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EDITED TRANSCRIPT

HUM.N - Q4 2020 Humana Inc Earnings Call

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OVERVIEW:

Co. reported 2020 adjusted common diluted EPS of $18.75 and 4Q20 adjusted diluted loss per common share of $2.30. Expects 2021 consolidated revenues to be $80.3-81.9b and adjusted common diluted EPS to be $21.25-21.75.

REFINITIV

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Humana Fourth Quarter 2020 Earnings Call. (Operator Instructions)

With that, I would now like to hand the conference over to Amy Smith, Vice President of Investor Relations. Thank you, and please go ahead.

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

Thank you, and good morning. In a moment, Bruce Broussard, Humana's President and Chief Executive Officer; and Brian Kane, Chief Financial Officer, will discuss our fourth quarter 2020 results and our updated financial outlook for 2021. Following these prepared remarks, we will open up the lines for a question-and-answer session with industry analysts. Our Chief Legal Officer, Joe Ventura, will also be joining Bruce and Brian for the Q&A session. We encourage the investing public and media to listen to both management's prepared remarks and the related Q&A with analysts. Additionally, we have posted supporting materials to our Investor Relations page for reference during Brian's prepared remarks. This call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana's website, humana.com, later today.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the

detailed risk factors discussed in our latest Form 10-K, our other filings with the Securities and Exchange Commission and our fourth quarter 2020 earnings press release as they relate to forward-looking statements and to note, in particular, that these forward-looking statements could be impacted by risks related to the spread of and response to the COVID-19 pandemic, including the potential impacts to us of: One, actions taken by federal, state and local governments to mitigate the spread of COVID-19 and in turn, relax those restrictions; two, actions taken by us to expand benefits for our members and provide relief for the health care provider community in connection with COVID-19; three, disruptions in our ability to operate our business effectively; and four, negative pressure in economic, employment and financial markets, among others, all of which creates additional uncertainties and risks for our business.

Our forward-looking statements should therefore be considered in light of these additional uncertainties and risks, along with other risks discussed in our SEC filings. We undertake no obligation to publicly address or update any forward-looking statements in future filings or communications regarding our business or results.

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

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

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

Thank you, Amy, and good morning, and thank you for joining us. Today, we reported adjusted earnings per share of $18.75 for 2020, consistent with our commentary throughout the year as expected, reflecting a loss in the fourth quarter, largely driven by our investments in programs to support members, patients, employers, providers and the communities we serve. Our fourth quarter results were impacted by the continued waiver of Medicare Advantage cost-sharing, including for primary care and COVID-19 treatment, delivery of meals, mask and prevented tests to our members, in-home assessments, investments in programs to assist underserved communities and efforts to ease the financial burden for our provider partners.

For the full year, these initiatives, among others, exceeded $2 billion. Defined by the worldwide pandemic, 2020 was an unprecedented and challenging year. I'm proud of the resilience and response of our associates, putting our members, patients and providers' holistic health at the forefront, while continuing to advance our strategy. Despite the pandemic, Humana continued to accelerate on all fronts in 2020, including our short-term operating and financial performance, our ability to drive and invest in our long-term strategic objectives and in our customer-centricity efforts.

The strength of our underlying core business is compelling. In our Healthcare Services business, we delivered double-digit percentage growth in adjusted EBITDA year-over-year in 2020 with our pharmacy, provider and home business all performing well. In our Pharmacy business, we processed 478 million scripts and drove mail order penetration of over 37% in MAPD. Today, our Pharmacy business has organically grown to the fourth largest pharmacy benefit manager, or PBM. In our provider business, we ended the year with 156 wholly owned primary care centers after opening 15 new centers in 2020, including expanding to Louisiana and Nevada.

In addition, our Conviva primary care clinics delivered significant clinical and financial improvement as the turnaround in the business continued, including a 5% reduction in admissions per 1,000. In the Home, we've made important investments in our strategy to offer primary care and post-acute services in the home through minority investments in Heal, a pioneer of in-home primary care; and DispatchHealth, a provider of emergent in-home medical care. In addition, Kindred at Home successfully managed the transition to the new CMS payment model, while also implementing a new operating system in 2020, setting it up to drive further operating model advancement in 2021.

We demonstrated in over 50,000 Home episodes, integrated new proactive clinical models within the nurses' workflow significantly reduces downstream emergency room visits and hospital admissions. The success of these clinical test and learns provides the confidence scaling these

programs will provide meaningful quality and cost improvements in 2021 and beyond. We also delivered strong fundamental results in our core insurance business while investing for the long term. We remain very focused on the consumer experience broadly across all platforms and are proud to have driven an overall 670 basis point increase in our Net Promoter Score, or NPS, in 2020, with a meaningfully higher increase in our NPS for our commercial group business.

We also announced that 92% of our MA members are in plans rated 4 star or higher, leading the public-traded MA companies. We ended the year with approximately 4.6 million total Medicare Advantage members, reflecting year-over-year growth of 11%, fueling consolidated revenue growth of 19% in 2020. The positive momentum continued in 2021 Medicare Advantage Annual Election Period, or AEP. For the full year, we are expecting individual MA growth of approximately 425,000 to 475,000 members or 11% to 12%. Importantly, as in prior years, our robust growth is balanced across multiple MA plan types as a result of the strength of our clinical programs, provider partnerships and distribution channels as well as our broad offerings that allow for deeper personalization to meet the member's needs.

In the AEP, we led the industry in each of HMO, special needs plans or D-SNP, and MA-only membership growth and continue to grow our LPPO membership. We also launched Author by Humana in South Carolina in January, managing 5 Medicare Advantage plans with approximately 13,500 members. Author is designed to meet the emerging expectations of digital savvy seniors aging into Medicare, leveraging health coaches, digital and artificial intelligence, to create a simplify and integrated experience for consumers. We plan to scale Author by delegating more MA lives over time and look forward to sharing our learnings.

We continue to focus on how we can expand our presence with underserved populations, an effort to drive improved clinical outcomes and reduce health disparities. In Medicare Advantage, we experienced industry-leading growth in D-SNPs in 2020, increasing D-SNP membership approximately 41% year-over-year. We expect another year of robust D-SNP membership growth in 2021. Our Medicaid strategy is predicated on the core strengths of our Medicare chassis, including our clinical programs, provider relationships focused on value-based care and commitment to investments in the communities we serve. We are able to offer states individualized approach to care that considers the physical and mental well-being of beneficiaries as well as the critical social determinants that impact the population.

We began serving Medicare members in Kentucky in 2020 and recently announced our entry into the South Carolina Medicaid program as well as the acquisition of iCare in Wisconsin. We firmly believe organic growth is the most efficient use of capital for our shareholders and remain committed to further organic Medicaid growth supplemented by smaller tuck-in acquisitions. We have a long history of success growing our Medicare Advantage and pharmacy businesses organically, and in just the last week, we were awarded the Managed Medicare contract in Oklahoma, a state that previously did not offer Managed Medicaid. I would like to thank the Medicaid team for their tireless efforts and congratulate them on these key wins.

As I reflect on what we've learned from the pandemic, I am energized by the way the collective health care system responded to the crisis and how actions taken to combat the pandemic strengthened and accelerated critical tenets of the system. As an industry, in partnership with policymakers, we took deliberate and sustained actions to remove financial barriers and enhance access to care in response to the pandemic, easing some of the burden on our nation's most vulnerable population at a time when they need it most. Supported by CMS, health plans and providers proactively addressed social determinants of health that were exacerbated by the pandemic and quickly pivoted to the telephonic and in-home care, advancing in a matter of months what may have taken years absent the pandemic.

Our combined actions underscore the strength of the Medicare Advantage program as an enduring public-private partnership that puts seniors and their holistic health at the forefront. Humana's pandemic response continues to evolve, and we are actively engaged with the Biden administration, including HHS and CMS as well as state and local governments regarding our role in the vaccination process as both a primary care provider and as a health plan, representing a significant portion of the nation's most vulnerable population.

As such, our role is multifaceted, and we stand ready to assist further as the nationwide distribution progresses to later phases and more and more individuals become eligible for the vaccine. Driven by our strong care coordination capabilities, our role includes identification of eligible members utilizing our analytics, vaccination education and concierge services, second dose reminders and ensuring we follow-up on any complications. We are also engaged in industry-wide efforts to conduct vaccine surveillance, identify regions where vaccinations are lagging and intervene to help

our members access vaccine. By collaborating with other health insurances, we can align regionally communication efforts to educate and engage members and reduce disparities in vaccine use across the U.S.

Inequity in health care is an area that we are particularly focused on, recognizing that we must play a critical role, working closely with our industry and governmental partners to address the imbalance that exists today. Data shows that Medicare Advantage is continuing to grow as the preferred option for those who are low income and for racial and ethnic minorities. Of the nearly 26 million Advantage -- Medicare Advantage members, there is a growing diversity in enrollment with more than 28% of the beneficiaries being racial and ethnic minorities as compared to 21% in traditional Medicare. This data demonstrates that as we think about disparities in health care for underserved populations, Medicare Advantage plans are uniquely positioned to address the needs of these members.

Humana is committed to leverage our business platforms to support local communities in their efforts to lower social and health disparities. This includes enhancing access to care by continuing to expand and build primary care centers in underserved markets, offering supplemental benefits, including over-the-counter medication coverage, transportation, dental and vision as well as taking a leadership role in enhancing innovative solutions aimed at addressing social determinants for both Medicare and Medicaid. In addition, we recently named Dr. Nwando Olayiwola to the newly created position of Senior Vice President and Chief Equity Officer effective in April of this year. Dr. Olayiwola will set direction and establish strategy to promote health equity across all Humana lines of business, including our care delivery assets, while working collaboratively with the broader health care community to advance health equity so health care can work better for everyone, regardless of background, age or economic status.

In closing, we remain committed to public-private partnerships that are solution oriented and drive results that will meaningfully benefit the health care system in the coming years. With that, I'll turn the call over to Brian.

Brian Andrew Kane - *Humana Inc. - CFO*

Thanks, Bruce, and good morning, everyone. Today, we reported full year 2020 adjusted earnings per share of $18.75, consistent with our guidance commentary throughout the year. As Bruce described in detail, despite the unique challenges we faced in 2020 due to the pandemic, our fundamentals remain very strong with the underlying core business delivering compelling results for the full year, including a 19% increase in consolidated revenue and an 11% increase in our total Medicare Advantage membership. We were also pleased to be able to maintain stable benefits and premiums for our members, despite the return of the $1.2 billion health insurance fee, or HIF, which was not deductible for tax purposes and disproportionately impacted our business relative to the competition. In addition, I would like to echo Bruce's congratulations to our Medicaid team for our recent contract awards in Oklahoma and our announced expansion in South Carolina. These awards further demonstrate our ability to drive organic Medicaid growth, and together with our iCare acquisition in Wisconsin, expand our Medicaid presence from 3 states to 6.

I will turn now to our fourth quarter results and underlying trends, which provide important context for our initial 2021 guide. As expected, we reported an adjusted loss per share of $2.30 for the first -- for the fourth quarter of 2020 on account of the significant investments made in all of our constituents because of the pandemic. Further, as disclosed in our 8-K filed January 8, we experienced a significant increase in COVID treatment and testing costs across the nation in November and December. For full year 2020, we incurred $1.5 billion in gross COVID treatment costs, $1.3 billion of which were related to Medicare or $825 million net of capitation to providers in risk arrangements. As a result of the dramatic increase in COVID during these months, we also experienced a decline in non-COVID utilization in the fourth quarter, particularly for Medicare, as fewer people sought nonemergent care. As a result, non-COVID Medicare utilization was approximately 15% below baseline in November and December after having nearly returned to baseline levels in October.

Overall utilization in the quarter, including COVID costs, was a bit below baseline for Medicare and above for commercial. While the magnitude of these changes was unexpected, the decline in non-COVID utilization in the quarter relative to our prior expectations more than offset the increase in COVID treatment and testing costs. We were, therefore, able to increase our spending for ongoing pandemic relief efforts and investments to advance the company's strategy. It is important to note that investments in the Group and Specialty segment in the quarter, particularly those intended to ease financial stress for providers while positioning the business for long-term success, were disproportionate relative to the reduction in non-COVID utilization levels for the company's commercial group medical and specialty members, significantly increasing the segment's benefit

ratio. In addition, as is customary, marketing costs associated with the Medicare Advantage Annual Election Period, along with COVID-related investments, were heavily weighted to the fourth quarter in our retail segment as reflected in our operating cost ratio.

I will now speak to our expectations and related assumptions for 2021. Today, we are providing adjusted EPS guidance for 2021 of $21.25 to $21.75, reflecting approximately 16% growth off of our $18.50 2020 baseline at the midpoint. While this guidance is consistent with our previous high level 2021 commentary from our third quarter earnings call, the embedded COVID assumptions in today's guidance have changed materially since that time, with largely offsetting headwinds and tailwinds in revenue and benefits expense. This is consistent with our previous commentary that there are natural countervailing forces between trends in COVID treatment costs and trends in non-COVID utilization.

Importantly, in an effort to simplify any explanations we are going to provide, we have included a slide on our Investor Relations website, which summarizes the expected full year impact of the various material headwinds and tailwinds to our guidance today, rather than discussing any incremental changes since the third quarter conference call. At the time of that call, we reflected both revenue and expense puts and takes into our high-level commentary about expected 2021 financial performance. Since that time, the magnitude of the COVID-related impacts have increased significantly. Therefore, as I said, we will provide full year estimates, inclusive of where we stood at the time of the third quarter call so as to provide our investors with a comprehensive assessment of our latest estimates. I would note that this heightened level of transparency, whereby we provide granular assumptions on a number of variables, is necessitated by the unique uncertainties that the pandemic creates for our 2021 financial outlook.

I would also note that the numbers we are providing today are for individual and group Medicare Advantage only as the net impact of the pandemic on our other lines of business is currently expected to be relatively immaterial. Additionally, it is important to note that we are providing reasonably wide ranges, given the inherent uncertainty of our estimates for each line item. And finally, so as to make it easier for investors to understand the full financial picture, all the COVID-related figures we are discussing today are net numbers after taking into account our capitation agreements in which provider groups take risk in whole or in part on the member.

With that context, I will now discuss the material COVID-related headwinds and tailwinds facing our Medicare business in 2021. I will begin with Medicare Risk Adjustment, or MRA. We now expect an MRA revenue headwind of approximately $700 million to $1 billion, representing 1% to 1.5% of Medicare premium for the full year. As a reminder, Humana's 2021 Medicare Advantage revenue is primarily driven by the risk assumed to care for our membership, established through conditions documented by providers within the 2020 calendar year. While we know that 2021 prospective payment amounts from CMS based on diagnoses codes incurred through June of 2020 and submitted by the first Friday in September, over the coming months, these payments will be adjusted to reflect additional conditions documented for claims incurred within the 2020 calendar year. While we estimate and accrue for the incremental revenue from anticipated submissions as the year progresses, there is a higher degree of uncertainty in our revenue projections compared to a normal year.

Let me spend a few minutes addressing the drivers of this increased uncertainty. First, while we worked tirelessly throughout 2020 to ensure members had access to and were receiving the appropriate level of care, including by significantly increasing outreach and availability of in-home care and providing access to video telehealth clinician visits, the meaningful drop in non-COVID medical utilization in November and December was not expected. Those are important months as they round out our ability to drive meaningful clinical interactions with our members, and therefore, the unexpected decline in utilization affected our ability to appropriately document their conditions.

Second, the mix of utilization was very different in 2020 relative to prior years. For example, the dramatic increase in the number of telehealth visits from 2019 to 2020, although critical in allowing our members to access care while affording us the opportunity to document their conditions, nonetheless, creates greater uncertainty around the type and volume of diagnoses codes collected. Separately, utilization for in-patient and non-in-patient continued to increase for COVID diagnosis throughout the year. Accordingly, within the mix of submissions from 2020 that drive our 2021 revenue, we also expect organic diagnosis code submissions tied to COVID claims, for which we have limited visibility at this time. These are just 2 examples of how emerging experience in 2020 creates more uncertainty in our MRA revenue projections for 2021 because we are not able to place the same level of reliance on historical trends as compared to a normal year.

I will now discuss COVID-related utilization. As a general rule, we have seen an inverse relationship between COVID treatment costs and levels of non-COVID utilization, as surges in the pandemic led to less nonessential care being sought by our members. While the ratio of COVID treatment to non-COVID depressed utilization has varied, to date, we have seen in our Medicare book that the level of depressed utilization has more than

offset the treatment cost. The shape of the COVID case curve is one of the largest drivers of these 2 related factors, and as such, they remain the 2 largest sources of uncertainty for 2021, given the unprecedented nature of the pandemic. To set a bit more context around what we are seeing currently, the COVID and non-COVID utilization trends we saw in the fourth quarter persisted throughout January. Medicare in-patient non-COVID utilization is running approximately 20% below baseline, with non-in-patient reduction percentages in the low teens, with a significant caveat that we have a much better view of inpatient admissions for which we receive weekly authorization data than we do for non-in-patient utilization.

Importantly, the increased COVID treatment costs incurred in November and December 2020 ramped up quickly with the reduction in non-COVID utilization initially lagging that ramp as would be expected. We expect the inverse to occur in 2021, such that when COVID treatment costs begin to decline, the rate of decline will likely be steeper than the bounce back in non-COVID utilization, potentially creating a favorable impact for a more prolonged period of time. This is consistent with what we saw throughout 2020 as COVID cases ramped up and then declined in various markets. As a result, we now expect Medicare COVID treatment and testing costs of $525 million to $925 million, which when combined with the Medicare physician fee schedule increase that I will discuss in a minute, represents approximately 1.9% to 3.1% of normalized Medicare claim costs. This is similar to what we experienced in 2020 and is consistent with the expectation that the pandemic will begin to subside as more people get vaccinated through the first and second quarters.

In addition, subsequent to the third quarter call, a net claims headwind of $175 million to $200 million resulted from the increase to the physician fee schedule rates for 2021 as part of the December stimulus bill, partially offset by a net $80 million to $90 million impact from the Medicare sequester relief extension through March 31. Our guidance to date does not assume that the sequester relief will be extended for the rest of the year. Finally, for full year 2021, we currently expect a reduction of $1.3 billion to $2 billion in Medicare non-COVID utilization off a normalized claims pattern, including lower flu costs, which are significantly reduced compared to normal seasonal patterns. This reflects overall non-COVID annual reductions of approximately 3.6% to 5.5% off a normalized claim pattern, and inclusive of COVID treatment costs, a reduction of approximately 1.7% to 2.4%. For full year 2020, the all-in reduction with and without COVID was approximately 5.9% and 8.6%, respectively.

We, of course, acknowledge that the ranges we are providing are wide and are a consequence of the continued heightened uncertainty surrounding the ongoing pandemic. We recognize that it will take at least several months to both ascertain from CMS the negative impact to our 2021 revenue growth expectations, resulting from decreased utilization experience in 2020, including, in particular, the unanticipated depression in non-COVID utilization in the final 2 months of 2020 and to the extent to which this reduction in utilization and associated medical cost impact, net of COVID-related expenses, persists into 2021. With respect to quarterly utilization patterns, our guidance ranges assume that we will experience non-COVID utilization levels that reflect double-digit percentage reductions to baseline levels throughout the first few months of 2021, before ramping back up and running slightly above baseline levels towards the end of the year. Similarly, we assume COVID testing and treatment costs will continue to run at the higher levels experienced in November and December in the first quarter of 2021 and trend down as the vaccine becomes more widely available in the second quarter.

With that said, there are a range of potential scenarios, and we would expect any variance in our assumptions around COVID treatment costs to be more than offset by a change in non-COVID utilization. As I said before, we expect that COVID and non-COVID utilization are driven by naturally countervailing forces. Also as a reminder, we believe capacity constraints in the health care system will prevent non-COVID utilization from running materially above baseline and also limit the amount of time a modest increase above a normal baseline could continue. Therefore, given the deviation from historical patterns we will experience in 2021, forecasting quarterly EPS splits is much more difficult than usual, but we do expect a meaningfully higher portion of our earnings coming in the first quarter than we typically see. As such, we expect the first quarter to contribute just below 1/3 of the annual total versus a more typical first quarter, which will contribute 800 to 1,000 basis points less. As an important aside, while utilization patterns will be most significantly affected in the first quarter of the year, we expect the negative impact on revenue to be more equally split throughout the year.

Now that I've walked you through the material Medicare headwinds and tailwinds, I'm going to turn to our expected operating performance by segment. I encourage you to reference the waterfall slide provided on our Investor Relations website with the webcast materials. As outlined in the waterfall, given the pandemic, we must first reset the baseline off of which to grow 2021 adjusted EPS. As discussed previously, our starting point is $18.50, which represents the midpoint of our initial adjusted EPS guide for 2020 and effectively neutralizes for any COVID impacts throughout 2020. Importantly, we believe we struck the appropriate balance in our pricing between top and bottom line growth while investing for long-term

sustainability, contemplating both the permanent repeal of the health insurance industry fee and the significant impact of the pandemic, which creates more uncertainty than we would experience in a typical year.

Our 2021 consolidated revenue guidance of $80.3 billion to $81.9 billion at the book midpoint reflects year-over-year growth of approximately 8% from adjusted 2020 consolidated revenue. This growth is primarily driven by our expected 11% to 12% individual MA membership growth, partially offset by anticipated declines in group MA and standalone PDP membership. The revenue is also adversely impacted by the MRA headwind previously discussed as well as fewer months of sequester relief in 2021 versus 2020. Additionally, and as previously discussed, the after-tax benefit of the hit was worth approximately $2 in EPS, and we took a balanced approach in increasing our benefits to our members while providing enhanced earnings to our shareholders. We have incorporated the HIF's impact in the segment waterfall bars.

In our Retail segment, we are excited about the balanced Medicare growth we have seen, and particularly our industry-leading D-SNP growth. Our Medicaid business also continues to perform very well, and we are excited about the opportunities ahead for this growing business. Taken together, the Retail segment is expected to show strong operating improvement as demonstrated in the waterfall, contributing an incremental $1.21 to adjusted EPS. With respect to our Group and Specialty segment, while we are facing some pressures on account of the pandemic, specifically as it relates to actions by our competitors to retain membership, the business continues to execute on its growth strategy, and we are excited about the prospects for our major medical, specialty and military businesses. We expect the segment to contribute approximately $0.05 of incremental adjusted EPS to the enterprise for 2021.

For Healthcare Services, we experienced double-digit adjusted EBITDA percentage growth from 2019 to 2020 and expect high-teens growth year-over-year in 2021. Accordingly, we expect the increase in Healthcare Services adjusted EBITDA to contribute an incremental $1.72 to adjusted EPS. In our Pharmacy business, we anticipate continued momentum, primarily driven by our strong Medicare Advantage membership growth and continued increased mail order penetration. Likewise, our Home business is anticipated to perform well, led by Kindred at Home, and our wholly owned provider businesses continue to improve core operating performance while meaningfully expanding our primary care center footprint, as Bruce described.

In summary, our 2021 adjusted EPS guidance of $21.25 to $21.75 reflects growth of 16% from the $18.50 baseline at the midpoint, modestly above our long-term target of 11% to 15%. Since 2017, following the termination of the Aetna merger, the company has achieved an adjusted EPS compounded annual growth rate of 16.4%, which is above the top end of our 11% to 15% long-term growth commitment we have made to our investors.

While it's very early, I want to close with some preliminary thoughts on our current view of 2022. Our expectation is that 2022 will be a more normal year, and as we get into the spring and summer, we expect the vaccine to take hold and COVID utilization to decline, allowing non-COVID utilization to trend back to more normal levels, enabling providers to see our members in the ordinary course and appropriately document their clinical conditions, resulting in more normalized medical costs and revenue expectations for 2022. Therefore, barring any major unforeseen circumstances or significant changes in the course of the pandemic, the midpoint of the 2021 adjusted EPS guidance that we provided today of $21.50 is the baseline off of which investors should think about growing earnings for 2022. As we do every year, we will consider a variety of factors as we approach our bids in the spring, including any lingering impacts of the pandemic either on revenue or utilization relative to baseline as well as other external dynamics.

Before I open up the line for questions, I also wanted to announce that we plan to host an Investor Day on Tuesday, June 15, 2021. Please save the date. With that, we will open the lines up for your questions. (Operator Instructions) Operator, please introduce the first caller.

QUESTIONS AND ANSWERS

Operator

We have our first question from the line of Kevin Fischbeck from Bank of America.

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

Great. Maybe just following up on that last point about kind of how you guys are viewing this year's guidance as a baseline. I guess when you guys submitted your bids back in June, obviously, there's been some legislative changes, things like that, that have happened. So basically, what you're saying is that COVID has completely offset all of the kind of external legislative changes and everything else. I just want to make sure that I'm understanding that correctly, and that I guess, everything can be "repriced". I guess I'm just struggling a little bit with the $2 HIF, and how to think about that over a multiyear period? It feels like it's a relatively low net addition over time?

Brian Andrew Kane - *Humana Inc. - CFO*

Kevin, let me just try to provide some context on our bids and how we roll forward today. When we approached our bids in the spring and early summer this past year, we obviously knew we had a significant pandemic that we had to contend with. And we ran a host of scenarios on the revenue and the cost side to put in a pricing what we felt was an appropriate adjustment. And there were certainly countervailing forces. We anticipated that there could be a revenue headwind. We ran various utilization scenarios to see whether there would be any offsets, and we put our assumption into our pricing.

Rolling forward to the third quarter when we gave guidance, obviously, a lot of things by definition changed since pricing and the sort of the high-level guidance we gave at the time reflected our current view of those headwinds and tailwinds that we would face. I would also remind you that, as we've said multiple times throughout the year that, our operators are spending a significant amount of time working to try to mitigate any of those revenue headwinds by really trying to see our members, which was really important to get into their homes, visit them either in-person or via telehealth, where we would also have the benefit of being able to document their conditions. And so we took a really significant effort, invested a lot of dollars to be able to do that.

And so as we approached the third quarter, we understood where we were relative to those expectations and, obviously, updated our utilization expectations for 2021. And in that context, we provided 2021 guidance -- or high level guidance. November and December happened, a lot changed, significant decrease in utilization, which was unexpected, as the COVID pandemic really took off and hit levels that really exceeded any expectations and were much higher levels than were even hit in the spring and was nationwide. And so that clearly impacted our perspective.

And so as we approached the JPMorgan Conference in January, we felt it was important to get out to our investors and provide some high-level commentary on what we are seeing of potential countervailing headwinds and tailwinds. And so we've done that. Here, we provided, obviously, a lot of granular detail on that, but there is a lot of variation in these numbers. I mean you can see there are wide ranges, and we've deliberately provided those wide ranges. We think what's on this page is obviously reasonable. There is nothing that we're seeing that suggests that these numbers aren't reasonable, but where we fall in these ranges on all these variables matters a lot. And that's something, obviously, that we're going to continue to watch closely, and as appropriate, we would update investors on that.

But I would just say, as we said in our remarks, that 2021 has heightened uncertainty relative to what we thought coming into the year. And to your question on HIF, we actually feel we achieved an appropriate balance between giving dollars back to our members through higher benefits, which we did, and giving higher EPS growth to our shareholders where we're exceeding our typical 11% to 15% growth. And at our midpoint, notwithstanding all of the COVID headwinds and tailwinds, we were still able to guide to a midpoint that's above that range. So we think we've achieved the right balance. There is no doubt that 2021 has a heightened level of uncertainty, and we're going to be monitoring it very closely and keep you updated, which is why we've also, I think, anchored investors on 2022 with the hope and expectation that, that will be a much more normal year.

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

Kevin, just to add a little bit on the HIF side. Our historical practice has been passing the pretax on to the -- to our members, both the cost and the benefit, as you well know, has come and gone during the year. So this past bid season was very consistent with what we've done on the pretax side. And on the post-tax side, the tax benefit, we've always tried to be fair as -- to both our members and shareholders. And we typically divided

that 50-50, both on the cost side and on the kind of the benefit side there. So I think what we've done this year is pretty consistent from our historical treatment of the HIF.

Operator

Our next question comes from the line of Ricky Goldwasser from Morgan Stanley.

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

So just couple of questions of clarification. When we think about your guidance and sort of to balance the cadence between first half and second half, what are the embedded assumptions for return of utilization for the Medicare population versus baseline? Or at least what is the range? And then secondly, when we think about 2022, to your point, we want to anchor in 2022 of that starting point of $21.50, but when you think about the 2021 COVID-related headwinds, can you maybe help us quantify what is reasonable for us to back out of the 2021 number as we think of a more normalized 2022? I think truly onetime in nature.

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. Yes. Let me start with utilization patterns and then try to address 2022, recognizing we just gave 2021 guidance. So we're not going to provide a lot of details on 2022, obviously. With respect to the utilization patterns, as we mentioned in our remarks, we expect the first quarter to see the most depressed utilization and certainly, the highest COVID treatment cost. And so those, as I mentioned, offset one another. But again, we expect that the most sort of utilization depression will occur in the first quarter. We expect the utilization to remain depressed in the second quarter, although not as much, and then we expect it to ramp up more towards normal and then a bit above normal as we approach the back half of the year and the end of the year.

So that's how we're broadly thinking about it, which we think is consistent with what we're seeing with the vaccinations and the progress there. As that impacts 2022, it's really hard to give specifics at this point. Again, we'll have to decide when we get to the spring, what's appropriate to reflect in our bids. We'll be very mindful of what we're seeing in terms of headwinds and tailwinds with respect to COVID and revenue and utilization like we were this year. But beyond that, I wouldn't want to comment other than to say, we do think $21.50 is a reasonable baseline off of which to think about 2022 without providing any more specifics beyond that today.

Operator

Our next question comes from the line of Josh Raskin from Nephron Research.

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

So I know you guys have spoken in the past about new members in MA coming in at higher MLRs in that first year. Could you just give us a sense as to what the typical first year MLR looks like for an MA member? And then this inability to risk code, is that affecting new lives at all? Or is that really just an existing book that typically sees the revenue improvement? And then apologies, but I'm just clearing, I know 2022 isn't -- we're not looking for guidance here, but is it correct to think that there'll be kind of a bolus of premium benefit? You'll have all of the older members that have been with you for a couple of years that get coded correctly as well as the new cohort in 2021. Is that a fair way to think about the MRA benefit in 2022?

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. So the way I would think about it, rather than focusing on MERs, I'd rather just focus on pretaxes, what we've discussed in the past. I think it's fair to say that new members tend to be breakeven. These steps may run a little bit better out of the gate, but not a lot of profitability in the first year. Certainly, as we get to the second and third year, we start getting to more of our normalized margins as we're able to document our members' conditions and also get them in our clinical programs, and that really hasn't changed. I think that's consistent with what we've seen. And certainly, that's what we typically plan for in our bids.

We think without providing too much detail on 2022, I think it's fair to say that you might see effectively a catch-up in 2022. So any MRA revenue headwind we've seen in 2022, which is a function of sort of our existing membership base, and remember, it's not just the members that we've had, but it's also the new members that we got, particularly if they were in other Medicare plans. So if they're a switcher, they would also have sort of -- we'd have less of their documentation than normal for the same reasons because our competitors weren't able to get those conditions documented either. And so you will see sort of the -- for us, the 2021 cohort as well as, frankly, some of our other cohorts where we weren't able to redocument their conditions, you will see more of a sort of an increase in 2022. And that will be something that we plan for in our bids as we figure out what percent of normal do we expect to be for 2022 based on 2021 utilization. Hopefully, that was clear.

Operator

We have our next question, comes from the line of Ralph Giacobbe from Citi.

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

I just wanted to go back and understand the assumptions on the core again or the non-COVID utilization. I think, on the slide, it said minus 3.6% to minus 5.5%. It sounded like that was off of a 2021 normalized baseline. I just want to make sure that's right. And I guess it'd be helpful to understand what you normally assume for utilization increases? Or maybe even just how it compares to kind of 2019? And then it sounds like the first quarter is running down 20% on the non-COVID. Did I hear that right?

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. So Ralph, so we don't -- we're not going to give you specific sort of utilization assumptions that -- we're very transparent, but we can't be that transparent on some of our core stuff on that regard. But I would just say, as it relates to utilization, we've been thoughtful about sort of normalized trends and then think about what the impact might be when we did our pricing for 2021 on all these various variables that we've talked about. Really, what we mean by a normalized baseline is actually, really straightforward, which is to say if you are -- if you just stripped out COVID entirely, what would the claims assumption be, based on sort of the normal inflators we would use from 2021 over 2020. And so whatever sort of secular trends and other things that we build in, trend vendors and other things, we get to sort of a net trend ex COVID and that's really the baseline. Just to give you a -- make it easier for you to compare relative to, say, our 2020 ex COVID what the baseline reduction is. And that's why I tried to say sort of ex COVID for Medicare, it was, call it, 8.5%, 8.6% down for 2020 relative to the 3.6% to 5.5% that we guided today.

So again, we think that number is reasonable. Again, we could be wrong. That's -- there's just a wide range here. And I -- again, as I just emphasized, that there is more uncertainty around this 2021 number than we would typically have because when we formulate those trend assumptions that you were asking about, we have a lot of historical experience. We have hundreds of actuaries, very smart people working on our trend assumptions. It's something that we think we're very good at in ensuring we bake in the appropriate levels of potential trend variances. We're dealing here in a whole new world with a pandemic where we have no historical experience. And so that creates some of the challenges in our forecasting.

Operator

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

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

Just to drill down a little bit on the '21 outlook. So you've got the COVID testing and treatment headwind, is substantially less than the tailwind for depressed COVID utilization, but you're talking about the interplay there. And I think, in the prepared remarks, you said as the vaccine gets widely disseminated, you'd expect the COVID testing and treatment to come off quicker than the utilization of non-COVID to come back. So long-winded, setting the stage for the question. So if you -- if the vaccine gets widely distributed quicker than you think or later than you think, does that move the assumptions around within the range? Or could that throw you outside the range? And I guess, I'd also ask, you've talked a lot about the investments that you made this year. I know a lot of that investment was just giving help to your constituents, but does that give you any flexibility within this guidance range because you pulled forward investments in 2020 that would have otherwise kind of happened in '21. How much flexibility does that give you in your range?

Brian Andrew Kane - *Humana Inc. - CFO*

A.J., I would say on the first question, there's a lag really because as people are not, of course, seeing their doctor and going to the hospital. They're not able to schedule the surgeries, for example. It just takes time for the system to ramp back up. So there is just sort of a natural trail off that, just given the volumes we're talking about, they're not insignificant. And it's one of the reasons why we had the tailwinds we had in 2020, was that delay. It just takes time to get the gears cranking again, and they will crank again. And we certainly forecast that, but there is that delay.

To the extent the vaccine rolls out more slowly or there is a variant in the virus that we've heard and that they're not as effective, that, for sure, can affect our ranges here. We've tried to capture what we think are reasonable ranges based on today's sets of facts and circumstances. To the extent those facts and circumstances change, it's conceivable that some of these sort of COVID treatment versus non-COVID cost, that could be impacted. Again, it's likely that because there is a -- there is that inverse correlation, they will offset one another, though in the Medicare business, it tends to lead to a tailwind, as we mentioned. The commercial business is not as clear. As you mentioned, in the fourth quarter, we are running a little bit above par all-in, but for the Medicare business, we were below.

The investments, to your question there, we really, I would say, pulled all those out for 2021. So there is really not any additional flexibility there. We were very clear to confine those investments to 2020. And as we've described, we benefit all of our constituents and really gave back a lot of those dollars, which was important to do, but that was not baked in, in any way into our 2021 pricing or to our guidance.

Operator

We have our next question, comes from the line of Robert Jones from Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group, Inc., Research Division - VP*

Great. I mean, maybe just to go back to the MRA headwind. I know it's a tricky thing to get your arms around, but maybe just more of a tactical question. If you are, in fact, expecting non-COVID utilization to be down again because of -- obviously, because of COVID, obviously, the risk adjustment was an issue coming into this year. I guess, just tactically speaking, what things specifically are you thinking about doing differently in '21 as it relates to getting the appropriate risk coding, given that there's probably going to be a similar dynamic, at least for part of the year that made it a challenge coming into this year? Just curious if there is a different approach, maybe you're taking or more aggressive approach you're taking this year as it relates to risk coding.

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

Yes, Brian, I'll take that to give you a little break. Just on the -- we, in really the third and fourth quarter, were fairly aggressive in trying to ensure that our members were utilizing the health system, and in addition that we are being able to provide in-home assessments and other areas where documentation was appropriate. And I would say we would continue to carry that forward in the first part of this year and continuing throughout

the year. Because I would -- we did readdress where we're at and began to really become aggressive and use all availability. I do believe the biggest area that we -- our challenge with this is just the normal course of people not using the health care system.

We are very active both with our value-based providers and, in addition, with our outbound engagement with our members to ensure that they are going to the physician office or utilizing the health care system. We'll continue to do that. We have a team of people that are focused on this every day to try to really help, whether it's lining up transportation, to the ability to -- for us to provide telehealth to them, to the ability to have an in-home assessment. And I really would say, we'll just continue to do what we did in the third and fourth quarter. But getting people into the health care system is our biggest both opportunity and challenge. And as the health care system readjusts itself to really treating COVID and social isolation becomes more and more of an issue in -- where the markets are spiking, that really gives us the largest challenge, I think. If it was just COVID-related and it was fairly stable in the marketplace, we would be able to navigate through this in a fairly effective fashion with the programs we have.

Operator

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

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

Just a couple of questions here on numbers. First, you -- can you -- you've given us a lot of detail here. Can you tell us what the total Medicare risk adjustment impact was for 2021 on a gross basis, meaning how big of an impact is it to your yields overall? And what do you expect your yields to be for 2021 on a year-over-year basis? And then just on Medicare Advantage margins, it looked like your retail margins are about 3% in the -- within guidance. Can you confirm that's kind of where you expect individual Medicare Advantage margins to be in 2021?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. Justin, so on the MRA side, what we're showing here effectively is the total headwind net of mitigation. And so as Bruce just described, we did a lot to really try to get our members into the health care system and make sure we can see them. And so this is the sort of the full headwind that we currently face. And again, we want to be very transparent, but this is net of our mitigation efforts. As it relates to yields, we typically don't, as you know, guide to PMPMs, but just to help you out, I would say, is sort of flat, maybe modestly up is the way I would describe our individual MA PMPM expectations, and we'll see where that ultimately goes.

But there are a lot of things that impact that, Justin, as you know. Obviously, MRA is one of them. The rate notice is another. Sequester is another. Remember, there is fewer months of sequester relief this year. Business mix is a very significant driver because there are pretty disparate rates around the country. So depending on where you grow, that can impact it. So there are a host of things that impact yields, but it's a fair question and understand where you're going.

Now I would be disappointed if you didn't ask us about the margin question. So I'm glad you took the opportunity, and I know it's a fair question. I think it's important when you look at the overall retail margin, is to -- remember that there are multiple businesses inside the Retail segment. First off, the margin has been impacted by the HIF and the fact that it was nondeductible. So there is a lot of geography going on there, and certainly, we thought about after tax. I mean we sort of managed the pretax, but think about the after-tax impact as we thought about our pricing, et cetera.

As we just discussed, we balance giving back some of the tax benefit, both to our members in the form of higher benefits as well as to our shareholders. So there is some geography issues that will impact and depress the margin. There are also -- as we've discussed on the PDP side, a lot of the margin has come out of that product. And in fact, most of the margin today, if not all the margin today, is in the pharmacy for us. We've talked about how that product has become much more of a commodity product at these levels of premium. It's hard to make money on the insurance side, and so we're doing nicely on the pharmacy side. And so we want to -- we'll continue to be aggressive in this business.

And as Bruce commented in his remarks, our mail order penetration continues to, we think, reach very, very high levels both on the MA side, but also on the PDP side. So -- but again, that's a geography issue. So as you think about individual MA margins, you need to take that into account.

Also, just to be transparent here, group MA has seen some margin impacts from some of the larger accounts that have been shifting back and forth between major competitors. When there is margin to those accounts when they get rebid, sometimes takes a few years to recover that margin. And so that's also driving some of the impact there, too. So it is, for sure, the case that we are below our 4.5% to 5% target, I would say, reasonably below that target. We are committed to that over the longer term to get back to that 4.5% to 5%, but I would just say there are a lot of things impacting that number, and there is a lot of sort of variables embedded in that retail overall guide that you're looking at.

Operator

Our next question comes from the line of Lance Wilkes from Bernstein.

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

Could you talk a little bit about the investments in provider assets? And in particular, I was interested in what you're seeing as far as MLR differential and growth rate differential for members and the lines of business that are in value-based care partner or owned primary care assets?

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

Yes, I'll take that. We see great results in the primary care clinics, both in the ones we own and the affiliated ones. We'd see, and we've showed a slide on for a number of years. As physicians continue to evolve to deeper value-based relationship model, we see superior performance and the star scores typically greater than 4 to 4.5. We see great MLR, significantly below what the average is in the industry, and we also see great Net Promoter Score. All that combined, that's why you see us aggressively pursuing on both our affiliated relationships and in addition, building our primary care clinics to place our members in those clinics.

The challenge with the clinic side is just they're organic. There is not enough capacity in the marketplace to fill the demand. So you see a lot of start-up -- clinics from a start-up point of view being invested in to build the capacity there. And so for us, for more capacity constraint as opposed to for our growth. Our growth traditionally has been at equal to and greater than what you see in the traditional 10% to 12% growth that you've seen over the last few years in these clinics and getting more and more members in those clinics. And I think you'll see that growth accelerate as the capacity becomes more and more available for us. On the value-based provider side of the business, outside of the ones that are clinic oriented, we continue to see really, really great -- good results from that. Those results are a little less than the clinic results. We see good star scores. We see 4 and above, and we see good Net Promoter Scores, but it does not compare to the outcomes that we see in the clinic side.

Operator

Our next question comes from the line of Scott Fidel from Stephens.

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

I wanted to ask just about maybe an update on how you're thinking about some of the puts and takes with the ESRD coverage expansion that played out in MA. Obviously, that was already one of the big changes for MA in 2021 before COVID kicked in. So just interested, maybe first, if you could, if you have an estimate of how much your MA membership for ESRD actually changed for 2021? And then as we think about the impacts of the pandemic on that population and then try to overlay that into the rates that you have, how you're thinking about sort of the overall margin profile expectations that you had for that population now versus prepandemic?

Brian Andrew Kane - *Humana Inc. - CFO*

I'm happy to start and Bruce can put color on any of the strategic side here. But I would say, just from a sheer numbers perspective, we got about, call it, 10,000 or so, plus or minus, lives from ESRD in the AEP, which puts us to around 29,000, 30,000 members, which was really right in line with our expectations. What we expect is, as we've said for a number of quarters here, we think it's going to take several years to get up to the Medicare Advantage penetration. We think that continues to be the case. And so again, I'd say right in line with our expectations. These are not profitable members. I think over time, as we continue to manage them and work with partners and really try to get them before they get the ESRD and slow their disease progression, we think there is real opportunities to drive profitability. But I would say, we're getting to a point where it's more or less breakeven as opposed to having any meaningful losses on these members. But Bruce, I don't know if you want to add anything on that?

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

I would just add, Scott, I know this was an active conversation for us in 2020, and how we were going to deal with it. And I really have to take the hats off to the team on how they've been able to really develop some deep partnerships with the 2 major dialysis providers and really be able to evolve the relationships to a value-based payment model that shares the risk. And that has helped us in being able to effectively manage the clinical side of this and the cost side, but the clinical side of ESRD.

And then the second thing is we continue to invest in innovative models, both around the coordination of care and then also where the care is provided in the home. And those 2 strategies really have given us more confidence in the ability to manage these patients. As Brian said, the patients will continue to be costly and continue to be at no margin or very, very low margin business for us going forward. So again, I think we're in a great shape from where we were a year ago when we began talking about this. And as Brian also said, is that we do see this will be years in the making to see the penetration to the average penetration of MA overall.

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

And Bruce, do you think that the pandemic itself has much impact on this population? I don't know if some of the providers you have talked given some updates recently, just thinking about that population as it relates to the pandemic itself?

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

Yes. Typical to any vulnerable population, whether it's ESRD or other chronic conditions, you do have a higher likelihood of having more severe cases in those populations. And for us, we are very active in managing the populations that have those vulnerable conditions. So I would say, they are different than the average population because of their conditions, but they are not different than our other chronic members and how we effectively reach out to them and manage them, and they are reflected, obviously, in the results that Brian was talking about in our -- in where we look at COVID being more costly in our forecast.

Operator

Our next question comes from the line of Matt Borsch from BMO Capital Markets.

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

Maybe I could ask about on Medicaid. What you are assuming or how you're thinking about the Medicaid rate process, given the action states took in the second half of last year? And then maybe also what you're assuming on the resumption of redeterminations, if you can just address that?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. I'm happy to take that. So just on the rate side, we're waiting to see, and our major states are Kentucky and Florida. I think we expect some rate adjustments, and we're waiting to see, and we certainly bake what our expectations might be into our -- sort of into our Medicaid budget. And so we're waiting to see the impact there. With respect to redeterminations, you see -- we've given a pretty wide guidance range on Medicaid membership. Effectively, the assumption is the public health emergency ends in April. We'll -- if that happens, then we expect to lose some lives because we saw a nice increase this past year, but as the redeterminations happen, that will cause that membership to decline.

And so I would say that's sort of our base case expectation as we think about our overall guidance and revenue, et cetera. To the extent that the public health emergency is extended, redeterminations don't happen, that will cause the increase in membership to continue, which -- again, I think, would be relatively immaterial to the overall enterprise, but would cause us to have a higher membership at the end of the year. And that, of course, excludes anything from South Carolina or Oklahoma, which will kick in later this year, and our guide excludes that.

Operator

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

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

Maybe just a question for Bruce, just on the COVID cost risk. As we do think about your ability to control the medical cost in '21 versus 2020, specifically for COVID, has there been any evolution on the provider side for '21 where value-based providers that want to go at risk for any sort of episodic bundled payments related to COVID patients? Or is that not really evolved? And if not, are there any other evolving payment arrangements with providers you can talk about, specifically tied to COVID that's different for '21 versus '20?

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

Yes. Good question. We don't have a bundled type of payment model for COVID. I mean we have many bundles in other conditions and -- but not for COVID. And we haven't seen that really any uptake with physicians on that. Keep in mind, a lot of the COVID cost is on a DRG basis and incorporated in the DRG side. The testing is something of a lesser magnitude here. So going at risk for that, I think, is fairly small and immaterial kind. I think to broaden your question a little bit, what we do see is that when we do have value-based relationships, the proactiveness of really helping the member in this time is so important for us, especially as you think about downstream cost and other conditions that could occur, if not properly maintained and traded. So to answer your question, we don't see much in COVID bundling in the type of payment, but we do see very different proactive care models in our value-based payment relationships in this time, especially with the more vulnerable populations.

Operator

Our next question comes from the line of George Hill from Deutsche Bank.

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

Bruce, I just wanted to circle back and make sure I heard you right to say that pharmacy mail penetration was 37%. Was that for the quarter or for the year? I assume, it was for the quarter. And I guess, is it your expectation that, that kind of comes down a bit as things return to normal? And would love to hear you talk a little bit more about the strategies that you guys have used to drive mail penetration to such a high level.

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

Okay. Great. Yes, that's right. I would -- that is actually for the year. We did see an increase in mail penetration as we looked for the -- in the early part of the COVID pandemic. We saw it in the March and April time frame as people were really concerned about the lockdown that was happening, and therefore, were taking 90-day prescriptions and really utilizing the mail order along with the fact that they couldn't get to the drug stores if they were normal users and became more active users of the mail order.

What we have seen is as a result of the convenience of mail order and really, I would say, as a result of our service improvement, we've seen more and more people really converting to mail order as a result of that. And so the pandemic, we have seen, has helped educate individuals of the benefit of mail order and the ability to continue to utilize it on an ongoing basis as opposed to just through the pandemic and some of the shutdown periods. So we look at it first as really an accelerator for us in that.

The second thing is that we have a very active investment going in into making it much more consumer friendly on the mail order side, all the way from the digital platforms that are being used to the turnaround time of delivery, to be able to ensure that we can meet the expectations and the changing expectations of customers today on when they expect deliveries to happen. And I would say that our goal is to really grow the penetration of mail order in our existing book of business.

You asked why sort of high the penetration. I would say it's been a very concentrated effort by our management team and really all the way from our service centers on the insurance side to our providers that we have relationships with to our specialty pharmacy area of continuing to remind our members of the benefits of the mail order. And that continued use throughout the organization of being -- bringing the mail order conversation in at the appropriate period of time has really assisted in us being able to increase that rate from a much different rate that is the average in the industry to really a superior rate that you see Humana having.

Operator

Our next question comes from the line of Dave Windley from Jefferies.

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

I wanted to ask about telehealth, Bruce. You've mentioned it a couple of times during the call. How is Humana incentivizing telehealth? How are you looking at it as a facilitator to whether it's the primary care effort that you're putting forth, home health and extension there. I guess, I'm just wondering where are you using it aggressively? And how are you incentivizing and reimbursing its use.

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

We're big believers in telehealth for -- all the way from the convenience of the member to really being able to have a channel that is actively engaging with the member at -- especially, the more vulnerable members where transportation is always a limiter for them. To answer your question about how do we incentivize them, we're really doing it on 2 sides: First on, we did carry over the copay, the 0 copay this year to telehealth and carried that on going forward; and then the second thing that we've also done is, we continued to pay equal to our member -- I mean, our providers visit versus a telehealth visit. And both of those have been, I think, reducing the barriers and really creating, as you said, some incentives to use telehealth.

We really have a few different strategies of using telehealth. I mean one is around really helping our providers if they don't have telehealth and providing them some technology that would offer them to utilize it. That's in a small need for external providers as they have all sort of become very acquainted with telehealth and being able to use it. Our internal -- our own providers, we offer them a very sophisticated telehealth platform that they can outreach on the telehealth side. And then the third area that we look at is continuing to work with hospital systems, especially in the specialty area, where we can have an outreach where specialists might be in short supply in certain markets and being able to offer that at a

convenience in the local marketplace. So we do see it to help members -- I mean health providers, but more importantly, we do see us partnering with especially the hospital systems to offer specialty in remote areas.

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

Can I clarify real quickly, is that reimbursement at parity, is that in your commercial book as well as Medicare?

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

I don't know if we are different -- Amy, are we different? Are we giving the different payment by the different divisions? I don't think we're providing that. I would just say, in general, I know, in general, we're providing, but I wouldn't want to get into the specifics.

Brian Andrew Kane - *Humana Inc. - CFO*

I think the distinction is also, if it's in the office that we're -- we can follow-up, but if it's in the office, we're doing full reimbursement. If it's not, then it gets more of a reduced rate, but we can get you all the details.

Operator

Our next question comes from the line of Gary Taylor from JPMorgan.

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

I just want to maybe just go back big picture just for a second. Brian, you had talked about a lot of the MRA, COVID-related headwinds normalizing as you move into 2022, using the $21.50 as a jumping off point. So when we think about '22, given we've got an early and known final rate notice above historic rate increase, is there any reason from this distance that we shouldn't be thinking about the long-term 11% to 15% growth off of that $21.50 in 2022.

Brian Andrew Kane - *Humana Inc. - CFO*

Well, again, I really don't want to be giving guidance on this call for 2022. I would say, at the highest level, certainly, our goal is to deliver that 11% to 15% growth. And that's a long-term growth rate, and sometimes we're above, there have been times when we've been below. But certainly, our goal is to hit that 11% to 15%, and we always have to take the facts and circumstances at the time when we price. So hopefully that, I think, gives you the answer.

Operator

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

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

I just wanted to follow-up about telehealth. I think in the prepared comments, you spoke about how documentation with using telehealth created some uncertainty around coding. I think, later on, Bruce, you talked about, number one, issues, trying to get people back into the health care system itself. It sounds like -- is there a disconnect then that when telehealth is used to accurately kind of code people to understand sort of their actual health status? And is that a fundamental problem with the way telehealth is set up today? I know in just the previous question, you talked about

how you're trying to incentivize your -- or, all providers to use it. Is this an integration issue? Or is this an issue itself with how telehealth is being deployed?

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

No, it's really more on the member side what we find. First, telehealth, if you use audio and video today, can support documentation. So that is possible and regulatorily came into place the latter part of last year. So it is a way to be able to bring documentation. The problem is that what we see is, once there is -- when someone uses telehealth, they then use it more frequently. And so we see a significant use of telehealth, but the members that are using it are more contained, I should say, or more refined, and it's not across all our membership. So we could see a significant increase in telehealth, but that increase in telehealth will be over a confined membership base as opposed to across our membership base. And that really comes to one of the barriers we're working with in the communities we serve, is that not everyone that accesses either feels comfortable with telehealth as a result of some of the technology limitations there or just needs to be educated more. They might have the technology, but it might not be integrated. And that's where we see a lot of work needs to be had, is the ability for telehealth to be used in a more broad membership base as opposed to the narrower membership base that it has today.

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

If I could follow-up, does that mean when you guys talked earlier then about going into 2021, is it that just the usage of telehealth itself. You're uncertain whether the coding that your -- the documentation that you're getting is going to persist at that kind of level? Was that more...

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

Yes. And Brian can add to this, but the -- really, the telehealth is -- let me give you an example. We have members today that are using telehealth. We are receiving documentation from -- on those members. The next visit could be a telehealth visit, and therefore, we're not going -- that's not going to improve our documentation any better. We would love to see another member that hasn't been documented as being able to receive telehealth, but they're not comfortable with using telehealth for whatever the reasons I attributed to. So our penetration is more in a narrower membership base. We are working hard to try to broaden that, but there is a lot of barriers that require that, whether it's access to the technology itself or the ability to educate people on how to use telehealth. And that's really what we're talking about. It's a barrier because it is narrowing the membership, we only are penetrating a smaller membership for documentation.

Operator

And we have no questions at this time. I will now turn the call back to Bruce Broussard. Sir, please go ahead.

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

Well, thanks, everyone. Again, we continue to thank you for your support and our -- and especially in this time of complexity and through the pandemic and through 2021. As you can see, the organization is performing quite well and -- at all levels, strategically, from our consumer point of view and from our financial performance there. And as we end 2020, I think it's a great thank you to our 50,000 employees that have been dedicated to really delivering these results on behalf of all our constituencies. So thank you again, and I hope everyone is safe, and have a great day.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating, and you may now disconnect. Have a great day.