 2021 performance period. For your Individual Multiplier portion of AIP, Humana will pay you 100% of the total AIP award calculation. Any incentive compensation payable to you will be paid at the same time as such amounts are paid to other participants in the AIP whether or not you are then employed by Humana in any capacity or you are in the VSP Role. For the avoidance of doubt, your incentive compensation for 2021 will be in the same amount and payable at the same time as if you were Chief Financial Officer for the entire year, whether or not you are then employed by Humana in any capacity or you are in the VSP Role. Notwithstanding the foregoing, in the event of a Voluntary VSP Status Change, your AIP for 2021 will be pro-rated based on full days of service as Chief Financial Officer or in the Interim Role.

(d) During 2021 you shall also be entitled to the Company's 401K Plan and Retirement Equalization Plan matching contributions as if you were Chief Financial Officer for the entire year, whether or not you are then employed by Humana in any capacity or you are in the VSP Role. Notwithstanding the foregoing, in the event of a Voluntary VSP Status Change, you will not be eligible for the Company's 401K Plan and Retirement Equalization Plan matching contributions while serving in the VSP Role.

3. *Severance Benefits*: Upon the Separation Date you will be eligible to receive benefits under Humana's Executive Severance Policy, subject to your complying with the terms and conditions of this Agreement and the Executive Severance Policy, as modified by the terms set forth herein.

4. *Equity*: You agree and acknowledge that you are not eligible for future equity grants under the 2011 Humana Inc. Stock Incentive Plan, the Amended and Restated Humana Inc. Stock Incentive Plan, or any successor plan, while serving in either

the Interim or VSP Role. Any Restricted Stock Units, Performance Stock Units and/or Stock Options outstanding as of April 1, 2021 will (a) continue to vest while you are providing services in your Interim and VSP Roles under the terms of the governing Restricted Stock Unit, Performance Stock Unit and/or Stock Option Agreements (the "**Stock Agreements**") between you and Humana and (b) with respect to the Restricted Stock Units and Stock Options, continue to vest for twelve months following the Separation Date on the same terms as if you had continued to provide services to Humana through the first anniversary of the Separation Date. Exhibit A hereto sets forth the Stock Options, Restricted Stock Units and Performance Stock Units that were granted to you and are outstanding as of the date hereof, the date which all such equity vests, the dates such equity becomes exercisable or, in the case of Restricted Stock Units and Performance Stock Units, is delivered to you, and in the case of Options, the last date on which such Options may be exercised.

5. *Benefits*: You may continue to participate, to the extent you may be eligible, in the "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended) maintained from time to time by Humana for employees of Humana and its subsidiaries. Your rights to Continued Health Benefit Coverage shall be in accordance with Section 3.1(iii) of the Executive Severance Policy other than the last sentence thereof. For the avoidance of doubt, such health benefit coverage shall continue until the end of the Severance Period without regard to your position in Humana, including but not limited to in your VSP Role, and whether or not you are employed by Humana, unless you have obtained health benefit coverage from a new employer that is generally comparable to the health benefit coverage provided by Humana. You will be required to pay your portion of premiums or related payments as designated in such employee benefit plans and/or as designated by Humana directly to Humana. You shall be required to comply with the conditions attendant to coverage by such plans and shall comply with and be entitled to benefits only in accordance with the terms and conditions of such plans as they may be amended from time to time. Nothing herein contained shall be construed as requiring Humana to establish or continue any particular employee benefit plan in discharge of its obligations under this Agreement. At Humana's sole discretion, Humana may replace such employee benefit plans with employee benefit plans similar to Humana's affiliates. Your active coverage or participation in such employee benefits plans shall end on the Separation Date, unless otherwise provided by the terms of such plan, by the Executive Severance Policy or by law. Thereafter, you will have COBRA continuation rights for dental or medical coverage.

You will be eligible for the same physical and charitable giving match benefits as an Executive Officer of Humana until December 31, 2021 ("**Executive Benefits**"). Thereafter, you will no longer be eligible for Executive Benefits. In addition, and consistent with the terms of Humana' Executive Severance Policy, you will be eligible for same financial planning benefits and outplacement benefits as other executive officers through the first anniversary of the Separation Date. Any deferred compensation benefits that become payable to you upon the Separation Date will be paid in accordance to the terms of the applicable plan. Humana shall continue its matching contribution to the

Retirement Equalization Plan for your benefit, unless you are in your VSP Role as a result of a Voluntary VSP Status Change.

In addition, (a) during your Interim Role and VSP Role, you shall continue to be able to use the services of your assistant, Ms. Zahira Hoback, in the same manner as you have been utilizing her services on the date of this Agreement; and (b) notwithstanding the provisions of the Agreement Not to Solicit or similar provisions in any agreement with Humana to which you are a party, you may solicit, offer employment and hire Ms. Hoback, if Ms. Hoback chooses to accept any such offer of employment.

B. MISCELLANEOUS

1. *Cessation of Status as an Officer*: Effective June 1, 2021, you will no longer be an officer or director of Humana Inc., and of any subsidiaries and other affiliates of Humana Inc. of which you are an officer or director. Accordingly, you will not hold yourself out as being an officer or director, or as having any authority to bind, Humana Inc. or any such subsidiary or affiliate. You agree to execute any documents necessary to reflect the change in status.

2. *Non-Compete Agreement and Agreement Not to Solicit*: You understand and agree that, subject to the agreed upon amendments to the Restricted Period (as set forth on Exhibit B hereto), (i) the provisions of any Stock Agreement entered into by you and Humana Inc. entitled "Agreement Not to Solicit" and "Agreement Not to Compete" and (ii) the provisions of Exhibit A to Humana's Executive Severance Policy, in each case, remain in full force and effect and those obligations will continue during the applicable periods set forth on Exhibit B hereto. You understand and agree that any violation of the provisions of (x) the Stock Agreements entitled "Agreement Not to Solicit," and "Agreement Not to Compete" or (y) Exhibit A to Humana's Executive Severance Policy, will in each case result in irreparable injury to Humana, that the remedy at law for any violation or threatened violation of such provision(s) are inadequate and in the event of any such breach or threatened breach, Humana, in addition to any other remedies or damages available to it at law or in equity, shall be entitled to temporary injunctive relief before trial as a matter of course, and to permanent injunctive relief without the necessity of proving actual damages;

3. *Confidential Information and Trade Secrets*: You recognize that your position with the Company has required considerable responsibility and trust, and, in reliance on your loyalty, the Company has entrusted you with highly sensitive confidential, restricted and proprietary information involving Trade Secrets and Confidential Information. "Trade Secret" shall be defined as any scientific or technical information, design, process, procedure, formula or improvement that is valuable and not generally known to competitors of the Company. "Confidential Information" is any data or information, other than Trade Secrets, that is important, competitively sensitive, and not generally known by the public, including, but not limited to, the Company's business plans, business prospects, training manuals, product development plans, bidding and pricing procedures, market strategies, internal performance statistics, financial data, confidential personnel information concerning employees of the Company, supplier data,

Entire Agreement

Severability

Code Section 409A

Section 409A

the exemptions for short-term deferrals, separation pay arrangements, reimbursements, and in-kind distributions, and this Agreement shall be administered, interpreted and construed in a manner that does not result in the imposition of additional taxes, penalties or interest under Section 409A. Humana agrees to negotiate in good faith with you to make amendments to the Agreement, as both parties mutually agree are necessary or desirable to avoid the imposition of taxes, penalties or interest under Section 409A. If an amount to be paid under this Agreement is payable in two or more installments, each installment shall be treated as a separate payment for purposes of Section 409A. For purposes of this Agreement, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to the requirements of Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A, and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," or like terms shall mean a "separation from service" within the meaning of Section 409A. Neither Humana nor you will have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A.

7. *Press Release*: The parties hereto agree to issue the Press Release attached hereto as Exhibit C on March 22, 2021.

C. ACKNOWLEDGMENTS: You and Humana hereby acknowledge and agree:

1. that you were provided a sufficient period to review and consider this Agreement and are advised to contact an attorney,

2. that you understand each of the terms of this Agreement and the effect of executing this Agreement by your signature; and

3. that you are executing this Agreement as your own free act and deed, without any coercion or duress, and that you agree to each of the terms and provisions of this Agreement.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

IN WITNESS WHEREOF, as their free and voluntary act, the parties have executed this Agreement as of the date indicated.

HUMANA

By: Bruce Broussard	By:
Name: Bruce D. Broussard	Name: Brian A. Kane
Title: President & CEO	Date:
Date: March 22, 2021	

[SIGNATURE PAGE – BK TRANSITION AND SEPARATION AGREEMENT]

IN WITNESS WHEREOF, as their free and voluntary act, the parties have executed this Agreement as of the date indicated.

HUMANA

By: ________________________	By: Bri A. Kn
Name:	Name: Brian A. Kane
Title:	Date: March 22, 2021
Date:	

[SIGNATURE PAGE – BK TRANSITION AND SEPARATION AGREEMENT]

Exhibit 31.1

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

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

1. I have reviewed this Report of Humana Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2021;

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

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

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

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

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

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

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

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

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

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

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

Exhibit 31.2

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

I, Brian A. Kane, principal financial officer of Humana Inc., certify that:

1. I have reviewed this Report of Humana Inc. (the "Company") on Form 10-Q for the period ending March 31, 2021;

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

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

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

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

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

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

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

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

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

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

Date:	April 28, 2021
Signature:	/s/ Brian A. Kane
	Brian A. Kane Principal Financial Officer

Exhibit 32

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

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

In connection with the Report of Humana Inc. (the "Company") on Form 10-Q for the period ending March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Humana Inc., that:

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

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

/s/ Bruce D. Broussard

Bruce D. Broussard
Principal Executive Officer

April 28, 2021

/s/ Brian A. Kane

Brian A. Kane
Principal Financial Officer

April 28, 2021

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