OVERVIEW:
Co. reported 2Q18 adjusted common diluted EPS of $3.96. Expects 2018 adjusted common diluted EPS to be approx. $14.15.
CORPORATE PARTICIPANTS

Amy K. Smith – Humana Inc. - Vice President of IR
Brian Andrew Kane – Humana Inc. - CFO
Bruce Dale Broussard – Humana Inc. - President, CEO & Director

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Joshua Richard Raskin – Nephron Research LLC - Research Analyst
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PRESENTATION

Operator

Good morning. My name is Polly, and I will be your conference operator today. At this time, I would like to welcome everyone to the Humana Second Quarter Earnings Conference call. (Operator Instructions) Thank you. I will now turn the call over to Ms. Amy Smith, Vice President of Investor Relations. Ma'am, you may begin your conference.

Amy K. Smith – Humana Inc. - Vice President 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 second quarter 2018 results and our financial outlook for the full year. Following these prepared remarks, we will open up the lines for a question-and-answer session with industry analysts. We encourage the investing public and media to listen to both management’s prepared remarks and the related Q&A with analysts. This call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana’s website, humana.com, later today.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the detailed risk factors discussed in our second quarter 2018 earnings press release as well as in our filings with the Securities and Exchange Commission. Today’s press release, our historical financial news releases and our filings with the SEC are all also available on our Investor Relations site. Call participants should note that today’s discussion includes financial measures that are not in accordance with generally accepted accounting
principles, or GAAP. Management’s explanations 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

Good morning, and thank you for joining us. Today, we reported adjusted earnings per share of $3.96 for the second quarter of 2018 and raised our full year 2018 adjusted EPS guidance to approximately $14.15, primarily reflecting continued strong Medicare Advantage results. Over the last year, we’ve continued to make significant advancements in our enterprise strategy, particularly in the past few months as demonstrated by our recent investments in both Kindred at Home and Curo Health Services. With a continued focus on helping seniors to achieve their best health, we are striving to reshape health care by expanding access to high-quality, value-based care in both primary care and home health. Driving quality and improved clinical outcomes remains a top priority as it is removing friction points by simplifying both the consumer and provider experiences through enhanced analytics.

As you will see from our results and key metrics that we haven’t ceased our focus on the day-to-day activity that drives consumer engagement. In primary care, we’ve had a busy first half of 2018 with the launch of Conviva, the acquisition of Orlando-based Family Physician Group and continued growth with Iora, Oak Street and other alliance primary care partners. We remain payer-agnostic, and as an example, are proud to be continuing to serve third-party customers of FPG. This multifaceted approach to primary care enhances our ability to bring differentiated integrated care to more seniors, more quick and gives us the flexibility to tailor our approach based on the differing needs of each local market.

And as you know, last month, we announced a test-and-learn opportunity with Walgreens in Kansas City, where we are co-creating our wholly owned Partners in Primary Care clinics in 2 locations and co-creating with Walgreens Health Navigation services for seniors starting in 5 locations this fall.

Conviva manages the clinical operations in 110-staff model centers and also provides MSO services to more than 800 independent physicians in South Florida and Texas. Since announcing the creation of Conviva in February, the team has successfully combined the South Florida and Texas provider operations, including MCCI, and created a new organizational structure aligned around the goals of improving quality outcomes by integrating care and simplifying the patient experience.

In addition to managing the staff model centers and providing MSO services, Conviva is one of the largest physician practices in the south, employing over 400 clinicians and caring for approximately 200,000 Medicare Advantage patients. Conviva is a physician-centric organization that is self-governed and clinically autonomous. This group is driving cultural change through peer-to-peer accountability and reviving entrepreneurial spirit. Physician retention, recruitment and patient quality measures are all trending in positive direction.

Over the next 12 to 18 months, we will rebrand the staff model clinics as Conviva care centers. We’re always looking for partners to work with us to advance our strategy and are routinely engaged in discussions with a variety of potential partners. The collaboration with Walgreens in Kansas City is evidence of our commitment to advancing integrated care. This collaboration will establish a senior-focus, neighborhood-based approach to health, creating unique integration among the primary care physician, the pharmacist and a health plan navigator under one roof. The 2 in-store clinics will be complemented by health navigation services offered in multiple Walgreens stores in Kansas City, expanding our reach in the community. They will be staffed with Humana employees who will be available to serve both Humana members and any customer who comes into the store. The staff will help customers navigate their personal health journeys, including basic health information such as one-on-one education sessions on chronic health conditions and answers to simple questions like how to change your batteries in a glucometer; or identifying local resources to support customers’ holistic health needs, including access to healthy food, grief counseling groups, transportation and translation services; or helping finding assistance with financing their health needs, including, for example, counseling and support to switch to lower-cost alternatives.

In addition, they will offer special services for Humana members who need help with their Medicare Advantage or prescription drug plans, including finding local specialists, understanding bills and resolving customer service issues. With Walgreens, we also extend this integration through an
omnichannel approach, including robust digital enhancement -- engagement with the goal of increasing transparency, reducing friction in the experience and driving improved health. The partnership with Walgreens will allow us to test a retail strategy with a highly efficient capital investment. As we learn from this partnership, we could work to expand our collaboration into other markets over time.

Turning to home. We recently announced the completion of the acquisition of a 40% interest in each of Kindred at Home and Curo Health Services, collectively the largest home health and hospice operator in the nation. As we previously indicated, we are striving to do something that has never been done before in home health: transform the payment model into one that is value-based, encouraging a transition from maximizing volume to focusing on health and managing chronic conditions such as COPD, congestive heart failure and diabetes to prevent or slow disease progression. This movement to value-based care and away from a predominantly therapy-based model is aligned with the recent CMS proposal for changes to the home health payment methodology, which was anticipated when we entered into the transaction. In that regard, we appreciate the model proposed by CMS and welcome change that aligns home health with pay for value and improved clinical outcomes, reducing preventable events.

While the ultimate transformation will take many years, upon closing of the transaction, we immediately launched test-and-learn pilots aimed at both operationally and clinical improvements in 4 markets: Richmond, Virginia; Charlotte, North Carolina; Virginia Beach, Virginia; and Dallas, Texas. These pilots incorporate a pay-for-value mechanism in addition to the traditional fee-for-service payment based on 4 quality measures: hospital admissions; hospital readmissions within 30 days; emergency room visits without hospitalization; and timely initiation of home care, specifically within 48 hours of referral or an MD order.

In addition, in order to create a differentiated home health model, we have the opportunity to reap the richness of Humana At Home telephonic and in-home engagements as well as Humana Pharmacy resources into the skilled nursing provided by Kindred at Home clinicians. Over the next year, we plan to leverage Humana predictive modeling to identify additional clinical interventions, integrate Humana Pharmacy resources to conduct comprehensive medication reviews and extend our care management best practices from Humana At Home into the Kindred at Home home care environment.

We will also reduce friction in the authorization process to ensure Kindred professionals are in the home within 48 hours of a referral or supplement the ordering physician through telehealth with a virtual MD to expedite the delivery of care. We expect the changes we are making in the home health space will not only benefit our Medicare Advantage members, but also our Medicaid members over time. The continued development of our in-home capabilities, together with our demonstrated clinical capabilities in Medicare Advantage, uniquely position us to serve the Medicaid population, giving us confidence that we'll be successful in growing our Medicare platform through procurements.

Under our recent statewide award in Florida, we expect to serve an additional 141,000 members, an increase of 44% from our existing Medicaid membership. The Florida contract was awarded based upon the ability of plans to achieve the Medicaid agency’s goals. These goals included: creating enhanced provider and member experience, the ability to reduce preventable inpatient and outpatient events, high quality scores, innovative and effective methods to deliver integrated care and integration with the community in support of Medicaid beneficiaries.

We've been successful in achieving strong results across these areas by leveraging the capabilities that have positioned us as a top Medicare Advantage Plan, including our capabilities in chronic condition management; integrated care delivery; value-based provider relationships; and community programs designed to address social determinants of health, such as food insecurity and social isolation.

While we are confident in our capabilities and expect to be successful in the procurement process, consistent with our previous remarks, we will continue to assess length of time to scale and potential barriers to entry at the state level while considering potential M&A opportunities in the Medicaid space.

Before turning the call over to Brian, I'd like to touch on 2019 Medicare Advantage bids. As you know, the bid process is not yet final, and accordingly, I will keep my remarks brief. The positive rate notice from CMS as well as the health insurer fee moratorium for 2019, among other factors, allow us to offer compelling products to our members for the 2019 benefit year. Nearly all of our members have stable or enhanced benefits. In addition, we've continued our broker outreach to cultivate an excitement about our products and processes in a broker community. This year, we've rolled out significantly improved agent assistance and enrollment tools in one of the largest broker experience enhancement cycles we have ever undertaken. We look forward to further discussion on our third quarter earnings call.
With that, I’ll turn the call over to Brian.

Brian Andrew Kane - Humana Inc. - CFO

Thank you, Bruce, and good morning, everyone. Today, we reported adjusted EPS of $3.96 for the second quarter, ahead of our previous expectations. We continue to see favorable medical utilization trends, particularly in our Retail segment. To reflect this better-than-expected utilization, we are raising our full year adjusted EPS guidance to approximately $14.15 from our previous guidance of $13.70 to $14.10. We expect that third quarter adjusted EPS to approximate 31% of the full year number.

I will now comment on our individual segment level performance. In Retail, led by individual Medicare Advantage, we are seeing inpatient admissions as well as pharmacy utilization running better than our previous expectations, partially offset by higher-than-expected outpatient utilization as members transition from the inpatient to outpatient setting for some of their care. Specifically, we are witnessing a notable decline in inpatient admissions relative to both last year as well as our initial expectations. Consistent with the early indicators we saw last quarter, this inpatient admission favorability is resulting in a higher cost per inpatient admission as to the lower-acuity procedures are moving to the outpatient setting or are classified as lower-cost outpatient observations. Importantly, a major operational focus of the company has been to ensure that a member who is in the hospital setting is appropriately classified. And as such, we have seen a significant increase in lower-cost observations versus higher-cost inpatient admissions. We continue to work with our hospital partners to ensure appropriate reimbursement for any procedure undertaken.

Additionally, CMS’ removal of certain procedures from the protected inpatient-only list, such as knee replacement surgeries, has also caused a movement from the inpatient to a lower-cost outpatient setting.

In summary, while it’s still early, with Medicare Advantage claims data only effectively complete through the first quarter at this point in the year, we feel good about the overall medical utilization trends we are experiencing, but have carried only a portion of that favorability through to the rest of the year in our guidance. Accordingly, we raised our full year Retail segment pretax income guidance to a range of $1.525 billion to $1.675 billion from a range of $1.45 billion to $1.61 billion, and lowered our benefit ratio to a range of 85.1% to 86% from our previous guidance range of 85.2% to 86.2%.

Turning to Group and Specialty. The segment continues to perform well overall. We raised our revenue guidance by approximately $100 million to reflect higher sales of our profitable level-funded ASO small group as well as individual dental specialty products, with TRICARE results also outperforming, particularly as a result of higher-than-expected positive final settlements from the prior contract. This was offset in the quarter by the performance of our community-rated small group fully insured product as a result of the 2017 risk adjustment true-up, which I will discuss shortly. We remain comfortably within our expectations around core health trend of 6% plus or minus 50 basis points, and our pretax income guidance remains unchanged for the year.

While health care trend remains well controlled, the second quarter medical benefit ratio is higher than last year’s as expected. This is due to more seasonality in this year’s quarter, lower PPD, which we saw come disproportionately in the first quarter this year versus last and the migration of healthier small groups from small group fully insured plans to level-funded ASO products in 2018. Our level-funded ASO products are appealing to healthier groups who prefer to avoid the higher-priced community-rated pool, and this also provides a more predictable profit stream for us. In fact, over the last 18 months, we have seen over 58,000 members move from small group fully insured products to level-funded ASO products. This bifurcation of the membership leaves the less healthy groups in the fully insured block, negatively impacting the benefit ratio. In addition, as mentioned previously, the second quarter 2018 reflects the impact of a change in estimate related to commercial risk adjustment as a result of the final risk adjustment notice received in June of this year for the 2017 coverage year. Our 2017 risk adjustment payment was approximately $20 million unfavorable relative to our expectation, and this also impacted the 2018 accrual. It is important to note that while the amounts are immaterial for the segment and especially to the company overall, because small group comprises a disproportionate amount of the premium in this segment, given the relatively lower amount of large group business that Humana has, any change in risk adjustment results in a more meaningful benefit ratio impact than otherwise we expected.

This new estimate for commercial risk adjustment, coupled with the impact of certain reinsurance agreements we entered into during the quarter, resulted in an 80 basis point increase in our Group and Specialty segment benefit ratio for the full year to a range of 78.3% to 78.8%. As I will discuss...
further later in my remarks, in connection with the expected sale of our closed long-term care business, we entered into a series of reinsurance agreements to fully cede our workplace voluntary benefit and financial protection products. These reinsurance transactions have a de minimis impact on pretax for the back half of the year, but disproportionately impact the benefit ratio because these products carry a very low benefit ratio and higher admin ratio.

Shifting to the Healthcare Services segment. Our performance this quarter was consistent with prior expectations. The provider and clinical businesses are performing largely as expected. On the pharmacy side, we are experiencing lower-than-anticipated utilization overall, consistent with our discussion in the Retail segment. However, this lower utilization has been offset by higher-than-anticipated mail order penetration, specifically in our Medicare Advantage business, resulting in overall pharmacy results in line with our prior expectations. We are, however, making a change to how we present the Healthcare Services segment to our investors to enhance transparency into our results.

First, our previous segment pretax income guidance include the pretax results of Kindred at Home. As we approach the July closing of the transaction, we determined that the most appropriate way to show Kindred was to break it out separately and show the after-tax Kindred results, which will be consistent with what is shown on the face of our income statement. Accordingly, we removed the Kindred results from our pretax income guidance for the segment and are therefore now guiding to full year 2018 Healthcare Services pretax segment earnings of $800 million to $850 million, excluding Kindred, as compared to our previous guidance of $825 million to $875 million, including Kindred.

Second, as we continue to expand and evolve the Healthcare Services segment businesses, we have concluded that the most appropriate way to measure and discuss the financial performance of these businesses is through adjusted earnings before interest, taxes, depreciation and amortization or adjusted EBITDA, rather than pretax income. The recent acquisitions of Kindred at Home and Curo Health Services, together with the company’s evolving care delivery model and the creation of Conviva, result in higher levels of amortization, depreciation and interest expense that distort and mask the true performance of the underlying businesses when assessed on a pretax basis. Further, we believe that adjusted EBITDA is the relevant measure used to value and assess performance for other services businesses in the industry. As a result, we are transitioning our financial reporting for Healthcare Services to focus on adjusted EBITDA performance moving forward. In our earnings press release, we included a bridge between pretax income and adjusted EBITDA. Our full year adjusted EBITDA guidance is approximately $1.025 billion to $1.075 billion, which includes 40% of Kindred at Home’s expected EBITDA in the second half of the year, which corresponds to our ownership stake in the company. Specifically, we have added back $225 million of segment depreciation and amortization as well as the 40% of Kindred’s second half EBITDA to a pretax guidance to arrive at our adjusted EBITDA guidance. Beginning with our third quarter 2018 earnings conference call, our intent is to provide Healthcare Services guidance on an adjusted EBITDA basis only.

I will now turn to an update on our long-term care sales process. We are very pleased to report that we have made substantial progress towards receiving the state departments of insurance approvals necessary to complete the sale of our wholly owned subsidiary, KMG America Corporation, which includes our closed block of nonstrategic commercial long-term care insurance policies to Continental General Insurance Company. Accordingly, during the second quarter, we recognized a pretax loss on the expected sale of $790 million, including transaction costs, and recorded an associated deferred tax benefit of $430 million for a net impact of $2.59. Importantly, this tax benefit will result in meaningful cash savings to the company and is greater than the sum total of the statutory capital and negative purchase price transferred to the buyer. We also classify KMG as held for sale and aggregated its assets and liabilities separately on the balance sheet at June 30, 2018. The loss on the expected sale of the nonstrategic closed block has been excluded from our adjusted earnings.

In addition, in connection with the expected KMG divestiture, during the second quarter, we entered into a series of reinsurance agreements to fully cede our workplace voluntary benefit and Financial Protection Products to ManhattanLife Assurance Company of America. These products were previously reported as supplemental benefit offerings in the Group and Specialty segment and are expected to result in a reduction in our specialty membership of approximately 450,000 members for the full year, approximately 430,000 of which were ceded during the second quarter. In addition, in connection with the reinsurance transactions, we expect to transfer a total of approximately $245 million of subsidiary cash, along with the related reserves to ManhattanLife, $230 million of which was transferred during the second quarter of 2018. This transfer of cash had no impact on cash and short-term investments held at the parent company. These reinsurance transactions did, however, result in the transfer of cash being classified as an operating cash outflow that was not previously contemplated in our operating cash flow guidance. However, we only reduced our operating cash flow guidance for the year ended December 31, 2018, by approximately $100 million to $2.1 billion to $2.5 billion, reflecting
the outperformance of our business. Needless to say, once these transactions are completed, we will no longer have any balance sheet, income statement or cash flow exposure to these noncore businesses.

With regard to capital deployment activity more broadly, as expected, subsidiary dividends paid to the parent in the second quarter were approximately $1.95 billion. This represents an increase of over $500 million from what we received for the full year 2017, primarily reflecting higher regulated subsidiary earnings in 2017 relative to 2016. Additionally, in July, we completed the Kindred and Curo transactions, utilizing approximately $1.1 billion in parent cash on a combined basis.

Before I close, I would like to echo Bruce's comments regarding what we believe are our compelling Medicare Advantage product offerings for 2019 and reiterate our intent to drive meaningful EPS growth of a new baseline of $14.15 in excess of our long-term target of 11% to 15%.

I will now briefly discuss our 2019 headwinds and tailwinds. As far as headwinds are concerned, we expect that our PDP membership will decline given the competitive nature of the industry and the price discipline we are employing. This has the impact of constraining the growth of our pharmacy business, which will therefore rely on Medicare Advantage membership growth and improved productivity to fuel its results. We also expect lower TRICARE profits in our Group and Specialty segment given that the positive final settlements received in 2018 associated with the previous TRICARE contract will not recur in 2019.

Our 2019 tailwinds, which are significant, include the positive Medicare rate notice, the HIF moratorium, the continued solitary impacts of tax reform, our incremental membership from the statewide Florida Medicare – Medicaid contract award and our general Medicare business momentum. In addition, we expect reasonable adjusted EBITDA growth in our Healthcare Services segment as the Kindred results are annualized and our other businesses in the segment, particularly our owned clinics improve.

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

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Your first question comes from the line of Kevin Fischbeck with Bank of America.

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

I guess, maybe just following up on that 2019 commentary there. I mean, if you could just provide a little more color to what you've already provided around how you thought about 2019 bids as far as thinking about getting to that target margin versus growing membership.

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

Sure. Kevin, so as we've said, we've continually taken a balanced approach to growth and margin. We've said very clearly and we'll reiterate today that we're going to make meaningful progress on our margin targets towards our target of 4.5% to 5% on a pretax basis. We won't get there next year, but as I said, we will make meaningful progress. But we also believe we put a compelling product out on the street. We believe our both our internal and external broker sales force are excited about the products that we plan to offer, and we feel good about our growth prospects for 2019.
Kevin Mark Fischbeck - BofA Merrill Lynch, Research Division - MD in Equity Research

Okay. Just a follow-up on that because I guess, every company is talking about some of the same tailwinds as far as good rate update and HIF going away. And so it seems like everyone’s talking as if everyone’s going to grow above average next year. I mean, how do you think about what differentiates what you’re able to put on the product in the market versus whatever else we’re seeing?

Brian Andrew Kane - Humana Inc. - CFO

Sure. Well, I understand that it is obviously a competitive marketplace, and people want to grow. This is a very attractive segment. We have a lot of capabilities in this area that we’ve articulated many times in terms of our clinical programs and capabilities that allow us to offer, we think, a very compelling product to our members. And our members are going to see reduced premiums. They’re going to see lower maximum out-of-pockets. They’re going to see better co-pays. I think the product that we’re putting out on The Street is going to be compelling, and we’ll see obviously where the competition comes in. We don’t really have clear visibility on that yet, but we feel good about that. But I would also echo what Bruce said in his remarks, which is the work that our Medicare team has done with the broker community. We have made this a real focus of ours. I think we took a step back during the transaction with Aetna, but I think we’ve really made up that in a very material way, both in terms of the tools that we provided, we’ve really invested in those, as Bruce has said. I think the product, as I said, that we’re putting out for them to sell is going to be very compelling. And also the relationships that our team has developed with these brokers is very strong. Bruce and I also spend a lot of time with them, and I’ll tell you that they are very excited about Humana. And so we’re looking forward to the open enrollment process.

Operator

And your next question comes from the line of Justin Lake with Wolfe Research.

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

Brian, thanks for all the color on the 2019 headwinds. I just want to prod you for a little bit more. So the -- I think the simple math here is that the HIF improvement or the HIF dropping to the bottom line in terms of the way you did it in 2017 that you’re now going to run rate plus meaningful Medicare Advantage margin improvement is, give or take, $3 of earnings power, which would put you around consensus of 2018. So you gave us a lot of headwinds, tailwinds for 2019 in terms of the core business, which, again, were really helpful. Can you give us any thoughts on how that you think they net out in terms of the core if we just remove HIF and Medicare and the individual MA margin improvement? Do you think core actually grows next year? Or do you think the headwinds kind of offset the core growth?

Brian Andrew Kane - Humana Inc. - CFO

Well, I’d rather not parse out all the details. I would tell you that the core business is strong and is growing. We’re going to see just continued financial improvement in the core business from a margin perspective. Obviously, there’s a lot that goes into the mix. As you said, there’s the pretax impact of the HIF, there’s the rate notice, as you mentioned. But we’ve also, I think, offered compelling benefits. And so we’ve had to also assume certain productivity assumptions as well as trend bender assumptions to make a compelling product and as well as grow margin. So again, it’s hard to parse out what the impacts of the HIF are, the rate notice, whatever it is. But all in, we expect a very robust 2019 for all the reasons that I laid out. We’re excited about where we stand and how we’re positioned for ’19.

Operator

And your next question comes from the line of Joshua Raskin with Nephron Research.
Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Two questions. Just the first is with the significant investment in sort of home-based care is a major differentiator for you. I'm curious how you think about the future. And it sounds like today, it's focused on kind of post-acute care. But where can that level of acuity end up in the home? Can you sort of avoid primary or specialty or even acute care cost by bringing that in home. And then the second question is around the Walgreens test phase, the Kansas City initiatives. What's the timing around that? And when do you think you'll have results to sort of better understand what more retail-focused strategy should look like?

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

Justin, on the home side, we're -- it's going to evolve -- I'm sorry, not Justin, Josh. Sorry, about that, Josh. But anyway, on the home side, we're taking it in a step basis. We do believe long term, the home is going to continue to see more and more acute-oriented services for the primary reason of telemedicine. We think the combination of telehealth in a physician office, whether it's a specialty practice or a primary care practice with the combination of a nurse going into the home with proper devices, will offer a full-fledged physician interaction that will be assisted for a senior or a member with chronic conditions. And we believe that, that allows a lot of both convenience, but at the same time, a lot of ability to get to people today, whether it's in a rural setting or a particular setting that someone does not have transportation to go to a physician office. The second part of that is also we believe over time that there are some business models out there today that allow you to have a ER doctor that can be mobile with a nurse that will allow you to focus on the higher-acuity, more chronic patients and prevent ER visits as you are able to monitor through remote monitoring and in addition, through deeper analytics to be able to get to the individuals that require a much more intensive, more emergency-oriented care. So we believe the combination of those two, remote monitoring, telehealth, with the combination of a nurse in the home, makes a great combination to raise the acuity that can be treated into the home. In regards to Walgreens and when we will start to see results, I think there's multiple -- it's going to be a few years to see the ultimate outcome of that. We will see early on the response for both our membership growth in that marketplace, our ability to service our existing members in the marketplace and the convenience we provide through improved Net Promoter Score. As time progresses, we will then be able to see the impact on both the health outcomes, Star ratings as a result of being much more proactive with HEDIS measurements. And then in the longer run, what we hope to see is a combination of both growth, but also the impact on a larger health outcomes there. So it's sort of staged, I would say, early on. It's just the receptivity of the market and how people will look at it. The second step will be more short-term, clinical interactions that we have. And then the third is more health come -- health outcomes-oriented. And I would say it's probably going to take a few years to see that fully through. But we will promise that we will provide updates to our investors on how that's progressing because we find it to be an exciting opportunity for us and Walgreens in being able to bring them a convenient setting to our customers in a much more capital-efficient way and the ability to use the community presence of both organizations to complement and really bring up a very, very effective and convenient model to the marketplace.

Operator

And your next question comes from the line of Matt Borsch with BMO Capital Markets.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Managed Care and Providers Analyst

I just -- is there anything that you've been able to glean from the environment about the nature of the competitive offerings that you think you'll be facing in the upcoming open enrollment season for Medicare Advantage, in particular?

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

I would just say Matt really, I mean, there's a lot of rumors out there. And I think as Kevin articulated at the outset that it does seem to be and will be a competitive marketplace from a price point of view. And I think that's how we probably say that it is going to be competitive in some ways, market dependent. So we'll see, I guess, in about 45 days to 60 days of what comes out there.
Matthew Richard Borsch - BMO Capital Markets Equity Research - Managed Care and Providers Analyst

Right. So the timing is the same for you as it is for us, the October 1, okay.

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

Yes, yes. And if you find out something earlier, Matt, let us know.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Managed Care and Providers Analyst

Well, I'm just going to spread rumors for now. Let me ask you one follow-up, which is the -- on the group MA business. Do you have any particular outlook for this year? Do you expect more conversions than usual? Are there any big jumbos that might be moving you out side on?

Brian Andrew Kane - Humana Inc. - CFO

I would say -- assuming as we move into 2019, I would say that it's less of a robust pipeline than it was last year. So I wouldn't expect the same whatever was mid-teens growth this year as -- we have this year that we'll have next year. So I think the pipeline there is a little bit less. I mean, we have obviously a number of prospects that we're looking at and feel good about. We'll see where they shake out. We're sort of in the middle of that process right now and also hope to have organic growth in our existing accounts. So -- but I wouldn't expect the same significant growth in group MA that we had for 2018.

Operator

And your next question comes from the line of Peter Costa with Wells Fargo Securities.

Peter Heinz Costa - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

Getting back to the strategy for 2019 around health insurance fee, you talked about $1.80 of the health insurance fee being the nontax-deductible component of that, which in 2017 you excluded that from earnings. So going with in, are you thinking about that $1.80 or if you talk about the Medicare portion of that, you maybe, call it, $175 million of upside. Is that something you're including when you're talking about not quite getting to your 4.5% to 5% Medicare margin target? Or is that on top of that when you think about that?

Brian Andrew Kane - Humana Inc. - CFO

Well, I just want to make sure I understand your question. I mean, the margin target we think about is on a pretax basis. So I guess, the way I would say is you can still generate nice margin improvement without getting to your pretax margin, but you have the additional tax benefit below the pretax line that you obviously benefit from, from an EPS perspective. I would say that we're looking at it all the benefits together that we have, the HIF pre- and post-tax, the rate notice, our trend benders, productivity, et cetera. Obviously, then have to overcome health care trend and then any benefit improvements that we want to make. And so that all goes into the mix. But again, I wouldn't want to parse out one or the other because it's all in the stew, for lack of a better word. But to a prior question, we do expect core improvement from a financial margin perspective in our products. And then obviously, there's a tax benefit that we're going to get as well.

Peter Heinz Costa - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

So we should think about that $1.80 as being on top of anything else that you're targeting for your normal Medicare business?
Brian Andrew Kane - Humana Inc. - CFO

Well, again, I'm just -- I'm hesitant to answer -- to say yes to that question only because it's all part of the mix. So you know we have that approximately $1.80 that's out there from a tax perspective as we think about planning for next year as we thought about the bids going into '19. And so that was all part of the mix, but also part of the equation was it's important to improve the pretax or core business performance as well. And so again, I can't parse it out for you and just say add $1.80. You could, but that might not be the right answer because there could be a different pretax margin assumption. Obviously, we didn't set our goals with that not in mind. In other words, it was in our mind as we thought about this as respect to 2020. So all these things were in our minds as we set our benefit design and our targets for 2019 -- our bid targets.

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

And Peter, just maybe add. I know you're trying to get into the details of what happens on a per-line basis. I do want to just recommunicate to the shareholders that we continue to be committed to growing our membership appropriately. And we continue to be committed to improving the efficiencies of the organization, which will ultimately show up in the margin that we have. As Brian is articulating, we put all that into the mix and calculate by market how are we competitive in that marketplace, as we think about how our competitors are going to respond and at the same time, how we want to look to improve the margin of our business there. And I know everyone wants to sort of say what we do line by line, but it is, as Brian has well articulated it, it fits in all one big pot. And we begin to start working what's best for our customers and what's best for our shareholders.

Operator

Your next question comes from the line of A.J. Rice with Credit Suisse.

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

Two-part question on pharmacy. So I appreciate all the comments about what you're trying to do with Walgreens. Obviously, you had a very successful long-standing partnership with Walmart. I'm wondering, does this impact in any way what -- I thought there was some discussion at one point about potentially expanding the Walmart activities. Is there -- does this preclude anything further on the Walmart side? Can you maybe parse out a little bit your thinking about what one retail type of footprint versus another does for you? Is it just about getting more and more access points for your members? And then if I could flip in there, obviously, as you formulate your pharmacy strategy, there is this discussion in Washington about all the changes to Part D, potentially rebate, reform, other changes. How does that factor in and any comments on those?

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

Okay. On the specific on the retail side and partnerships, we still value and have a strong relationship with Walmart and continue to see that relationship, both being what it is today and continuing to look at ways to expand that. We continue to believe that they and us serve very similar customers, segments and working together, we both can serve the customers in a much more comprehensive way. And I would just continue to see us growing that relationship. On the Walgreens side, they are a different retailer, more stores, smaller stores and more communities. And we see that also as being an opportunity to see how Walgreens retail model would work. You probably see smaller clinics in those particular stores. You'll probably see us have more navigational services in those stores versus something if we were to do something at Walmart that's a much bigger footprint there. But I -- but both of them are complementary and not competitive or being in that -- one restricts us from doing the other. And we feel to serve our customers and their customers, there's great opportunity out there to do that. I would say one of the things that we are trying to do is to continue to test what our customers are looking for. We're trying to figure out what that sweet spot is, and we feel that this is a great time for test and learn and to understand it. And I think working with both retailers in that will fill the longer-term view of how we modify this. And we won't get it right the first time I'm sure, and then we can evolve it over time. So I think I would look at this as more of a test and learn, as a commitment to either party as a partnership there. And I think all parties learn from this how best to serve the customer. In regards to your question on the pharmacy rebate, as you articulated, there's a lot of proposals coming in out of Washington. And as you well know in the past, we
don't try to comment on specific proposals. I think the question is, does this rebates to our -- as safe harbor what happens to that? I think, overall, our belief is that if it does move to a point-of-sale kind of discount or point-of-service kind of discount that it will affect the other members the majority of the members, this is sort of the 80-20 rule. And we believe that Part D premiums will increase for our book of business. Obviously, I'm not speaking from the commercial perspective, but it will increase Part D premiums over time.

Operator

Your next question comes from the line of Steve Tanal with Goldman Sachs.

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

I guess, just beating a dead horse here. But I was a little bit surprised to hear you won't hit the pretax margin target next year with the HIF suspension. And I guess, as we're thinking about that, is it fair to say that you're sort of favoring enrollment growth over the near-term profit? And maybe you can frame that with respect to comments you made in the past about growing EPS in 2020 over '19 as well.

Brian Andrew Kane - Humana Inc. - CFO

Sure. I think we have said on multiple occasions that 2019, we wouldn't get back fully to our pretax margin target of 4.5% to 5%, but we would make material progress. We are looking to achieve a glide path there that over time we will get back to that target. We're committed to that. We exceeded the target in 2017. You recall that in 2018, this year, we're meaningfully below our target. And that's on account of multiple things, the biggest one being tax reform. We've invested a lot in the business, as we've talked about in prior occasions. And we also invested, as we mentioned, some of the outperformance that we had in 2017 in the 2018 benefit design so as to overcome the HIF and keep benefits relatively stable for our members. So I think we've been pretty consistent on the fact that for 2019, we wouldn't get there on the pretax margin side, but that we would continue to strike a balance to grow membership and margin and that's what I believe that we've done. Obviously, we'll see what happens from a membership perspective as we get more information and we head into AEP. But we do feel good about how we're positioned, and we'll see where it shakes out. I think it's too early to comment on 2020. I know there's been a lot of questions about that, and we're still not giving 2019 specific guidance. Obviously, the only thing I would say about 2020 is the HIF is obviously a very important element of that. I think we have demonstrated that the HIF does impact member benefits, and I think members will benefit meaningfully from the HIF being on moratorium for 2019. And we're hopeful that Congress decides to continue the moratorium on the HIF, and we'll see where that goes. But obviously, that's going to be a pretty important part of the 2020 calculus here.

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

Sure. And I guess, just I understand it right the ramp in profitability of the member, I guess, the idea would be if you get better enrollment growth next year, that provides a better glide path to look forward.

Brian Andrew Kane - Humana Inc. - CFO

Yes. There's no doubt about it. So just to refresh that when a member comes in, typically, they're not very profitable. We don't assume real -- any real pretax margin in a new member, and that's because they're not yet in our clinical programs, and they're not typically risk adjusted appropriately for the conditions that they have. It obviously depends whether we get a member from a different plan or that member is new to Medicare in which case, there's just a plain (inaudible) adjustment adjusted for age and sex, that's it. But -- so that over time, it takes several years to get that member up to profitability. But you are correct that as members -- as we grow more and as sort of the earlier vintages of members get to our target margins, we're able to generate very nice pretax growth. I would also remind you that it also impacts the Healthcare Services segment. So the more we grow membership, we also impact Healthcare Services. That's a really important element as well. So we're constantly trying to take the enterprise view and balance growth and margin, deliver top line growth, but also nice EPS growth.
Bruce Dale Broussard - Humana Inc. - President, CEO & Director

And I would just like to reemphasize that I know you made a comment that we were biasing ourselves to membership growth. And I would say that our perspective, as in 2017 and '16, hasn't changed, that we continue to balance margin improvement at the same time as we are also improving or growing our membership there. And as Brian articulated, the biggest thing that impacted our margin was specifically around the tax reform and taking pretax -- after-tax dollars and moving it up to the G&A line, which doesn't show up in our margin base. And I would just say that that's probably the material change in any outlook that you have on our margin improvement.

Operator

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

Ralph Giacobbe - Citigroup Inc, Research Division - Director

Could you help a little more with the commentary around the lower utilization but higher cost per claim on the inpatient and the higher outpatient trends? Maybe just frame the spend instead of utilization. That would be helpful. And then you talked about lower pharmacy claims. Just hoping you can flush it out where you attribute that to or what you're seeing there.

Brian Andrew Kane - Humana Inc. - CFO

Sure. I'm not -- there's really not a lot more color that I want to provide from my remarks, which is just to say we've been very focused as an organization to make sure that the carriers delivered in the appropriate setting; or in the event that a member is at the hospital that admission gets classified appropriately. Because if it's an observation rather than an admission, which has several thousand-dollar impact per episode, that's a material number. And so we've been very operationally focused. Our markets have done a wonderful job of ensuring that, that sort of appropriate classification takes place. And so what's going to happen is, what's left for your -- in your inpatient numbers is a higher cost per admission, just by definition, because you're pulling out some of the lower-cost outpatient procedures. We're constantly monitoring our outpatient trend just to make sure we understand all the puts and takes as we are our inpatient trend. We've been obviously very pleased with the inpatient trend. And we're hoping that, that continues. And we're doing everything we can to manage trend as we always do. On the pharmacy side, I wouldn't point to anything specifically. I think the specialty pipeline is not as robust, I would say, but really, it's around traditional scripts that have been just a little bit better than we forecast. And I wouldn't say it's very immaterial, but on the margin, it obviously helps. But I wouldn't think -- I wouldn't say there's a wholesale change in anything that's occurring, but it's been a positive boost for our Retail segment.

Ralph Giacobbe - Citigroup Inc, Research Division - Director

Okay. That's helpful. Just on the first part, though, just so I'm clear. I guess, what I'm looking at is or thinking about is inpatient to outpatient. When you think of it even just last year, whatever trend was, not utilization, but overall spend. Are you seeing inpatient spend higher year-over-year versus what you're seeing on the outpatient side even just directionally?

Brian Andrew Kane - Humana Inc. - CFO

Yes. I mean -- so as I said in my remarks, our actual inpatient admissions are down, but there are some unit cost issues, which I just articulated. So overall, I would say overall utilizations on the inpatient side is probably slightly up, but nothing -- certainly, it's a positive relative to our expectations because of the admissions number. And I think the acuity element effectively falls out of the -- of what's left. But again, I'm saying per admission as opposed to overall spend. Overall spend is better than we expected obviously, that's why we have these benefits that we're talking about.
Operator
And your next question comes from the line of Zack Sopcak with Morgan Stanley.

Zachary William Sopcak - Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team
If I can ask one more question on the inpatient to outpatient move. You talked about procedures coming off the inpatient-only list. Are you seeing members choose to do things like total knees outpatient? Or is it something where you’re encouraging appropriate members to look at that as an alternate side?

Brian Andrew Kane - Humana Inc. - CFO
It’s a little bit of both. I think the outpatient setting is sort of an attractive place, I guess, for lack of a better word, to have that procedure if it can be done. And so I think both sides of the equation, including the physicians, I think when it can be done in an outpatient setting, that can be a preferred setting to have that procedure undertaken.

Zachary William Sopcak - Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team
Okay. And then as you think longer term, how do you think about the opportunity for deeper penetration of your existing members? Is the outpatient appropriate settings for those types of procedures versus an expansion of the number of procedures that are taken off the inpatient-only list to see growth in both areas?

Brian Andrew Kane - Humana Inc. - CFO
Yes. I mean, our general sense is that you’re going to see more and more movement to the outpatient setting. And so I think that’s sort of what we’re planning for as we think about sort of our overall service category mixes and trend assumptions. Our assumption is that’s going to continue over time. There’s going to be just continued movement out of the hospital into the outpatient setting.

Operator
And your next question comes from the line of David Windley with Jefferies.

David Howard Windley - Jefferies LLC, Research Division - Equity Analyst
Going back to Kindred and Curo and understanding those are investments, not full acquisitions. So integration maybe is not the right word. But how do you think about optimizing or harmonizing your workflow between those entities and your internal home health initiatives to drive more cost savings for the member base? I’m just thinking about what could manifest as a trend bender as we think into 2019 and what has to happen to make that a reality.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director
Yes. Well, at the time of close and pre-close, we had a lot of planning of what would be our top priorities in engaging with Kindred. And they really are wrapped around a few things. First is we’re going to test and learn in a number of markets and be able to really focus more on not just about bringing our home health business over to Kindred, but more importantly, bringing the ability to prevent preventable events from happening. And so we have a number of things going on that are more focused on nursing-oriented patients that will be -- that have chronic conditions that can be managed in the home. So first, we’re just rerouting more effort into the nursing area as opposed to the therapy area, and so that’s the first thing. And as you mentioned, the trend bender out of this has reduced admissions, readmission, rates going down, ER visits going down. And that’s
sort of our measurement of success there by focusing on these chronic conditions. Part of that test will also be is how do we bring telehealth into
the home. And the telehealth platform will not only allow us to be more convenient in bringing care into the home, but the second thing is it also
will help us with our Star scores and other preventative measurements that allow -- that we can get into the home quicker, both and being able
to do it more convenient as a result of not having to get people transported there and in addition, working through the appointment schedule.
So we see 2 combinations here in our test and learn. One is around how do we reduce the preventable events from happening; and then secondarily,
how do we continue to increase our performance on our quality measurements.

Operator

And your next question comes from the line of Sarah James with Piper Jaffray.

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

In the past, you've achieved half of your growth from third-party MA sales, and maybe that took a hit during the deal speculation times, but then
you invested in some (inaudible). So are you back to seeing a similar contribution about half of retail sales from third-party salespeople? Or is that
more of a multiyear recovery of the distribution pipeline?

Brian Andrew Kane - Humana Inc. - CFO

No I think that's right. I mean, it's actually a little bit more than half, and we expect that to continue. In fact, what we've seen this year is the broker
channel in '18 outperformed a little bit our expectations, which is a good thing. But I would expect sort of a little -- call it, a little over 50% will
continue from the broker channel. And obviously, we hope -- both channels outperform this year, so the proportions will remain the same. But as
we said, we feel very good about, frankly, both channels. And as you mentioned, we have invested a lot in the broker channel to make it easy to
work with Humana.

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

Got it. And just to clarify an earlier comment on group MLR, the pressure came from small group commercial, not group MA. So group MA MLR is
still in line with your expectation. Is that correct?

Brian Andrew Kane - Humana Inc. - CFO

Correct. Group MA is actually in the Retail segment. It's not in the commercial side, yes.

Operator

And your next question comes from the line of Ana Gupte with Leerink Partners.

Anagha A. Gupte - Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst

Question of following up on the neighborhood care model. And you talked about Iora and Oak Street, Walgreens and some solo clinics that you're
doing in the retail setting in a test-and-learn mode. But at some point, once you're done with test and learn, as you think about the timing and the
pace of the build-out, the scalability, the investments that are involved at your size, relative to doing it in a JV with shared economics, data integration
and so on, do you still see this as being a collage of different approaches and open architecture? Or might you give up the control and the flexibility
for faster build-out and economics?
Bruce Dale Broussard - Humana Inc. - President, CEO & Director

We continue to see success in a number of markets, and we’re building those out at a pretty good pace, I would say, as fast as our partners can digest them. And that would be in places like Iora and Oak Street would be 2 good examples of that. And we continue to look at that as being successful in certain markets there. We are -- and similar to our relationship with Iora and Oak Street a number of years ago, we sort of went through a test and learn to see if that worked, and that seems to work. Walgreens is sort of in that state of maturity, and there’s -- and our Partners in Primary Care is in that state. I do believe over time you'll continue to see the company increase its intensity in opening these clinics, whether it's with partnerships or a wholly owned model like we have with Partners in Primary Care and as we own significant part of Conviva in South Florida there. But I would say today, we’re not convinced that the primary care model is completely figured out. And having flexibility to deal with it in the local market, have flexibility to deal with the changing consumer expectation, and at the same time be able to do it in a capital-efficient way is what you see us trying to do here. And you see more intensity on it. I think if you were to go back and look at our calls with our investors on our one-on-one, it becomes more of the communication and discussion. But it still is in an immature stage, and we want to learn that immaturity as opposed to taking big bets today. But I will, to answer your specific question, I would say that intensity of it will increase in our commitment of putting more and more in a faster way and scale the way we'll increase over the next 24 months or so.

Anagha A. Gupte - Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst

Yes. My follow-up, I think that makes sense, I guess, given it’s immature. But if you take a step back and you’ve talked a lot about the neighborhood care model. I think I’m hearing a little bit more about telehealth in the home setting. But as you think about your core customer base with seniors, would your focus be more on a bricks-and-mortar care model or more on a digital care model as newer seniors age into Medicare and then over time in late-stage Medicare, you’re confined to a home health nursing home?

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

That's an interesting question because as we are seeing, there are different stages of aging, and those different stages are requiring different kind of interactions. We see earlier-stage individual to be much more virtual and much more preventative and in result, probably less dependent on the health care centralized system and more on an access points outside of that. As they age, we see that they are requiring more intense services at a more frequent time, and the combination of home, in the home, combination of remote monitoring and then the combination of having specialty care, whether it's in the health care setting or at home, is an important part of that. And what we're trying to develop is not one or the other. It's the integration of that to accommodate people, both in their needs today and as their needs mature. So I wouldn't say it's either or I would say it's an integrated approach. And that's what you probably see more than anything is that we're building these capabilities, home, primary care. You see us -- the telehealth, we haven't talked much about behavioral. But it's the integration of that and then having the ability to distribute that, where the needs of the customer are at the time of their particular journey of health. And I don't want to say we're one over the other. I think it's a combination of all of them. And I think successful organizations will be the ones that integrate it together as opposed to just having one channel.

Operator

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

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

I want to hop back over to the health care segment, maybe as a tie in to Dave’s question earlier. Certainly understand the strategy and the move for value-based models for Kindred at Home. But how do you really look think about balancing what might be a conflict between your majority partner who probably does better in a fee-for-service world and your own interest? So any color on your thoughts on how that would really play out would be appreciated. And then I have a follow-up.
Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Yes. We recognize that conflict completely. Now a few things. As we entered the investment into Kindred at Home, we threw a lot of research within DC. We came to the conclusion that this -- the home model is going to evolve to be more and more nursing-oriented and more and more around chronic conditions, and the recent release of that highlights that. So we see a movement to more of our patient population as opposed to just therapy population. So I think that’s an important change. The second thing, in our relationship, both in -- with our partner Kindred and the investors in there, that we’ve actually created an incentive for them to have more and more customers on -- I mean, members on a value-based relationship that is paid on outcomes as opposed to just the volume themselves. And that really helps both the line interest and in addition, helps us in being able to find the right areas for us to test and learn this with because we both are oriented to the same success here. But I do believe our partners invested in this believe that fee-for-service in the short run will continue to be an important part of the business as we do because we own 40% of the business. And we wouldn’t want to compromise that business. But the partnership with Humana allows to reposition over time the strategic value of Kindred as a total organization as you think about the trends long term in health care.

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

Got you. And my second question, obviously, with the Curo acquisition, you must like the hospice business. So my question is with hospice being carved out of the MA benefit today, what’s your longer-term view -- or actually, short term and your longer-term view there? Any thoughts -- and also just any thoughts in the context of the future for value-based purchasing for hospice?

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

Yes. I think hospice for us is really we are -- we look at that as a service that we are participating in and providing to the health care community. But from a -- and we leave it ultimately up to the caregiver, the family and the physician to decide where is the proper place for an individual. But once they decide that it moves from restorative to pain management kind of treatment then we are there to serve them and integrate that into the offerings we have. In regards to is it in or outside of Medicare Advantage, we really look at it as more is it the right thing to do for the family member and then ultimately, be able to help them with that transition of a quality of life. We do believe over time that hospice and palliative care will continue to be more and more important part of the care model as we see the need for it. We see people living longer. And at the same time, treatment options at end-of-life become more intense or there are fewer of them and people make this choice. That is probably one of the less used areas of health care today that probably have a large positive impact on people’s life as they think about where they are in their stages of life there. So for us, we are more a recipient of it. We are believers of the right thing to do, and we’re a believer that we will provide that service to our members if they choose to. And the payment model is less of an issue for us and insignificant in our decision-making.

Operator

And our final question will come from the line of Gary Taylor with JPMorgan.


Just a couple of clarifications I just wanted to tie down. Brian, you’ve mentioned -- sorry, excuse me, lower TRICARE final settlements as headwind heading into 2019. Can you give us a sense of what those were for ’17 and ’18?

Brian Andrew Kane - Humana Inc. - CFO

I’d rather not get into that level of detail. We normally don’t provide that. I mean, I obviously called it out because I think it’ll impact, particularly as you’re modeling your group in Specialty pretax for next year. There’ll be some impact there. I think that will constrain the growth in the segment. But I’d rather not call it the specifics. We typically don’t do that. That’s okay.
And then second question is on the group MLR guidance raise in terms of lifting that MLR. It looks like the $20 million of the risk adjustment represents about 30 basis points on the full year. So the other 80 basis points, are you increasing your own accruals for the rest of the year? Or is it the reinsurance? Or is it just some of the mix shift that you talked about in that segment?

Brian Andrew Kane - Humana Inc. - CFO
Yes. So a fair question. So on the guidance specifically, because the mix shift was anticipated, it’s related to the reinsurance transaction. And yes, we also have accrued more a bigger payable for ’18 on the back of ’17. So that’s included in that MER increase.

Operator
And thank you. We will now turn the conference back over to Mr. Bruce Broussard for concluding remarks.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director
Well, like always, we wouldn’t be able to have the success we have without the 55,000 people that are part of our organization in every day, helping our members to do that. So I’d like to thank each and every one of them for their dedication to the company. And like always, we appreciate the support from our investors and continuing to believe in the success of the organization in helping us through being successful. So thank you. And everyone, have a wonderful day.

Operator
And thank you. This concludes today’s conference. You may now disconnect.