OVERVIEW:
Co. reported 2019 adjusted common diluted EPS of $17.87 and 4Q19 adjusted common diluted EPS of $2.28. Expects 2020 adjusted common diluted EPS to be $18.25-18.75.
CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Humana fourth quarter earnings call. (Operator Instructions) Please note that today's conference is being recorded. Thank you.

I would now like to hand the call over to your first speaker, Amy Smith, Vice President of Investor Relations. Ma'am, 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 2019 results and our updated financial outlook for 2020. 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. 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 fourth quarter 2019 earnings press release as well as in our filings with the Securities and Exchange Commission.

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

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

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

Thank you, Amy. Good morning and thank you for joining us.

Today, we reported adjusted earnings per share of $2.28 for the fourth quarter of 2019 and [$17.87] (corrected by company after the call) for the full year, above our previous estimate of $17.75. We are pleased with our 2019 performance, particularly our success in balancing and executing on multiple priorities as we grew membership, improve the quality and productivity of our operations and continue to invest in the long term.

During 2019, we experienced significant membership growth in both Medicare Advantage and Medicaid where we were able to serve our country’s sickest and most vulnerable population in need of quality care and better health outcomes. For individual Medicare Advantage, we saw the highest growth we’ve seen in a decade with over 0.5 million seniors choosing Humana MA plans. In addition, we have a record number of MA members in 4-star and higher plans.

Our Medicaid membership grew nearly 38% with our statewide Florida win for 2019, and we added approximately 140,000 members on January 1, 2020, under our Kentucky Medicaid contract that was previously fully ceded to CareSource. We also demonstrated the strength of our Medicaid capabilities through procurement; expanded our senior-focused, payer-agnostic primary care centers; significantly advanced our home health capabilities; expanded our pharmacy operations and took significant initial steps towards creating an interoperable health ecosystem via technology partnerships.

As we begin to scale our clinical solutions in 2020, we are continuing to balance our strategic initiatives across 5 key areas of influence on a member’s health journey: primary care, home, pharmacy, social determinants of health and behavioral.

Let me give you an update on the recent progression in some of these areas. In 2019, we opened 29 senior-focused primary care centers under our wholly owned alliance and JV model, bringing our center total to 262; and we continue to see the maturity of our value-based care platform resulting in more providers in surplus and improve the operating performance of our legacy Conviva operations.

We are now evolving from proof-of-concept to scaling these senior-focused, value-based primary care assets. And just this week, we announced an exciting strategic partnership with Welsh, Carson, Anderson & Stowe that will accelerate our payer-agnostic center expansion giving more seniors access to quality primary care built around their unique health needs, especially in geographies that lack the access today. WCAS is an important strategic partner in Humana’s journey of building an omnichannel senior-focused consumer platform, and this new arrangement is a capital-efficient approach to rapid expansion. WCAS, together with Humana, has committed approximately $600 million to create a joint venture that is expected to open a minimum of 50 payer-agnostic, senior-focused primary care centers over 3 years beginning in 2020. WCAS will maintain majority ownership, and Partners in Primary Care will manage the centers for a management fee. Similar to our innovative deal to acquire Kindred...
at Home, put-and-call options provide Partners in Primary Care with a path to full ownership of the centers in 5 to 10 years. We are excited to be able to work with WCAS to facilitate faster entry into additional community in need of senior-focused primary care.

We're also expanding our JV and alliance model and expect to add 35 centers in 2020 with these important partners. Today, we serve over 0.25 million of our individual MA members in our owned JV and alliance model. Our goal is to double the number of members served in this model over the next several years.

Our pharmacy operations just completed the acquisition of Enclara Healthcare, one of the nation's largest hospital benefit -- pharmacy and benefit management organizations. This acquisition provides Humana Pharmacy the opportunity to expand our comprehensive care continuum strategy to cover the pharmacy-related needs associated with hospice care, simplify the mail order pharmacy experience and advance the technology stack for in-home pharmacy through areas such as enhanced mobile medication management and improved electronic medical record connectivity.

In the home, we advanced our transformational home health initiative with Kindred at Home and Curo through the implementation of a company-wide EMR and the extrapolation of best practices for our value-based care pilots to over 20,000 home health episodes.

The next phase beginning in 2020 is to provide more care services in the home, including acute care and primary care in the home, so that we may begin to generate meaningful trend vendors for our health plans in the future while improving clinical outcomes for our seniors.

We remain committed to improving the life of those we serve through our social determinants capabilities, which positions us strongly to serve the vulnerable populations, Medicare and Medicaid, and provide us with the experience needed to meaningfully participate in the MA value-based insurance design program and Medicaid procurements.

In 2019, we scaled social determinants of health screenings to over 1 million, more than double the number of screenings in 2018, and connected those in need to community resources. We will continue to expand our outreach and services around social determinants of health in 2020 and beyond.

Lastly, recognizing that health care continues to evolve and technology will be at the forefront of the evolution, we announced 2 key strategic partnerships in 2019 with Microsoft and Epic to leverage technology to develop a health ecosystem that enables a seamless and integrated experience.

Our focus in 2020 will be migration to the Cloud to enable interoperability and agility. In addition, we are seeing nice uptick in provider engagement on Compass, our population health delivery platform, and a higher direct-to-consumer sales completions in our digital, virtual intelligent plan recommendation tool as compared to our standard online enrollment tool. We've also seen that members who use the virtual recommendation tool are significantly more likely to share their health information with us in ways that could improve their decision-making and help us better onboard and engage clinically once they are enrolled.

As a company, we continue to emphasize the enduring need to drive efficiency and productivity across the organization while not losing focus on the key themes of providing a simpler experience for our customers and delivering better health outcomes. As we discussed last quarter, the return of the health insurance industry fee in 2020 posed a significant headwind for the industry, reinforcing this need to drive productivity. As Brian will describe, we work diligently to identify ways to improve our cost structure by leveraging technology to streamline processes and executing a reduction in our workforce, including redeployment of individuals to open positions which impacted approximately 2,000 jobs.

While we were able to drive meaningful savings, it was not an easy task. And there are still members who enhanced -- who experienced an increase in premium or reduction in benefits for 2020 given the magnitude of the HIF. Given the significance of the headwind, particularly the -- $2.10 headwind from the nondeductibility of the HIF, we are pleased to be -- provide the initial adjusted EPS guidance in the range of $18.25 to $18.75, representing reasonable growth while also delivering solid expected MA membership growth. We expect to add 270,000 to 330,000 individual MA members in 2020, representing growth of approximately 7.5% to 9.2%, which we believe, at a minimum, will be in line with the industry growth. These expected results reflect balanced growth across all segments with each segment projected to deliver meaningful pretax or EBITDA growth in 2020. Brian will provide more detailed segment level guidance in his remarks.
As we have discussed previously, given the HIF is a premium-based fee, beneficiaries of Medicare Advantage and Medicaid, the sicker and most vulnerable populations are disproportionately taxed. Despite that, seniors continue to increasingly choose Medicare Advantage over original Medicare with compelling individual MA industry growth of 8.7% in 2019, excluding the impact of cost plans, compared to 7.2% in 2018 and 6.1% in 2017. MA penetration continues to increase, reaching 34% in 2019, and 2020 industry growth is expected to keep pace for 2019 even with the return of the HIF, a testament to the value the MA program provides and a model for other potential public, private partnerships for additional populations needing affordable health care. Accordingly, we are pleased that Congress waived the fee beginning in 2021, recognizing that the imposition of the HIF falls disproportionately on Medicare beneficiaries and reduces affordability. The permanent repeal of the HIF is a significant win for consumers, and we appreciate -- and are appreciative of the strong bipartisan support to repeal it.

Looking ahead, we are committed to delivering strong short-term performance while investing in transformative capabilities for the long-term sustainability of the company. To that end, we will continue to stay focused on 3 key priorities: expanding our local presence with primary care centers, the home and value-based partnership models; modernizing our digital and analytics infrastructure, including Cloud migration, interoperability and the creation of a longitudinal health record; and developing an enterprise clinical operating model built on technology and analytics to integrate our clinical assets focused on patient-centered care and disease-specific best practices.

In closing, I want to thank -- to personally thank our associates for their dedication to our strategy and operational excellence. We are pleased that because of their exemplary efforts and our success in 2019, including improved Net Promoter Score, significantly individual MA membership growth and adjusted EPS growth in excess of our long-term target, we are able to reward our associates with higher incentive-based compensation. Our associates continue to demonstrate world-class engagement, which manifests in a better experience for our customers leading to a long-term sustainability for the company. Over the next year, we expect political discussion to continue to focus on health care and results in market volatility. However, we are confident in the Medicare Advantage program, which has significant bipartisan support, and our opportunity to be part of the solution to both addressing the rising cost of health care and the need for quality outcomes.

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 $2.28 for the fourth quarter of 2019 and $17.87 for the full year, ahead of our previous expectations. This represents a 23% increase in adjusted EPS year-over-year. These 2019 results, led by industry-leading individual Medicare Advantage membership growth and better-than-expected MA utilization, provide positive momentum going into 2020. We expect 2020 to be another strong year for the company with solid top and bottom line growth, notwithstanding the return of the health insurance fee, or HIF, which is not deductible for tax purposes. As I discuss our 2019 results and our expectations for 2020 this morning, I encourage you to reference the waterfall slide provided on our Investor Relations website with the webcast materials.

As outlined in the waterfall, we expect a 2020 adjusted EPS range of $18.25 to $18.75, which is consistent with our commentary last quarter. We believe we struck the appropriate balance between top and bottom line growth while investing for long-term sustainability as we contemplated our 2020 pricing, recognizing the significant impact of the return of the nondeductible health insurance fee, of which the after-tax portion alone is worth $2.10 for the year.

Our strong Medicare Advantage growth in both individual and group MA is driving our 2020 consolidated revenue growth of approximately 14% at the midpoint of our revenue guidance of $73.9 billion to $74.5 billion. And we are forecasting strong and balanced pretax and EBITDA growth across our 3 reporting segments. Additionally, as we contemplate the quarterly progression of earnings in 2020, we expect the first quarter to contribute a bit more than 24% of the annual total, which contemplates unusually high workday seasonality in the quarter primarily due to 2020 being a leap year.

Before discussing the segment results, I would like to echo what Bruce said in his remarks regarding the exemplary performance of our associates this past year. We are pleased that we were able to reward our associates with higher incentive-based compensation given the outperformance
in 2019, aligning our associates’ compensation with the exceptional value they provide for our customers, providers and shareholders. An important part of the work our team accomplished during 2019 was to drive significant productivity savings, which took a great deal of effort and necessitated difficult decisions. These important initiatives are part of our longer journey to drive cost efficiency over the last number of years. In fact, when you exclude approximately 170 basis points for the impact of the HIF in 2020, the midpoint of our guidance range for the operating cost ratio is 10.3%, down 110 basis points versus last year. Even when you exclude the incremental investments made in 2019 that increased our operating cost ratio, the 2020 midpoint, adjusted to exclude the HIF, still demonstrates 70 basis points of improvement over the 11% midpoint of our initial guide for 2019. This improvement continues the compelling efficiency gains driven over the last 5 years, freeing up resources to help mitigate the impact on premiums and benefits for our members due to the return of the HIF while also driving solid earnings growth and enabling us to invest in critical strategic areas.

I will now turn to segment results. And as I do, I will touch briefly on 2019 and then transition to how we are improving operating results in 2020. I will begin with the Retail segment.

In 2019, we saw industry-leading individual Medicare Advantage growth of approximately 525,000 members, the highest growth we have seen in a decade. We also experienced considerably lower utilization in Medicare Advantage than our expectations, which allowed us to end 2019 with a benefit ratio for the Retail segment 70 basis points below the midpoint of our initial guidance for the year. We have now experienced multiple years of declining inpatient admissions per 1,000 members, or APTs, in Medicare Advantage driven primarily by better health outcomes from our clinical programs coupled with well controlled outpatient, physician and pharmacy trends.

The 2019 improvement allowed us to invest this outperformance into our 2020 bids, which, when coupled with our productivity efforts, will enable us to grow our individual MA book at the market growth rate at a minimum. This is something we are quite proud of, given the material headwinds we face in 2020 and after coming off an exceptional growth year in 2019. Our group MA business continues to perform well, and we expect to grow group MA membership by approximately 90,000 members or 17% in 2020 primarily driven by the addition of a large group account from a competitor. As you know, group MA membership growth can vary widely from year-to-year based on the pipeline of opportunities, particularly large accounts going out to bid. We believe we are well positioned to capture these opportunities as they arise.

For our stand-alone PDP business, in 2019, we experienced a second consecutive year of significant declines in membership as we no longer were the low-price plan in any market. As we’ve discussed previously, this business is exceedingly price competitive with a winner-take-all dynamic. Accordingly, as you made important changes in 2020, repositioning our PDP products to allow us to once again have the low-price offering in most markets. Our new low-price Humana Walmart Value Rx Plan is seeing nice growth in 2020, in line with expectations. However, this growth is not enough to overcome the significant losses we are seeing in our Premier Rx Plan where most members experienced a significant increase in premium in 2020 because of our planned design changes caused by the 3 planned limit imposed by CMS and an aging population with more chronic conditions and higher pharmacy costs.

Based on the final results of AEP, our expectations for 2020 PDP membership losses have improved relative to our prior guidance, and we now expect to lose approximately 550,000 members compared to our previous estimate of approximately 600,000. While these losses are modestly higher than initially expected at the time of bids, the planned changes we made in 2020 were necessary to attract a balanced risk pool and stem the membership losses in our book going forward.

Lastly, our Medicaid business continues to perform well, and we are excited about the opportunities ahead for this business. Effective 1/1/2020, we added approximately 140,000 members under the existing Kentucky Medicaid contract previously ceded to CareSource. We are pleased to be serving Medicaid members in Kentucky, Florida and Illinois in 2020. We look forward to the final resolution of both the Kentucky and Louisiana procurements where the award of both contracts demonstrated our strong Medicaid capabilities.

All in, the Retail segment is expected to show strong operating improvement as demonstrated in the waterfall, contributing an incremental $1.66 to adjusted EPS when you adjust for the reinvestment of approximately $0.70 of Retail outperformance from the first half of 2019 in the bids for 2020 to help offset the impact of the HIF.
While our Retail segment outperformed in 2019, our Group and Specialty segment did not perform well. And we are taking the opportunity to significantly reposition the segment in 2020 and beyond. The segment faced a number of pressures, including membership migration out of our community-rated product into a level-funded ASO, which drove unexpected average selection in our community-rated block resulting in significant negative prior period development. Note that this negative prior period development also adversely impacted the starting cost baseline for 2020 given the unanticipated morbidity mix. Using our consistent historical reserving practices for the Group and Specialty segment, we acknowledged the negative prior year claims development we experienced in 2019 as we contemplated the adequacy of reserves as of December 31, 2019.

The segment also experienced large numbers of provider settlements, IT system upgrades for the insurance and specialty businesses and investments in market infrastructure. Our core trend remains stable, and we believe the investments we are making in systems and people will position the segment for growth in 2020 and beyond. Accordingly, we expect the segment to contribute approximately $0.55 of incremental adjusted EPS to the enterprise for 2020.

For Healthcare Services, we had a strong year as we saw growth in our pharmacy business, solid performance of Kindred at Home and continued improvement in our Conviva operations, partially offset by the costs incurred to continue to expand our owned JV and alliance senior-focused primary care centers. Notwithstanding the significant PDP membership losses, our pharmacy script volume grew year-over-year primarily due to higher Medicare Advantage and state-based contract membership. For 2020, despite the expected PDP membership decline, we anticipate strong EBITDA growth in the pharmacy business. As Bruce mentioned, we recently closed the Enclara transaction, expanding our hospice pharmacy capabilities.

Our home business is also anticipated to perform well, led by Kindred at Home, in which the conversion to Homecare Homebase across home health and hospice in 2019 weighed on results due to the significant required onetime investment, but will drive EBITDA in 2020 notwithstanding the adoption of the new payment methodology, PDGM.

And in our provider businesses, as Bruce described, we are working to meaningfully scale this opportunity and are very excited about the recently announced innovative venture with Welsh Carson to open a minimum of 50 additional payer-agnostic, senior-focused primary care centers over the next 3 years, which will be managed by our partners in primary care team under the partners in primary care brand.

Finally, our Conviva primary care business is expected to continue improving its core operating performance. As a result of all these efforts, we expect meaningful year-over-year Healthcare Services adjusted EBITDA growth to contribute an incremental $1.03 to adjusted EPS.

Turning to cash flow and capital deployment. Our operating cash flow was a record $5.3 billion in 2019, reflecting strong earnings and the benefit of a significant membership growth we experienced for individual Medicare Advantage. In periods of increasing enrollment, operating cash flows are positively impacted because premiums are collected in advance of claims by a period of up to several months.

While we expect solid MA membership growth in 2020 due to the significant membership increase we experienced in 2019 and timing of the related premium collections and claim payments as well as other working capital items, we expect our operating cash flows for 2020 to be in the range of $3.2 billion to $3.6 billion. Additionally, as we’ve demonstrated through the various transactions we have pursued, we will continue to deploy our capital in an efficient manner—manner with a target debt-to-capitalization ratio of 35% in order to maintain our investment-grade credit rating with the ability to move higher than that for strategic M&A.

Finally, our initial guidance for 2020 includes an assumption of some share repurchase in the back half of 2020, and our strategic M&A priorities remain the same, including the continued build-out of our Healthcare Services capabilities to drive our integrated care model as well as tactical health plan acquisitions to the extent they become actionable.

With that, we will open the lines up for your questions. (Operator Instructions)
QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Charles Rhyee from Cowen.

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

As we think further out maybe and, obviously, you've given us the outlook here for '20, growth remains strong here and you continue to look further to invest. Maybe two questions real quick. First in Retail, as we think about investing the HIF money in the future, how do you think -- how much do you think that, that should we consider either being really driven for growth versus maybe some of that coming back into earnings?

And then secondly, you were talking about expanding your primary care footprint here. Can you give us a little bit more color on how your partners in primary care efforts are going? You say it's sort of not going to be really impactful to 2020, but when would you expect that to really start to have a more meaningful impact to the bottom line?

Brian Andrew Kane - Humana Inc. - CFO

So let me take them in order. First, with regard to HIF in 2021, as we've said in prior settings, it's obviously early to be commenting on 2021. We do believe that the health insurance fee repeal will be a significant benefit to our customers, and we would expect them to see increased benefits on account of that. But we will balance, as we always do, membership growth within -- with EPS as well as making sure we invest for long-term sustainability. And so you'll see us continue to invest in our integrated care model as we balance top and bottom line growth. I would also say, as we think about 2021, and I know this has been a topic of conversation, we'll make sure we understand the impact of ESRD. We need to obviously see where the rate notice ultimately comes out, and that's something that we're obviously eerily anticipating. And then also, we'll need to gain theory out what we think our competitors do with respect to the HIF repeal in 2021. But overall, we, obviously, are bullish on 2021, but it's really too early to provide specifics.

On the second question with regard to primary care, we feel very good about our primary care capabilities. In fact, both our Conviva operations, which are performing nicely and we're seeing good operational turnaround, but also the business we're expanding, Partners in Primary Care, we believe, has an operating model that can be replicable and scalable across multiple markets in the U.S. And so it's really a function of how do you fund this expansion. There's a significant J-curve in these clinics. Meaning that for the first few years, they lose EBITDA, they lose money. And then over time, they begin to make money and actually earn a nice return on investment. And so how do we bridge that gap? And so partnering with Welsh Carson, who's an expert in health care and very, very good at what they do, we believe that we'll be able to scale this model very efficiently and really get us the capital we need to tie us over between where the J-curve period where we're losing money to where we can bring this back on balance sheet if we decide to do that when they're more profitable.

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

Just to add to Brian's comments, we do see benefit from the clinics early on, on the insurance side. So if you think about the contribution to the company, there's really 2 parts to it, which is the actual centers themselves and then the second part is enhancing and moving members more and more to value-based payment models, which we see better Star score, we see lower MER and we also see better satisfaction there. So in the -- as Brian articulated in the J-curve side, you'll see it more on the insurance side. As it grows, it continues to be on the insurance side, but then it becomes more on the clinic side. So in 2020, we will see benefits from these clinics, and we -- in the 200 and some we have, we've seen benefits all along, but you'll see it more on the insurance side and more in the -- as we referenced in trend benders as opposed to see it in the actual profitability of the centers themselves.
Charles Rhyee - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

So basically, you’re able to direct your members to the primary care centers that you have. And that’s -- when you’re recruiting physicians for these centers, is it -- are you bringing physicians that already have full patient panels themselves? Or are you kind of recruiting doctors who are interested in changing the way they practice in general and...

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

Yes. Most of these, on exceptions, we will bring some physicians that have patients, but the majority of them will be starting from scratch. And that’s really the reason for the J-curve as what Brian was talking about. In reference to steering the patients there, we really -- our design plan is to make it affordable for people to choose the clinics. But obviously, it’s their choice, and they’re -- from a -- to choose their physician. But we do find in areas where we locate and where they don’t have primary care or hospital that we are the sort of the community choice there. So I would just emphasize both from plan and where we locate them is an important part of how our members choose them.

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

And Charles was a great example of getting a lot of questions in. (Operator Instructions)

Operator

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

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

I might just continue to just try to flesh out the strategy around these Partners in Primary Care. With this deal, will the growth all be in this joint venture? Or can you continue to do ones on your own or with other third parties? And is there any restriction around the risk sharing? I know that’s been a big part of the long-term targeted savings for the health plan is to do risk sharing with this. Is there any restrictions, given it’s payer-agnostic, on what you can do there? And then maybe another thing you didn’t mention is once you get the 50 up and running, how much of your Humana MA book will be covered by one of the -- or have access to one of these clinics?

Brian Andrew Kane - Humana Inc. - CFO

Yes. Let me try to go in reverse order. It will still be a relatively small portion of our MA book, which is the reason why, what Bruce said, we want to scale these up as quickly as we can, but it’s still be a relatively small portion of our book. Remember, from a risk perspective, each -- or from a risk member perspective, each clinic has about -- you have 2,200-or-so risk members, kind of varies depending on the size, could be as low as 1,500, could go to 2,500 members. And so you could do the math. It’s still relatively small, which is why it’s important that we take a balanced approach to our growth. Really going to your first question, we have partnerships with a number of players. They’re very valuable partners that we will continue to expand with. Some we have equity investments in, some we do not. But we’ll look to continue to expand those joint venture and alliance models. But we have, I would say, the ability too to expand as we see fit to continue to grow this footprint, which we will do. We’re obviously very mindful of the impacts on the income statement when we do this, so we’re trying to be creative with the use of our capital. But I would tell you that we have flexibility to execute our business plan.

And then on the risk-sharing side, being payer-agnostic is really important. It’s important so that we can actually fill up these clinics. It’s important so we can attract physicians. It’s important to be able to really create the best-in-class experience for our members and to give them the ultimate -- the patients to give them the ultimate choice, what they need in their lives. But there’s no restrictions with respect to risk sharing or the like. Obviously, each risk contract is different, and sometimes there are path to risk contracts. So for -- it may not go full risk day 1. But generally, we sign
a risk path to risk deals with the various payers. But we’re encouraged by the reception that we’ve seen from other payers, and we’re committed to making this payer-agnostic.

Operator

Your next question comes from the line of Peter Costa from Wells Fargo.

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

Sort of on the same line, focusing on the Partners in Primary Care transaction. One of your competitors, one of your large competitors buys larger practices, physician practices and other -- your larger competitors doesn’t buy practices at all or run them and uses contracts and there’s this mattering of that across the board. You guys seem to be the ones trying to grow practices. And yet you’ve had -- you’ve struggled with that, whether it be Conviva that has gone through a turnaround, Concentra, which never really grew the way you wanted it to. And now with Partners in Primary Care, it seems like you’re pushing that off your books from an earnings perspective here in the short term while it grows. Can you explain why you still think this is the right strategy versus what your competitors are doing?

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

Yes. I would maybe try to put those in boxes. I -- let me start with Concentra. I think Concentra was an urgent care model that had a small primary care part to it. We ended up doing -- actually, the genesis to Partners in Primary Care is out of Concentra. And so we -- what we did is we bought the company, then pulled the primary care out of it and then began the Partners in Primary Care. So that transaction, we didn't want to be in the urgent care business going forward.

Conviva actually is interesting because Conviva today is probably one of the larger organizations in the country that has pure clinics with senior focus. It's got 200-and-some-thousand Medicare Advantage lives in it, and it's performing well. And when we talk about turnaround, it's really more bringing in the various different brands that were in South Florida and creating a brand of -- one of which that brand -- some of those brands have been within the organization since 2008, 2009 in that arena. So what you see is more making at a better brand, a holistic brand and growing and continuing to serve the organization well on the insurance side as good star scores, as good MER, as good satisfaction and growth. And so I wouldn't make either one of those as the organization is sort of shutting or in and out of this. I would say there is a philosophy difference between us and others in the country that you are referencing. And our philosophy is the buying primary care and trying to convert them to Medicare Advantage value-based care model is a highly risky proposition. And we've seen over the years that organizations that have tried to do that have not been totally successful. Now if you're going to keep them fee-for-service, you're going to keep them commercial. If you're going to keep them in that vein, I think you're going to be quite, quite successful in not having to deal with the change management. What you do see the organization doing is going through sort of stages with that. I think the first stage was around does this work for Partners in Primary Care. And we've been testing and learning that for the last few years, and we've come to the conclusion, seeing the results that we've had in the markets we've opened that. But this is really working. We're seeing great Star scores. As I mentioned, we're seeing great satisfaction scores where we're being able to recruit doctors into it. We're able to fill them up in the time that we thought. So the real question is, how do we scale it? And so we've tried to scale it over the years through joint venture partnerships. And you see it today, we have 260-some clinics and serving about 10% or so of our members. And now it's just a question of scaling. And so what we do is to scale it in a way that we can utilize a capital-efficient way to be able to do it, be able to set it as an independent entity, but still have control over a period of time and be able to use that as a growth vehicle for us but, at the same time, continuing to scale through our joint venture and alliance partners that we've done in the past. So I think what you'll see is it's more of a scale question as opposed to anything else. And it's a question of how do we build a great base for this. And I feel that the company has matured in a way that is very bullish on this but, at the same time, matured in a way to test and learn because of you articulating in different ways. Owning and operating physicians is a very, very difficult task at times, and it is also a risky task. And we've tried to navigate through this to ensure that the organization is able to both succeed but more importantly, scale this because of the end results.
Operator
Your next question comes from the line of Justin Lake.

Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst
A couple of questions on margins. Just first, can you give us an idea of where Medicare Advantage kind of settles out? I know you don't want to give specifics, but just relative to the 4.5% to 5%, how close are we there? And also kind of how should we think about it in 2021 if you are going to reinvest some of the HIF? Is the next move downward in those margins?

And then just in terms of the Healthcare Services business, same thing, margins are really strong there, are looking like in the guide. Is that all just improvement in those ancillary businesses that you kind of outlined? And if so, where do you kind of see the trajectory of those going forward from here?

Brian Andrew Kane - Humana Inc. - CFO
Justin, on the MA side, I would say, for 2019, we finished a little bit below our 4.5% to 5% margin. Obviously, a really strong year, given where we started the year. For 2020, as I mentioned in my remarks and we've discussed in the past, we invested some of that outperformance into -- in 2019 into our 2020 bids. And so obviously, that's going to impact margins. But then we, obviously, have improved the operations as well. So all in, I would say the margins are relatively flat year-over-year 2020 versus 2019, and so we're still a bit below the 4.5% to 5%.

With respect to 2021, again, with -- really, too early to give 2021. But it's fair to say whenever there's that tax impact on the after-tax line, you can see the geography of where the earning shows up, changes a little bit. So it's conceivable that we do have a decrease in margins for 2021 while obviously still growing EPS very nicely. So that's something we would have to work through. But typically, that is a dynamic that's at play when we've seen tax rates changed dramatically, whether because of the HIF or because of tax reform that occurred in 2018.

On the Healthcare Services side, I would describe it as balanced growth. I think we feel very good about really all segments. The pharmacy side is showing a really nice improvement year-over-year. They continue to drive penetration on the mail order side, on the specialty side. As well as we think the Enclara opportunity on the hospice side will give them some runway as well. Kindred at Home is also performing well. We hope to continue to see strong EBITDA growth, notwithstanding the change in the payment model. As you know, we've embraced this payment model because it gets us closer to chronic nursing versus solely focused on therapy. But I think that the team is doing a really nice job of mitigating any impacts there and also leveraging the benefits of implementing Homecare Homebase. And as Bruce discussed on our primary care business, both Conviva and Partners in Primary Care, we see a nice turnaround there. Particularly in Conviva, which is entirely on balance sheet, we're seeing real improvement in the EBITDA performance. So really, I think it's a real positive story on Healthcare Services, and we hope that continues in the years ahead.

Operator
Your next question comes from the line of Dave Windley from Jefferies.

David Anthony Styblo - Jefferies LLC, Research Division - Equity Analyst
It's Dave Styblo in for Dave Windley. I wanted to ask a question about the Group and Specialty business. Just kind of looking at the bridge here, it looks like there's about a $0.55 tailwind for 2020 that you called out. I'm curious, how much of that is from the absence of onetime costs that happened in 2019 or settlements versus improvements in the core business? And then more broadly, related to that business, how does commercial fit into the broader portfolio just given the feats and challenges that, that business has gone through?
Brian Andrew Kane - Humana Inc. - CFO

Yes. I would say it's -- on your first question, it's really a balance. Clearly, we don't have the repetition of onetime items, but some of it is also improving in the core business, some of the pricing actions that we've taken. I think it's important and we expect -- the hope's we've gotten the baseline right. As I mentioned in my remarks, the adverse selection we saw in our book really hurt the 2019 performance because 2018 backed up. You sort of have a double whammy there. You have the '18 hit and then you have -- you're trending off the wrong baseline for 2019. So I think we -- I'm hopeful we've gotten that right. We'll obviously see what happens in the coming months here. So I think it's really a combination of core improvement as well as the onetimers not repeating.

Really to your second question, we continue to invest in this business. That's also weighing on the results for 2020. In other words, the results would have been higher were it not for that. We believe that there is a real opportunity to grow this business, become more of a player, a significant player in particular markets where we're strong in Medicare and where we think, really, number one, there's an opportunity to drive more relevance with our providers. And we think when we have a commercial presence, particularly moving upmarket away solely from the small group and moving into the mid group and sort of larger group side, not the jumbo side, but more large group, gives us the attention of the providers in the local markets. We also think there is a significant cross-sell opportunity as members age into Medicare. And also on the group MA side, it's an area where our competitors have done a very nice job leveraging their commercial business. Because we don't have that same commercial business, it's hard for us to get those synergies. And so we think there are opportunities there.

And then the final thing I would say is our Specialty business is something that we don't talk a lot about, but we're bullish on it, and we really hope to grow it, both on the group side and also on the individual side. It's a business that is low-capital requirements and good margins. And so we think we can continue to grow that and cross-sell that product. So for those reasons, we're committed to the business and yes, we're hopeful for a better year this year in 2020.

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

Just to add to Brian, I think just to emphasize, we realize that having a national strategy in commercial just is not the not the right direction here. And so we are picking markets where today we are strong and utilizing those markets to continue to build our local presence, and commercial is one of those along with the other assets that we have. And so you see a much more concentrated effort. Obviously, as what Brian has talked about, 2019 was a rough year for the commercial business for a whole host of reasons. But we do believe in certain markets, it makes sense to have a commercial product. And that's what you see that the team is oriented to, but we need to make sure our infrastructure is prepared for that, and that's what you see a lot of the investments and the work going on in 2019.

Operator

Your next question comes from the line of Sarah James from Piper Sandler.

Sarah Elizabeth James - Piper Sandler & Co., Research Division - Director & Senior Research Analyst

So I just wanted to get a little bit better understanding of some of the nonrepeat items that are going on here. So you guys talked about negative prior period development related to the group business, but you can't tell on the press release. It looks like for total care, it's net positive. So how much negative group development was there and what would MLR have been without it?

And then as we think about other nonrepeating items that are occurring in '20, is there any carrying costs related to Louisiana? And then is there any start-up costs related to what you guys are doing on the provider JV side that wouldn't continue as we think about run rate earnings?
Brian Andrew Kane - Humana Inc. - CFO

So I would -- it’s in -- you can see it in our press release, there’s a breakout between group PPD and Retail. So group has gotten hit for the reasons I talked about. Retail was modestly positive. I think it was a good year for PPD for Retail, obviously, less so for group. So that is a -- I would call that a onetime item on -- I hope it’s a onetime item on the negative PPD side for group. So I think that’s one example. There are some modest start-up costs in Louisiana. We have to plan for that. So that is in our numbers and our costs. So we’ve obviously scaled up to be ready for that. Again, it’s something we’re very proud of. The Medicaid team has done just a fabulous job winning that contract, and we’ll see where it goes, but we feel good about that. And so it’s important that we make sure we are ready to implement that contract when and if we get that finalized and officially awarded.

There are a few other things on the JV side, but a lot of those costs are going to come off our 2020 income statement because of the partnerships that we announced. There’s still some of that because not all of it’s coming off, and we still have some assets on balance sheet, some assets off-balance sheet. But the -- really, the opportunity here is to be able to scale it, as Bruce has said, be able to scale that business and be able to grow it more quickly so that we don’t have additional losses going forward. The idea is to remove those losses. So hopefully that answers your question.

Operator

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

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

Maybe switching gears for a second, talk a little bit about pharmacy. You’ve seen some of your competitors kind of pursue some interesting partnership strategies, and you guys have had the decline in Med D enrollment. I guess do you feel like you need to partner up with somebody, either on the rebate aggregation side or the pharmacy network side, to get better economics out of your pharmacy business? And do you feel like the current partnerships that you have right now are delivering the rates that you need in that book?

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

I would first say, we are always looking for ways to bring lower cost to our members. So whether it’s in -- and we do have some generic partnerships today that we buy with and through. So I would say the recent announcement that you’re referring to is something that others do, but I wouldn’t say we’re not exempt from that, but we just don’t broadcast it. But we do orient to how do we have a cost of goods, and we constantly are checking that. And what we find is that we are very, very competitive in the marketplace.

The Part D decline is not so much of a cost of goods conversation. It’s more around just the pricing of the product itself. And as Brian articulated, with the unique aspect of Part D is you can’t start a plan without removing a plan, and it gets complicated to do that, and that’s what you see happening. So I would say it’s more on the planned design side for Part D than it is on the side of the cost of goods.

And related to the pharmacy, I -- we’re constantly looking for ways to expand our capabilities, whether that’s from a delivery point of view to care and clinical point of view like in specialty pharmacy and, in addition, in areas that are more oriented to rebates. I would just say that we are content today, but I wouldn’t say that content is something that we are going to continue. We will continue as we did with Enclara and other things that we’ve done this past year to like to advance them. But again, I think the emphasis to the question is, I would not connect the Part D decline to capabilities within our pharmacy as a whole.

Operator

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

Great. I wanted to go back to the commercial conversation. I don’t remember if you actually gave it, but what was commercial trend in 2019? Just -- I understand the concept of risk converting into ASO, but you raised your MLR guidance multiple times through the year, and then the fact that you experienced negative development almost every quarter through the year implies that, that trend is rising. And just trying to understand why that’s not the case. And I heard your comments about why you feel better about next year. But given that consistent MLR guidance increase and given the consistent negative development, how much confidence, I guess, do you really have on your visibility into that book right now?

Brian Andrew Kane - Humana Inc. - CFO

So again, I would distinguish between core trend and sort of the net trend that we’re seeing as -- on account of sort of the morbidity mix in our book. Our core trends are relatively stable. I would say, just like last year, 6%, plus or minus the 50 is -- 50 basis points is sort of a reasonable place to be. We ended up in that range for 2019. It’s really the net trend. Once it sort of filters through in the membership that we have and our morbidity mix, that’s what’s driving that. Obviously, our commercial book is small. And as a consequence, it’s hard to extrapolate for those with larger books, whatever it may be. And just ours is very focused. It’s almost entirely small-group-based. Well north of 50% of our premium comes from lives under 100 or groups under 100. And so we’re in this interesting part of the marketplace that I think has just been going through a lot of change with respect to the ACA community-rated block, the 2 to 50 block, the migration to LP, the grandmother, grandfather products. It’s just -- there’s just been a lot of churn in that market. And so that’s really been -- where we’ve been focused. As Bruce said, we want to move upmarket a little bit into the more mid group, larger group space to be more relevant in certain key markets. And we’re -- it is a strategic objective of ours to do that. I would say, we’re always mindful of trend and where it’s going, but we’re less focused on the core trend side than we are in the business mix that we’re attracting. So hopefully, that distinction makes sense.

Operator

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

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Why don’t just get back to the primary care conversation and maybe just take a step back. You’ve got a whole bunch of different assets and strategies around this broad strategy of physician enablement. And I guess I want to understand what’s the ultimate goal? Is this about growing your market share in Medicare Advantage? Is this about improving the core profitability of your MA book? Or is this about controlling medical cost spend and sort of creating a new sort of business segment, business line that over time can kind of augment the overall Humana? I’m just curious about sort of where this all starts in terms of -- and what the end game is.

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

Yes. Let me try to take that and put it in a few elements. It originates out -- we feel that this is a very effective care model. And I think as Peter asked a while back, we’ve been doing this for some time and we have a lot of proven results from this. And when you look at our members in these programs and all the results there, the one thing I didn’t mention is also retention is higher. And so we see wonderful performance out of there. And if we could wave a magic wand, we would want 100% of our members in these programs for all the reasons we’ve talked about. The challenge we find in today’s world is that the fee-for-service payment model and the model, the operating model, within that is sort of what dominates the health care system. And our ability to put seniors in these type of clinics is very -- there isn’t a lot of supply. I mean, as you all know, DaVita was probably the one and only that had scale there. And so over the last few years, we’ve tried to find a way to scale it through joint ventures and alliances, as what Brian was talking about. And in addition to have our proprietary product because what we want to make sure of is over time, we have a product that when we’re in a market that we have stability in our network and that we’re able to fulfill that. And these particular products allow us to both. If we have ownership and other contractual rights, that allows us to control our destiny in markets that we want to ensure our members have the proper providers, too. And that -- so the first is great performance, second is the ability to have in the market protection around the -- we call it the supply chain. And then the third is once you begin to go those 2 routes, then there’s a question of how do you optimize that --
the performance of that business. And what you see us doing is saying, it needs to be agnostic. It needs to be a business upon itself. It needs to be able to grow and serve the community there which benefits us as both an owner of the product, but also it benefits our plan because our plan is also being able to have a lower cost serving there and more effective. And so then it turns into how do we maximize the business on itself. But it originates from what’s best for our member and then goes to how do we control and ensure that we have stability in the marketplace for our supply chain. And then the third thing it moves to is now to how do we maximize the business there. Where it ultimately ends up as I think you're going to see, as Brian said, we want to double our membership in this particular area over the next few years. And you're seeing that Welsh Carson is one of them along with our affiliates are another way to do that. But over time, I think the investors will see that this will be another part of our business, no different than when we started pharmacy years ago, and it became part of that and no difference than what you'll see with the home, that it will be a business that will be profitable, it will be valuable from a shareholder point of view, but it also will be valuable for our members’ point of view.

Operator

Next question comes from the line of Ricky Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - Morgan Stanley, Research Division - MD

My question focuses on the partnership with Microsoft and Epic. What are kind of like the time lines on deploying Epic in patient EMR? It really captures the data, the member data across the Humana enterprise. And then as we think about this longer term, does this really become sort of a prerequisite for clinic partnerships outside kind of like the Humana homegrown base?

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

Yes. I'll take that. Interoperability is at a core, what we see enables value-based payment models and the ability for us to manage complex patients just because of the complexity of the system and the complexity of people's conditions. So to answer your first question, just where are we in that journey? Microsoft and Epic are really 2 different journeys, but both are well along the way. In the Microsoft approach, we really have 3 different horizons. One is the Cloud and moving everything to Cloud and allowing a much more agile environment and at the same time, building a longitudinal health record that allows us to use fire and interoperability inside the organization and outside the organization. And both of those things are well on their way. We have -- I think we announced last year last quarter some partners that we've already rolled out, part of the longitudinal record. And so that is now in -- structurally there. We just have to continue to add our partners to it. This year, we'll be bringing on all of Kindred in that relationship as a result of them completing their EMR install. There's a number of providers through the Compass product that we have that are using the longitudinal record along with some of our pharmacy areas, including Enclara that we just acquired. So we have a really good progress going on in both the cloud conversion. I think cloud conversion over -- is going to take about 5 years. But what you see -- and most of that is the traditional technology that's been around for a long period of time taking the longest.

On the Epic side, what you see is we are in -- we just -- really, we have a number of hospitals today that we are now passing information back and forth through in the Epic conversion -- I mean the Epic connection. That is in use case only. We're not really announcing what those use cases are. But we are in market with a number of hospitals. These are integrated systems that we are passing information back and forth with the Epic area. But these are the beginning of a long process, no different than what we're talking with the clinics about the ability to have interoperability, which leads me to the third. It is a standard we will employ in with our clinics of having interoperability. Most of our clinics today already have that interoperability. You'll just see us continue to do it more. But more importantly, through any kind of deep partnership, we are looking for interoperability to be a part of that partnership, no different than the value-based payment models and other mechanisms that we use, but interoperability will be an important part of that.

Operator

Next question comes from the line of Steve Tanal from Goldman Sachs.
Stephen Vartan Tanal - Goldman Sachs Group Inc., Research Division - Equity Analyst

I wanted to go back to the HIF repeal in '21. Obviously, sort of all in, worth over $9 to EPS before any offsets and kind of a uniform magnitude impact to MAOs across the industry, which tends to be concentrated at the local level. So I guess there's any reason to think that MA plans won't act rationally to use a portion of the pretax tailwind to absorb any headwind, the rule change on ESRD patients creates? And relatedly, if you could maybe comment on any advocacy efforts with CMS on this front, whether the agency has been receptive against the issue and your expectations for what we'll see there, whether they'll provide actuarially sound rates for ESRD patients in '21 when the advanced notice is tomorrow. Kind of curious if this risk factor could actually turn into an earnings opportunity.

Brian Andrew Kane - Humana Inc. - CFO

So I think it's fair to say, obviously, the HIF tailwind would certainly help offset any ESRD headwind. And I think what we're trying to just understand is the magnitude of that headwind. Over the coming months, we're doing lots of modeling in various scenarios that would drive different levels of penetration in ESRD, which would obviously impact the 2021 earnings profile. It wouldn't be crazy to think that ESRD penetration could get to Medicare Advantage levels. We'll see. We're modeling that. There's been a bunch of commentary on The Street about that by very various analysts. And so we are working through that. I think it's important to really break the population into 2 buckets, one being duals, one being nonduals, to really understand the impact. On the dual side, MA could have some appeal to them just because of the supplementary benefits, particularly around transportation and some over-the-counter benefits. And so that's one of the things we're looking at. And on the nondual side, particularly the under 65 ESRD population, you really need to look at where MedSup is and understand what the MedSup availability is for these various folks. And in some states, it's not available or it's not required to be available or there are significant premiums. And so it's certainly a premium for someone to buy it. And so that's what we're really trying to understand, what the impact will be. Again, we feel good about where we are for 2021. Obviously, the health insurance fee is a big positive.

And on the advocacy side, clearly, rates is one factor, and we'll see where CMS comes out. I think it's just important for people to understand why the benchmark may be understated. And that's a function of the fact that there is not a maximum out of pocket in fee-for-service while there is an MA. And so that impacts the cost. And also, typically, people -- HMOs pay higher rates than original Medicare to the large dialysis providers. And so that also impacts the cost. So obviously, rate is one element. Making sure that there's competition in the marketplace is another in terms of the provision of dialysis care. And so we're working with CMS on that but -- in terms of some of the CON state, CON requirements around what people can build in terms of getting the CON laws, getting through those as well as basic conditions for coverage and what sort of innovative capabilities we can bring to bear in the ESRD space, whether it's around home, whether it's around micro clinics, various alternative sites of care to provide dialysis. But regardless, we're working very hard on it. We're standing up clinical teams. We'll do -- take these members. And over the long term, we understand why it makes sense to bring ESRD into this population. We just need to manage the short-term transition.

So long-winded answer to your question, we're taking it from multiple angles, modeling it appropriately, doing appropriate advocacy and then preparing the clinical side and working with our dialysis partners to come up with creative risk-sharing mechanisms to help drive outcomes. So hopefully, that's helpful.

Operator

Your next question comes from the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - Citigroup Inc, Research Division - Director

Just wanted to ask on the individual MA membership, you added almost 230,000 members during AEP. When I look at last year, you added almost 10% of total enrollment in OEP and then you saw further growth in sort of the aging in D-SNP. So I guess when I look at that 270,000 to 330,000 range, it seems like you're trending closer to the higher end, if not even above that. Is that fair? Or help us with other considerations sort of this year versus last year that may not, make that be the case.
Well, obviously, we hope you're right, but there's a lot of game left to play. And I would say that we feel good about the 270,000 to 330,000 that we put out there. We finished AEP at around 229,000 for the January lives. And I think this year is different than last year in that on a relative basis, we're not as strong from a benefit design as we were on a relative basis in 2019. And so you have to see what the sales are going to be and what are the terms going to be. Obviously, the sales opportunities are a little bit less in the post-AEP than the pre and during AEP. And you saw the terminations in your book, and we have a larger book. And so if you have a similar term rate, you actually lose more lives, right? And so those are the types of things we're working through. We're closely monitoring OEP. It seems to be going well. We'll see where it ultimately shakes out. But I would just say we feel good about the 270,000 to 330,000 that we put out.

Operator

Next question comes from the line of Frank Morgan from RBC Capital Markets.

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

I wanted to go back to the health care side of the business. I think you said -- I want to confirm, you said you had completed the Homecare Homebase conversion. So the -- I'm assuming that means the drag from that conversion should be completed. And then what are sort of your early reads on PDGM in the -- on the home health care side, are you seeing your rates higher or lower or flat? And then finally, just what's the -- what kind of financial drag would you be removing from your income statement and balance sheet with moving those assets into this partnership in primary care?

Brian Andrew Kane - Humana Inc. - CFO

Okay. So on Homecare Homebase, it is completed. It was a herculean effort. I think the team did it faster than any conversion that's happened before. Just the magnitude of an EMR conversion on both the home and hospice side is very significant. The team did an extraordinary job, and so we're very excited about that. And so that drag is no longer there for 2020, although it was meaningful for 2019. And that's part of the increase in EBITDA that you're seeing in the Healthcare Services side. I think it's still too early to comment on PDGM. I think things are going as we planned and as expected. They're adjusting to the change in the payment model. The impacts of that are reflected in our 2020 numbers. But I think the team feels good about mitigating the EBITDA impact of that. The important side for us, in particular, is the clinical side, and we're excited about the movement of the model. It's much more -- as I said earlier, it's much more of a chronic nursing model. And so that's positive. But it does change the operating model when your -- when you have a payment model like this that is focused on these chronic conditions. And so they're working through that and I think doing a very nice job.

We haven't called out the specific financial drag on the clinics. Broadly, depending on the size of the clinic, to get to profitability, you're talking sort of high single digits million EBITDA to get to profitability over a several year period, including the CapEx. So you can multiply through and see some of the impact. I mean, ultimately, the size of the facility, the $600 million facility, is effectively over a period of P&L burn that we're taking off our income statement. That -- the purpose of the facility is to fund those losses. And so I think that gives you the order of magnitude over the life cycle of the investment, what the impact is. And typically, by year 4, year 5, these things are really starting to break even and drive profitability. So I think that gives you a broad sense of the impact, which is why it's so important that we did this so we could scale the opportunity.

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

Yes. Frank, I know your question wasn't inferring this, but I'd just like to emphasize it. The main reason why we're doing this with WCAS is to scale the business. And that's what Brian was articulating because we feel it is a -- it's a great addition to the organization. And we -- the organization is ready to scale it. Some of the things that Brian was talking about were some barriers to do it. But at the end of the day, we want to scale this and begin to start getting more and more members in our proprietary product.
Brian Andrew Kane - Humana Inc. - CFO

I would just add one more point because we get this question all the time. I want to make sure investors have this. So there’s a -- in terms of where the EBITDA per clinic can go because we get asked that all the time. And it really can vary. So some of the smaller clinics could be $2 million, $3 million, $4 million. Some of the bigger clinics could be $6 million, $7 million, $8 million. So it really depends on the size of the clinic in terms of EBITDA. But when you look at the economics, just the return on capital on individual clinic, when these get to profitability, it’s a really good model.

Operator

Next question comes from the line of Steven Valiquette from Barclays.

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

So two questions around the first quarter of 2020. First, for the Group and Specialty segment, you’re targeting 84% to 84.5% benefit ratio for the full year. But given that the jump-off point in 4Q in ’19 is in the 95% range, I guess I’m curious, will that gradually trend back down throughout 2020? Or will you -- your improvement show up immediately, such that 1Q ’20, that the segment may be in line with the full year range, somewhere in that mid-80% range. So that’s question one.

Then question two, also around 1Q. I mean the stock is at $20 right now, so it’s a focus on the slight negative. But the adjusted tax rate in 4Q ’19, I think, came somewhere in the mid-single digits probably due to the Group and Specialty segment results. But just given your comment around 1Q ’20 earnings being 24% of the full year, should we assume the overall tax rate normalizes back to, call it, 30% or so in 1Q ’20?

Brian Andrew Kane - Humana Inc. - CFO

Sure. It’s a fair question. We don’t give quarterly MER guidance by segment, as you know. But I think it’s fair to say, the group -- the way the group segment works is the MER is low in the first part of the year, then it increases as people get through their deductibles. So I think in terms of the way you think about it, the sort of quarterly progression of MERs, you can look at historical patterns and see what it is for the group business and just use our annual number and frac it out accordingly. But just the way the benefit design works, it’s lower MER at the beginning and then it ramps up through the year as people go through their deductibles and we start covering the cost.

On the tax rate side, really 2 drivers. One is what’s -- I guess there was the windfall tax, which is we have stock vestings in December. And it’s where -- when our stocks -- stock annually vest and we had a big run-up in our stock. And so the tax deduction is larger, and that drives the improved tax rate. As you know, the stock moved a lot in the last few months, and it’s been volatile. But when it occurred, when the vesting occurred, we had the windfall benefit. We also saw profitability show up in different states a little -- somewhat lower -- lower tax states than we expected. So small moves in that can impact the tax rate a bit. And so that was also driving it. So it was really for those 2 reasons that we had a lower tax rate.

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

But in general, when you look at the tax rate on an annual basis, it remained relatively the same. I mean there’s a 50 basis points change. So when you look at it on an annual side, it’s had minimum impact on it.

Operator

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

Most of my questions answered. I’ll just be real quick. When we go to the Healthcare Services EBITDA growth, I think 17% at the midpoint. I know you’ve covered some of the onetime investments you’re lapping, et cetera. Is it possible to help us think about organic versus acquisition? Is it contemplated? Is any of the trailing acquisitions or any forward acquisitions in that number? Or is that a pretty pure organic growth for 2020?

Brian Andrew Kane - Humana Inc. - CFO

There is some acquisition in there from the Enclara deal, though it’s -- I would say it’s relatively small. That would be acquisition. I do think there are some, as you said, lapping investments on Homecare Homebase, which helps -- I would say, most is organic improvement. But if you’re sort of trying to model beyond 2020, I wouldn’t expect that kind of EBITDA growth beyond 2020. I think it’ll more normalize to a lower level. So I think that’s a fair question. There are some good guys in there. But the business organically is growing very nicely. I mean really, all elements, pharmacy, home and primary care, are growing nicely organically. So it’s -- I would say it’s a balanced EBITDA growth, but there are some good guys in there for 2020.

Operator

Your next question comes from the line of Whit Mayo from UBS.

Benjamin Whitman Mayo - UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare Facilities and Managed Care

Just a quick one on D-SNP. The performance has been pretty impressive. Brian, maybe just any color around benefits, design, plan, strategy, anything that’s contributed to the recent performance? And any expectations for the rest of the year? Is this a onetime boost through open enrollment? Or do you see the momentum continuing throughout the year?

Brian Andrew Kane - Humana Inc. - CFO

So we’re certainly hopeful that the D-SNP growth continues. We’ll see where it goes. We are proud of the D-SNP growth that we’ve achieved. I think on the benefit side, we continue to emphasize some of the over-the-counter benefits and a few other things. I wouldn’t say there was anything dramatically different this year. I think it’s really a focus of the organization, leveraging some of our distribution channels to make sure we are appealing to the D-SNP population. It’s also, frankly, offering D-SNPs in more counties as well and so expanding that as well. And so it’s really a combination of things. But yes, I would just tell you that it’s certainly an organizational focus of ours in driving the distribution and sales of that product.

Operator

Next question comes from the line of Scott Fidel from Stephens.

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

Just wanted to toggle back over to Group and Specialty. And definitely, it sounds like you’re still committed to the business in terms of the investments that you’re making and hoping for brighter days ahead. When we look at the 2020 guide, it still is implying pretax margin, still sub-2% and top line growth, sub-2% as well. So if we think that some of these bets that you’re making around the investments do ultimately pay off, what type of growth rates do you think in pretax margins are reasonable to think about being sustainable in the longer term?
Yes. It’s a fair question, Scott. I’m really not prepared today to give details on margin and growth. I do think the margins are clearly not nearly where they need to be. We haven’t given a margin target on group, and I’m not prepared to do that today. But I would tell you that we do expect margins to improve. The ASO level-funded margins are much better and will continue to get better as we mature in that product. And hopefully, as we move upmarket, we’ll also see some margin improvement as we leverage some of the unit cost benefits we can get by being a bigger presence in the marketplace. And again, I -- we hope we can continue to grow the level-funded product, but also grow upmarket as well in terms of the top line. And so yes, the goal would be to start growing that top line in addition to getting the PMPM benefits that you get in the group space. So we do think there’s an opportunity there. But I wouldn’t expect significant growth. I just -- we’re hopeful that we can really turn it around and start gaining measured growth as we move forward here in both frankly top end and bottom line. And also importantly, just the cross-sell benefit that I mentioned on the specialty side and on the Medicare side, that’s an important part of this as well. That won’t show up directly in the segment results.

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

Maybe just going back to the HIF repeal, and I appreciate you’re not committing to anything in 2021. But I just wanted to confirm that long term since you’re still targeting that 4.5% to 5% pretax margin since that’s ultimately a higher net margin once HIF is gone. So is it just fair to say that the nondeductible headwind will still drop back to margins eventually, but maybe just not all immediately if you favor enrollment growth more instead for a period of time? Is that the right way to frame it?

I think that’s fair. We’re committed to 4.5% to 5%. Similarly, on the tax reform, we did the same thing where it went below and then it came back up. And so yes, we’re committed to 4.5% to 5%.

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

Great. Thank you. I think that was our last question.

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

Okay. Well, I’ll just close it out. Again, thanks for all our investors and especially today, considering it lasted for 1.5 hour. So we have a lot of engaged investors. So we appreciate that. And as importantly, thanks to the 50,000 people that get up every day and help our members achieve their best health there. So everyone, have a great week, and we’ll talk to you next quarter.

Operator

Ladies and gentlemen, this concludes today’s conference call. Thank you all for participating. You may now disconnect.
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