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# EDITED TRANSCRIPT

HUM.N - Q3 2023 Humana Inc Earnings Call

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**OVERVIEW:**

Company Summary



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## PRESENTATION

**Operator**

Good day, and thank you for standing by. Welcome to the Humana Third Quarter 2023 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Lisa Stoner, Vice President of Investor Relations. Please go ahead.

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**Lisa M. Stoner** - *Humana Inc. - VP of IR*

Thank you, and good morning. In a moment, Bruce Broussard, Humana's President and Chief Executive Officer; and Susan Diamond, Chief Financial Officer, will discuss our third quarter 2023 results and our financial outlook for 2023. 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 latest Form 10-K, our other filings with the Securities and Exchange Commission and our third quarter 2023 Earnings press release as they relate to the forward-looking statements, along with other risks discussed in our SEC filings.

We undertake no obligation to publicly address or update any forward-looking statements in future filings or communications regarding our business or results. Today's press release, our historical financial news releases and our filings with the SEC are all also available on our Investor



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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.

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

Thank you, Lisa. Good morning, everyone. Today, Humana reported financial results for the third quarter of 2023 with adjusted earnings per share of $7.78, slightly above our expectations. Results for the quarter include outperformance in our Medicaid and primary care businesses and a continued focus on driving sustainable operating efficiencies, offset by the impact of a modest higher-than-anticipated utilization in our Medicare Advantage business.

We reaffirmed our full year 2023 adjusted EPS guidance of $28.25 reflecting a 12% increase over 2022. In addition, we are pleased to raise our guidance for full year individual MA membership growth by an additional 35,000 members to 860,000 driven by continued higher-than-expected new sales. Our full year membership growth estimate now reflects a 19% growth rate, significantly outpacing the industry.

As we've shared previously, our ability to deliver on our targeted earnings growth rate in 2023, while also achieving this impressive membership growth is supported by the strength and scale of our organization, underpinned by a continued focus on disciplined investments, driving sustainable productivity improvements and delivering consistent fundamentals, including industry-leading stars results and higher customer satisfaction as reflected in our Net Promoter scores.

Further, our strong membership growth creates significant momentum as we advance towards our 2025 adjusted EPS target of $37. Susan will provide additional details on our third quarter performance and our full year expectations in a moment. I'll now provide an update on our operations and outlook, including a view of the 2024 Medicare Advantage landscape and exciting growth we've seen in our primary care business before turning to an update on our ongoing productivity initiatives.

Beginning with Medicare Advantage, we took a thoughtful approach to 2024 bids, recognizing the need to balance the rate environment with our commitment to achieve industry average or better membership growth. Our 2024 strategy was informed by extensive consumer and broker research and in-depth analytics regarding what Medicare eligible consumers prefer. We preserved or enhanced key benefits across our portfolio that were identified as the most important consumers and continue to provide differentiating offerings that focus on improving health outcomes and member experience.

More specifically, we continue to prioritize $0 premium offerings, low cost share for highly utilized services, including primary care and Part D, maintained highly valued supplemental methods like dental and Part B givebacks. From a dual-eligible special needs plan or D-SNP perspective, all plans include $0 co-pays uncovered Part D prescriptions and offer healthy option allowance with a rollover feature, a key differentiator in the marketplace.

Our product enhancements are coupled with Humana's leading position in quality and experience. Humana continues to deliver exceptional quality to our members measured by our CMS star ratings. For 6 consecutive years, Humana has maintained the highest percentage of members in 4 star or higher-rated contracts among national health lines. In 2024, 94% of our members will be enrolled in plans rated 4 stars or higher and 61% from plans rated 4.5 stars or higher.

4 of Humana contracts covering approximately 790,000 members nationwide received a perfect 5-star rating, more than doubling our 5-star membership from 2023, enabling year-round enrollment in these plans. In addition, for the third year in a row, Humana has been ranked #1 among health insurers for customer quality in Forrester's proprietary 2023 U.S. customer experience benchmark survey. Humana has also ranked #1 in customer satisfaction with MA plans in Florida based on a comprehensive 2023 study by J.D. Power.





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And we're proud that Humana once again has been named the best overall Medicare Advantage insurance company by U.S. News and World Report, which created an honor role based on CMS' newly released star ratings for MA plans. Additionally, Humana ranked as the best company for member experience and was declared the best company for low premium plans availability. Collectively, these results are a testament to our commitment to putting the health and wellness of our customers first.

From a distribution and sales perspective, we are building upon our omnichannel strategy in 2023, where we've seen a 50% increase in our internal sales year-to-date which is our highest lifetime value channel. Our goal is to deliver best-in-class agent and customer experience and have made investments in AI power tools and telephonic infrastructure to reduce consumer hold times and transfers.

Finally, we are excited about the strong growth of our internal payer agnostic channel, which is expected to double its sales production year-over-year this AEP. All in, we expect our balanced approach to our 2024 product strategy positions us well, and we anticipate 2024 individual MA membership growth to be at or above the overall industry growth rate. We look forward to sharing more in the coming months.

Within our CenterWell segment, our primary care platform experienced significant growth in the quarter, now operating 296 centers, serving nearly 285,000 patients, representing a year-over-year growth of 33% and 17%, respectively. This includes the impact of the 24 centers recently acquired from Cano Health, approximately 12 of which are expected to be consolidated into existing centers are closed as we integrate the business by year-end.

As a result of the 2023 de novo builds and M&A activity, we expect to end the year with net growth of 60 to 65 above our previously communicated annual center growth target of 30 to 50. Susan will provide additional detail on our CenterWell primary care performance in a moment.

Turning to our ongoing productivity efforts, which span the organization. Our focus on productivity continues to drive sustainable value for the enterprise, while creating more streamlined processes; better experiences for our members, patients and provider partners; and driving best-in-class quality and customer service results. Let me share a few examples of this important work.

Our primary care organization is executing on a multipronged plan to mitigate the ultimate impact of the risk model changes that will be phased in over the next 3 years including numerous operational efficiencies such as centralizing and streamlining administrative functions, standardizing the clinic operating model and improving clinician productivity.

As an example, we are enhancing our use of prospective risk stratification of our patient base, offering new and enhanced clinical programs and care team interventions to our highest risk patients, which we expect to further reduce avoidable hospitalizations and readmissions, while we optimize our preventative touch points with lower risk patients to increase connection capacity.

In the home, as a complement to developing value-based home health payments, we've launched a comprehensive initiative to reimagine our scale home health operations. These efforts will be deployed across our more than 350 branches that will include automation, consolidation and implementation technology and AI solutions. This will minimize administrative cash while improving clinician productivity, including optimizing their schedule.

We believe these initiatives, some of which require incremental investment will ultimately streamline our operations and lead to increased clinician productivity and satisfaction. As an example, CenterWell Home Health has introduced an innovative AI-enabled digital wound management solution, which allows our clinicians to effectively capture vital wound details with a simple picture. We are pleased to report a notable 18% improvement in visit efficiency, thus enhancing the experience, both clinicians and patients. This has been instrumental in clinical decision-making contributing to an accelerated wound healing time by 35%.

Finally, within CenterWell Pharmacy, we've been focused on investments in digital channels and have seen greater than 800 basis point improvement in scripts received through our digital channels year-to-date, now representing approximately 38% of our total scripts. Increased use of digital channels provides an efficient and user-friendly experience for patients, allowing for real-time pulmonary image function and the ability to offer cost-saving alternatives in real time.



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In addition to our ongoing productivity initiatives, we remain committed to identifying additional sources of value for the enterprise through cost savings and value acceleration from previous investments. Alien drivers include areas such as streamlining our real estate portfolio as we continue to refine new ways of working post COVID. We've also identified operations to rationalize our IT portfolio as we focus and building and leveraging enterprise capabilities, providing the opportunity to move away from and/or consolidate certain stand-alone business specific systems and applications that will meet the business needs of the future.

In addition, there were certain initiatives kicked off as a part of our ongoing $1 billion value creation plan in 2022, required implementation of technology to improve processes and drive efficiencies and would therefore take time to realize the full benefit.

As we've continued to focus on and advance these initiatives, we've identified additional value to be extracted. We anticipate activities related to the additional value creation initiatives to continue throughout 2024 result in certain onetime charges that will be adjusted for non-GAAP purposes.

Collectively, our ongoing productivity and value creation initiatives are driving sustainable value for the enterprise. We expect this work will create value beyond the 20 basis points of annual operating leverage on a business mix adjusted basis that we committed at our 2022 Investor Day, aiding in our efforts to offset the near-term utilization and reimbursement headwinds currently impacting the industry.

Before turning it over to Susan, I'd like to touch on our recently announced leadership transition plan. We are pleased to announce that the health care industry veteran, Jim Rechtin, will join Humana as a President and Chief Operating Officer on January 8, 2024, as part of a long-planned CEO transition. Jim will report to me until the latter half of 2024, at which time, after leading Humana for over a decade, I'll step down and Jim will assume the CEO role.

As we work to make this seamless transition in the coming months, I look forward to partnering with Jim who brings a collaborative, thoughtful and innovative leadership style to our organization, making him a natural fit for the culture of today and the future. Jim brings a strong combination of operational industry and CEO expertise. His firsthand experience leading through challenges and opportunities in changing health care services continuum will help and accelerate our integrated care strategy. We look forward to introducing Jim to our stakeholders when he joins the team in early 2024. With that, I'll turn the call over to Susan.

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Thank you, Bruce, and good morning, everyone. Today we recorded adjusted EPS of $7.78 for the third quarter. Results in the quarter were slightly positive -- slightly above initial expectations driven by outperformance in our Medicaid and primary care businesses and continued focus on driving sustainable productivity gains, offset by modestly higher-than-anticipated utilization in our Medicare Advantage business. I will provide additional detail on recent utilization trends in a moment.

Our performance to date continues to reflect the strength and agility of the enterprise, demonstrating our ability to successfully navigate the higher-than-anticipated utilization while delivering on our earnings commitment and driving individual Medicare Advantage membership growth that significantly outpaces the industry.

We now expect to add approximately 860,000 members in 2023 and reflecting a 19% growth rate. Further, for the full year, we have reaffirmed our adjusted EPS guidance of at least $28.25 which reflects a 12% increase over 2022. I will now provide additional details on our third quarter performance and full year outlook by segment, beginning with insurance.

This morning, we reported that our insurance segment benefit ratio exceeded expectations by 40 basis points due to higher medical costs in our Medicare Advantage business. We continue to experience an increase in COVID admissions in the third quarter, whereas our forecast previously assumed that this would occur in the fourth quarter. To date, we have not seen an offset in non-COVID utilization, which diverges from the consistent patterns seen previously.





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With respect to non-inpatient trends, we previously communicated that we expected the higher PMPMs reported in the second quarter to continue throughout the back half of the year, reflecting a moderating year-over-year trend percentage. The most recent paid claims data suggested a modest uptick in PMPMs for the third quarter versus the stable levels we anticipated.

Considering the most recent trends, we are planning for the higher level of utilization seen in the third quarter to continue for the remainder of the year. As a result, we are increasing our full year insurance segment benefit ratio guidance to approximately 87.5%, which implies a fourth quarter ratio of 89.5%. This guidance also reflects the increased individual MA membership growth, which continues to include a higher-than-expected proportion of age-ins.

As we have previously discussed, age-ins initially run a higher benefit expense ratio than the average new member, which negatively impacts the current year benefit ratio but results in a larger margin expansion opportunity on these members over time.

We anticipate that the higher 2023 insurance segment benefit ratio will be offset by additional administrative expense reductions, driven in part by the sustainable productivity initiatives we discussed, improved net investment income and other business outperformance.

Turning to Medicaid. The business exceeded expectations in the quarter, primarily driven by favorable membership due to redetermination timing which continue to track slightly favorable to our expectations, combined with disciplined medical cost management initiatives and lower-than-expected utilization.

Moving now to CenterWell. The segment continued its solid performance seen throughout the year, outperforming expectations in the quarter. Our primary care organization results exceeded expectations, driven by better-than-expected patient volume and revenue combined with lower-than-anticipated utilization, resulting in improved medical margin in our fully own centers.

We continue to see better-than-expected patient growth, adding over 17,000 patients or nearly 89% growth in our de novo centers since December 31, plus 15,000 patients in our wholly owned centers, representing 9% growth year-to-date.

We now anticipate full year patient annual growth of approximately 34,000 to 36,000 as compared to our original estimate of 20,000 to 25,000 patients, more than doubling the patient growth achieved in 2022.

Our primary care organization also continues to improve the operating and financial performance of our wholly owned centers. We continue to positively impact patient outcomes with hospitalization levels trending down year-over-year. In addition, in part due to our continued efforts to engage our patients, retention has now improved 270 basis points year-over-year, up from a 220 basis point improvement as of the second quarter.

Patient satisfaction scores continue to reflect the quality of care delivered with Net Promoter Scores averaging 82 nationally. And we are proud of our quality scores, which are tracking ahead of last year's trajectory with a 4.5 star performance year-to-date on provider influence measures for engaged patients. We now expect to increase the number of wholly-owned centers that are contribution margin positive from 110 at the end of 2022 to approximately 130 at year-end 2023, an increase from our previous expectation of 125 and representing an 18% increase year-over-year.

In addition, we expect to increase the number of centers that have reached our $3 million contribution margin target from 31 in 2022 to approximately 44 at the end of 2023, an increase from our previous expectation of 40 and representing a compelling 42% increase year-over-year.

The better-than-expected primary care earnings in the quarter resulted in our consolidated benefit expense ratio, being 100 basis points lower than our insurance segment benefit expense ratio as compared to our previous expectation of a 40 to 50 basis point reduction. As a reminder, on a consolidated basis, we report from the perspective of a health plan, and as such, intercompany earnings from these services are eliminated against benefit expense.

At this time, we do not anticipate that the primary care outperformance will run rate into the fourth quarter. Therefore, we continue to point you to a 40 to 50 basis point reduction between our insurance and consolidated benefit expense ratios for the fourth quarter with a reduction of approximately 60 basis points for the full year.





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Turning to the home. In our core fee-for-service business, year-to-date episodic admissions are up 8.6%, while total admissions are up 5.1% tracking in line with our full year expectations of a mid-single-digit year-over-year increase. As Bruce discussed, we are working diligently to identify clinical and operating efficiencies to offset industry headwinds, including rate reductions, declining original Medicare admissions due to increasing MA penetration and ongoing labor pressures.

From a capital deployment perspective, we have completed approximately $1 billion in repurchases to date and continue to anticipate share repurchases of approximately $1.5 billion in 2023. Before commenting on 2024, I would like to take a moment to highlight the significant progress we have made towards the midterm targets we shared at our Investor Day 1 year ago. As a reminder, our 2025 adjusted EPS target of $37 represents a 14% CAGR from 2022 and is expected to be comprised of 10% enterprise earnings growth, largely driven by the contribution from our Medicare membership, 20 basis points of improved operating leverage and a 2% contribution from capital deployment on an annual basis, while allowing for continued growth and investment in our Medicaid and CenterWell businesses, these high-quality assets are expected to meaningfully contribute to our long-term earnings growth as it continues to scale and mature.

Over the last year, we have outperformed against virtually all of these goals, including above-industry average membership growth in our Medicare Advantage business, significant outperformance of our productivity goals and increased share buybacks as we saw stock price dislocation earlier this year.

We continue to invest in and grow our Medicaid and CenterWell businesses, outperforming top line growth goals across these businesses as well. At the same time, we've experienced higher-than-expected medical cost trend within our Medicare Advantage business and have worked hard to mitigate the impact of these trends in order to deliver on our enterprise earnings and EPS commitments.

All in, we are proud of the significant progress we have made and remain committed to the targets we shared last year, including our 2025 adjusted EPS target of $37.

I'll now take a few moments to provide additional color on our early outlook for 2024, starting with membership. As Bruce shared, while it's still early in AEP, we expect that our balanced approach to our 2024 bids positions us to grow individual Medicare Advantage membership at or above the overall industry growth rate while planning for a modestly higher attrition rate, given the benefit design changes we implemented in response to the rate environment.

As we always caution this time of year, it is early in the AEP selling season, the outlook we provide today could change depending on how sales and voluntary disenrollment ultimately come in.

Broadly speaking, 2024 competitor plan design reflect less benefit degradation than anticipated, which will likely lead to fewer consumers shopping and therefore, less opportunity for Humana to meaningfully outpace the industry growth rate. Specifically, Humana's performance relative to the market, initial feedback from brokers is positive, supporting our expectation of at or above industry average growth.

Finally, recall that we have limited visibility into member disenrollment data this early in the AEP season as those results take longer to complete, and we look forward to providing further commentary on our fourth quarter call. In our Group Medicare Advantage business, we expect membership growth of approximately 45,000 in 2024, driven by small and midsized account wins and remain committed to disciplined pricing and a competitive group Medicare Advantage market.

With respect to stand-alone PDP, the overall PDP market continues to decline as Medicare beneficiaries select Medicare Advantage over original Medicare and PDP. In addition, we remain disciplined in the pricing of our PDP products as cost trends continue to rise. As a result, our Walmart Value plan will not be as competitively priced as it has been historically, and our basic plan will exceed the low income benchmark in 16 regions in 2024.

We currently expect a net decline of approximately 750,000 PDP members in 2024, including a loss of approximately 220,000 members as a result of exceeding the low income benchmark. As we look beyond 2024, we will evaluate the impact of the various proposed regulatory changes which



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are likely to result in higher PDP claim premiums broadly and could lead to further industry-wide movement from stand-alone Part D claims to Medicare Advantage plans given the strong Medicare Advantage value proposition.

Our focus remains on creating enterprise value from our PDP plan by driving increased mail order penetration and conversions to Medicare Advantage.

Finally, in our Medicaid business, Humana continues to demonstrate the ability to deliver unique value to communities by building on a strong operating model that integrates physical and behavioral health and develop meaningful partnerships and innovations to address health and equities and social deterrence to health.

After successfully implementing the Ohio and Louisiana contracts in early '23, we look forward to beginning to serve members in both Indiana and Oklahoma in 2024 and continue to expect to bring our total Medicaid footprint to 9 states and approximately 1.5 million members by year-end 2024.

Turning now to our expected 2024 financial performance. I'd reiterate that we expect to grow 2024 adjusted EPS within our targeted long-term range of 11% to 15%. Recognizing the increased utilization we have now seen in 2023 and prudently assuming this level of utilization continues into 2024, we currently anticipate growth at the low end of this range. We look forward to providing a more specific 2024 guidance on our fourth quarter earnings call in February.

Looking ahead to 2025, as previously mentioned, we remain committed to our 2025 adjusted EPS target of $37, reflecting a 14% CAGR from 2022 to 2025. It is important to note that our 2025 adjusted earnings growth will benefit from the maturation of our robust individual MA membership growth expected in 2023 and 2024, advancement of the mitigation activities our primary care and home organizations are implementing to offset the impact of their revenue headwinds, capital deployment activity as well as the sustainable productivity and value creation initiatives discussed today.

In addition, we anticipate certain discrete pricing actions to be taken across our individual and group Medicare books in response to the higher utilization and trends experienced.

In closing, I want to say thank you to our over 65,000 teammates. Our success is enabled by your dedication to putting our members and patients at the center of everything we do. I would also like to thank our shareholders for their continued support.

Finally, I'll reiterate that Humana's fundamentals are strong, and we remain well positioned to drive compelling earnings growth in the mid and longer term. With that, we will open the line for your questions. In fairness to those waiting in the queue, we ask that you limit yourself to one question. Operator, please introduce the first caller.

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## QUESTIONS AND ANSWERS

**Operator**

Our first question comes from the line of Kevin Fischbeck with Bank of America.

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

Great. I guess maybe my question would be on the outperformance in the physician business, which is just a little bit counter to, I guess, what some of your competitors have done in a higher MA trend environment. It's surprising that the physicians are seeing better medical performance. So can you talk a little bit about why there's that disconnect there? Why it's not flowing more through that side of the equation? And I guess the fact that you keep growing membership faster on the clinics, why isn't that the same kind of MLR pressure there that you see in the MA business when that grows faster than expected?



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**Susan Marie Diamond** - *Humana Inc. - CFO*

Sure. Kevin. So yes, you are correct. We did see outperformance in the primary care business. The first thing I would point out is we've been consistently saying all year that some of the higher trends we are seeing on health plan side has been disproportionately impacting our nonrisk plans versus risk providers, and some of that is a reflection from the product mix. We're seeing more pressure in our LPPO offerings versus our HMO.

And our CenterWell primary care business, particularly the wholly-owned centers are going to disproportionately indexed to HMO plans and then geographically, obviously, in Florida in some of our higher performing markets as well.

With respect to the specific outperformance we're seeing in Primary Care this year, there's a variety of factors contributing to that. They've been positive prior year development, as well as positive current year development in the quarter and both seeing outperformance across revenue and medical costs. So really a variety of factors.

The last thing I would say is some of the information that they rely on comes from the agnostic provider. And then you get some of that information on a bit of a lag. So you tend to see a little bit more later in the year sort of PPD and CPD as they receive updated information. I would say, from the agnostic book, it's mostly, I would say, revenue related where they've seen some positive pickups in risk towards an MRA reimbursement relative to our internal expectations.

**Operator**

Our next question will come from the line of Stephen Baxter with Wells Fargo.

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

Yes. So in terms of the higher insurance company guidance, the 20 basis points higher than the high end of the range you previously pointed to. Is any of that increase related to COVID? Or is COVID just indeed purely a timing shift from Q4 into Q3? And then just in terms of the modest step-up in non-COVID cost, PMPM that you talked about in Q2, Q3. Can you just spike that out a little bit in terms of what categories are driving that and any categories moving in the other direction as well, that would be helpful to know?

**Susan Marie Diamond** - *Humana Inc. - CFO*

Sure. Steve, yes, so as related to COVID, we called out the commentary and we disclosed this in some of our public commentary during the quarter. We have seen an uptick in COVID within the quarter. As we mentioned, our internal forecast for the year initially anticipated an uptick in the fourth quarter versus third. So initially, we said, well, that should be just the timing of a pull-forward of that. We have started to see COVID start to decline, it is coming down. But as we mentioned, we have to date not seen an offset, and so it resulted in just net incremental utilization within the quarter versus what we might have otherwise expected based on historical trends.

As we thought about the year, what we decided to do in an attempt to just be somewhat conservative to assume that the COVID that we anticipated in the fourth quarter from an addition standpoint would remain. So we did not take that out of the forecast and may eventually show up as non-COVID ultimately. But we did keep that in the forecast such that our APT expectations are consistent with what we would have expected previously and didn't take that out.

On the non-inpatient side, I would say the drivers of that are consistent with what we've been saying since the trend developed on our second quarter call in the discretionary sort of orthopedic and surgical procedures, some of the ER and observations that we've seen, those have continued, and I would say the drivers remain consistent. There wasn't any new that came up that's driving that sequential increase.





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**Operator**

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

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

It would be interested if you could give us some of your initial observations on the 2024 AEP as it relates to your marketing and distribution strategies and where you feel that things may be resonating the most. Definitely seeing the Humana guide, for example, on plenty of ads recently. But more broadly, just in your distribution strategies, what you think seems to be working the best in. And then any areas where you may even be making some adjustments to the strategy here sort of inside of the AEP as you continue to look to drive new sales?

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

Yes, a few things there. One is we are getting, as Susan said positive feedback to just where our positioning is in the channels -- in the various broker channels of both the call center and in addition the field. So I would just say, in general, people seem to be very content with how we're positioned, both from a benefit point of view, but also just from our quality scores that we obviously received both in stars but also our customer service side.

The second thing is that we do have -- continue to have a balanced approach in how we are going to market with our distribution from continuing to support and build our relationships with our call centers -- our external call centers and in addition, our field representatives that are external field representatives.

So we do continue to see good engagement with them. We continue to see working with them not only from a sales point of view, but also from our retention point of view, which is consistent from last year as we continue to make proper investments with our partners there.

We do see good results coming out of our field -- external field channel. We continue to see really strong results there and probably they're overachieving from our budget. And in addition, we continue to see good results from our agnostic channel. As I mentioned, we're predicting to double our sales there.

We're not making much adjustment today. I mean we continue we're only 2.5 weeks into AEP, and we feel like we're consistent with what our expectations are. And so we're going to continue to execute. But maybe in a few weeks, we might adjust accordingly. But today, I think it's what we've set out to do last year.

**Operator**

Our next question will come from the line of A.J. Rice with UBS.

**Albert J. William Rice** - *UBS Investment Bank, Research Division - Analyst*

Maybe just following up on some of the MLR related questions. I think last quarter, you said with what you were seeing on the utilization front, you were comfortable that you had sort of incorporated that in your expectations around '24 pricing. Given the incremental commentary today, are you still comfortable? Or do you need to have some level of offsetting efficiencies to mitigate a sequential uptick in utilization that you're assuming will continue next year.

And I guess just part of that as well is obviously part of what's impacting your medical loss ratio this year, is all the enrollment growth you've got. So you've got utilization being a little higher, but you've also got the drag of all these new members. Can you -- is there any way to parse out how much of the variance that you're seeing is utilization versus the drag of the new members and give us some flavor on that, assuming that the one might start to ease next year?





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**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes, that's a great question in there and I'll try to get all of them. I would say, in terms of this incremental trend that we are announcing in the third quarter and then stepping up to for the full year. Obviously, this would not have been done at the time of pricing. It'll be incremental mitigation that we need to do to offset that in '24. If you recall, on the second quarter call, we did reaffirm that we intended to be within our long-term historical range of 11% to 15% and we reaffirm that today, although acknowledge it is a result of this higher trend that we would expect to be in the low end of that, is our initial thinking.

I would say, as we saw the trend develop, we certainly recognize that we would need to identify some additional mitigation. I would say our ongoing efforts around productivity have continued since the work we kicked off in '22. And as we've said before, have continued to identify more opportunities than we might have initially anticipated, which is built in those pipeline of opportunities that will certainly mitigate it in this year and we'll continue to do so next year.

To your point, the higher enrollment growth, particularly age-in component of that, which we have seen a nice uptick in market share there, does put some pressure on MLRs and even some of it is pretax because as we said, they run about 100% MLR typically in the first 2 years before flipping to full diagnostic space risk adjustment, typically more so in the third year. We've said before. We can think about with the level of enrollment -- higher enrollment for age-ins this year, you can think about it on a full year basis that, that would impact the MLRs about 20 basis points. And so that is contemplated in our '24 thinking.

Obviously, one of the things we'll still have to assess as we refine the thinking for '24 will be this year's membership growth and the composition of that, the new members versus retention, and those are all things we'll continue to assess and comment on further when we provide our updated guidance on '24 -- on our fourth quarter call.

**Operator**

Our next question will come from the line of Justin Lake with Wolfe Research.

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

I wanted to ask about CenterWell. Just given the PDP losses, some of the pressures that we're hearing about both in the home health and the physician business. Can you talk about the trajectory from '23 to '24 and then '24 to '25 versus kind of what you had previously laid out at the Investor Day in terms of those improvements that were before some of these headwinds set in?

**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes. Justin. So yes, you're correct. The CenterWell pharmacy is going to be impacted by the MA growth as well as the decline in PDP growth. We shared previously the lower penetration rates for those populations and the PDP does run significantly lower than the MA book. And part of that is the disproportionate percentage of duals in the PDP book, which tends to use mail order at a significantly lower rate.

So some of the losses in '24 will be disproportionately low income because of exceeding the benchmark. So that will have less impact than average, certainly. But those are certainly things we're contemplating in our thinking for '24.

I would say, in addition to that, we've just got a lot of movement between healthcare and the pharmacy, both in '24 and then certainly in '25 too as we continue to see the pharmacy changes implemented. So for '24, you're going to have things like the DIR changes that are going to put in there. So that will have an impact between the two.





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There are going to be more changes in '25 that frankly, we're still working through. We would anticipate relooking at formularies, which might impact drug mix in the pharmacy. How you think about pricing between health and in the pharmacy will also have to be considered in light of some of the shifting liability in the change of plan for '25.

So we'll certainly plan to provide more commentary as we work through some of those in our more detailed guidance. But there are a lot of changes to your point, but we are contemplating that membership shift, which we've seen over the last number of years.

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**Operator**

Our next question will come from the line of Joshua Raskin with Nephron Research.

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

First question is just are the new members coming in at higher-than-expected MLRs even for first year members? Or is it just a mix because they're mostly age-ins. And then if you could just refresh the MLR trends for members that are in fully capitated arrangements versus those that are in sort of fee-for-service providers. And has that delta changed much in the last year?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Josh, for your first question, we are seeing that new members are running higher MLRs than you would expected, but we would say that is attributable to the overall trend that we're seeing. We have looked at new members versus concurrent members to see what variation we're seeing at various types, plan level, geographic. And what we say is relatively consistent. So we continue to believe that the impact that we're seeing are broadly industry-related trends versus Humana specific.

With the exception of some of the things you pointed out previously, which we continue to see like some of the down investments we've made, we are seeing some higher utilization. But beyond that, I would say that the other impacts are relatively consistent across the new and concurrent, but obviously driving higher and more than we would have expected across the board.

In terms of the progression of members in the risk providers, we can follow up on any specific question. But I would say, in general, I would say the trends haven't changed significantly over the last few years, at least nothing that we've seen or called out.

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

Okay. And I'd be remiss without congratulating Bruce, on the pending change and welcoming Jim as well.

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

Thanks, Josh.

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**Operator**

Our next question will come from the line of Gary Taylor with Cowen.

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**Gary Paul Taylor** - *TD Cowen, Research Division - MD & Senior Equity Research Analyst*

Just a couple -- maybe one question, one clarification. I know last year, at this time, you gave very precise enrollment growth guidance and perhaps that was because of the shortfall in the '22 enrollment. But I guess, maybe in absence of that, are you still generally anticipating when you say you would grow at industry or better that the industry would grow high single digit. Is that still your general expectation?

And then just a slight clarification, I guess, to the back half of Josh's question. You do talk about benefit design change as impacting MLR and certainly, some of that was intentional, and we knew that coming into the year or benefit investments made. CVS this morning was talking about more OTC benefits, et cetera. I just wondered if year-to-date, given the pretty substantial investment you made in OTC and flex and that sort of thing, if you're learning anything about how members are using those benefits over the course of the year? Is the monthly utilization of those allowances accelerating as the year has gone by, et cetera?

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

I'll take the first question just on the growth guidance, and I'll let Susan take the second question. On the growth guidance, we continue, as we mentioned, we believe that will grow at or equal to the industry. I think there's ranges of what the industry estimate will be, ranges from 6% to the 8% or so, but we feel really comfortable with that. And that comfort, Gary, is coming from our continued feedback from our brokers, not just where we are positioning in the marketplace. We continue to see both the brand and the benefits continuing to be competitive and never the cheapest, but to be competitive in the marketplace. So we're getting really good feedback there. So I would just say we just feel that today, we will follow the growth of the industry.

We do feel we're not as competitive as we were last year in the way we've positioned our product and therefore, that's why we've backed a little bit off from being disproportional to being right at the industry or greater growth.

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**Susan Marie Diamond** - *Humana Inc. - CFO*

And with respect to your second question, so as you think about the benefit of investments we made, those obviously would have been contemplated in our pricing in our initial guidance and point us toward our initial MLR guidance. As we've seen the higher utilization, particularly in some of the benefits you mentioned like that are more that are more related to (inaudible) in the flex as you've spoken to.

I would say we are seeing a higher utilization on some of those benefit investments than we would have expected. But again, we're seeing it across the existing membership base as well as in the new members. So it's, again, not a selection issue where we're just attracting people that are attracted to that benefit. We're seeing existing members who now have access to those richer benefits also utilizing them in the higher rate as well.

Particularly on the dental side, but also in the vision, we're seeing (inaudible). Just more dollars being utilized versus one utilizes overall. So sort of the cost per visit, as you can see about it going up where I'm sure the dentists and the optometrists feel when they got a patient in there, they're trying to maximize that sort of revenue per patient. So we're seeing some higher cost procedures or services like dentures and some other things routinely within that utilization.

With the way some of those benefits are designed continue to flex. We do have less opportunities intra year to try to mitigate some of that and it does require adjustments to the benefit of that. And so as we sum up of some of that, particularly on the flex benefits early in the year, we did make some adjustments in our '24 plan designs to account for that and implement some additional restrictions and benefit reductions. So that is one thing you'll see.

So we'll continue to monitor, as I would say, broader utilization just relative to what we had expected off of that benefit investment that we implemented in a few of those specific categories.

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**Operator**

Our next question will come from the line of George Hill with Deutsche Bank.

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

Was that George Hill? If so, I'll talk.

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes. Hi, George.

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

Sorry, Susan. The end of the operator cut off at my mind. I just want to make sure I heard you right. When you said were you seeing higher MLR pressure in PPO versus HMO plans? And I guess my question, I want to make sure I heard that right and then my question would be, is there a meaningful MLR difference typically between the HMO and the PPO plans. And kind of how should we think about that going forward as you're kind of seeing broader demand for the PPO plans and kind of that share is expected to increase in mix going forward?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Hi, George. Yes, you did hear me correctly that we are seeing more pressure in our PPOs versus our HMOs. Some of that's a reflection of a lot of the newer plan designs we've implemented over the last years, having more PPO and you saw in the introduction across the industry of the $0 LPPO as an example. Our PPO is an example. Since you tend to have a lower margin profile than our legacy HMO products, some of that's also reflected in this geographic mix differences. Obviously, we have strong deep penetration in HMO products in some of our (inaudible) Florida and highly risk (inaudible) markets.

Today (inaudible) although we're seeing more and more of a more sophisticated risk providers to take risk on (inaudible) to see better financial results, including lower MLRs and higher contribution PMPM.

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**Operator**

Our next question comes from the line of Sarah James with Cantor Fitzgerald.

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**Sarah Elizabeth James** - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

So the hospitals this quarter have pretty consistently been talking about pressure on the claims review process for physician fees, especially in the ED and the difference between inpatient versus monitoring. And I'm wondering if you're seeing any savings on those -- on your claims review process for those in '23 or what you expect in '24? And if there are some areas that you're looking to improve or enhance your claims review process on in '24.

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**Susan Marie Diamond** - *Humana Inc. - CFO*

We'll take the one that (inaudible). Would you mind repeating that question? We didn't get this. I'm sorry?

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**Sarah Elizabeth James** - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Sure. So the hospitals have pretty consistently been talking about some pushback on the claims review process for physicians, physician fees, physicians in ED as well as the inpatient versus monitoring classification. I'm wondering if that's an area that you're seeing any savings in, in '23 or expect to in '24. If not those areas, if there are some areas that you're focused on for claims review as you approach '24 and managing MLR?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Thank you, Sarah. See, I think you're referring to some of the utilization management practices, and those are typically done on the front end. We do that wherever possible where we will have the opportunity to review for medical necessity and appropriate setting. So whether that's a full inpatient admission or an observation stay. We've had those programs in place for many, many years. There are some changes coming in 2024 based on some new CMS regulations. And those do change the way some of those programs will work, but those don't take effect until January '24.

So I would say no meaningful changes experienced in '23, but we are anticipating those changes in '24. Those did represent a headwind to us, recognizing that we won't be able to have as much impact as we have historically from those efforts, and we did account for that in the bids. But that is one of those things we'll certainly want to watch next year. How that develops relative to our expectations, recognizing there may be some behavior change that we see within the provider community as they adapt to those changes.

So that's something we'll continue to watch, but it's something we anticipated and included in our '24 pricing.

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**Operator**

Our next question will come from the line of Lance Wilkes with Bernstein.

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

Yes. hopefully, you're going to hear me here, operator, cut out on me too. Just a quick question. You made a comment about modestly higher attrition you're expecting in '24. I was wondering if you could maybe just give a little more color on the drivers of that, if it has to do with distribution channels or maybe the greater proportion of nonduals or something like that? And then also, if you could just remind us for the $37 target in '25, what's the kind of implicit MA rate increase that you're expecting that we ought to be starting to see in February that's kind of baked into that?

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

Okay. I'll take the first one and Susan can take the second one. On the modestly higher attrition really is just coming from our history of when there are changes, significant changes in benefits, what we do see is people shopping more. And in result, when they're shopping more, though, we've seen increased attrition. So it's really more the environment we're in as opposed to dramatic changes in our distribution channel or our benefits.

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes. And Lance, as respect to the $37, I would say, in general, as we've commented, we have been anticipating that the rate environment would not continue to be as favorable as we've seen in the last number of years. Obviously, for 2024, the industry is absorbing the more negative rate environment. And with the phase-in of the risk adjustment model changes, we anticipate that, that will be implemented over the next -- the remaining over the next 2 years.





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That will certainly have an impact to our primary care business, which we've talked about. While the business has a mitigation plan and they believe they can fully mitigate the impact, they do think it will take time. So we are anticipating a headwind in '24. That will be somewhat lessened in '25 as they continue to mature and scale some of their mitigation plan initiatives and then fully offset by '26.

Within the health plan, I would say, we obviously know what the impact of the risk adjustment model change phasing will be, but we'll have to obviously see what the core rate adjustment looks like in light of some of these higher trend, in theory, you would see some positive restatement embedded in there. So we'll have to see what that looks like and whether it's sufficient to cover normal horse trend.

The way we generally think about it though is that is we go to impact the industry broadly. And so in theory, we should be on par with everyone else and assuming everyone reacts rationally, then it wouldn't put you in an advantage or disadvantage.

We are very pleased, though, again, to have the really strong stars results that were published recently. And that, again, is a nice durable advantage for us where we do know some others will have some challenges to deal with there while others may have some improvement. And so those are all things that we consider as we plan for '25. I'd just reiterate, we remain committed to delivering the $37 committing to continue to grow at or above the industry rate for MA membership growth. And wanted to highlight recognizing it, it requires an accelerated growth rate for earnings in '25.

I wanted to make sure we highlighted some of those more unique tailwinds that we will benefit from in '25 that allow us to achieve that higher than typical rate in order to deliver the $37, and we'll certainly share more on our fourth quarter call.

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**Operator**

Our next question will come from the line of Nathan Rich with Goldman Sachs.

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**Nathan Allen Rich** - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Can you hear me?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes.

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**Nathan Allen Rich** - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. Susan, maybe just building off of that last comment there on the 2025 target. How should we think about the margin progression for the Medicare Advantage business between '24 and '25. It seems like maybe a bit of a bigger step up than what you had anticipated previously. And you also made reference to some additional earnings levers like pricing actions. Could you just go into a little bit more detail on what you're considering there?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes, absolutely. And so as I called out in my prepared remarks, there are some tailwinds that will benefit from in '25. As we said, the outsized membership growth and the progression you will typically see in the margin profile of those new member cohorts improves over time. The higher age-ins, in particular, as I mentioned, they typically don't see the real step up in performance until year 3 when they fully convert to risk adjustment.

So the member -- the new age-ins we've got in our 2023 book, we'll then see disproportionate improvement in 2025. That will help contribute to that higher earnings growth that would be required to get to the $37.



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We have continued to see favorable net investment income, as you've seen in our results. And so some of those things are improving relative to what we would have thought going into '24 and we'll continue to '25.

And then certainly, our continued focus on productivity is something that has continued to prove to be a mitigant for the near-term pressure. And then we expect to continue to see more than the 20 basis points of operating leverage that we committed to and then some of the capital deployment will benefit as well.

So the way I think about it, when you try to isolate some of those things, sort of then what's left is what you say is more normal progression within our historical targeted range.

We do acknowledge that given what we're seeing in the trends and also in some of the discrete utilization we've seen in some of the benefits we've discussed, we do expect that we will take some discrete pricing action for '25. We'll certainly be targeted in the way we do that, so that we're addressing some of those spots that are driving less earnings progression than we would have expected at the time of pricing.

And so while they might have some impact to membership, we would say we would plan to target in a way where that's okay, but it's the appropriate thing to do to balance the membership and the earnings progression that we'd be looking for. And you still feel confident that more broadly, we should be well positioned such that we should be able to continue to generate membership growth at or above the industry rate.

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**Operator**

Last question will come from the line of Mayo with Leerink Partners.

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**Benjamin Whitman Mayo** - *Leerink Partners LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Did you say Whit Mayo?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes.

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**Benjamin Whitman Mayo** - *Leerink Partners LLC, Research Division - MD of Equity Research & Senior Research Analyst*

That's a consistent theme today. Just one clarification just on that last topic of the age-ins. Can you quantify, Susan, the growth that you're seeing this year inside of the 19% growth and what you're thinking for next year? And then I'm just wondering where you are on sort of the evolution of the delegation of risk on onehome? How much of the medical spend you've transitioned in? Maybe how much of that is driving the growth on your Home Solutions business?

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**Susan Marie Diamond** - *Humana Inc. - CFO*

Okay. I got the first one. Would you mind repeating the second question? So the first question was about age-ins. What was the second question?

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**Benjamin Whitman Mayo** - *Leerink Partners LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Just onehome and how much you've delegated the risk on that business today in terms of like the post-acute or the DME and how much of that is driving growth on your Home Solutions business?





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**Susan Marie Diamond** - *Humana Inc. - CFO*

Sure. As far as the age-ins, I think with some of the information we shared about the increased penetration that we've seen, you can think of that as about 250,000 additional sales for age-ins for the full year. And then we see the incremental benefit of the margin progression on that. Like I said, it's disproportionately weighted to year 3 by the time those members ultimately convert. In terms of onehome, it's about 15% of MA membership. I think it wan an answer to your question.

**Benjamin Whitman Mayo** - *Leerink Partners LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Okay. But how much of like the -- if I take all of your post-acute spend, how much of that have you fully rolled out in terms of the full delegation of risk?

**Susan Marie Diamond** - *Humana Inc. - CFO*

Yes. Why don't we -- we can get back to you with a specific answer on that. Let us look at that. And when we talk late tomorrow, we can have that answer for you.

**Operator**

That concludes our question-and-answer session. I'd like to turn the call back to Bruce Broussard for closing remarks.

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

Thank you, operator. In closing, I echo Susan's thanks to our 65,000 employees. We truly appreciate their hard work and dedication to bring each day to serve our members and patients. I'd also reiterate the thanks to our shareholders for their continued support. Humana's fundamentals are strong, and we remain committed to leveraging the strength and scale of our enterprise, navigate near-term challenges, while continuing to advance our strategy. And importantly, we remain committed to our 2025 adjusted EPS target of $37, reflecting a 14% compounded annual growth rate from 2022 to 2025. I hope everyone has a great day.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.

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