

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

HUM.N - Humana Inc Investor Day

EVENT DATE/TIME: JUNE 15, 2021 / 1:00PM GMT

CORPORATE PARTICIPANTS

Amy K. Smith Humana Inc. - VP of IR

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

Christopher Howal Hunter Humana Inc. - Segment President of Group & Military Business

Ellen Sexton Humana Inc - Senior Vice President, Specialty

George Renaudin Humana Inc - SVP of Retail East & Provider Experience

Heather M. Carroll Cox Humana Inc. - Chief Digital Health & Analytics Officer

Mona Siddiqui Humana Inc - Senior Vice President, Clinical Strategy & Quality

Renee Jacqueline Buckingham Humana Inc. - President of Care Delivery Organization

Susan M. Diamond Humana Inc. - Interim CFO & Segment President of Home Business

Susan Smith - Senior Vice President, Retail Management

T. Alan Wheatley Humana Inc. - Segment President of Retail

Vishal Agrawal Humana Inc. - Chief Strategy & Corporate Development Officer

William Kevin Fleming Humana Inc. - Segment President of Clinical & Pharmacy Solutions

CONFERENCE CALL PARTICIPANTS

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

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

Joshua Richard Raskin Nephron Research LLC - Research Analyst

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

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

Lance Arthur Wilkes Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Lisa Christine Gill JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst

Matthew Richard Borsch BMO Capital Markets Equity Research - Research Analyst

Michael Anthony Newshel Evercore ISI Institutional Equities, Research Division - Associate

Ralph Giacobbe Citigroup Inc., Research Division - Director and Co-Head of Americas Healthcare Research

Rivka Regina Goldwasser Morgan Stanley, Research Division - MD

Robert Sohngen Cottrell Cleveland Research Company - Research Associate

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

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

PRESENTATION

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

Good morning, and thank you for joining us for Humana's 2021 Investor Day. I'm Amy Smith, Vice President of Investor Relations. Before we begin, I want to direct you to the Investor Relations page of our website, humana.com for a copy of the slides that are accompanying today's presentation.

Importantly, we encourage you to reference the detailed footnotes for the slides as well as the speaker bios, which can be found at the back of the presentation deck online. Today's event is being recorded for replay purposes, and that replay will be available later today on our website.

Turning to today's agenda. Bruce Broussard, Humana's President and CEO, will kick off the day, followed by a deep dive into our long-term strategy. The day is divided into 4 main sections: Building Trust & Engaging Members, we'll then move to Health Plans, followed by our Healthcare Services businesses, and we'll wrap up the day with Driving Long-Term Sustainable Value. There will be multiple question-and-answer sessions with industry analysts throughout the day. Bruce Broussard will join the Q&A session at the end of the day. Given the number of analysts that cover Humana, we ask that each analyst limit themselves to one question.

Before I turn the day over to Bruce, I need to advise participants of our cautionary statement. Certain of the matters discussed today are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the detailed risk factors discussed in our latest Form 10-K, our latest Form 10-Q and our other filings with the Securities and Exchange Commission as they relate to forward-looking statements, and to note in particular that these forward-looking statements could be impacted by risks related to the spread of and response to the COVID-19 pandemic, including the potential impacts to us of certain factors discussed during the company's first quarter earnings call relating to the impact of the pandemic on risk-adjusted revenue and medical utilization.

We undertake no obligation to publicly address or update any forward-looking statements in future filings or communications regarding our business or results. I would also note that today's production is compliant with all current CDC guidelines for COVID-19 safety.

And with that, I'll turn the event over to Bruce Broussard, Humana's President and Chief Executive Officer.

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

Thank you, Amy. And I want to welcome everybody to our event. I think you guys will get a lot out of it. And also, I want to thank everybody for their support over the years. I know we have many investors that have been with us for a long period of time, and I appreciate both your counsel and your continued belief into the company.

At the end of today, and there's really 3 points we want you to take away from. One is our core business is strong. If you look at our industry-leading growth from a membership point of view, our member satisfaction, our quality scores, our health outcomes are all strong and leading the industry.

In addition, we're going to talk extensively about our platform and how it can be accessed -- excuse me, other markets and provide another growth opportunity for us as an organization. And then as you've seen over the years, are focused on operational excellence, our capital discipline has generated and will continue to generate long-term sustainability. And these 3 messages, I think you'll see interweaving throughout the presentation. But before we get to the actual strategy, I thought it would be helpful to provide some context of how our strategy supports the industry changes.

We all know that the health care system is complex and costly, and it does not meet the needs of the customer. You can see this in the dramatic growth that's growing faster than GDP in the health care spend, but also you can see it in the health system complexity. I saw that just recently in a conversation that we were having with one of our members in South Carolina. She's an individual that lived in a trailer. She had an amputation. Her wound sores were continuing to become more complex.

In addition, she did not have enough ability to support her prescriptions. Also, she had the ability -- inability to have mobility. She did not have a ramp, and she had intermittent electricity. For her, that right side of the slide is complex. It's an environment that she can't afford her medicines. It's an environment she has no mobility, and the system itself is working against her.

Obviously, as a Medicare Advantage member, a Humana member, we were able to help her. But the interventions were required for her to coordinate her care. We're able to get her an electrician to help her with her electricity. We're able to get her a social worker so she could help afford her prescriptions. We could also get her home health care to help her with her wound sores, and at the same time be able to build a ramp for her to be able to have mobility. But this does not happen in the normal health care system today.

In addition, as we look to the future, it's not getting easier. The demographics continue to grow, both in age but in complexity. Today, an average senior has 2 chronic diseases or more with 40% of our seniors having greater than 4 chronic conditions. So the complexity only increases as people's health complex increases. So as we think about this, there are positives that are happening in the industry. We see technology continuing to evolve, the sharing of data through interoperability, through standards like fire, Internet of Things continue to penetrate the health care system, creating more proactive and easier accessible data that's driving analytics.

In addition, we see beyond just technology, the evolution of value-based payment getting to change the conversation about volume to value and outcomes. It can be as simple as readmission penalties to more complex as full risk payment models that we see value-based being able to affect both the positive outcomes of care and reducing cost. But these changes, technology and value-based payment models, are going to change the structure of health care, move health care to move from an institutional setting to more and more -- to more convenient and less costly settings, such as home, digital, primary care clinics in addition, we also see who does the work evolving from a very specialized training to more generalist, both because of the enabling of analytics to help, but in addition, the continued focus on being more proactive and preventative in health care.

And as we see about the demographics and we see these changes happening from technology point of view, we see a bright future in health care coming -- going forward. But that future is only able to be addressed where we believe 3 core capabilities are required: to have a holistic health; outcome-driven operating model to be customer-centric; and to be able to integrate a local health care system. And these capabilities are really to drive a more holistic and proactive health care system. We've seen this in some maturity with our Medicare Advantage program here in the U.S.

Medicare Advantage has penetrated the Medicare beneficiaries over the last number of years today, reaching close to 40%. Medicare beneficiaries are in Medicare Advantage. Of about a decade ago, it was in the teens. The reason why more and more people are choosing Medicare Advantage is a result of the value proposition that's offered. The increasing value proposition is a result of both the customization to certain segments and in addition, the expansion of benefits such as over-the-counter transportation, such as the ability for you to receive food cards, in addition the ability for other social determinants of health. But on top of that, it's also the ability for affordability, such as zero-premium plans, the ability to include dental and vision. And so the ability to customize and to create an affordable plan in Medicare Advantage is a result of the savings that have provided in this more proactive and holistic care.

In addition, the ability to offer these affordable plans and customize has allowed us to serve more members that are in need, more segments that are under-resourced. And so the combination of being consumer-driven, oriented to payment for outcomes and the ability to customize it is really driving a new health care system, a system that's more proactive and holistic. We at Humana believe in this holistic care. It's at the grounding, the tenet of our strategy. And today, you're going to hear a number of different aspects of holistic care. And as we think about the platform that we've built and continue to evolve, it is around delivering health outcomes and simplifying the health care system.

Our platform that we will be talking about today is going to include contemporary technology. technology that is facilitating the integration, scalability, speed and flexibility. It's a technology that is not about transactional system. It's about an enterprise platform, a platform that offers 360 view of your customer, data analytics that allow you to be much more proactive and a digital experience that is simplified. We're also going to talk about our customer-centric culture, our brand around human care that has empathy, simplification and personalization.

You're going to hear how we've evolved from focusing on just the service within a department to servicing along the customer journey, utilizing customer-backed insights. Utilizing that customer-backed insight is also allowing us to create segments that were offered -- able to offer more customized solutions to customers that are in need.

In addition, we're going to talk about our care coordination platform and how it's evolving from a singular event, an intervention by one person to a team-based care with disease-specific pathways, enabled by technology that is able to orchestrate this. In addition, we're going to talk about the local ecosystem. It really has 2 prongs to it. One is around building deep, strong provider partnerships with the existing health care system to allow them to convert and evolve to value-based payment models, utilizing technology that we offer them, resources and insights for them to make effective decisions.

In addition, complementing the existing health care system, we are also bringing providers that are focused on high-value services, services that are preventing downstream events like hospitalizations and emergency room and specifically in areas like primary care, home and pharmacy. And

so, we will talk in detail throughout the day about these items. But I think you will walk away saying it is a powerful opportunity to enable holistic care being customer-centric and creating a local ecosystem that is driven towards value-based.

Now you're going to hear a lot -- sorry about, here we go -- you're going to hear a lot about the platform, how it's extensible and across multiple attractive growth opportunities. When we look at holistic care, we believe it's broader than just Medicare Advantage, of which Medicare Advantage has and continues to have a great growth opportunity.

But in addition, by offering our payer-agnostic services through our provider offerings, you're going to see that we are now able to expand our capabilities at strong and Medicare Advantage to other parts of the health care system, whether it's in MA for other payers or in Medicare fee-for-service, where they're alternative payment models or even in Medicare fee-for-service. In addition, we will continue to leverage the platform as we have in Medicaid going forward.

But this growth in this platform isn't new to us. The extensibility of it has been demonstrated in MA and not only being able to grow by delegating risk through an HMO model or the ability to grow in a PPO model or even be able to offer customized services in a D-SNP model. We've been able to take this platform and customize it to different segments in the market of MA. But in addition, we've also been able to organically grow in Medicaid taking that same platform, that same technology, the culture around being oriented to holistic care. We've been able to grow a platform leveraging the existing Medicare platform.

Obviously, many years ago, we were debating, do we go into Medicaid organically or do we go in Medicaid through an M&A strategy? We concluded that the strength of our platform would allow us to do it organically and do it in a way that we could pick and choose the markets that we thought were successful. We now are taking an additional extension of expanding that platform and being able to extend it through our CenterWell offering that is bringing together our provider businesses around home, primary care and pharmacy and being able to offer that not only to our Humana members, but also other MA plans and the Medicare fee-for-service, increasing our total addressable market significantly going forward.

And we've seen success in the CenterWell of this integration in the local market where we've been able to improve satisfaction of our customers, decrease the cost of care and improve health outcomes and at the same time, build a stronger -- financially stronger platform. But these platforms, this strategy, this ability to grow is only successful because of highly engaged, mission-driven and inclusive workforce.

Over the years, we've had best-in-class associate engagement, continuing to increase. In fact, a world-leading today at 93%. But in addition, not only engaged, but we have a strong belief of diversity, diversity of thought and diversity of representation so that we not only represent inside our organization from a diverse point of view, but we're also able to represent our customers' diversity through our employees. Obviously, both of these are well recognized, both inside the organization and outside the organization.

But in addition to diversity, we also are diverse in our talent pool. As we continue to move to more clinically-oriented areas, we continue to build strength in our clinicians. As we continue to enable technology, our talent pool has grown engineers, analysts, consumer experience specialists. But at the same time, we continue to build on the strength of our existing operations, the strength of 16 years and more of individuals that have been with the organization driving the operational excellence and the innovation of our organization.

But as I mentioned before, this is not only recognized internally, it has been recognized externally by many of our diversification, of our innovation and our engagement as an organization. But recognizing that culture is an important part. It is also represented in the way we invest in our communities. We've been long-standing in our commitment for ESG. For many, many years, we've been recognized as a leader in ESG. But we realize for our shareholders that ESG is an important part of their investment thesis.

And so in our 2022 proxy, you will see a much more organized and transparent discussion of our pillars in ESG, around diversity and inclusion, health equity and access, data privacy and environment that will not only include more simplified disclosure, but also accountability to the management team for continued progression in this area.

As I begin to conclude my discussion, I want to emphasize that we will continue to invest to enhance our platform in areas like CenterWell, the primary care, our home, our technology and analytics, our member experience, both for the core business and in Author, our newly announced

plan. And these investments would be described as being balanced, where we're trying to balance the short term and the long term. I'll try to also balance how we invest by using M&A, by using the income statement and diluting our current earnings, and in addition, by utilizing external partnerships, both in the capabilities and in capital. And this balance, you'll hear about during the day of how we find that way to optimize the income and the returns for our shareholders, while also creating long-term sustainability.

Our strategy, our core business, our platform in serving markets that are complicated and costly have driven -- and with operational excellence has driven a return that has rewarded our shareholders, both over the last number of years, also continues to grow as you look at our revenue growth and our customer growth and continues to lead an after-tax ROIC. And we continue to believe that these results are attainable for the future, both as a result of our strategy and the opportunity to lead the health care system out of a complex and costly health care system to a system that is delivering health outcomes, making it simpler and more affordable.

So I'll conclude my presentation with an introduction of a video that really highlights what we do every day for our members from the most simplest thing to the most complex thing, and it will put in context of how these capabilities and these platforms come together in serving our customers and improving their health and making the system a much better place. So with that, please play the video?

(presentation)

Heather M. Carroll Cox - Humana Inc. - Chief Digital Health & Analytics Officer

What a beautiful story about building trust. Hello. I'm Heather Cox, the Chief Digital Health and Analytics Officer. And today, I'm joined by my colleagues, Susan Smith and Dr. Mona Siddiqui. Together, we're going to take -- drill down the first 3 components of the strategic pillars that Bruce outlined earlier. You're going to hear a few keywords over this section, human care, how that manifests through simpler experiences and proactive care that ultimately lead to building trust and Humana wins with trust.

Human care is about understanding our customers and taking action to address their most important health care needs so that we can simplify achieving their best health. And technology, data and analytics are enablers of simpler experiences, which in its most basic form is about intelligent routing to drive you to the next best action, whether that's digitally based or in person.

Proactive quality care is what we deliver that drives toward better health outcomes, again, enabled by data and technology. Now since we last spoke to you in 2019, we've made meaningful advances in our digital transformation in health care, whether it's the technical talent we've scaled across our geographies, call that software engineers, data engineers, data scientists, human-centered design professionals or the structural advances like moving our data to the public cloud where we can now build scalable and personalized data products like our longitudinal human record, also known as the LHR.

The proof points on the left actually show the progress we've made in empowering every one of our lines of business to make the transition to digital. And just this week, we had -- we received a great recognition. Humana was ranked #1 by Forrester on its U.S. customer experience index for 2021. The award is recognition that validates our holistic human care approach. And while that's a quality-based recognition, we're also through forms of like the i2b2 award, getting recognition for a technical efficacy and what we're able to build as powerful clinical operating models. And so we're very excited to see the progress all the way around.

And today, you're going to hear powerful examples throughout the next few hours, like the launch of our pharmacy e-commerce platform or our commercial team's partnership with League. And the launch of our digitally-native business called Author by Humana. These are all powerful proof points of true digital transformation at scale.

Now very importantly, our technology approach, our stack, we're taking a platform approach. And we're focusing on data, analytics and experiences. And with partnerships with companies like Salesforce and Microsoft and IBM, we're able to get there even faster. Now why is a platform approach important? It's to achieve these 4 attributes. You see here on the right-hand side.

Extensibility. You heard Bruce talk about this concept. It's where we're getting the opportunity for speed and scale with a build once and then extend those same services across multiple lines of business. And we talk about reusability where we're creating speed to market with more consistent and intelligent experiences across both our plan and care interactions. And you're going to hear Mona talk about how our platform approach enables clinical interventions that lead to more personalized and precise care.

Let's put a quick spotlight here on data and analytics. I want to be very clear, there's no value derived from our technology approach without thoughtful aggregation, organization, synthesis and analysis of the data we have access to. We see the breadth of data available about our members as a truly valuable asset that we can unlock through interoperability. So it starts with connecting the data. And we are proud to be leading the industry interoperability, leveraging fire and other standards-based data exchanges.

And in the spirit of customer centricity, we focus on real-time data, leveraging partnerships like with Epic and athenahealth, where we're establishing fire based real-time member records as well as more accurate provider directories. In addition, we embrace the CMS requirements for interoperability and actually see it as a real opportunity to differentiate with personalized and contextualized services and experiences.

Our aggregated data on the enterprise platform in the form of the LHR is then available to run advanced analytics on that information. And this moves us from retroactive and reactive reporting to predictive and proactive insights, allowing for better interventions in our members' care. Our LHR is also extensible and reusable across numerous care delivery, care management and planned use cases. The LHR also powers Author by Humana.

We then integrate advanced analytics into workflows and that actually gives us scale in our transformation efforts. Our machine learning platform is a homegrown and allows our data science community to build reusable machine learning models. In fact, we have a feature store with nearly 20,000 features available at any moment for our data science community to tap into, and it's growing every day. We use structured and unstructured data like natural language processing to close gaps in care and increase the shift of our member touch points to digital. And while we have multiple examples showcasing the power of analytics integrated into workflows, I'm going to actually turn it over to my colleague, Susan Smith, from the retail organization to talk about how technology unlocks simpler experiences, proactive whole-person care that leads to trust.

Susan Smith -- *Senior Vice President, Retail Management*

Thank you, Heather. Hi, I'm Susan Smith, Senior Vice President for Medicare. As Heather and Bruce both described, contemporary technology and data platforms create the foundation for trusting, engaged relationships. I'm excited to share with you today a few examples of how we're creating simpler experiences for our members, building on that foundation with integration, personalization and whole person health. Simplifying the consumer experience is essential to providing human care. By delivering predictable and understandable health care experiences, we can help our members achieve their best health.

Across the enterprise, we're developing -- or we're adopting a consumer-centric operating model, which means we're now looking at the member experience. We're shifting from individual transaction, department-specific experiences into a more horizontally integrated pathway of customer journeys. Essentially, we're looking at health care the same way our members are. And we're empowering agile teams of associates closest to the customer to really drive that change using agile sprints across -- cutting across business units and operating units. And to support these teams, we are creating or adopting technology platforms, as Heather described, and one of them is our consumer experience centered platform. This essentially unites every interaction for our members across all channels and all assets. So no matter the entry point or connection point, whether it's sales, service, clinicians, our members will experience a seamless omnichannel engagement on their terms.

We want health care to work for everyone, meaning benefits and experiences that are personalized, caring and easy. Over the last few years, we have really taken this approach and made progress developing differentiated solutions for key consumer segments. We optimize our benefit structures by listening to what consumers want. We communicate in ways that resonate. We build relationships at the grassroots level within the communities. And we culturally match our members with associates, who can help them.

Our work to better serve the 9 million Medicare eligible military veterans in this country is a great example of how we've applied these principles. Most veterans have access to prescription drug coverage through the VA. So our honor plans are a Medicare Advantage-only designed benefit

that pairs with their existing drug coverage. This allows us to provide benefits that matter most to our veterans. Most of our plans include zero-dollar member premium responsibility, rich dental benefits and affordable fixed cost for urgent care, all of which veterans have said matter most.

From a grassroots standpoint, we have our veteran community engagement executives, who are grassroots, boots on the ground within our communities, engaging with our veterans to support their health and well-being. And their efforts are amplified by our exclusive relationships with our veteran service organizations like VFW, AMVETS, DAV. And in the last few months, we have created a veteran specific, specialty trained staff of more than 50 associates who are veterans, spouses of veterans and veteran allies to serve this population. This means every day, they are able to create authentic connections with our members.

We recognize that some segments within the population have a lower Medicare Advantage penetration. So we -- example of this would be the Chinese and Korean population. So we believe that continuing to focus on personalization and customization for these key segments that we will be able to accelerate growth in the industry and specifically at Humana.

Putting ourselves in our member shoes has helped us go above and beyond what is expected of health insurance and deliver more than just low cost and great benefits. We're proud to be part of an industry that is trusted by lower income Americans and ethnic and minority -- racial and ethnic minorities to deliver quality, affordable health care. And as we serve these communities, our bold goal and our commitment to help equity are north stars to guide our approach.

We operationalize this commitment through a whole person approach to social determinants of health and health-related social needs. A great example of this is 93% of our dual eligible. So those who are Medicare and Medicaid eligible who are enrolled in our dual special needs plans, they have access to our healthy foods card benefit, providing them with a monthly grocery allowance to help them maintain food security.

Another example would be our response to COVID. We were able to quickly apply our values and core capabilities in this unique, unprecedented crisis. In addition to expanding our healthy foods card benefit, we also offered zero-dollar co-pays for testing and treatment of COVID. We delivered over 15 million masks in member safety kits, and we delivered over 1 million meals to COVID-positive members and other members who had limited access to food.

We continue to pursue a health-oriented future for the industry. Another example of pushing this frontier is Author, a new holistic experience we are piloting on select plans. Over time, we will expand Author's availability and apply our learnings and best practices across Humana. Author really brings together the key elements of trust, contemporary technology and data, simplifying experiences for our members and proactive care, all in one. It really demonstrates how the elements reinforce each other. Contemporary technology gives our care advocates visibility to our members' needs. Those care advocates can then provide simpler experiences for our members. And by doing that, they build trust. And once we build that trust, we really unlock additional opportunities to provide proactive care.

I'm now going to turn it over to my colleague, Dr. Mona Siddiqui, who's going to share more with you about proactive care.

Mona Siddiqui - Humana Inc - Senior Vice President, Clinical Strategy & Quality

Thanks, Susan. Good morning. My name is Mona Siddiqui, and I lead Enterprise Clinical Strategy & Quality for Humana. Humana's platform with its significant investments in the longitudinal human record and its really industry-leading capabilities in data and analytics enable us not only to deliver on proactive experiences and products, but really to win where it matters most, to identify proactively the needs of our members and to earn their trust by partnering with them throughout their health journey.

Our clinical strategy is focused on delivering on improved health by designing simplified and proactive models of care, really embedded in 3 core principles. First, sustained engagement and trust are built through having the right care team in place. Second, proactive models of care need to provide effective and evidence-based care while avoiding complications and low-value care, core to managing chronic conditions longitudinally. Third, we know that the health care ecosystem leaves many, but particularly our seniors feeling like they lack a sense of control over their own care.

Our proactive engagement and care strategy really create trusted relationships with our members and give them a sense of control over their own care that leads to sustained engagement in their own health, enabling us to deliver on those improved health outcomes and really propelling us to deliver on our human care promise. The foundation for this has really been our unwavering focus on having the right information at the right time, powered by the longitudinal human record.

Our ability to connect information from across Humana's ecosystem and to leverage both traditional and nontraditional sources of data really enable us to take a much more nuanced approach to segmentation to use our predictive modeling capabilities and real-time data to surface the right members at the right time and to connect them to the correct set of interventions or intervention. And those could really range from addressing things like social and behavioral health needs, to connecting them to services into home, pharmacy, primary care or the partners on Humana's platform, similar to the story of the member that Bruce shared at the top of this presentation.

The extensibility of Humana's platform allows us to integrate care around the member from across Humana's ecosystem whether those are our owned assets, our health plan or the partners on Humana's platform. By leveraging high-frequency touch points from across this ecosystem, it enables us to have a connected view of the member back into the longitudinal human record and allows us to build deeper relationships with our members regardless of where they may be in that care ecosystem. This connectivity is a key differentiator for us and really enables us to deliver on improved outcomes and quality.

The capabilities that we're developing in population health, value-based care, technology and our assets allow us to win not only in Medicare Advantage, they are extensible to other lines of business, to different markets and products. You will hear this later today during the presentations from our Medicaid, Employer Group and Healthcare Services segments.

We also know that integrating care around the member improves health outcomes. Diabetic members that have used the Humana pharmacy have more than a 20% reduction in admits per thousand. Members that use the Kindred assets have more than a 10% reduction in avoidable -- in readmissions. Members in our proprietary primary care assets have more than an 18% reduction in avoidable admits per thousand. Designing proactive care models and integrating care around the member delivers value for both Humana and for our members.

Humana's platform approach also allows us to take an incredible rigorous approach to the development and refinement of these care models and to take a continuous test-and-learn approach to the interventions we deploy, how we deploy them and the populations for which they are applied. For instance, as we make that information real-time on a member, we can take our approach to segmentation and our predictive modeling abilities to identify the right intensity of assets that should be deployed to meet that immediate member need, but also that maximizes our opportunity for sustained engagement, trust and improved outcomes.

Once we deploy a program, we are continuously looking at the outcomes to understand whether we should scale that program, refine it or sunset it. This ability to quickly understand what's working and what isn't working can feed back into the longitudinal human record and enables us to rapidly and efficiently generate value for Humana and for our members. I'll close with a story that I think captures how these capabilities really came to life last year at the height of the pandemic.

As you'll recall, we're not too far away from this. Seniors were particularly vulnerable and afraid to leave their homes. There was an incredible lack of availability of testing as well. This was really the impetus for Humana to be the first payer to launch an at-home testing program. The program was quite simple. There were a set of online questions followed by the ability of the member to request an at-home test kit. As we were tracking the outcomes for this program, we saw that there was a drop-off in the members answering questions, but not necessarily getting the test kit.

We did targeted interviews and user feedback quite rapidly and got the feedback that members actually were confused by a call-in number that had been provided at the end of the questions. They, in fact, wanted an end-to-end digital experience in the way of Amazon. They didn't -- they weren't looking to speak to anybody. We were quickly able to pivot and to launch this program across all lines of business. For me, this example is emblematic of the extensibility and reusability of Humana's platform, and the platform enabling us to deliver on our human care promise.

I'll now hand it over to my colleague, Alan Wheatley, who heads the Retail segment for Humana.

T. Alan Wheatley - Humana Inc. - Segment President of Retail

Thank you, Mona. I'm Alan Wheatley, President of the Retail segment. George Renaudin and I are going to give you a broad overview of our Medicare and Medicaid business. And Chris Hunter is going to talk about our Employer Group and Military business. You heard we just heard Heather, Susan and Mona talk about leveraging data and analytics, talked about leveraging segmentation and consumer experience platforms and then creating health outcomes through clinical investments. I want to talk to you a little bit about how that comes to life in a deeper way in our Medicare business in particular.

But first, just a broad overview, our MA business thesis is simple. We get paid what it costs CMS to provide the traditional Medicare benefit to the original Medicare beneficiaries. So for us to have a business, we have to take that payment and improve the way health care is delivered to our customers, such that those customers receive proactive, higher quality care that allows those individuals to have better outcomes and improved health. Those better outcomes, that improved health creates a delta between our revenue and our cost.

And in MA, we're able to use that delta to fund a variety of things. One, and most importantly, it allows us to fund improved benefits such that we have a broad value proposition that customers find attractive. Two, we need to be able to fund providers in a way that's different than the original Medicare program funds them today. And we have over 3 million members tied to value-based providers. Those providers get paid on an equivalent Medicare basis, 50% higher through our programs than they would performing the same services in original Medicare. So our providers get paid for the value that they provide to their customers. And using that delta to continue to fund providers is an important aspect for us and an important aspect broadly in the success of MA.

And then lastly, we need to be able to pay for our investments, investments that Mona talked about, that Susan spoke to, that you heard Heather talk about, to continue to advance our calls, continue to find new and better ways to leverage data, to have better experiences for our customers and do have better clinical programs. So our job is simple, at least it sounds simple. We have to improve the health of the customers we serve. The execution is very, very difficult.

And for us at Humana, again, we help our customers navigate a complex system that ensures they are connected to the best health care providers such that those members can stay healthier and engage more and engage in the system appropriately. It's through these actions that we create consumer loyalty and we create consumer engagement that allows us to connect those customers, our members with other products and services that create value for them and value for us.

Mona talked about the impact our mail order pharmacy can have. Well, when we have loyalty and engagement, we can connect more members to our mail order pharmacy, deliver medications to members in their home. We can connect our members to or provider -- our owned provider assets -- our own provider assets, and George will talk about this, deliver better care and better outcomes than just an average value-based provider.

And then finally, the home business. Through our acquisition of Kindred, there's a great opportunity to connect our members to better health care providers, better -- and better leverage the home. All 3 of those scenarios are situations where our members will get value, will see improved health outcomes and Humana is able to leverage their platform to deliver better care and better financial returns.

The Medicare Advantage program broadly continues to deliver high-quality and consumer-centric health care. Medicare Advantage today, the products are more comprehensive than ever before. As you think about investments companies have made in dental, vision, hearing, transportation, fitness, Humana's advancement of the healthy food card, over-the-counter medications delivered, all of these features of an MA health plan help enable independent living and help address social determinants of health, just using transportation and healthy food card, access to healthy quality food has 2 very strong examples.

So MA products have never been more comprehensive than they are today. MA products deliver more value than they ever have before. We had a slide in 2019 Investor Day that showed customers in MA, on average, receive \$1,200 a year more than the original Medicare benefit. Today, I'm happy to say that, that number is over \$1,600. More members get more value, more members have access to zero premium plans than ever before. If you think back a few years ago and compare your health plan today to what it was a few years ago, I might ask, are you seeing more value at

lower costs? Well, members in MA are and they're continuing to do so. If you apply that \$1,600 to the 27 million members in Medicare Advantage, that's over \$43 billion of value that Medicare Advantage members receive relative to original Medicare.

Medicare Advantage is delivering better health outcomes and higher quality than ever before. Recent studies by the better Medicare Alliance have shown that Medicare Advantage has an approximate 25% reduction in acute admissions to the hospital. So just taking Humana's membership alone, 4.9 million members, a 25% reduction relative to original Medicare. Our members spent 1.5 million more days in their home, in the community than they otherwise would have in the original Medicare program, 1.5 million more days of health. That's what our members received.

The MA has an approximate 35% reduction in ER visits relative to original Medicare. A recent study also shown that Medicare Advantage members had a 20% lower mortality rate. So our members are getting tremendous value, not in terms of just benefits, but in terms of health and in terms of overall quality of life. And that's just not the Humana, that's the industry. So the industry is thriving and continues to thrive. And as a result of that, because of the quality and value we deliver, Humana -- Medicare Advantage is one key program in Washington that policymakers can agree on.

MA has broad bipartisan support that I would argue is viewed as a critical pillar to the federal government's efforts to address health care affordability, to address health care outcomes and to address equity challenges. I've been in this business a very long time. I remember 20 years ago, Medicare Advantage plans tried very hard to look like original Medicare to think about how to pay like original Medicare and to operate like original Medicare. Providers in those days were much more accustomed to original Medicare, and they wanted programs and they wanted health plans to be able to operate that way. I would argue that dynamic has completely flipped.

Original Medicare looks to Medicare Advantage companies for ways to improve the original Medicare program. Think about 10 to 12 years ago and what the original Medicare program did to try to manage financial payments and payment integrity. All those programs were based on Medicare Advantage plans. And original Medicare is saving hundreds of millions of dollars a day as a result of those programs. Think about the last 5 or 6 years and what CMMI has done and has been doing and what CMS is doing with ACOs and other value-based plans, the geographic payment models that have been talked about. All of those are variance of the value-based model that all came out and started with Medicare Advantage. So we continue to demonstrate as an industry and Humana as a company, how to lead the way in terms of how to interact with customers, how to interact with providers and how to provide high-quality, affordable health care.

And as a result of that, consumers continually choose MA, 27 million lives, 42% penetration rate. If you run out the last couple of years of growth, a CAGR of 10.8% versus an original Medicare membership growth rate of 2% over the same period. By 2025, the MA growth rate or the MA penetration rate could be well above 50%. So MA is thriving. The MA is very healthy and very strong and very widely accepted.

The industry is doing very, very well. I would argue Humana is doing even better. Humana has a 15% -- 14.7% compound annual growth rate over the same period that I just mentioned for the industry. We continue to grow at or above the industry growth rates, and we do it because of our strategy. Because of our focus on providing care and guidance to customers and the partnerships that we forge with providers in the ecosystem -- in the health care ecosystem and our presence inside of that ecosystem. And I'm going to talk through a few key components of that strategy now.

As Bruce said earlier today, our core business is very strong and creates a foundation for our company. That strength is based on a fully-deployed suite of industry-leading capabilities that are very market centric. We have talked throughout the day about how important it is to be a part of the local health care ecosystem. Our leaders live and work inside of that ecosystem and build relationships with the local communities, with the local providers.

Our team is relentlessly focused on quality and outcomes. The example of that is the percentage of members that we have enforced our plans. 93% of our members are enforced to our plans today versus an industry rate of about 79%. Over the last 4 years, from 2019 through 2022, our star ratings and our members and 4-star plans have averaged between 87% and 95%. And that is a relentless focus on quality and a relentless focus on enterprise thinking.

Heather talked earlier about data and analytics, 2 huge keys to our star success, our data and analytics and how we use them and use them in a very interoperable environment to be successful.

I'll give you a couple of examples. One example in the interoperable environment is our partnerships with Epic and athena and eClinicalWorks and Allscripts, where we are porting in through those EMRs into the provider's workflow to provide data back and forth between us and the providers.

Year-to-date, this year, we have had over 100 million records of data exchange of clinical pieces of data between us and providers that are serving our members. Those pieces of data are all based on identifying gaps in care, identifying, as Heather talked about, that next best action for a provider to help deliver better care. So we are creating a less friction-filled environment for the provider and giving the provider more information for them to deliver more proactive and better care to our customers.

Also through data and analytics, we do a variety -- we run a variety of programs, for example, test kits where we mail test kits out to our customers who have gaps in care. Heather talked about the data and analytics. Her organization has helped us build models that have more than a couple of million interactions inside the model and more than 10,000 data elements, all designed at trying to target who has the gap in care, who needs the A1c test kit, who needs the colon cancer screening kit, what are the kits that folks need, how do they like to receive them, how is it best to interact with those customers to get them to understand. We have models that do all those things, and it's all based on data and analytics, and we provide that information and send the test kits out to our customers and port that information to our providers in an interoperable fashion through our relationship with Epic, through our relationship with athena. So all strong examples of how we continue to deliver quality.

Our Medicare Advantage business is strong also because of our relentless focus on value-based providers. Bruce said it earlier today about how we go into the local health care ecosystem, understand it and work with providers in that ecosystem to continue to adapt the ecosystem to provide better care, higher quality care. As I mentioned before, we have over 3 million members that are tied to value-based relationships. And those providers are making 150% equivalent payment in the original Medicare program.

And lastly, before I turn it over to George to deep dive on how we're thinking about our provider value-based care ecosystem, I just want to mention service. And Susan talked about this, segmentation and understanding our customers and the commitment that we've made to building platforms that are interoperable and looking completely across all of the customers' interactions with Humana.

All of those investments and that focus has helped us deliver over the last 3 years a service Net Promoter Score that is 36% higher today than it was in 2018. And as we continue to mature our customer, our CECP platform and other platforms, we will continue to drive better outcomes, better interactions for members, better interactions providers, higher quality and better service.

Now I'm going to turn it over to my colleague, George Renaudin, who's going to speak to you about our value-based provider platform.

George Renaudin - Humana Inc - SVP of Retail East & Provider Experience

All right. Thank you. Thank you, Alan. So I'm George Renaudin. I'm the leader of Medicare for the eastern half of the country. And I also have all the provider contracting assets reporting to me as well as the value-based strategies team and our Humana alliance partners. So Alan talked about value-based care quite a bit. He talked about how it leads to better outcomes. So let me dive in a little bit here.

We believe that if we're going to be successful in changing the health care system, we have to recognize that the provider community is not a monolith. They're large providers and small providers. They are those who are advanced to taking risk and they're those that are novices and just learning. They're large integrated delivery systems in their small mom-and-pop primary care practices. It will be a mistake to treat all of them the same and would do very little to advance their capabilities.

As a result of that, Humana has built very sophisticated capabilities to approach them in a simplified manner. These capabilities allow us to deploy various engagement strategies. Three of our primary, though nonexclusive strategies include, of course, value-based contracts, where we align incentives around quality and member engagement.

We also invest in accomplished providers to help them scale and move to new geographies. And a great example of that is our own CenterWell. More recently, we've been participating directly in CMS' demos and contracting models. I think you'll see that this is an area that we have broadly taken on.

Speaking of CMS, I'd be remiss if I didn't mention that the Medicare Advantage platform itself provides us with the best way to advance value-based care. The reason for this is quite simple, actually. Medicare Advantage provides us with the flexibility, the financial structure and the retail orientation to invest deeply in population health to drive better outcomes and stronger provider partnerships.

So as I said in the provider communities on a monolith, Humana has taken a very diversified approach to our provider partnership strategy. Today, we're now aligned with over 300 clinics in 40 markets, and that's growing every single month. These clinics focus on the highest quality and cost-effective senior care for our members. We team these clinics with local provider engagement executives who are dedicated to the success of those providers. Each and every one of our value-based providers has a Humana engagement person assigned to them who are like miniature P&L leaders for that provider practice.

This diversified approach, we believe, delivers greater value in more markets in a capital-efficient way while also creating supply chain protection and a platform for innovation in integrated care. This allows us to strengthen our engagement with the provider community broadly as well. As we are not simply bringing in new, we're also working with providers that exist in the community to help them move down the value-based continuum.

Our variety of investment models in the multiple ways we have to engage well-performing groups is a different approach, perhaps than some of our competitors. But we believe if we're going to change health care for the better, we need a multifaceted approach. We need to invest in strong regional players, such as Summit in Knoxville, Tennessee, and the Vancouver Clinic in Vancouver, Washington. We need to be involved with and invest in strong national primary care platforms such as we have been in Oak Street and Iora and, of course, continue to expand and grow our owned CenterWell and Conviva provider-owned assets.

So to truly improve the broader health care ecosystem, and Alan talked about the ecosystem quite a bit in his commentary, it will take an all-in approach, we think. We think it's this all-in approach that's going to make a difference for our members and for the broader health care ecosystem. Alan mentioned that we've grown 1.3 million members since 2018. And I'm happy to say that with that growth, we've been able to expand our value-based membership and maintain 67% of our members in value-based care.

And if you look at this chart, it's not a surprise as to why we do that. You can see that as memberships are aligned with providers further down the value-based continuum, you can see that every measure of value improves. All the quality measures improves, financial performance improves, all these measures improve as you move down the continuum. But it's not just the quality and financial measures that we are now seeing improvement. Alan mentioned Net Promoter Score. We've been following Net Promoter Score quite carefully for the last few years.

One of the things we have found is that our membership assigned to providers further down the continuum also have a dramatic improvement in their Net Promoter Score. So how do we do that? Well, one way, of course, is the contractual arrangement we have with our value-based providers, where now 87% of our value-based providers are receiving surplus payments. Alan mentioned that 50% or more earning 150% of what they would have in traditional Medicare.

So our sophisticated capabilities support our providers and help them to succeed. One example of that is the partnership that Alan mentioned with Epic and others such as athena and eCW, which promotes direct integration with provider's EMR. This isn't just us sending information provider and then sending the information back, it's complete integration directly into the provider's EMR. We're setting this up in a payer-agnostic way. And that payer agnosticity is important, Heather talked a little bit about this as well, because it aligns with the provider's interest.

We would be wrong to think that we can, on our own, make this change without completely aligning our interest with those of the providers to provide highest quality and best outcomes for our membership. We've already exchanged just through the Epic platform alone in this push and pull way where we're exchanging directly into the EMR 18 million member encounters through Epic alone. Our engagement team supported our providers in just innumerable ways during the pandemic. They provide, in many instances, financial support -- direct financial support that help providers some of our best primary care providers get through the pandemic.

We provided many tools and resources to them. We help them with reducing the administrative burden in many instances where we've removed some of the things that we do to interact with them in a way that takes up their time and bandwidth while they were trying to deal with the

pandemic. But we also, importantly, help them in their shift to telemedicine and this shows in the results. For our providers who are in full value contracts, they have a 65% higher utilization of telemedicine visits than their fee-for-service peers.

And lastly, and very importantly, is an example of tools we provide, Heather's analytics area and digital area has helped us develop Population Insights Compass. Populations Insight Compass enables Humana associates and the providers that we are contracted with to manage membership from unified source. Through Compass, our providers can close gaps in care. They can prioritize what interventions are the next best intervention to take and also view how their financial performance compares to market benchmarks.

But it's not just the data and information. As I said before, we have on-the-ground teams that are dedicated to each and every one of these value-based providers. And many of our providers tell us what's critical to their success has been the transparent data information we provide them through Compass teamed with their engagement person that works directly with them and helps them figure out the next best action. Lots of people provide these providers with data. We team that with resources and tools to specifically help them figure out what's the next best action to take.

Right now, we have 1,500 monthly provider active users of Compass who've downloaded over 65,000 reports. Compass has just been an enormous game changer for the way we interact with our providers.

But to continue to lead the industry improving the quality and total cost of care, we must do even more. We have to put our members and PCPs at the center of our model, supporting them through local flexible engagement models and investments in people, processes and technology.

In addition to continuing our work to evolve the value-based health care ecosystem, Humana is integrating its insurance and clinical capabilities across various modalities and sites of care, including the home. Driving this through the ecosystem will not only return value to our MA business and unlock new profit pools, but the integration of our capabilities across the enterprise will provide a platform to improve the health and well-being of many more individuals and communities beyond our MA membership.

Coming up soon, you'll hear from my colleagues, Renee Buckingham, Susan Diamond and William Fleming about how primary care, home and pharmacy strategies will drive value through the entire health care ecosystem. I turn it back over to Alan Wheatley now.

T. Alan Wheatley - Humana Inc. - Segment President of Retail

Thanks, George. I love what we're doing in the provider space. It truly is the biggest differentiator we have as an organization just in terms of how we operate and how we embed ourselves in the ecosystem and continue to adapt it.

Before I turn it over to Chris to talk about the Employer Group and Military segment, I'm going to cover our Medicaid business. I'm going to take you back to the 2019 Investor Day, where I stood up on stage much like this, although there were people in the crowd, and talked about our Medicaid platform, how we believe we were ready, how we believe we have the capabilities to compete in the market. At that point, we had just Florida and Illinois were the only 2 markets that we were in.

And during the Q&A, all the Medicaid questions were about, well, when is Humana going to acquire a Medicaid company? So I walked away from there saying, I didn't do a very good job convincing folks that we had a platform where we could compete and grow organically. I am proud to say that we've made significant progress on our ability to compete and grow organically over the last couple of years. We've moved outside of just Florida and Illinois, adding the complete Kentucky contract where we are operating it and taking risk. We've added Wisconsin contract that we are very excited about, especially knowing that Wisconsin is an integrated D-SNP state.

We are going to have our first membership in South Carolina, a Medicaid contract that the state was lucky enough to -- or we were lucky enough to be awarded from state in July, August time frame. And then the recent announcement in Ohio, we're very excited to be able to serve the needs of Medicaid recipients in Ohio. So we believe in our ability to continue to grow this business organically. And we believe that states are looking for differentiated solutions and that we provide those differentiated solutions. And I'm going to get into a little bit of how we think about what those solutions look like.

So for us, and Bruce talked about the extensibility of our platform, our Medicaid growth is exactly that. It is a perfect example of the extensibility of our platform as we think about the populations we serve and we think about what we need to do in Medicaid to be very differentiated. Our Medicare approach is and has been very applicable to Medicaid and has been very well received by our state partners, leveraging Humana's strong capabilities in population health, in chronic care management and in value-based payments have been key differentiators for Humana.

As I think about and look broadly at what state Medicaid agencies have been clamoring for, for the past decade and where organizations have been weak, it's in provider partnerships. It's in delivering value-based relationships, it's in understanding the needs of the local community and managing population health and it's been in chronic care management. It's been in understanding and working in the local market and having a local market presence.

We've been able to leverage our adult care approach to differentiate ourselves in Florida and become a trusted adviser to the state. Over 40% of our Florida membership are in full risk value-based relationships, where we're working within the local community and engaging with providers and paying providers for the value that they provide to their patients, to our customers and to the state beneficiaries.

Again, leveraging data and analytics and taking a population health approach using community health dashboards and other analytic tools, we've been able to make targeted investments with community organizations and other key stakeholders that solve state's health care needs and health care gaps. I'll give you a few examples. Partnerships with community organizations in Ohio were critical to our winning that award. Partnerships with Volunteers of America, the National Alliance on Mental Illness, local food banks, centers for respite care, just to name a few. I'll just give you one example in Ohio. There is a program that's called Food is Medicine, where we partner -- where we ran a partnership or forged a partnership with clinicians who were working and running that program where members can subscribe to a 6-month program that provides weekly food boxes for their entire household.

So we are closing social determinant of health gaps, getting providers better connected to beneficiaries, which is -- can be very difficult in Medicaid and requiring as a part of the program that the entire household gets the appropriate number of screens and get connected to see providers on a regular basis. So it's a way to improve their health by helping ensure we close a social determinant gap and by getting them connected to quality providers in the community that help improve their health. Again, this thinking, the data and analytics, the models, the population health approach was all the approach that we've taken in Medicare and how applicable that we're making it to Medicaid, leveraging all the capabilities that you heard my colleagues talk about earlier today.

If we want to continue to grow, we have to continue to advance our capabilities and continue to demonstrate 2 states that we are currently their best partner and are prepared to be their best partner in new states. And I think about that across 3 different vectors. Number one, we have to flawlessly execute where we operate. We have to continue to demonstrate to Florida that we care about the same programs they care about. We're going to manage the operation. We're going to improve access to care. We're going to get more members connected to value-based providers.

We have to approve the South Carolina and Ohio that we know how to implement a state flawlessly. We know how to meet all the requirements, we know how to pass readiness reviews, we know how to prepare our network and we know how to connect with providers in a way that they're proud of choosing Humana as we implement those programs. But it isn't just about the existing programs we have. We have to continue to develop and apply our enterprise capabilities.

You heard Mona talk earlier today about behavioral health. I can't think of a bigger opportunity to improve the health of Medicaid recipients than advancing behavioral health capabilities for Humana and for the industry. And we're going to make some investments and have been making investments and we'll continue to run pilots in some of the states in which we do business to advance our behavioral health capabilities and then take those capabilities to the state to ensure they understand what we're doing to improve health care and what we're capable of doing going forward. And then we'll be thoughtful and strategic about new opportunities. We will not bid on every state RFP that comes out for Medicaid.

We will continue to be thoughtful. We will look for the best states that fit our footprint, that fit our ability to improve how health is delivered, that fit our desire to continue to advance value-based relationships and that we want to partner with states that want to partner with health plans. So we'll look for states that have the right kind of health plan environment, a right kind of stability in terms of right environment. And that's our

approach to Medicaid. Very proud of the progress that we've made. We've got to continue to execute, but there's a great opportunity here to continue to advance health and continue to grow our enterprise through our Medicaid platform.

Now I'm going to turn it over to my friend and colleague, Chris Hunter, to talk about Employer Group and Military.

Christopher Howal Hunter - Humana Inc. - Segment President of Group & Military Business

Thank you, Alan, and good morning. I'm Chris Hunter. I'm the President of our Employer Group and Military segment, and we are so grateful to be able to serve over -- almost 20 million members in the United States across 45 different states. And I'm just going to break down quickly the 3 components of our segment. One thing I would say at the outset is having that many members really gives us an opportunity to pull through so many of the investments and the clinical capabilities that you've heard about earlier today and will continue to hear about in the next section as well.

But there are 3 parts of our business. The first is Employer Group where we offer both fully insured and ASO medical coverage. Our legacy, our heritage, really a small group, serving those smaller Employer Groups with under 100 employees, and we are increasingly looking to expand to large group coverage and to move further upmarket, which I'll talk about here shortly. But you can see in light green, we're in 15 states in Employer Group, and we have 1.2 million members in those states.

In the Specialty business, where we think there is really nice linkage with Employer Group, and we really think that's a differentiator and is going to help us grow our Employer Group. We offer dental and vision coverage. We serve both employers as well as individuals with or without Medicare, and we have over 12 million members in Specialty. You can see this is an incremental 30 states to the 15 that we just discussed earlier, you can see in dark green that these are Specialty states that round out our footprint of 45 in total.

And then finally, our Military business. We are so proud to serve the Department of Defense, where we are the #1 health contractor for the eastern region of TRICARE. And so we are servicing 6 million members in the 32 states that you see in light blue in the bottom right of the screen.

So I'm going to go to the next slide and really address the question, why is this segment important to Humana? And there really are several reasons. You heard Heather earlier talk about this lifetime trust builder. The ability for us to build trust with our members is such a differentiator across the enterprise, and our segment is no different.

Last year, we had 27,000 Specialty and Employer Group members that aged in to Medicare and chose an individual Medicare Advantage product and helped Alan grow his business. That ability to build trust with an under 65 population and to bring them along in the life cycle of Humana to have that first experience to leverage so much of what you heard earlier about human cares and to show up and to demonstrate all the many positive things about Humana to our members before they turned 65 is a real advantage. 27,000 last year, we think this can be 100,000 over time and are working very hard with the rest of the enterprise to make that happen.

Local market relevance. George was just up here before talking about our provider relationships. Providers want more commercial business because it has higher margin. And when George and his team are out negotiating, our ability to grow our segment provides significant opportunity for George in those negotiations. And we want to make sure that we continue to have that local market relevance.

Leveraging enterprise investments across our 20 million members, whether it's our clinical capabilities, our analytics capabilities, our consumer-centric capabilities, that is something that you will continue to see from us in the years ahead as well as leveraging the significant IT investment that we're making as an enterprise.

And then finally, enterprise financials. We contribute meaningful intercompany pretax and fixed cost absorption, which is very important to the broader enterprise and something that we feel really good about our strong financial performance here to start the year and are excited about our ability to continue to contribute moving forward.

On the right side of this slide, these are some examples of some ways that we can continue to build not just growth, but sustainable growth over time. So strategic use of capital, I would say that we are very, very focused on leveraging those geographic markets where we can be most competitive and putting out a set of products that we can invest in and that can be very competitive. So you see in the bottom right of this slide, a couple of examples of some recent innovative partnerships that we've made that we're really excited to talk about.

The first is with Allied, which is a Chicago-based independent TPA, which has a myriad of various capabilities. They're backed by Sound Point Capital, and we think that there is all sorts of opportunity for us to partner with Allied and move further upmarket for the benefit of our customers and to look for opportunities that maybe otherwise we would not have an opportunity to pursue and ultimately win. Allied has a number of capabilities we don't. Tier networking is really one good example of that. And we are continuing to work with them on a daily basis to choose accounts where we think we have a right to win and to partner together to make that happen.

League is a second innovative partnership, a technology company that's also based in Chicago, that just last week, we announced an exciting partnership with. One of the things that we hear in the market all the time from our Employer Group members is that as members navigate the health care system, there are so many disparate point solutions that it just makes the member journeys very clunky and difficult for the members. One of the things that League will provide, they have a technology platform that helps us bring all of that together and create a much more seamless experience for our Humana members, pulling together care, clinical capabilities as well as our wellness capabilities, all for the benefit of the member and a very seamless experience that will be differentiated over time. And we think that this differentiation is important.

Alan talked a little bit about the improvement in Net Promoter Score. We have clearly seen that.

It's been a focus across the enterprise, and our segment is no exception. You can see in green here, we are so pleased for the second year in a row to just have been named by J.D. Power as the #1 in member satisfaction across all commercial health plans in our 2 most important states, Florida and Texas. And we were actually not just #1 overall, we were #1 in all 6 measured factors whether that was communications, enrollment and billing, et cetera. So we are just really pleased to have won that award. I think it's also going to enable us to continue to move this segment up market.

We announced 2 years ago at our Investor Day, our partnership with Accolade in Seattle. Accolade has been a fantastic partner for us. We actually invested in the company before they went public. Accolade has subsequently worked very closely with us on 3 different integrated product offerings where today, we have over 1,000 customers that are leveraging their capabilities and they are working with us together over 150,000 members, and we see that as a really differentiated way to grow. They have such a unique navigation and advocacy set of capabilities.

Another example in the center, on hand, we actually put together the first, the very first virtual health plan in the United States before COVID. That product is really taking off now. We partnered with Doctor On Demand a few years ago. And what happens is that it's unlimited primary care and behavioral health for the benefit of our members. So these members receive a test kit in the mail. They receive a blood pressure cuff, a pulse oximeter, and they also receive a thermometer. And they are able to then interact with unlimited visits and that increasingly, in this environment, just with the surge in telehealth coming out of the pandemic, we see as a really interesting and popular choice that is really beginning to take off in the market.

And then I also wanted to reference our home capabilities. Obviously, Susan will talk about Dispatch later, where we made an investment as an enterprise. But home-based urgent care is something that we are hearing from employer groups that they are very interested in. So our ability to leverage our significant home capabilities for the benefit of our employer group members will also be important.

And then finally, in the bottom right of this slide, I would reference affordability, which is just so important for us to be able to continue to remain competitive. We have improved by 400 basis points our cost avoidance, our ability to generate trend vendors, and we think there are hundreds of millions of dollars in our pipeline that we are going to be able to realize in the coming years. It's something that we are very focused on in a variety of areas. I won't name them all, but there are some real opportunities in MSK, musculoskeletal. There's opportunities, we believe, in maternity. There's significant opportunities, we believe, in a number of other clinical areas, especially pharmacy is one that we've seen significant opportunity here recently as well.

So I'm going to transition now to Ellen Sexton, who's going to talk a little bit about our Specialty business. We are so excited about this business, strong ROIC, strong margins. Ellen is a new leader that we've recruited in. We've put together a growth strategy. Our ability to bring together both ocular health and oral health that have long-term health outcomes that are able to drive superior results for our members is something that we, as a segment and as an enterprise, will continue to focus on, and I'm going to turn things over to Ellen now.

Ellen Sexton - Humana Inc - Senior Vice President, Specialty

Hello. I'm Ellen Sexton, and I'm Senior Vice President for the Specialty business. Our Specialty business is really an extension of the Employer Group medical business that Chris was just highlighting. Our Specialty business serves over 12 million members. We have great breadth and depth. We serve 3 distinct channels: employer group, individual and as embedded in Medicare Advantage plans.

We feel like this is great extensibility across Humana. We can share capabilities but also create lifetime experiences as well as have adjacent growth opportunities. In our Employer Group business, we have 4 million members. And we have served groups with great longevity. For instance, our state of Florida account, we've served for over 20 years, not only demonstrating Humana's great performance and service levels, but also a commitment and return on investment. There's also the ability to cross-sell across employer group into vision and dental, where we, right now, have 40% of our employer groups that have medical and dental and vision. But we have great opportunity here as well on the reverse side to look at our vision and dental cases and sell those into employer group medical.

We serve 1 million members in our individual space. What's really unique about this space is the fact that 50% of them are 65 and older. This is a great pipeline to our Medicare Advantage. As Chris referenced, we are building our capabilities here through digital, the right timing of the outreach when they're turning 65 as well as in plan design. You can see, on our Medicare Advantage, we've increased our plan design 81% over the last 5 years to include dental and vision. We now have 3.7 million members in dental and 3.4 million in vision in that 7 million members.

Also though, alongside this is how important oral and ocular health is to overall health. We know that members that have routine vision and dental care have less inpatient stays, lower ER visits and lower overall costs. And many people actually see their optometrists or dentists more than they see their primary care physician. In fact, many people find out they're diabetic through their eye exam. We have great opportunities across Humana to make these connections and improve health outcomes, and Specialty will be a key catalyst in delivering this value to our members.

The Specialty business has a significant plan for growth. Over the next several years, we plan on doubling the size of our business when factoring in sales through internal sales channels.

It starts with market optimization. We took a look at our dental provider landscape and identified 32 key markets where if we grow our dental network size 10% to 15%, we can increase our market penetration. It also includes distribution capabilities and expanding there from our broker engagement experience. We're looking at digital incentives, telesales, as well as how we make onboarding experience for employer groups easy and smooth. And on the individual side, we have great capabilities to leverage the Medicare Advantage retail e-call centers that they already use and extend those relationships. And we've launched a next-generation marketing campaign to 20- to 39-year-olds. This is an untapped market for us, and we're seeing really great results to date.

Also part of being a premier carrier is innovating and being a market differentiator. We have 4 different areas I want to share with you today that we're looking at. First, artificial intelligence, and how we look at periodontal reviews, not only for most effective treatment, but also for a sustainable cost offering. In-home orthodontia is really ramping up with consumer demand, but Humana's approach will also include clinical, so that it provides long-lasting impacts. I already mentioned ER visits. But I don't know if you do, but 27 million people actually go to the ER for a dental-related issue when they didn't have to. So our teledentistry approach will focus on emergency care hours and help situations assess whether they need to go or not and work with their current dental providers and avoid those unnecessary visits to the ER.

And finally, a new area is 3D-printed dentures. Not only are these more cost-effective, but actually, the precision can produce a better fit in overall health. These new product innovations, alongside our strategic action plan, are well underway, and we're pleased with our progress to date.

The dental and vision industry is prime for dynamic shifts to mirror how the medical industry operates and further integrate with medical care. At Humana, we're one of the best positioned to capitalize and deliver on this approach to better outcomes.

If there's one thing I want you to focus on this slide, it's about integrated health outcomes. For instance, Dental Support Organizations, also known as DSOs, help providers with their business operations so dentists can actually focus on the quality of care. This is much in the way that medical primary care providers have already shifted and combined for efficiencies. DSOs currently have 10% of dentists in their -- in DSOs, and we see that number growing, which is why we look to them as strategic partners. One example for Humana is the work we're doing with Aspen Dental and ClearChoice to provide access and affordability and innovation to critical care for our members.

What's also important to reference is how important dental visits are. You can see 21% lower cost for members with dental visits. We're looking at 2 pilots to even increase and continue this type of cost savings. First is a diabetes pilot that will target outreach to identified diabetic members and tie their oral care to overall better outcomes. We also have a social determinants pilot that we're launching in our Bold Goal market with Mortenson Dental, and we'll be tracking the social determinants of health through the dental office.

Humana is looking to drive simplified care solutions and plan designs that also result in effective, preventative and condition-based care. You can see that 46% of people cited a lack of insurance or cost barrier as a reason to forgo a dental visit. We're also working hard to solve for that. But with condition-based care, one of the important things that we launched a few years ago is the ability for our dental and vision providers to actually see medical member summaries, much like medical providers already see. It has prescription history. It has their inpatient and ER visits, their demographics and even their inferred clinical conditions. We know that this summary will help our dental and vision providers provide a holistic view of the patient's health and identify opportunities and improve interactions and care.

We at Humana Specialty want to be at the forefront of these solutions across the system, building trusted relationships and improving overall health outcomes. As we look to the future, we are confident in our ability to increase market penetration and drive significant growth.

Now I'd like to introduce Chris Hunter back to the stage to take you through highlights of our Military segment.

Christopher Howal Hunter - Humana Inc. - Segment President of Group & Military Business

Thank you, Ellen. Let me spend some time talking about our Military business, started with Employer Group. Ellen just took you through Specialty. And now we're going to talk about this business that we have been in proudly for 25 consecutive years. So you can see all the way back in 1996, we started in 6 states in the Southeast with 1.1 million beneficiaries. We've been able to grow that over time, winning 4 consecutive contracts. The fifth is just coming up. We're in 32 states today, with the provider network that is stand-alone of over 0.5 million providers.

Our TRICARE beneficiaries, and we service 2/3 of them, this is the health plan for TRICARE that services active military and their families as well as retirees that have over 20 years of service. So we are truly privileged to be able to service them on a daily basis.

We are currently 2.5 more years in the existing contract that we're servicing, but the Defense Health Agency has put out a new contract that we will be bidding for. We'll be submitting our bid in August of this year. We will hear a decision towards the end of next year, the end of 2022, and then the contract would actually start in January of 2024 based on the current schedule. We feel really strongly about our capabilities that we are, again, going to leverage the best of Humana in putting together our bid. Most of these contracts in the past have been 5-year contracts.

One of the things we really like about this next-generation, fifth generation contract of T5 is that it's a 9-year opportunity. And it really gives us an opportunity to continue to innovate and to bring our clinical capabilities to leverage so much of what George has been doing in the rest of the enterprise with our expertise around value-based care; our home capabilities that continue to build and working with Susan and her team on ways that we can leverage that for the benefit of our military beneficiaries; our clinical capabilities, Mona spoke about behavioral health. Obviously, this is a very serious issue for the military as well as the rest of our segment and something where we want to leverage those broader enterprise capabilities throughout. And we will just continue to look for every opportunity we have as we look to submit this next proposal in August of this year.

So in wrapping up, we feel terrific about the segment that we have right now. We have spent so much time on our growth strategy around the Employer Group and the Specialty sides. Ellen was able to bring a lot of the Specialty work that we've done to life. We feel very strongly about our ability to double the size of that business, as well as to position ourselves to prevail on the T5 contract. Again, our Humana Military business is effectively our largest ASO customer and a very important component of our overall segment with respect to scale. We feel like we've done a lot of great work strategically. We've been able to hire strong talent from the outside, and we are very much looking forward to pulling through so many of our enterprise capabilities with our 20 million members that we have across this segment.

And with that, I'm going to turn things over to Amy.

QUESTIONS AND ANSWERS

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

Okay. We're going to have our first question-and-answer session of the day with industry analysts. (Operator Instructions)

For our first panel, we have Heather, Susan, Alan Mona and Chris. And our first question comes from Josh Raskin. So Josh, please go ahead.

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

My first question is just -- or my only question is about the performance of CenterWell centers and how that compares to your JV center partners. I'd be interested in terms of total medical cost per member, customer satisfaction, growth rates, et cetera? And maybe if you could help us what really differentiates your operations versus some of the partnerships.

T. Alan Wheatley - *Humana Inc. - Segment President of Retail*

I'll have -- this is Alan. I'll start. And I think, Josh, that's a great question for later in the day with some of our health care services folks that are up here. I would just say, generally, our owned CenterWell provider assets perform very, very well across cost and quality, Net Promoter Score, as you think about underwriting margin. Now understand where we are, we are in an aggressive growth strategy. So you have to look at performance on existing assets that are more mature versus performance of small -- newer assets that are less mature, but I would say that they perform, what I'll call, very consistently and, in some cases, CenterWell does better.

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

Thank you, Alan. And again, Josh, I think Renee will really help with that when we get to her section. The next question comes from Stephen Baxter.

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

So I wanted to ask another one about value-based care. Clearly, the supply of capitated physicians is increasing rapidly through a variety of high-growth provider models, including your own efforts. How should we think about this as impacting competitive dynamics for the health plan? And meaning just as your competitors gain access to capitation, does that help them in any way close the scale gap against the large plans? And does it make it any harder to differentiate yourself in the marketplace?

T. Alan Wheatley - *Humana Inc. - Segment President of Retail*

Well, I think your -- this is Alan, again. You're right to think value-based providers are becoming more accessible and more in numbers and the success of them will continue to grow. So for us, I think that is a very positive industry dynamic. In certain cases or in certain locales could that --

could we see some closing of the gap? Perhaps. But it isn't just having the value-based contract that matters. I would take you back to George's presentation and thinking about Compass. It's access to the right data and the right gaps in care and the right level of support and the right level of local support that understand the health care ecosystem that differentiates us from others.

A contract alone won't be the gap closure for those organizations. And we believe, for all the reasons that I mentioned, everything that Heather talked about, data and analytics, the way we can differentiate in terms of what Susan discussed and George's point, are all the reasons we still are very, very bullish on our ability to differentiate and help lead the industry.

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

All right. Thank you. Our next question comes from Justin Lake.

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

I wanted to ask about the value-based membership. You talked about the 2/3. Can you share with us how many are in fully capitated arrangements today? And how you see that transitioning over time? And then walk us through the rest, right? The other piece of the 67% in terms of what kind of arrangements they are in today and how you see that transitioning?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

It's Alan again.

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

You're popular today.

T. Alan Wheatley - Humana Inc. - Segment President of Retail

Not very many days am I popular. But to answer your question, Justin, think of about half of the 67% in what I'll call full or global cap arrangements. We -- and Bruce talked about this at the very beginning. We like to understand the ecosystem, and we have a variety of different models from STARS and rewards all the way to global cap and fully delegated in certain cases. And I'm not trying to push more into global risk unless they're ready for it.

So it's really about how do we meet the providers in terms of what their capabilities are and what their desire is. We have some extremely well-performing providers that could go to global cap. They just don't want the downside risk no matter what their surpluses look like. So we work to help the providers maximize where they are in the continuum and move them along when it's appropriate.

I think you're going to continue to see the number of members grow in value-based relationships. COVID did a great job of demonstrating the fee-for-service providers, the value of value-based relationships on cash flow, as an example. But I'm not -- I'm not as focused moving them along the continuum as I am as focused on maximizing where they are and giving them the options along the continuum and getting more members connected to them globally.

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

Okay. Our next question comes from Lance Wilkes.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Similar sort of question. When you're talking about full value and global capitation, things like that, could you just maybe be a little more specific on 2 elements. One, when you're talking about the full value-based care sort of relationships, does that include pharmacy? Are there any other components that are excluded or required that they use maybe a Humana cost containment service? And then related to that, when you're contracting with different sorts of companies in this, are there -- are these all practices? Or are there also IDNs in there?

T. Alan Wheatley - *Humana Inc. - Segment President of Retail*

It's Alan again. In terms of your first question, it can include pharmacy, but there are a variety of risk relationships that do not. California is an area where you see a lot of global cap relationships that do not have pharmacy as an example. Candidly, our view is it should -- if you -- it should be global because the pharmacy cost, a, is high; and then b, managing drug regimens is an important component of managing population health. So -- but again, we meet the providers where they are. If they want to take the pharmacy risk, which we encourage them to do, they certainly do. But it comes in all shapes and sizes.

In terms of your second question, yes, folks will buy a variety of services from us that we have a variety of risk relationships where we have partnerships with them, where CenterWell is actually providing a variety of services for them, utilization management, as an example. Renee can certainly answer more details. But pharmacy services as well. We certainly work with all of our value-based providers to promote the use of mail order. And we also see those value-based providers as we develop our home assets over time to be able to leverage those assets in unique ways.

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

Thank you. All right. Our last question for this session is going to come from Dave Windley. And we'll see if this one is for Alan as well or if we can get another panelist to jump in.

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

I was going to ask another provider question, but I think I'll pivot and maybe be successful. You mentioned the longitudinal health record several times through the morning. I'm wondering if there is a commercial -- if that has a commercial or revenue model to it? How do you proliferate that? How do you get members to use it? So what's the engagement strategy around the LHR? And is there a commercial revenue model to it?

Heather M. Carroll Cox - *Humana Inc. - Chief Digital Health & Analytics Officer*

All right. We certainly think there is potential for revenue model around it, but that's not where we're focused right now. We're actually focused on making sure we're getting that extensibility, reusability and speed-to-market element of the platform across our various lines of businesses as well as multiple use cases within the lines of business. So the Compass Insights tool -- Insights Compass tool, excuse me, that we talked about is powered by the LHR as is STAR. So retail has multiple instantiations of this powerful tool already. And what we're finding, I just want to add to the value of a record like this.

As providers are engaging and utilizing Compass, they're putting more data back into the platform, which feeds the longitudinal health record, which we then put analytics on top of to drive the next best action. That's how you get that flywheel effect of what platforms can do for you. So as we get more utilization of tools, leveraging the LHR, the stronger it becomes. But down the road, certainly, could be exciting to look at other opportunities for commercialization, and they sit there. With the way we've built it, it's possible. But we are focused on the transformation at Humana.

Anything you want to add?

PRESENTATION

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

Thank you all very much. We're going to now move on to our Healthcare Services segment. So I'm going to welcome to the stage William Fleming. He is our segment President of our Clinical and Pharmacy Solutions. So we will give William a second to come to the stage.

William Kevin Fleming - Humana Inc. - Segment President of Clinical & Pharmacy Solutions

Thanks, Amy. And in this clinical section, Renee, Susan and I want to talk about the progress we have made towards building a value-based care delivery ecosystem, one that is powered by capabilities from pharmacy, primary care and home-centric care. We have found that investments in our care ecosystem create more value through clinical and financial integration, as Bruce and Alan mentioned earlier. Our goal is to unlock value for seniors, for all seniors, which is why our platforms have been built with a mindset that extends to serve both our own and other payers' members.

Since our last Investor Day, we have seen significant growth in our pharmacy businesses, with the continued push on PBM, mail, specialty as well as OTC and the addition of hospice. On the pharmacy benefit management front, we now pay for nearly 475 million prescription equivalents.

On the mail order front, we now dispense 45 million 90-day supply of prescriptions. And on the specialty front, we now dispense more than 600,000 prescriptions. Put simply, scale matters. You heard Renee talk about it -- or you're going to hear Renee talk about it. You heard Heather talk about it. You heard Bruce talk about it. All of this leads to a relevant scale for Humana to compete on the core health plan operational metrics, things like around pricing of drugs, in-networks as well as on the pharmacy businesses and around things like cost of goods and cost to fill. But the thing that we care about the most is the ground we've taken on health outcomes by truly advancing things like medication adherence to greater than 86%.

We find that pharmacy is the first used and most used service. It plays a valuable role in the care ecosystem by allowing us to engage with the member and build relationships. By solving their affordability challenges in pharmacy, it unlocks frequent interactions that allow us to keep a close eye on the patient's health. We have also prioritized digital engagement and investments in contemporary e-commerce capabilities. You heard Heather talk about that. Those capabilities make it easier for members to engage with us in similar fashions for the way they live the normal lives with other companies. We just launched those capabilities. All of this work comes together in one important proof point. Our Net Promoter Score has increased by over 35% over the last 2 years. And it's amplified by our ever-expanding trophy case. So why does all this matter?

We find higher member retention and longer-term value of the members who use our pharmacy. You heard Alan talk about that. And oh, by the way, 90% of our pharmacy associates would recommend Humana as a great place to work. We measure this, and we care about it because we know if we have an engaged workforce, good things will happen for our customers.

So we talked about scale. We've talked about experience, both on the member side and the provider side. Now let's talk about health outcomes. I mentioned our work on adherence earlier. With our engaged workforce, we see a tremendous correlation between improved medication adherence and our ability to keep members out of the hospital. You heard Mona mention that in her comments. We achieved these results through various internal workflow and interoperability capabilities that we've built. We've invested in capabilities to further extend the capacity of things like medication therapy management. We've invested in interoperability capabilities like IntelligentRx, which gives that extensibility that Heather talked about. This gives information to the physician in the exam room about clinical information, alternatives and pricing. Focusing on health outcomes, being concerned with not only the safety but also the efficacy, all of that makes a difference in our pursuit of best health.

And speaking of safety, let's talk about Alzheimer's for a moment. As you know, this is an ever-evolving dynamic that -- with the surprise approval on June 7 of the medication. As a result of the timing, we know that the earliest we will be able to build these costs into bids is the 2023 benefit year. This leaves us with about 18 months of potential exposure. As we analyze and work through the uncertainty as this new treatment comes to market, we will draw on our significant experience of managing incredibly complex patients with significant monthly medical and drug costs, following the science and along the way ensuring the safety of our members. Through this lens, we are analyzing several factors. The first is the population to be treated.

The clinical trial focused on a small subset of the entire dementia population with mild cognitive impairment and those with evidence of the amyloid protein. We expect our initial coverage policy to mirror the clinical trial parameters. And we believe that CMS should address these same parameters when issuing a national coverage determination for coverage under Medicare.

While Alzheimer's is truly an unmet need, there are significant barriers for the quick uptake of this medication that physicians, patients and their families will have to consider. For example, we have convened, over the last week, the neurologist community and learned of concerns about their level of conviction on the science, both the efficacy and the safety; the breadth of the label itself, will it be used in mild to severe; and the challenging cost profile.

Given the efficacy in the actual trials was mixed, some would say from modest to clinically insignificant, the neurologist community is likely also to follow the clinical trial parameters when prescribing for the patient. This includes the need to remove patients from other treatments like blood thinners. It includes things like the diagnostic and monitoring requirements that involve both the use of PET scans and spinal taps for diagnostics, but also the frequent brain MRIs for the monitoring. This treatment is a monthly infusion. It's not a pill. The cost of the medication to the patient and the health care system is significant. All of these factors will guide how quickly and broadly the medication is used as physicians, patients and their families weigh these risks against the benefits.

And finally, turning to dispensing medication to our members. Our care ecosystem is enabled by pharmacy services that can be accessed via multiple channels. We have different archetypes from a more traditional full retail to retail-light where the first fill is received locally and the remainder comes out of central fill, to the embedded or virtual pharmacist to the more traditional mail order, specialty, over-the-counter and hospice. We care about these models because it's not just about the dispensing. It's also about having the pharmacist as part of the care team. And you saw this come alive in the video at the end of Bruce's section that demonstrated how an engaged pharmacist can make a huge difference by practicing at the top of their license. Pharmacy at home is a major growth opportunity that allows us to evolve from legacy mail order to a more modern concept.

We've mentioned that contemporary e-commerce infrastructure that will bring alive a rigorous test-and-learn environment to understand our consumers' wants and needs. And our goal is to reach 80% of our members with 1-day shipping. And lastly, our investments in specialty pharmacy to advance our capabilities to not only treat the member as a customer, but also the physician and their entire panel, will extend our ability to service all patients of that practice. This, combined with our hospice work, gives us the ability to extend our customer base beyond Humana members.

We have scale, we have member and provider experience, we have health outcomes, and we're investing even more deeply in pharmacy at home. That's our story. And by solving these health plan member and provider opportunities, this work balances producing trend vendors and quality improvement for the health plan, while delivering strong financial performance for the Healthcare Services segment. Pharmacy is about one part of the story. The care ecosystem thrives when the integration of primary care, pharmacy and home-centric care are also connected.

And speaking of integrated care, Renee Buckingham, my colleague, will now speak about how our primary care assets enable that further differentiation.

Renee Jacqueline Buckingham - Humana Inc. - *President of Care Delivery Organization*

Thanks, William. Hi, I'm Renee Buckingham, Segment President of our Care Delivery Organization. This year, we're excited to share that we've unified our care delivery organization by integrating 2 organizations into a single entity, operating under 2 brands: CenterWell Senior Primary Care and Conviva. The combined organization leverages the strengths of both, blending the physician-led culture and decades of value-based experience of Conviva with the contemporary technology and repeatable expansion capabilities of CenterWell. While the organization now operates 2 brands, the core processes and capabilities are being leveraged across both and are led by one integrated leadership team.

Together, we're the nation's largest senior-focused primary care platform. The independent focus of both organizations over the past 2 years has made this integration possible. Conviva, bringing together 4 different brands and creating a unified and leading physician culture with a mature clinical model; and CenterWell, bringing a repeatable expansion model supported by both innovation and technology.

The ability to share these capabilities in key learnings across both brands allows us to capitalize on the combined momentum and accelerate the growth and development of our senior-focused primary care platform. As Alan and George mentioned, we have an ongoing commitment to grow senior-focused primary care, and we've supported the growth of many others, including several shown here, and we will continue to do so. Today, on a wholly-owned basis, we operate 171 clinics, serving more than 250,000 patients across 17 markets. This year alone, we successfully launched 20 new clinics despite the pandemic. And by the end of 2021, we plan to launch 20 additional new clinics to expand our footprint to 191 clinics in 18 markets.

Our ability to grow the platform isn't the only reason we're bullish. There is still large opportunity to capture share in our current markets. We have a presence in 16 of the top 100 Medicare Advantage markets. And if we include our 17th market, we have an addressable market of 6.5 million Medicare-eligible potential patients.

Over the last few years, we continued to prove our model as we balanced both organic and inorganic growth. On the left, we've depicted the economics of a single clinic. We're confident about the long-term value prospects of our model, which generate value not only through our own operations, but also by increasing the profitability of members of our Medicare Advantage plans that we contract with. Our joint venture partnership with Welsh, Carson has enabled us to prove the repeatability and scalability of our model while remaining off balance sheet, growing more than 20 de novo clinics and entering 5 new geographies in the first year.

We've evolved the patient experience and have taken the time to get the operations right. To continue to do it right is going to require capital and measured growth to ensure we don't risk the quality of care or our patient experience by growing too quickly. But we understand how to balance both, and we're exploring multiple pathways to find and fund additional growth.

We've built our platform to grow both organically and inorganically across a range of markets from the most advanced Medicare Advantage value-based markets to much more immature markets. We think about our growth in an archetype manner from de novo clinics to acquisitions and the continued growth of our existing footprint to mature our clinics.

Starting on the left of the slide and working right, we have a de novo construction -- construct and proof points that enable us to grow in a capital-efficient manner. This model is designed to be nationally scalable and repeatable. By the end of this year, we will have rolled out 43 new clinics over the last 3 years, with a consistent execution of the model and proof points in terms of patient experience, STARS and operations. From an inorganic standpoint, we've demonstrated our willingness to dedicate capital to achieve accretive growth. For example, we acquired Family Physicians Group in Orlando in 2018, focusing the organization on senior primary care, installing our care platform and operating model. And this acquisition brought unique operational capabilities that we exported across our platform. This acquisition demonstrates our ability to transform, rebrand and execute inorganically and has proven successful.

Since we acquired Family Physicians Group, we have had a 20-point increase in our Net Promoter Score. In parallel, Conviva was able to unify 4 brands and create a physician-led culture that is being incorporated into CenterWell. The advanced capabilities that Conviva brings around things like proactive disease identification and management, downstream specialty contracting and IPA management complement the de novo platform built by CenterWell. We've proven our success in a range of market and clinic types, and we're committed to continued expansion and growth.

Thus far, we've updated you on our scalability and growth. And now I'd like to shift to what we believe is our key differentiator and foundation, our integrated care model. Our care model focuses on whole person health care for seniors with an integrated multidisciplinary care team that leverages care team members not typically found in a fee-for-service practice.

Our care model puts the primary care physician and patient in the center of care and the primary care physician access the quarterback of care, coordinating all aspects of care among the interdisciplinary team members. The care team coordinates care through daily morning huddles, ground rounds on complex patients and care conferences to review transitions of care plans as patients move from one level of care to another. Our investment in social workers, behavioral health specialists and pharmacists further differentiate our primary care model. These investments contribute directly to our ability to address the social determinant needs of our patients, including food insecurity and meeting their housing and transportation needs. By first addressing our patient's basic social determinant needs, we're then able to support them in engaging to better manage their own health.

Patient engagement is key to helping our patients achieve their best health. We see our patients on average of 6 visits per year versus the typical primary care practice of about 2. Our smaller provider panel of 500 to 700 patients allows our clinicians to spend more time during a visit with our patients and fosters a more deeper and trusting relationship with our patients. And critical to supporting the care team and the integrated care model is the use of technology, data and analytics.

Ensuring that our care team members have the right information to provide the right care requires an integrated workflow that is powered by a longitudinal view of the patient's health information. Our care platform integrates multiple care disciplines into a proprietary designed workflow. The platform integrates hundreds of different sources of both internal and external data, including the electronic medical record data into the longitudinal human record, which Heather described earlier.

The integrated longitudinal data powers both our analytics and our applications in the workflow layer and facilitates our collaboration across our care team members. This set of capabilities and technology ultimately allow us to drive better outcomes for our patients, knowing what care has already occurred prior to our interaction with our patient and what the right next best innovation or care should be.

Let me show you how the platform enables the care experience for our patients by introducing you to Mr. Dixon. Mr. Dixon is one of our CenterWell patients in South Carolina, who describes what it feels like to him when the care team works together in a coordinated technology and data-enabled platform.

(presentation)

Renee Jacqueline Buckingham - Humana Inc. - *President of Care Delivery Organization*

Every Medicare eligible senior in the country wouldn't want this coordinated and personalized care. Our model is truly differentiated and coordinated across both the clinical and social needs of our patients. I hope you saw the trusting relationship between Mr. Dixon and his care team and how that enabled us to help him take control of his health and overall well-being. We want more seniors to have access to this kind of integrated care, and particularly those who are the most vulnerable and need support managing their chronic conditions. Just like Mr. Dixon's health improved, we find that many of our patients also have improved experiences and held outcomes when compared to others. The numbers here on the slide help tell our story.

Our Net Promoter Score is 86. We have an overall Stars score of 4.4, and 90% of our physicians say they would recommend us as a great place to work. In 2020, we experienced an 11% lower avoidable admission rate, 19% lower ER visits as compared to other Humana members. And nearly 250,000 annual care gaps have been closed.

Our COVID response further demonstrates our commitment to our patients. We kept our centers open, and we continue to see our patients. And when they didn't feel comfortable or couldn't come see us, we reached out to them to ensure that their needs were addressed. We coordinated with food banks and partnered with over 50 community organizations to provide food to thousands of seniors. We hosted drive up clinic visits, and we improved and increased the number of digital visits. And today, I am so proud to tell you that over 90,000 of our patients are fully vaccinated against COVID-19.

As we think about the future, we're excited because we've got ample opportunity for growth of our senior primary care business. In our existing footprint, there is an 8% annual Medicare Advantage growth rate and our current patient panel represents less than 4% penetration in these existing markets.

Our overall current footprint has the existing capacity to serve an additional 100,000 patients, which represents substantial potential for long-term value creation. While our footprint in scale is already the largest, there's still opportunity for more geographic expansion within the top 100 Medicare Advantage markets. And we'll continue to participate in payer agnostic opportunities to test and learn, including new payment and care models like direct contracting, which open up new patient pools.

And as we've said, we'll continue to seek inorganic growth opportunities that are accretive acquisitions. We're evolving to an omnichannel senior primary care approach to offer a full suite of primary care and other care services wherever our patients want it, whether that's in the office, virtually or in their home. We learned a lot in 2020 as a result of the pandemic, and it drove a more rapid adoption of virtual care.

Today, virtual interactions are often in addition to office visits and are an important tool used by all of the members of our care team. During the pandemic, we launched a number of creative ways to connect virtually, including a pilot loaning iPads to at-risk seniors to increase virtual care access. It addressed those frightened to come into our office, but lack of the technology resources to connect virtually. We also did parking lot visits where we delivered an iPad to the car, our patients stayed in the car and was seen by our care team who remained in our clinic. An enabler of this expanded capability is our partnerships. Partnerships create optionality, bring new capabilities and drive capital efficiency.

Through partnerships with organizations like ECW, Microsoft and/or Doximity, they help us attract new patients and extend the reach of our model to others like homebound patients and patients who are likely to visit us in our center. Partnerships with home centric care providers, such as Kindred at Home, Heal, a home first primary care provider and Dispatch, a home urgent care and skilled nursing provider enable us to deliver the appropriate level of coordination among a variety of assets, providing a holistic care experience for our patients.

My colleague, Susan Diamond, will now talk to you about how we will continue to develop our home centric capabilities and how we will integrate these capabilities across the care continuum great.

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

Right. Thank you, Renee. I am Susan Diamond, the President of Humana's Home business and also our Chief -- our Interim Chief Financial Officer. During my time today, I will share with you our ambition for home-based care. I'll provide examples of the progress we're making and highlight the opportunities we have to create value for the enterprise, including the acquisition of One Home, which we just announced yesterday.

Care in the home has evolved significantly in recent years and has only been further amplified by the COVID pandemic. It's no longer focused exclusively on home bound patients, and our research suggests it has broad appeal, resonating for different reasons for different individuals. The convenience of receiving care in the home is certainly attractive for some, particularly those seeking technology-enabled on-demand care.

Although we see the highest level of interest from patients living with multiple chronic conditions and believe that home-based solutions allow for increased independence and deeper patient and provider relationships while also using burdens for caregivers. Throughout the pandemic, we've been pleased to see that our regulatory partners have moved quickly to introduce additional flexibilities that makes it possible to bring more care in the home. And we really see these trends as permanent accelerants, only increasing our confidence in our home strategy.

We truly believe that the home has a unique value proposition as a site of care. Home-based models can provide better experiences by delivering care where patients are, when they want it and in the place that they feel most at ease. They also allow clinicians to develop deeper and more meaningful relationships with their patients, providing greater visibility to a broader range of needs and the context in which they live their lives, including social determinants of health.

We find that more than 30% of our MA members have 2 or more social determinant of health needs, which are more easily and comprehensively identified in the home. Care delivered in the home can also be more affordable, particularly by leveraging telemedicine and other digital engagement channels and enables clinicians to practice at the top of their license, reducing the cost of care delivery.

By example, the cost of dispatch ER visits in the home can cost up to 80% less than a facility-based visit, while also reducing the likelihood of an inpatient admission. We also believe home-based care can improve -- can deliver improved clinical outcomes by focusing on a broader set of patient needs and offering relevant interventions in real-time when needed. One way we've demonstrated this is through our work with Kindred at Home, where members receiving home health from Kindred demonstrate 11% fewer readmissions than those supported by other home health providers.

In order to fully realize our ambition though, we must execute on 3 strategies. The first is to grow our offerings and serve more patients. The second is to transform the underlying capabilities towards value, and the third is by creating better connections and integration across the ecosystem we've built.

I'll share more on each of these strategies and spotlight ways, we're making progress today. First, we'll take a closer look at our efforts to scale our offerings and serve more patients. Humana has a long history of providing care in the home. Since we launched Humana at Home Care Management in 2008, we've gradually broadened the scope of our portfolio, including our minority investment in Kindred at Home in 2018, which was motivated by our belief that more care would be delivered in home in the future.

We shared our plans to double down on the home during our last Investor Day in 2019. And since then, we've identified the 5 transformative offerings highlighted on the right, which we believe have the greatest potential to address unmet needs and create enterprise value. This strategy led to investments that allow us to accelerate the delivery of these models, including home-based primary care in partnership with Heal, through hospital level care through partnership with DispatchHealth. And value-based home health and DNF at Home by leveraging the capabilities of Kindred at Home and One Home.

With these investments, we can now support a wide range of care delivery services across the full continuum of patient needs, including care coordination, comprehensive primary care, emerging issues that would otherwise require an emergency room visit or hospitalization event and palliative and end-of-life support for patients with advanced illness.

All in all, we believe most preventative and advanced illness care can be provided in the home and anywhere from 20% to 100% of acute care can also be best served in the home. Clearly, there's significant opportunity here, and we believe a first-mover advantage, which we plan to take full advantage of. We and our partners are working hard to drive growth across these offerings by expanding coverage to new markets as well as deepening penetration in our existing markets. Kindred at Home is expected to serve 84,000 Humana members in 2021. This represents a 38% increase over the prior year and was made possible by increasing network coverage and developing preferred partner strategies at the local market level.

Dispatch will more than double its market coverage in its ER product, serving 48 markets by the end of the year, while also launching a Hospital at home offering in several markets. We're working to develop new referral sources for Heal, particularly for members not currently engaged with high-quality primary care partners.

And the last example I'll share is the work we are doing with multiple kidney care partners, intending to test a variety of approaches and determine which is most effective in engaging members and improving patient outcomes.

In addition to growing the number of patients served, we remain focused on understanding what is needed to improve patient outcomes and reduce the total cost of care, supported by value-based operating and payment models. We'll talk more about home health and Kindred specifically in a minute. But first, I'd like to highlight a few other ways we're driving transformation. As Mona mentioned earlier, Humana at Home is sharpening its focus on members most at risk of a hospitalization event and the interventions needed to impact health outcomes, leveraging advanced analytics and new clinical strategies through a team-based approach.

Heal is partnering with CenterWell Primary Care to strengthen its value-based capabilities while also growing its path to risk membership. And as I mentioned earlier, we're partnering with various kidney care innovators to co-create advanced clinical interventions in order to slow disease progression, ensure smoother transition to dialysis and reduce avoidable hospitalization events. All of which is designed to improve patient outcomes and reduce the total cost of care.

Now I'd like to share a little bit more detail about what we envision for home health and our plans to launch a comprehensive, value-based home health model. We are bringing together Humana, Kindred at Home and One Home, a transaction we just announced yesterday to bring this offering to life. We believe this will truly be a unique and best-in-class offering that requires the combined contributions and differentiated capabilities of all 3 companies. Humana will bring its nearly 5 million MA members and advanced clinical and analytic capabilities.

Kindred offers a nationally scaled clinician labor pool and contemporary technology platform to work with. And One Home brings expertise in risk-based contracting, utilization and network management as well as durable medical equipment logistics and infusion services expertise. By bringing all 3 together, we believe we will create a sustainable competitive advantage in the marketplace.

The creation of this value-based model really has been a multiyear journey. We at Humana recognize the importance of having a nationally scaled home care platform given the fragmentation and the delivery of home-based care today, which led to our initial investment in Kindred. Kindred has a strong and growing core business, with home health representing a little more than half of its historical revenue. We expect they will continue to deliver strong growth, given the growing population of seniors, the prevalence of chronic conditions and increased regulatory flexibility as homebound regulations relax and telehealth expands.

We've learned a great deal about the delivery of home health through our work with Kindred these last 3 years, including the significant total cost of care opportunity given the more complex patients that they tend to serve. Patients receiving home health care are 5x more likely to be hospitalized than the average MA member. And hospital spend for patients during a home health episode totals more than \$800 million annually for Humana. We've demonstrated our ability to design and implement enhanced care models and interventions to address a broader range of needs for more complex patients, confirming the need for a value-based model and leading to our decision to accelerate our acquisition of Kindred at Home and announce our intent to acquire One Home, which brings additional needed capabilities.

What I'd like to do now is walk you through how this value-based model is intended to work and the value that's created. The services on the right are all required to deliver a comprehensive value-based home health model. In this model, One Home will act much like a management services organization or MSO, like we see in the primary care space, and will play the central coordinating role. The health plan will negotiate a capitated payment arrangement with One Home Care at a price that is lower than its historical spend for home health, durable medical equipment and infusion services delivering explicit savings to the health plan.

One Home will create optimized care plans, which are designed around patient outcomes and the total cost of care and they will then refer the patient into a high-performing home health agency, including Kindred at Home, resulting in increased volume and in-sourced margin. One Home will also act as a single point of contact for providers. Also coordinating the DME and infusion services, improving the experience for patients, nurses and providers.

Kindred and other high-quality home health agencies will be asked to address a broader set of patient needs reducing preventable hospitalizations and total cost of care through the enhanced clinical models that we intend to implement. And as I referenced earlier, delivering the model we envision at scale requires the capabilities of Humana, Kindred at Home and One Home, and we're excited to get started on our work together.

We believe the model has significant value creation potential, both within Humana as well as payer agnostically. We have the flexibility to introduce a lighter version of the model in less dense markets and the comprehensive version in markets with the density required to support the full suite of services. We believe about 30% to 40% of Humana members will be supported by the lighter version. While the remaining 60% to 70% will be served by the more comprehensive model over time.

There's also a significant payer agnostic opportunity with 10 million to 15 million total patients living in geographies we expect to serve with this model by 2024. Then over time, as we demonstrate the impact this model can have, we intend to work with CMS to advocate for the introduction of similar value-based models in fee-for-service Medicare as well, which creates even greater opportunity.

And finally, it's important to reinforce that as we scale this model, clinician hiring and retention will be top priorities to ensure the strategy leads to incremental top line growth. Our goal is to become an employer of choice by supporting a clinician-centric culture and empowering clinicians to more comprehensively support the patients that they serve.

The third and last strategy that we are focused on is driving connection across our ecosystem. We're creating a comprehensive ecosystem of home-based care delivery capabilities and hope to design seamless handoffs throughout enabling long-term relationships. We believe high-quality primary care will continue to be the foundational element, enabling coordinated use of the ecosystem to support patient needs. And we believe

strongly that each of these capabilities in their own right provide discrete value. But when used in combination to more fully support patient needs, incremental value creation opportunity exists.

I'd now like to highlight some of the work we're doing to begin to leverage this ecosystem to create deeper and more personalized relationships with our members and positively impact their health outcomes. In this video, I'd highlight is what that we've done...

(presentation)

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

Great. Thank you. And I apologize for that technical snafu, that video played a little bit early. But what you saw was really a video that highlights the high-quality care that Kindred delivers every day to our members. What I'll now do just to close it out, is just, again, bringing an example forward of how we began to strengthen connections across the ecosystem that we've created, highlighting the work we've done with Kindred in our Atlanta market, where they are really leveraging the full set of home-based capabilities to more comprehensively support our higher risk members.

We're leveraging predictive analytics to proactively identify patients most at risk of a readmission, ensuring they are prioritized for outreach. When they encounter patients not well supported by primary care, they are able to bring in at Heal or CenterWell or other high-quality physician into the home. And when patients experience higher acuity emerging issues, the clinician is able to engage with DispatchHealth, avoiding an ER trip and a likely hospital admission.

These are really only a few examples of the enhanced clinical interventions we've introduced through our work with Kindred, and we're currently working to scale those more broadly. That concludes my presentation on the home, and I'll now transition it back to Amy so we can do a short Q&A with the health care services team.

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

Hi. Thank you, Susan. I do want to add briefly one additional comment on the Alzheimer's drug before we get into the Q&A. That is if and when CMS establishes a national coverage determination, we do believe that it would hit the significant cost policy threshold, at which point we would expect CMS to then cover the drug for a period of time until it was got into pricing or the bids. So I did want to make that clarification.

QUESTIONS AND ANSWERS

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

And with that, I will do my best. We have a lot of people in the queue for questions. If you've already asked a question, I'll probably skip over you for the time being and I'll try to get to everyone. If we don't get to you this session, I can come back to you in the next. So for this channel, we have Susan, William and Renee. And our first question today is going to come from Ricky Goldwasser. Ricky, go ahead. Ricky? Okay, we'll go to the next one. I'll come back to you. Rob Cottrell.

Robert Sohngen Cottrell - Cleveland Research Company - Research Associate

Can you hear me?

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

Yes.

Robert Sohngen Cottrell - *Cleveland Research Company - Research Associate*

All right. Thanks for the time. I appreciate you walking through the home capitation and home value-based care offering. Curious how that will stack with your broader full capitation risk relationships. Like is that -- do you see this as a stepping stone to broader risk assumption on provider level? Or I guess, how do you see those 2 interacting?

Susan M. Diamond - *Humana Inc. - Interim CFO & Segment President of Home Business*

Sure. That's a great question. This is Susan. So how that typically works. And to be clear, these services in this model actually is deployed at relatively small-scale in the Florida and Texas markets today. So it's not a brand-new offering, but it's never been deployed at the scale that we envision. How that typically works today in our Florida markets, which, as you know, are heavily primary care risk penetrated is that it acts effectively as a sub cap. So those risk-bearing providers will also benefit from this negotiated arrangement, where they will see a capitated payment for their home health, DME and infusion services. That would result in savings relative to what they would see under a more traditional fee-for-service rate structure.

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

Okay. I'll try one more time to see if Ricky is there.

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

Yes. Hi. Great. Can you hear me?

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

Yes.

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

Great. So when we think about sort of your strategy, inorganic versus organic gross growth provider of home care, what are the unique characteristics that you look to when you decide to make a buy versus a partnership decision? And then just another one here is you talk a lot about EMR. You talked about LHR, but you also talk about consumer and patient engagement. So just wondering what your thoughts are about a patient medical record and how you think you can integrate that into the consumer experience?

Renee Jacqueline Buckingham - *Humana Inc. - President of Care Delivery Organization*

Thanks for the question. I'll talk a little bit about how on the primary care side we evaluate potential acquisitions versus organic. We obviously look at the capabilities of the individual practice that we may acquire. We look at things like their current capabilities around value-based whole person senior care. We look at their geographic proximity to one of our existing locations. Could they open up a new market or a new geography for us? Or could they accelerate something where we are already established. And then we look to see if they have any unique capabilities that would accelerate the development of our platform or our care model rather than having to build it organically or from the ground up.

Susan M. Diamond - *Humana Inc. - Interim CFO & Segment President of Home Business*

And I can add to that on the home space, much like Renee mentioned. As we really developed our strategy for the home-based space and set the ambition for the full suite of services that we wanted to be able to offer, we ended up doing a market scan to understand what capabilities existed

that could really act as an accelerant versus building it organically. And what we really looked for was companies that had demonstrated differentiation either in the patients that they serve, as an example, in primary care, we really wanted someone with Medicare experience. And what we found in the home-based care space anyway was that most of those companies were focused on the commercial population and more virtual delivery of care versus a true home-based care, which we found in the Heal partnership.

Also, as you can imagine, delivering care in the home requires more sophisticated logistics and technology enablement. And so some of the partnerships we've chosen to focus on bring some of those capabilities that would have been much harder to develop from scratch and frankly, taking much longer. So again, as Renee mentioned, really looking for things that bring differentiation and act as an accelerant to our strategy.

Renee Jacqueline Buckingham - Humana Inc. - President of Care Delivery Organization

And then just real quickly, we integrate EMR data today into our integrated technology platform, and it is part of the longitudinal human record and data that we exchange inside our applications in our workflow layer.

William Kevin Fleming - Humana Inc. - Segment President of Clinical & Pharmacy Solutions

I was just going to add on to that longitude and the human record. That is the theory of the case of getting to that truly that patient human record such that whether you're a physician in practice or a nurse in the home or a pharmacist in the pharmacy, it's the sharing of the data and what Heather tried to bring alive in terms of the longitudinal nature of it and the sharing aspect of it, such that we can share the information via APIs to get to one care plan member to truly make it that easy for them as they engage with the system.

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

Our next question comes from A.J. Rice.

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

Sorry, everybody. I wanted to just use my question to try to get way into flesh out some of his comments on the Alzheimer's drug. Can you just comment -- you talked about how you're using safety protocols and to manage utilization. But how about on the pricing side, it's \$56,000 headline price. Are there any opportunities? I'm not looking for you to lay out your pricing strategy. I mean, use of 340B pharmacies, shared risk arrangements with your providers where they take on some of the risk. Can you flesh that out a little more?

And then the other aspect of this that I'm getting a lot of questions on relates to the maximum out-of-pocket under MA, which is not there in fee-for-service. Obviously, a lot of Alzheimer's spaces already hit that now previous drug. Do you think you're going to see people move toward MA to be able to get the help from the maximum amount of pocket? Any comments on that.

William Kevin Fleming - Humana Inc. - Segment President of Clinical & Pharmacy Solutions

Yes. Thanks, A.J. Thanks for the question. Sorry, a little echo there. Certainly, there's a lot of implications here around this Alzheimer's drug. You laid out several of them. As I mentioned, there's a whole host of barriers, A.J., that we're trying to work through from the population to be treated, the physician sentiment, the patient-facing signing the decisions the family members need to make, the cost to the system is one thing. But certainly, the cost to the patient is another thing. A lot of these members are in Medicare. They have Part B, which is typically a 20% coinsurance.

Medicare Advantage certainly has its own implications. I would tell you that as these families are making decisions, there's a lot of barriers. There's a lot of things that have got to be thought through in terms of how quickly physicians will uptake it, a lot populations they're going to use it in. Decisions they've got to make to take members off of -- or patients off of the medication to give it a chance to succeed.

A whole variety of things have got to be thought through. Amy talked about the CMS significant cost policy threshold. We've certainly got to navigate through the national coverage determination process. There's a number of factors that have still got to play itself out to really navigate through this. But certainly, this is at those rates, at those costs and with all the other supportive items. This is a significant cost to the health care system. For our physician practices taking risk, this will be part of that risk continuum as they think about how they navigate through the appropriate patient types and things in their panels.

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

I think we have time for one more question. So that's going to come from Mike Newshel.

Michael Anthony Newshel - Evercore ISI Institutional Equities, Research Division - Associate

Renee, one of your slides showed \$2 million to \$4 million in EBITDA from a primary clinic once it's fully mature. I was just wondering what kind of margin that translates to or the typical number of patients per clinic that generates that? And also just how many of your clinics have actually reached that maturity level?

Renee Jacqueline Buckingham - Humana Inc. - President of Care Delivery Organization

So I don't think we've disclosed that margin number. But what I can tell you is that we have a variety of different clinic sizes anywhere from 2 care teams to more than 4. And then average care team has about 500 to 700 patients depending on the capabilities of that unique care team.

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

Yes. And I do think the only thing that we've said as far as margins is, I know, there are some public companies out there today that investors are looking at. And there's not really any reason where we would be different from them at maturity is the way we think about the clinics without getting too specific.

PRESENTATION

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

So thank you all very much. We're going to move on to the next session, which is with Susan Diamond, who is now going to put on her interim CFO hat and do the finance portion.

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

Great. Thanks, Amy. Great. So we thought we'd start here just with a reminder of the strong track record we've demonstrated delivering revenue and EPS growth and our 2021 adjusted EPS guidance, representing a 16% growth rate over our 2020 baseline, which, as you know, is above our long-term target rate of 11% to 15%. We've been transparent about the range of potential 2021 headwinds and tailwinds caused by the pandemic, which we continue to closely monitor. We've spoken with many of you about the importance of the midyear risk adjustment payment, and we expect to receive the relevant detail the 1st of July and have our analysis complete in time for our second quarter call on July 28.

As it respects utilization, emerging experience varies by service category and continues to trend below historical levels in the aggregate. We continue to expect overall utilization for the year to run below baseline, as shared when we provided our initial guidance in February. It's also important to note that regardless of how 2021 ultimately completes, you should consider the \$21.50 midpoint of our 2021 guidance to be the jumping off point as it respects 2022 growth expectations.

Throughout today, you've heard about the many investments we are making, which provide multiple sources of value creation, enabling us to sustainably achieve our long-term targeted growth rate of 11% to 15%. Growing our MA business at or above the industry rate will continue to be the largest source of earnings growth, given the sheer size and scale of the business. But it also drives significant earnings power across the enterprise.

Most of our MA plans embed dental and vision benefits, and we continue to drive increased penetration of our Humana Pharmacy and home businesses. In addition, we've demonstrated successful organic growth in our Medicaid business, which Alan described earlier today in which we expect to continue.

At the same time, there are a number of new growth opportunities. We continue to support a payer-agnostic mindset as we expand our health care services capabilities. You heard Renee discuss her plans to continue to expand our primary care footprint, both in terms of geographic expansion and increased penetration in existing markets, while also exploring new innovative models like direct contracting and primary care first, which allows us to leverage our platform to serve fee-for-service patients.

While Kindred at Home represents our most scaled agnostic business today, the introduction of the comprehensive value-based model I just described creates new opportunities for us and also brings durable medical equipment and infusion services into our product set. We also have the opportunity to expand margin across many of our businesses. We continue to remain committed to our 4.5% to 5% long-term individual MA margin target. And we will continue to thoughtfully balance growth and margin opportunities in any given year.

We will also continue to look for opportunities to deploy capital in creative ways to deliver disproportionate value while also leveraging share repurchase to provide further shareholder returns.

Finally, we think it's important to highlight that we will continue to make investments to support our strategic priorities, which enable high-quality, sustainable earnings growth. In addition to direct product investment to maintain our competitive position, earlier today, you heard Heather, Mona, Susan and other leaders describe other investments we are making to support enhanced member experiences and clinical innovation, which are critical enablers of business growth and margin expansion in the long term.

These investments create a virtuous cycle, and this visual is meant to demonstrate the importance of continuing to invest in capabilities and experiences to create long-term value. That value can be reinvested in our products and further innovation to deliver sustainable top and bottom line growth.

Bruce talked earlier today about how we're investing in our platform and key capabilities. And you heard from me and Renee earlier about the work we're doing in the areas of primary care and home. You also heard from several leaders about our work to improve experiences for our members, including our Humana Pharmacy customers. We've been making meaningful progress improving our digital experiences and e-commerce capabilities, intending to provide experiences on par with what many of us have grown accustomed to in our everyday lives.

We've seen positive impacts, including a 52% increase in visits to our Humana Pharmacy mobile app year-over-year. We also launched a new [MA] offering under the Author brand, where every interaction is designed with a member experience in mind and which we believe will lead to superior engagement, retention and stars results near term and improved health outcomes longer term. Author launched the first of this year in South Carolina, and we're very excited to see what we can learn from this approach and integrate back into our core business.

Ultimately, we believe these investments open up new opportunities for growth across our portfolio of businesses. We know there is a lot of interest in the level of growth we expect from each line of business. And this chart is really meant to provide a directional sense for how we think about topline growth potential versus margin expansion opportunities, and you can anchor against the individual MA as a reference point.

The individual MA placement reflects our plans to grow membership at or above industry average rates while also achieving our targeted margin of 4.5% to 5% over time. We continue to build momentum in our Medicaid business and expect topline growth to be strong, but also recognize there are inherent margin limitations in that space. We will significantly grow our home revenue as we complete the full integration of Kindred

and expect that they will continue to deliver strong organic growth, while our new value-based model will introduce opportunities for incremental topline growth and margin expansion overtime.

Primary care will also deliver strong top line growth and margin expansion through their continued market growth, improved penetration and fee-for-service model expansion, although we recognize that it won't be fully realized until we bring the Welsh, Carson JV clinics back on balance sheet over time.

In addition, you heard Chris talk about our employer group and specialty strategy earlier today, and we believe they have the opportunity to drive further growth, fueled by their targeted moves upstream and plans to introduce differentiated products for their consumers.

Looking a little bit more closely at our Healthcare Services business. We do continue for this to be an area of focus for us as it diversifies our business and provides new sources of growth. Each of the businesses are at a different level of maturity and are going through different types of transformation. Pharmacy is the most mature business today in the portfolio and contributes to the majority of the segment earnings. Presently, it's largely a captive business and grows generally in line with Humana Medicare membership, although as you heard William discuss, we do believe there is room to grow, particularly through increased penetration of our existing membership and expansion of our specialty pharmacy.

As it respects the home, the historical EBITDA is really more reflective of our legacy 40% ownership stake in Kindred, which will meaningfully increase as we bring them fully on balance sheet and look to introduce the value-based model I shared earlier, which we expect to be additive to the strong organic growth from the core fee-for-service business so long as we can hire sufficient clinical staff to take on that additional volume. And finally, Primary care is the least mature, but one of the fastest growing and will contribute meaningfully in the future as the clinics mature and we bring them back on balance sheet over time.

As we've alluded to throughout the day, there really is significant opportunity for growth beyond the insurance business. There is incremental opportunity with every additional member who uses a broader set of enterprise capabilities we've created. As members engage with more of our capabilities, that upside only increases as we're better able to integrate across the ecosystem. And in addition to the value shown here, there is incremental plain value that can be generated by the superior outcomes our value-based primary care and home offerings provide.

In total, we believe there's a potential for 2 to 4x incremental margin for members fully leveraging the integrated ecosystem, which is why all of us are working hard every day to drive penetration across all of our enterprise capabilities.

In addition to investing for the long term, we will continue to focus on driving near-term productivity and efficiency savings. At our last Investor Day, we shared that we were able to reduce adjusted operating cost ratios by 170 basis points since 2012. And we've managed to continue to generate savings despite the impacts of the health insurance fee, COVID and tax reform. There continue to be opportunities for us to improve our productivity, primarily through investments focused on simplifying customer experiences.

And you heard earlier today about some of the investments that will enable us to operate and engage more horizontally with our members, increasing self-service and engagement through digital channels and using advanced analytics to proactively engage with members when it matters most. The benefit of these improvements will be partially offset by continued investments in strategic priorities, which are critical to the continued success of the business and the virtuous circle I mentioned earlier.

Now we'll move on to capital deployment. Our capital position remains strong, enabling enterprise investment needs. Recall that excess statutory capital is partially offset by additional reserves tied to our continued premium growth, and when combined with unregulated earnings, contributes about \$2.5 billion to \$2.9 billion each year. After funding capital expenditures, dividends and interest expense, nearly \$1.1 billion to \$1.4 billion of excess capital is available for strategic acquisitions and share repurchase.

As we previously announced, we are acquiring the remaining 60% stake in Kindred Home for \$5.7 billion, with most of that financing coming from debt and very little being paid out in cash, as reflected on the left. This will result in an increase in our debt-to-cap ratio to the low 40s when the transaction closes, although we expect to deleverage meaningfully in the near term, reaching our targeted 35% level by the end of 2022.

Our deleveraging will be made possible by free cash flows from the business as well as the monetization of our current majority position in the hospice business over time. And importantly, our plan contemplates ongoing customary levels of share repurchase and M&A. It's also important to note that even without the monetization of the hospice business, we have a path to get back to our targeted debt-to-cap range of approximately 35% within a reasonable period of time.

As we think about capital deployment, we will continue to prioritize organic growth, strategic M&A and share repurchase while maintaining a strong track record of return to shareholders. While our debt-to-cap ratio is temporarily impacted by the acquisition of Kindred at Home, we do believe we have sufficient capacity to execute on high-priority initiatives while continuing to deliver strong shareholder returns.

I will now turn it over to Vishal Agrawal, Humana's Chief Strategy Officer, to share further details on our corporate development priorities.

Vishal Agrawal - Humana Inc. - Chief Strategy & Corporate Development Officer

Thank you, Susan, and good afternoon for those on the East Coast. My name is Vishal Agrawal, and I lead Humana's Strategy and Corporate Development efforts. When we think about our inorganic activity, we really can characterize it by 3 words: strategic, partnership-oriented and creative. We build on these characteristics to help us go faster, differentiate with win-win solutions and help us really become the leading partner of choice for innovators in value-based care.

So where are we spending our time? As you heard from William, Renee and Susan today, we're rapidly building out our proprietary pharmacy, primary care and home care capabilities in our value-based care health ecosystem. We also continue to look opportunistically for tuck-in opportunities in under-penetrated Medicare and Medicaid geographies. Our recent iCare acquisition as Wisconsin Medicaid is a good example of that, which in addition to the Medicaid membership in the state opened the door for us to serve the dual-eligible members in that state.

And in addition, as Heather Cox noted earlier, we're investing in next-generation capabilities and businesses and models that advance Humana's enterprise platforms and innovation. We believe our disciplined and programmatic approach to corporate development focuses our resources on the best value creation opportunities to accelerate the strategy you heard throughout today.

Moving on to partnerships. We executed several large-scale enterprise partnerships since our last Investor Day. We've highlighted a few here. With Microsoft Azure, our goal is to build a predictive and personalized health care analytics capability using cloud-hosted data and applications. With Salesforce, we aspire to co-create a hyperconnected workflow by integrating their Health Cloud, Service Cloud and Sales Cloud capabilities.

With IBM, we're leveraging Watson's conversational AI capabilities to help our employer group members have a simpler call experience with greater benefits transparency. Each partner organization is committing both capabilities as well as capital to co-create components of Humana's value-based care platform with us.

Lastly, you'll see us continue to be very creative and capital efficient with our M&A and corporate development. We can flex across the investment spectrum, from seeding and investing in new innovators and venture funds to minority stakes, JVs and private equity partnerships all the way to full acquisitions where that makes sense. And since our last Investor Day, we put capital work across each of these investment structures.

The ones in green near the top, seeding start-ups and our venture fund LP investments, that really helps accelerate our strategy through rapid test and learns, where we can have early access to potential disruptors. Cohere Health is an example of where we launched an organization to serve as an industry utility to simplify the prior authorization processes.

Moving down the spectrum, minority investments, joint ventures, private equity partnerships allow us to stay focused on running our core business, but maintain optionality as we move and expand into new businesses. You'll see a lot of familiar industry names in the primary care column. I'll call out our partnership, as Renee did earlier, with Welsh, Carson to build out our CenterWell-branded primary care clinics as a really great example of a private equity partnership oriented toward operational acceleration.

Finally, if we believe that the most value is driven through full control, as we did with our Home -- One Homecare Solutions announcement from earlier this week, we can certainly look for a control acquisition and acquire the full entity. So overall, we think this flexibility and breadth of structures allows us to be both a good partner as well as highly capital efficient with our balance sheet. That capital efficiency is best shown in comparison to our cost of capital.

Over the past 3 years, our weighted average cost of capital across Humana is 7%. Our after-tax return on invested capital over that same period is over double that and nearly 16% for an 890 basis point spread. Importantly, as Bruce noted at the outset, over this past 3-year period, we also had double-digit revenue growth of over 15%. So as you can see, we've worked hard to execute our strategy in a balanced way over an extraordinary period with the global pandemic to deliver both strong organic growth and efficient capital deployment over that period.

And with that, I'll turn it over to Bruce Broussard for some closing remarks.

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

All right. Thank you, Vishal. Well, thanks for everyone participating in the event. I know it was quite long, but I'm sure you've noticed how much advancement we've made since the last time we got together 2 years ago.

Obviously, our core business continues to be strong as we think about the ability for us to -- our Star score, improving our Net Promoter Score and continuing to drive membership growth and continuing to increase the profitability as what Susan and Vishal identified. Also, we've made great strides on building the platform and extending our platform capabilities. When you think about it when we were here a few years ago, it was more abstract than the strategy.

What you've taken away from today is some very executable capabilities, where you're seeing them go into the market, having an impact on health outcomes, improving our ability to satisfy and improve our satisfaction of our customers and, at the same time, continuing to drive financial improvement.

As we think about the future, we think about the future as being very bright. Demographic growth, the ability to solve some very complex problems in health care around affordability and around complexity. And we believe, through the proper operational focus we have today, the capital discipline that you've seen is going to drive continued improvement in our weighted average cost of capital and also our overall financial returns.

And so I leave you with the thought that the industry is bright for the future. Humana is bright. And I think between the industry's problems and our ability through our strategy of simplifying an industry that is also very complex and also being able to bring affordability is an exciting time for us as an organization and continuing to drive and generate above-average returns for our investors. So thank you.

I think we're going to turn it over to Amy for some questions. All right.

QUESTIONS AND ANSWERS

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

Okay. This will be our last Q&A session of the day. We have Vishal, Susan and Bruce here for your questions. And our first question is going to come from Scott Fidel. So Scott, please go ahead.

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

Just wanted to circle back on the home health strategy. Interested in how you're thinking about the timeline for scaling up the value-based strategy in home health? And then ultimately, how you think that can accelerate the revenue growth profile for the home health business relative to the growth rates that you had provided to us just for the fee-for-service piece?

Susan M. Diamond - *Humana Inc. - Interim CFO & Segment President of Home Business*

Sure. This is Susan. I can take that. So we actually intend to begin deploying that model later this year, so in 2021. Our current plan targets really adding that service category to more than 1 million members over the next 3 years. So fairly strong pace of acceleration. One of the sort of determining factors will be our ability, as I mentioned earlier, to hire and retain quality clinicians to ensure that all of this additional volume can be additive relative to what we would normally expect just organically from the strong and growing Kindred core fee-for-service model. So we'll certainly be focused on that near term and continue to make improvements there.

As it respects growth, I think we've shared historically that Kindred has -- in the industry really has demonstrated roughly 6% sort of topline growth. So we, again, expect that to continue in their core business. And this value-based model expansion would just be additive to that, again, provided we can hire sufficient clinical capacity to take on that additional volume.

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

Okay. Thank you. Our next question is going to come from Lisa Gill.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

I just wanted to go back and ask a question on the pharmacy side, obviously, a big part of your health care services offering. As you think about paying for outcomes, something that has been talked about for a number of years, now we think about this Alzheimer's drug, \$56,000, how are you working with the manufacturers around paying for outcomes and other opportunities you see now that we have drugs like this in the marketplace would be my first question. And then secondly, how do you think about shifting some of this cost to in the home as we think about home infusion and other specialty drugs in the home?

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

I'll take the first one, and then Susan can take the second one. Over the years, we've had a number of relationships with pharmaceutical companies around the value-based payment model where there is an outcomes orientation. There are some risks, in fact, in the market today. I think there's some of these models, especially on the genetics side of the equation. Obviously, this drug that's coming out on Alzheimer's is a new drug, and we have not begun the detailed conversations of an outcome-oriented contract.

We would hope that we would be able to introduce and be able to develop that, but it would be something that I think would be unique and innovative as we think about our historical experience, but because of our historical experience had been more around more generic oriented drugs and drugs that probably have some competitive profile in the marketplace.

Susan M. Diamond - *Humana Inc. - Interim CFO & Segment President of Home Business*

And then to your second question. Honestly, this is a space that will be new for us. We don't provide infusion services within Humana today. So it's certainly something that we look forward to working with our community pharmacy partners as well as our new One Home partners to really understand the breadth of services that they can support. And we'll look for ways to expand beyond even the service offerings that they provide

today as part of their coordinated model. But really, I would say more to come on that as we better understand what's possible, leveraging their services as we expand that geographically, as I mentioned a little bit earlier.

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

Okay. Thank you. Our next question comes from Matt Borsch. Matt, are you there? Okay, we will come back.

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

I'm here. I'm here.

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

There you are.

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

Talking to myself for a minute there. So the Medicare Advantage outlook, can you just talk a little bit about the competition that you're seeing, some of the new entrants, where you are with dual penetration? I'm just trying to sort of pull together some of the factors that are going to impact your growth and the industry growth as we head into '22 and '23.

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

Yes. Well, Matt, at least, you didn't answer yourself when you were talking to yourself. So that's always a good sign. I would say a few things. First, in the area of duals, you've seen just a significant growth in the organization and our D-SNPs. And I think it's just the testimony of our capability of serving many different markets, including the duals, including Medicaid. And a number of years ago, we were lagging the industry. And today, we're leading the industry. And we continue to be very optimistic in the ability to serve that market. So we're excited about that.

I think on the other side, on the competitive side, MA has increased in its competition. But what we see is there are market-by-market dynamics. But we continue to believe and see in our competitive side that the brand of Humana that is trusting, that is leading from a service point of view, our health outcomes and our relationship with providers, all are driving to a much more competitive product by us.

We do see in certain markets that some of the digital plans and the newer plans come to market, but what we haven't seen is any kind of competitive advantage. What we've seen is they've become more oriented to, as we refer to, the MACVAT or the value proposition and really coming with a price value proposition. And as you can see it from the losses, especially some of the ones that are publicly traded, are not being able to do this from a profitable point of view.

So we're very bullish on our positioning in the marketplace. We believe that our brand, we believe that our relationships with the providers and we also believe our clinical capabilities all will lead the industry going forward.

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

Okay. There are several folks in the queue, and I just want to -- that I'm going to prioritize those that have not yet been able to ask a question, and I'll try to get back to others as we can. So the next question is going to come from Kevin Fischbeck.

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

Great. You guys have given some interesting information about the margin profile when you're doing all the services, the 2 to 4x what you're doing in MA when you do everything. And I know that you guys have talked about in the past the lifetime value of an MA member. You're trying to balance growth and profitability.

But it feels to me like there is probably an equal case to be made for the lifetime value of a physician member, because they might switch even less than an MA member does. So why isn't Humana better served by maybe growing MA a little bit slower, getting to that 5% margin in MA quicker, using that to reinvest into these other products and get to that 2 to 4x margin target even more quickly than what you're talking about doing?

Susan M. Diamond - *Humana Inc. - Interim CFO & Segment President of Home Business*

Sure. So yes, we get this question all the time. This trade-off -- and here and trade-off between membership growth and margin. The challenge is really as long as we keep members, which is, call it, on average about 7 years, so the trade-off is really a near-term trade-off in terms of margin improvement versus that multiyear value that can be contributed by having those members over the 7 or more years that we tend to keep our members.

And as you referenced, the additional value creation opportunity across our ecosystem only adds incremental value that needs to be considered in those trade-off discussions. And so certainly, at the rate at which the industry and Humana is growing today, that is certainly one input in any given year. We'll also consider our expected competitive positioning based on the rate environment and what we've been able to do with our products as well as the investments that we may need to make in any given year, which you heard about earlier today, as well as the contribution across the portfolio of assets that we've accumulated.

And all of that will go into our thinking, again, to balance -- first and foremost, delivering against our long-term growth rate of 11% to 15%, which we're committed to, while also over time, moving to the 4.5% to 5% individual MA rate. But really trying to balance that short-term impact versus the much greater longer-term value that can be created once we enroll those members and generate that value over that 7-or-more year period.

Vishal Agrawal - *Humana Inc. - Chief Strategy & Corporate Development Officer*

I think also embedded in the question is we are rapidly growing our proprietary clinic base. We have over 170 proprietary clinics, and many of those are payer-agnostic. So they're all payer-agnostic. They take both Humana members as well as members from other health plans in part. As your question notes. It's really to drive that value-based solution in markets and have another source of value creation for the company outside of the MA product.

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

Okay. Our next question is going to come from Ralph Giacobbe.

Ralph Giacobbe - *Citigroup Inc., Research Division - Director and Co-Head of Americas Healthcare Research*

Great. Great. If I can sneak in a question -- a quick one first on Alzheimer's. Can you give us a sense at all of how many Alzheimer's patients you have as members and maybe how many that would meet that clinical trial parameter that you noticed specifically? And then my question really is more around sort of utilization. It sounds like from your commentary that, that remains below baseline. What about spending? And are you seeing greater acuity at this point?

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

Well, Ralph, I'll wait for Amy, but I'm going to ask her, are we sharing this information technically or underneath the table?

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

Yes. I think, Riley (sic) [Ralph] what we can say is that I think the numbers that we see in our population probably align with some of the suggested numbers that you see more broadly. And again, it depends on how you define the Alzheimer's population. Is it mild, moderate, severe, et cetera? So we have not given a specific number. But again, I think our numbers would be in line with what you're seeing for the industry.

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

Then I can take the utilization question. As you mentioned, we've been clear that to date, we have seen utilization still coming in at levels below our historical baseline level pre-COVID, which we expected. We -- recall that we expected the greatest level of depressed utilization really in the first quarter, which we saw. And given the increase in vaccination rates, we continue to see COVID cost and treatment cost come down faster than we expected.

Some of that is offset by some higher use in terms of nonessential services on the inpatient side, but overall, below baseline utilization. We've been clear that on the outpatient side, it varies by service category. There are some categories that we've seen, like certain plain surgical procedures, colonoscopies and things like that, where we have most recently seen a faster bounce back to baseline levels, which we're continuing to monitor to see if that might be just an indicator of just some pent-up demand that may then normalize down.

There are other service categories, more normal utilization around ER visits and observation rates, which are actually still trending below those baseline levels. And for the year, we do expect on balance and on average to see that below average use on average for the year.

In terms of acuity, so far, we really have not seen any indicators that the acuity level has increased. We are monitoring it and doing analytics, but so far, haven't seen any indications of that. Certainly, within the inpatient events, we are seeing. Because they're depressed, that lower value inpatient activity is largely what's not materializing. And what's left in that inpatient setting does tend to be a more severe event, which we anticipate. But otherwise, no real indicators.

One strong indicator we've seen is med adherence. Through the pandemic, we worked really hard to proactively outreach to our members to make sure that they were being supported, that they were receiving the medications that are so important to preventing exacerbations. And we actually saw stronger and higher rates of med adherence through the pandemic than we actually saw pre-pandemic. So that's quite positive. And again, we'll continue to monitor it, but so far, have not seen any indications of higher acuity being an issue.

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

Okay. Thank you. Our next question is going to come from Dave Windley. Okay. I'll come back to you, Dave. Rob Cottrell. I'm getting back through some of the -- okay.

Robert Sohngen Cottrell - Cleveland Research Company - Research Associate

I wanted to ask a bit about MA conversions. In the past, you've talked about the PDP to MA conversion opportunity. That was not discussed today, but you did outline the commercial and specialty conversion opportunities. So curious how you're thinking about that? Whether that's a change? And what are some of the steps you're taking to increase that commercial to MA conversion rate?

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

Sure. No, it's a great question, and we've been doing a lot of work in this space. As you mentioned, we enrolled more than 100,000 members each year from our PDP to our MA plans, which we're quite proud of. As you've seen the industry really the last number of years in the aggregate shrink as more beneficiaries are choosing the high-value proposition within the MA plan. It's something we've looked much harder at. There is work that the teams are doing currently to really better understand sort of what are the characteristics of a beneficiary, who is likely to ultimately look -- be interested in a Medicare Advantage plan and are there opportunities for us to design our Part D plans to attract disproportionately those members who over time may migrate to those products.

We're also looking at service experience enhancements that again can create better and deeper relationships with our Part D members that can, again, give them a sense of what's possible when they're a Humana member that again can allow us to have discussions with them about all of the additional value that they could benefit from in an MA plan. So from product to experience to distribution and some of our digital engagement tools, all of those are really being looked at with the lens of how we can drive additional penetration into MA products from our Part D membership.

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

Thank you. And we are going back to the queue now and taking some second questions. So the next one will come from A.J. Rice.

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

Yes. I just wanted to ask about the comments on the risk-adjusters and the true-up. Is the right way to think about this is, you came into the year knowing that there was some uncertainty around it, so presumably, you accrued somewhat conservatively? So when we think about whatever you're going to say on the next quarter call when you get this data, it will probably be either reflective of what you've been accruing or there potentially could be upside? Is that a fair way to characterize it?

And then at the end of the day, if you don't get the risk-quoting adjustments you think you were hoping for the back half of the year, won't you get those next year, so it will just be further upside to next year or further benefit to next year, let's put it that way?

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

Sure. No, great question. I'm frankly surprised it wasn't the first question on MRA. But as we've explained, what's interesting at the midyear payment, for members that Humana has had for all of last year as well as into 2021, we have much greater visibility on their utilization and the diagnosis codes that were submitted that allow us to estimate what that midyear adjustment will be. And what that midyear adjustment really does is trues up the payment for the back half of 2020 claims, dropping off what was the back half of '19 claims that was included previously in our payment.

So what we recognize is, particularly, given the spike in COVID that occurred in the back half of 2020, there is just greater uncertainty about the level of utilization and diagnosis codes that were submitted for members that are new -- more newly enrolled with Humana for whom we do not have the full claims data set to analyze. So to your point, we certainly are leveraging the data that we do have on our concurrent members as one input into those estimates.

We just recognize that given COVID and the varying approaches, the different MA plans or certainly within original Medicare may have taken to address the lack of utilization, we just may see more variation in that newer member cohort than we would historically. And so we're just trying to be transparent about that.

As you mentioned, we will get the data the 1st of the month. We do expect to have it analyzed in time for our second quarter call. And at that time, we'll certainly inform everyone if there was any meaningful variance from what we had expected and what those drivers are.

The other thing I would just mention is, while we grow, call it, 450,000 to 500,000 members in a given year, the number of members we enroll is larger. So you can think of it as about 25% of our total enrollment is reflective of members who had not been with us the full year. And so that's really the population that we're needing to study further.

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

Yes. And that's why the member level detail is so important. And I have gotten some questions from investors. So I just want to be clear, back on our fourth quarter earnings call, we did give some full year estimates of headwinds and tailwinds. And they offset largely, but one of them was for Medicare risk adjustment. It was an estimate of \$700 million to \$1 billion. That was actually net of capitation offsets. I do want to be clear that, that was a full year estimate, and only a portion of that would be what we expected from the midyear payment.

So it wasn't all a mid-year estimate. It was made up of some things that we knew, some things that we were estimating of which there were multiple items. But a portion of that would be associated with our estimate for the midyear. And we did not break that down by component, but just want to be clear that there are multiple things in that number. I think we have time for one more question. So I'm going to take it from Stephen Baxter.

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

Just a question or 2 more about the Alzheimer's approval. So I appreciate the comments on the significant cost exception. It seems like that doesn't happen until Medicare issues an NCD. So is that the right way to think about it? And how should we think about any utilization that occurs before them? Like is there much that would potentially be expected?

And I guess, the final part of the question would just be, once the drug actually does move into the significant cost position, how does it work for out-of-pocket expenses as they're still your members? I would love to get some clarity on that.

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

I'll start, and then I'll let Susan add to it. I think as you think about the process that CMS goes through, there is going to be a time that the significant cost policy will not be put in place, and there is a requirement by us to cover the drug. So that's a definite. I do believe, as William was articulating, there is a number of barriers or areas where we have to work through this drug. And we've seen this in a few other drugs before really gets to any kind of utilization.

And this drug, especially, all the way around to the safety component of it, to the special clinics that are needed and being established to the high co-pay that's required there, obviously, Medicare fee-for-service more than Medicare Advantage. And in addition, some of the clinical areas where you have to stop using your blood thinner. You have to get either a spinal tap or an MRI.

So there is a lot of activities that have to happen. And so the uptake, we believe spending time with our -- some physicians in the -- outside our company and giving us some input on it is probably going to be slow during the initial period of time. So to answer your question, yes, until the -- there is a time that there won't -- the significant cost policy will not be put in place, we will be responsible to cover the drug. But as I said, I think the uptake of that is going to be slow. But do you want to add anything to that?

Susan M. Diamond - Humana Inc. - Interim CFO & Segment President of Home Business

As it respects to the member out-of-pocket, its important to remember, too, there are other tests that are required either for diagnosis purposes or treatment costs. There is still some work to be done to better understand how those costs will be treated even when the significant cost policy kicks in that we'll need to evaluate. But our understanding is, at least from a diagnostic perspective, those would not. And so those would be -- bear the traditional member cost share based on the plans that they happen to be enrolled in.

Your question about once the significant cost probably kicks in, how the member's share is impacted, it maybe something that we can get back to you on. I think there's been 2 recent examples. Obviously, COVID is the most obvious one where the government chose to cover the full cost of that drug. There was no out-of-pocket cost for the vaccinations, as an example, to the patient or the treatment. We'll have to see. I don't recall or know on CAR T, whether -- I know that -- I think those costs went directly to the government. I don't know if they apply to normal costs here, but we can certainly check on that and get back to you.

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

I agree with CAR T, they picked up the portion of the cost that the health plans otherwise would cover, but I don't have any answer on them. We'll have to follow up on that.

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

Thanks so much.

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

Okay. All right. Well, thank you very much. Hopefully, it was a great day for you. We really appreciate your support. And as a reminder, this event was recorded and will be available for replay purposes on our website, humana.com, later today. Thank you.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.