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EDITED TRANSCRIPT

HUM.N - Q1 2023 Humana Inc Earnings Call

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OVERVIEW:

Co. reported 1Q23 adjusted EPS of $9.38. Expects 2023 adjusted EPS to be at least $28.25.

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Humana's First Quarter 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.

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 first quarter 2023 results in our financial outlook for 2023.

Following these prepared remarks, we will open up the lines for a question-and-answer session with industry analysts. Joe Ventura, our Chief Legal Officer, will also be joining Bruce and Susan 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 latest Form 10-K and our other filings with the Securities and Exchange Commission in our first quarter 2023 earnings press release as they relate to 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 and future filings or communications regarding our business or results. Today's press release, our historical financial news releases and our filings with the SEC are all also available on our Investor Relations site.

All 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 reference 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, Lisa. Good morning, and thank you for joining us. Today, Humana reported financial results for the first quarter of 2023, reflecting a strong start to the year. Adjusted earnings per share for the quarter of $9.38 was above our initial expectations with the outperformance seen to date underpinned by strong membership growth and favorable inpatient utilization trends in our individual Medicare Advantage business.

All other lines of business are performing as expected or slightly positive, further contributing to our strong quarter. Based on the strength of our performance to date, we've increased our full year adjusted EPS guidance by $0.25 to at least $28.25. Susan will share additional detail on our first quarter performance and full year expectations in a moment.

I'll now provide an update on our operations and outlook. Our unwavering commitment to the advancement of our strategy and growth in our core business is evident in our industry-leading Medicare Advantage growth, ongoing organic success in Medicaid, recent Tricare contract award and continued expansion of our CenterWell assets.

I'll touch on the recent progress made in each of these areas, starting with Medicare Advantage. The targeted investments we made in benefits, marketing and distribution for 2023 have continued to drive success post the annual election period or AEP, leading to our current individual Medicare Advantage membership growth estimate of at least 775,000 for the full year and an impressive 17% growth year-over-year.

The favorable trends seen in AEP have continued into the open enrollment period, or OEP, with strong growth in the D-SNP space, where we've added 113,000 members as of March 31, representing a growth of 17% year-over-year. And notably, we've continued to see impressive growth in the larger non-D-SNP space adding 474,000 members as of March 31, reflecting a compelling 12% year-over-year growth in non-D-SNP membership.

In addition, growth in states with robust or growing value-based provider penetration remains strong. We have grown membership nearly 13% year-to-date in Texas, Georgia, Florida and Illinois, which are highly penetrated value-based markets. Importantly, the growth we're experiencing in 2023 continues to be high quality with better than expected retention, where we have now seen a 300 basis point improvement year-over-year compared to our initial expectation of a 100 basis point improvement.

In addition, we continue to see a higher percent of our new sales, reflecting members switching from competitors than originally anticipated. We previously shared that 50% of our new sales in AEP reflected members switching from competitor plans.

We've been pleased to see this trend continue in OEP. We are proud of the impressive membership growth achieved in 2023 and with our strong fundamentals and best-in-class quality we believe we are well positioned to grow at or above high single digits in the future.

Turning to Medicaid. We have successfully implemented the Louisiana and Ohio contracts in the first quarter adding 215,000 members as of March 31 and growing our total membership to greater than 1.3 million members across 7 states.

Looking forward to 2024, our Medicaid business will add another state to our national portfolio. In March, Indiana announced its intent to award Humana's statewide contract for its new pathways for aging Medicaid program, which is now expected to go live, July 2024.

Our Indiana health plan will serve elderly and disabled Medicaid enrollees, including integrated care for dual eligibles enrolled across Humana's Indiana Medicaid plan and our Medicare D-SNP.

Humana led all bidders with the highest score in the Indiana RFP, leveraging our local Medicare performance and national dual program capabilities including 28,000 Indiana D-SNP members in 4-star plans. We are proud of our success in Medicaid to date and anticipate continued investment to grow our platform organically and actively work towards procuring additional awards in priority states, with RFPs currently active in 2 states.

In addition, Humana's largest Medicaid contract is up for bid as Florida will begin [reprocuring] its statewide Medicaid program with awards expected by year-end. Humana has decades of strong Medicaid performance in Florida, and we believe we are well prepared for this highly competitive procurement.

In our military business, we are pleased to be awarded the next managed care support contract for the Tricare East region by the Defense Health Agency of the U.S. Department of Defense. The 6th Tricare contract, Humana Military has secured since 1996.

Under the terms of the award, Humana's military service area will cover approximately 4.6 million beneficiaries in a region consisting of 24 states in Washington, D.C. We are honored to have been selected to continue serving military service members, retirees and their families.

Our CenterWell portfolio comprising primary care, home and pharmacy continues to see strong growth, as the largest senior-focused, value-based primary care platform in the U.S. We now operate a total of 249 centers, serving 266,000 patients, including 207,000 across our wholly owned and de novo portfolios and nearly 59,000 patients served through our IPA relationships. This represents 16% growth in center count and 11% growth in patients served year-over-year.

We remain on track in the year at the high end of our previously communicated annual center growth of 30 to 50 through a combination of de novo build and programmatic M&A. And with over 17,000 new patients year-to-date, patient growth for 2023 is trending ahead of previous expectations and significantly higher than the 3,900 patients added for the same period in 2022.

Within Home Solutions, the rollout of our value-based care model continues as planned, now covering over 815,000 Medicare Advantage members with full value-based model, inclusive of coordinating care and optimizing spend across home health, DME and infusion.

This represents an increase of greater than 200% year-over-year, driven by expansion in Virginia and North Carolina in the fourth quarter of last year. Under this model, our home health utilization management program drives appropriate levels of care without compromising clinical outcomes. As a result, in Virginia and North Carolina, we have experienced a 600 basis point reduction in recertification rates on episodic contracts across all home health providers.

CenterWell home health represents more than 30% of home health episodes in these states compared to a national average of approximately 20% across geographies where CenterWell home health and Humana health plans have geographic overlap.

In North Carolina and Virginia, CenterWell home health emergency room and hospital readmission rates are approximately 60 basis points and more than 150 basis points lower than other providers, respectively. In addition, we are covering a total of 1.8 million of our Medicare managed members with the stand-alone home health utilization management and network management capabilities across multiple geographies.

We are seeing early success with these stand-alone capabilities, reducing our network utilization by 200 basis points, while improving recertification rate on episodic contracts by nearly 1,000 basis points year-to-date.

Finally, as recently announced, following a strategic review, we determined that our employer group commercial medical business was no longer positioned to sustainably meet the needs of our commercial members over the long term or support the company's long-term strategic plans.

Our decision to exit this business augments Humana's ability to focus resources on our greatest opportunity for growth and where we can deliver industry-leading value for our members, customers and shareholders. It is in line with our strategy to focus our health plan offerings on public-private partnerships and specialty businesses while advancing our leadership position in integrated value-based care including expanding our CenterWell health care service capabilities.

Before turning it over to Susan, I'd like to briefly touch on 2024. We'd like to thank CMS for their thoughtful engagement throughout the rate setting process, demonstrating their ongoing support for the Medicare Advantage program. We are pleased CMS adopted a 3-year phase-in in the risk model changes in the 2024 rate notice, which serves to mitigate the impact of unattended consequences to beneficiaries resulting from these changes.

The final rate notice for 2024 reflects a decrease of approximately 112 basis points for the industry. We expect the impact on Humana to be a decrease of approximately 23 basis points with improvement versus the industry largely driven by our industry-leading Stars performance.

Looking forward, we believe the industry will continue to see strong growth. Medicare Advantage products have seen a steady rise in their consumer value proposition, offering key benefits that are not covered by fee-for-service Medicare, including benefits focused on closing barriers to care such as rides to the doctor and deep focus on coordinating care for those with chronic illnesses.

Medicare Advantage beneficiaries saved more than $2,400 annually and 95% of enrollees are satisfied with our health care quality. The strength of the program is reflected by the nearly 32 million seniors enrolled in Medicare Advantage with the penetration now at approximately 49%.

In addition, we have seen the industry grow nicely through a negative rate environment in the past despite unfavorable rates in 7 of 8 years between 2010 and 2017, Medicare Advantage penetration increased from 25% to 35% over this period. We firmly believe the Medicare Advantage program will remain a compelling value proposition for seniors and expect Humana will be well positioned to remain an industry leader in 2024 and beyond.

We will provide more specific thoughts on 2024 in the coming months post completion of the competitive bidding process. In closing, we are pleased with the solid start to the year, which reflects high-quality fundamentals and execution across the enterprise and positions us well on our pathway towards our midterm adjusted EPS target of $37 in 2025. We look forward to providing additional updates on our performance and progress towards our mid- and long-term targets throughout the year.

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

Susan Marie Diamond - *Humana Inc. - CFO*

Thank you, Bruce, and good morning, everyone. We continued our strong start to the year today reporting first quarter 2023 adjusted earnings per share of $9.38, above our internal and consensus estimates.

Our performance to date shows solid execution across the enterprise and importantly, reflects better-than-anticipated membership growth and favorable inpatient utilization trends for both our new and existing membership in our individual Medicare Advantage business, allowing us to raise our full year adjusted EPS guidance by $0.25 to at least $28.25.

I will now provide additional details on our first quarter performance and full year outlook, beginning with our Insurance segment. As a reminder, in late February, we increased our full year individual Medicare Advantage membership growth estimate by 150,000 members to at least 775,000, but did not adjust our other detailed guidance points prior to issuing updated guidance today.

With that in mind, revenue for the quarter exceeded initial expectations, driven by the better-than-expected membership growth. Individual Medicare Advantage, PMPMs were in line with expectations, increasing 3.4% year-over-year which is lower than our expected mid-single-digit full year yield due to the 2% sequestration relief in effect during the first quarter of 2022.

Turning to claims trend. First, I would remind you that we assume normalized trend for 2023 and expected provider labor capacity to improve modestly throughout the year. In addition, our original guidance anticipated lower flu levels for the first quarter of 2023, given cases peak in December, which was offset by assumed higher flu costs for the fourth quarter.

During the first quarter, total medical costs in our Medicare Advantage business ran slightly favorable to expectations. We experienced lower-than-anticipated inpatient utilization for both new and existing members. While non-inpatient claims are less complete, early indicators suggest trends are in line with expectations. All in, we are pleased with the early performance of our Medicare Advantage business.

Our Medicaid business performed in line with expectations in the first quarter. The Louisiana and Ohio contracts successfully went live on January 1 and February 1, respectively, adding approximately 215,000 Medicaid members as of March 31. Early indicators show performance tracking as anticipated in both markets. At this time, we continue to expect an increase of 25,000 to 100,000 Medicaid members for the full year as the membership gains in Louisiana and Ohio will be largely offset by membership losses resulting from redeterminations beginning in May.

Finally, our stand-alone PDP and Specialty Benefits businesses are also tracking in line with expectations to date. For the full year, we have updated our consolidated adjusted revenue expectations to a range of $100.7 billion to $102.7 billion while updating our Insurance segment adjusted revenue expectations to a range of $97.5 billion to $99 billion. These changes reflect the removal of the Employer Group commercial medical business results, which are being adjusted out for non-GAAP reporting purposes, partially offset by the impact of our previously announced increased individual Medicare Advantage membership growth estimates for the full year of at least 775,000 members.

From a benefit ratio perspective, we reaffirmed our full year insurance segment guidance range of 86.3% to 87.3%. As previously shared, we expect the additional 150,000 member growth to impact the benefit ratio by approximately 10 basis points. As a result, we continue to be comfortable with our previous guidance range but now anticipate the full year benefit expense ratio to be biased towards the upper half of the range, which is consistent with the majority of analyst estimates today.

As a reminder, the exit of the Employer Group Commercial medical business is not expected to impact our full year benefit ratio expectations.

Finally, with respect to operating cost ratio, we have provided consolidated adjusted operating cost ratio guidance of 11.3% to 12.3%. The 30 basis point reduction from the GAAP ratio is reflective of the exit of the Employer Group commercial medical business, which carries a higher operating cost ratio.

Before moving to CenterWell, I would like to take a moment to address the days in claims payable or DCP metric. While DCP is a metric that is often referenced as an indicator of reserve strength and earnings quality. It's important to keep in mind that DCPs can fluctuate in any given period due to items that are not reflective of claim reserve levels and may not have an impact on the current period income statement.

As an example, the seasonality of net pharmacy expense, including reinsurance, is impacted by the phasing of coverage responsibility under Part D.

Net pharmacy expense varies by quarter and does not have a corresponding reserve impact as pharmacy claims are largely paid in real time, resulting in a disproportionate impact to the DCP metric. This dynamic is the primary driver of our sequential DCP change.

Net pharmacy expense is increasing nearly $2 billion from the fourth quarter of 2022 to the first quarter of 2023, due to the coverage responsibility being more heavily weighted to the health plan at the start of the year without a corresponding increase in reserves. This is driving a 3.5-day decrease in our DCP sequentially.

Normal course changes in provider capitation payables and the timing of inventory claims processing also caused fluctuations in DCPs without impacting the current period income statement and is the driver of the majority of the remaining 1.2 day sequential decrease and the entirety of our 1.8-day year-over-year DCP decline.

Our concentration in Medicare products and growing number of members and value-based care arrangements can cause these items to have a disproportionate impact on our DCP level at any point in time. We believe the trends in IBNR, and the membership serve as a better indicator of the consistency in our reserve methodology and relative strength of our claim reserves.

As of March 31, sequential growth in IBNR trends closely to our growth in total Medicare Advantage membership over the same period at approximately 10.5%.

Finally, I would reiterate that we are comfortable with the utilization patterns seen in our insurance segment. And more specifically, our Medicare Advantage business to date as reflected in our updated full year adjusted EPS guidance.

Now turning to CenterWell. This segment had a solid start to the year, performing modestly better than expected in the first quarter. Our primary care organization reported better-than-expected patient growth year-to-date, adding 7,300 patients or nearly 38% growth in our de novo centers and 8,800 patients in our more mature wholly-owned centers representing 5% growth year-to-date. We now anticipate full year patient panel growth of approximately 25,000 as compared to our previous estimate of 20,000 to 25,000 patients representing a significant increase of our patient growth of 13,000 in 2022.

In addition, we added 14 centers in the quarter, including 7 net centers added through acquisition, expanding our center count to 249. We are also pleased to share that 67% of new patients and 87% of our total patient panel have completed a first -- a visit in the first quarter compared to 58% and 83%, respectively, in the first quarter of last year.

Patient engagement is a key driver of retention and improving clinical outcomes. Financial performance continues to be on track, and we are pleased with the progress of our de novo centers as they mature through the J-curve.

In the home, total new start of care admissions in our core fee-for-service home health business were up 7.1% year-over-year for the first quarter, in line with our expectations of mid-single-digit growth. However, we continue to experience pressure on recertifications due to utilization management programs of Medicare Advantage payers.

As anticipated, we have also seen a slight shift in patient mix with a small decline in original Medicare admissions year-over-year, more than offset by strong growth in Medicare Advantage. And as expected, our cost per visit has increased more than 2% year-over-year with continued nursing labor pressure.

Finally, we resumed tuck-in home health M&A activity in the quarter completing an acquisition that added 11 branches with average daily census of 4,700 and approximately 25,000 admissions per year. We are committed to continuing to grow our agnostic CenterWell home health business and expand market share through organic growth and strategic M&A activity.

As Bruce shared, expansion of our value-based home model is tracking in line with expectations and is demonstrating favorable outcomes. We continue to expect to cover approximately 1.8 million members by year-end, with further expansion to 40% of our Medicare Advantage membership by 2025.

Finally, our pharmacy business performed well in the quarter, benefiting from higher-than-expected individual Medicare Advantage membership growth as well as favorable drug mix. As anticipated, we saw a 100 basis point reduction in mail order penetration for our retained members as a result of retail pharmacy copays now largely being on par with mail order benefits.

We continue to invest to differentiate our order, delivery and clinical experiences to encourage further use of mail order and maintain our industry-leading results. Further, we remain focused on providing awareness and education of the benefit to mail order for a large block of new members to drive increased penetration throughout the year.

From a capital deployment perspective, we continue to expect share repurchases of approximately $1 [billion] (corrected by company after the call) in 2023. We will consider the use of accelerated share repurchase programs as well as open market repurchases, which we initiated in March under Rule 10b5-1 to ensure we maximize value from these programs.

Lastly, with respect to earnings seasonality, we expect the percentage of second quarter earnings to be in the low 30s.

Before closing, I want to reiterate that we continue to be pleased with our operational and strategic progress and ability to raise our full year guidance based on the positive fundamentals seen across our businesses to start the year. Our strong Medicare Advantage membership growth and updated 2023 outlook, positions us positively on our trajectory to our midterm EPS target of $37 in 2025.

With that, we will open the lines up for your questions. In fairness to those waiting in the queue, we ask that you limit yourself to 1 question. Operator, please introduce the first caller.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Gary Taylor with Cowen.

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

Quick clarification and then my question, if I can get away with it that way. I appreciate the description of the day claims payable decline and just wanted to see if there was any particular reason why the pharmacy impact, that typical seasonality was sort of larger than the typical impact?

And then the real question I wanted to ask was, particularly given some of your comments about your home care plans. In the final notice, there were -- in the final notice there were some rules that appear to create more restriction around how MA plans can steer patients to certain post-acute destination and sort of limit your ability to do that if a doctor has specifically prescribed a precise destination, your ability to substitute or manage that. I just wanted to see if you thought that would have any impact on either your costs or CenterWell in 2024.

Susan Marie Diamond - *Humana Inc. - CFO*

Gary, sure, I can take those for you. So your first question in terms of the Rx impact and whether that's larger than typical, the impact that you'd see from fourth quarter to first quarter each year as it respects to the pharmacy, responsibility is fairly consistent. And that's just the dynamic of how reinsurance works as members move through the coverage phase, so that is a consistent dynamic. And the $2 billion change fourth quarter to first quarter, I would say, is not atypical.

If you look back at the first quarter last year, a similar dynamic would have taken place. But if you recall, we had an offsetting impact it was largely attributable to the timing of provider payables, namely capitation, which was really a carryover impact from the larger surplus payments that

accrued throughout COVID and they were subsequently paid in that first quarter. So I would say not atypical, but in any given year, you may have other changes that may offset some of those typical impacts.

On the final rate notice, I would say, I'm not aware of any meaningful impact that we would expect as a result of what was included. I would say, generally, we are always honoring sort of whatever referral option was made by a provider as it submitted in the -- as we do our utilization management reviews. So that's something we commonly will honor and respect as part of that process. So again, I don't expect any meaningful impact to our everyday processes.

Operator

Our next question comes from David Windley with Jefferies.

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

I wanted to ask a question around CenterWell. And wondering if you have any markets where your CenterWell clinic strategy you would view as mature, patient panels mature, number of sites at the number that you want them or even submarkets? And what percentage of your MA membership are you able to serve in that regard? I guess ultimately is getting that your aspirations for percentage of members in your CenterWell strategy, but wondering if there are specific examples that you could elucidate.

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

Yes, David, thanks for the question. Our most mature area is going to be in Florida with Conviva. To be honest with you, our CenterWell sites that are de novo in the various markets are very, very small to considering the market in totality. So if you take a Houston or Las Vegas, those areas, I would just say that we don't have the penetration just because of time.

With your question around what we -- the percentage we cover, I would say it's going to be in the low percentage rate, I mean below 5% in any one market. Obviously, places like Miami will have the most penetration for us. But I would say it is at an area that we'll be at the -- in the low, low percentages.

Operator

Our next question comes from Stephen Baxter with Wells Fargo.

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

Wanted to ask about CenterWell. I was hoping you could talk a little bit more about how you expect the rate environment in 2024 and the phasing of the risk adjustment model to impact margins at CenterWell over the next couple of years. I guess how much of the rate impact do you expect to get pushed down to CenterWell and how will the company work to manage through potential impact there?

Susan Marie Diamond - *Humana Inc. - CFO*

Yes. Stephen. So one, we're not going to disclose the specific impact to new CenterWell Primary Care. And honestly, to determine the ultimate impact that is going to have to consider any benefit changes that our health plan partners make as well as any potential changes to capitation arrangements and other things.

Having said that, we do not expect the full impact to be mitigated by benefit changes. And so the team is working on a multiyear mitigation plan that will look at the range of options across the operating model, the clinical model, productivity and efficiencies and other things. And have already identified a number of mitigations that we think can offset.

So again, we don't expect the impact to be fully mitigated by benefit changes. It will likely take some time to implement all of the improvements that will offset that. But having said all of that, we would not expect the impact to CenterWell Primary Care to be material to the overall enterprise.

Operator

Our next question comes from Justin Lake with Wolfe Research.

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

I just want to squeeze in a couple of quick follow-ups here. One on the DCP, Susan, maybe you could give us an idea of the range? And is this kind of the normal seasonality. So should we expect DCP to increase for the rest of the year? And what is the kind of normal range you think we kind of settle out in given the mix of business you have now?

And then on the Services business. Just curious if you could tell us just a little bit more about how the quarter looked relative to your expectations. How the home health business looked and maybe where you expect to be within that guidance range given it's pretty wide?

Susan Marie Diamond - *Humana Inc. - CFO*

Justin, in terms of your first question about DCP, what I would say, and I think as we've commented before, DCP can be difficult to predict just because of the changes in claims processing time lines, the pharmacy seasonality, et cetera, that can occur at any given time. And given our disproportionate mix of Medicare business, we would be impacted more so than maybe some others.

I would say this is not a metric that we track or forecast internally as well. And so -- and I don't think it would be prudent to try to predict it, given some of the changes are outside of our control in terms of how they would impact the metric. And that's why I think, again, we would suggest that investors also look at the trend in IBNR and membership is probably a better and more consistent indicator of reserve methodology, consistency and strength of reserves.

One thing though I would point out to keep in mind is just as I described in my comments, pharmacy changes can have a significant impact because they don't typically have corresponding IBNR changes. And with the changes that are coming in future years, with the pharmacy phasing and coverage responsibility, we're likely to see more volatility rather than less in that metric going forward.

In terms of the quarter, as we said, really saw results in line, if not slightly better across the board within the enterprise, certainly the most significant, as we said, on MA with the outpaced membership growth as well as the lower inpatient utilization in particular, while non-inpatient is less mature, as we always say, at least the early indicators in January results in particular, do appear to be in line with expectations.

So we feel good about that. As we said before, we had priced and anticipated significant utilization on our expanded healthy options card. So we continue to feel good about what we've planned for with respect to that significantly enhanced benefit.

Across the rest of the business, as we said, home health, we did mention strong new admission growth, although that was largely offset by reductions in recertifications, which did have an impact in terms of overall revenue trend. So revenue yield was closer to flat, where we would have anticipated slightly higher, not anticipating this full level of recertification impact that we did see.

They were able to mitigate much of that with some admin productivity efforts and are going to continue to work over the course of the year to try to identify new opportunities for additional growth and other mitigating options for through productivity.

And then, as we said, the pharmacy business had a nice quarter. They again benefited from the higher membership growth as well as some favorable drug mix. And so that's reflected in our thinking as well. So the primary care business, the outperformance on the patient P&L growth was nice to see. But I would say overall financial performance is relatively in line with what we expected.

Operator

Our next question comes from Lance Wilkes with Bernstein?

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

Could you talk a little bit about your Medicaid business? Obviously, you've been making great progress on contract wins there. Can you talk about your priorities for enhancing the capabilities there? I was particularly interested in 3 things.

One, what you're doing to improve performance in the business just as it's an emerging business; second would be, if there are particular areas that you're looking at to improve your scoring and RFPs and winning new business; and the third, would be just with respect to social determinants and health equity. If those are important priorities, obviously, you're well positioned from the MA side, but what you're doing in that space?

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

Yes. Thanks, Lance. I'll try to address those questions. On the performance side, we continue to see actually a really good performance in the business. Obviously, it is dependent on the maturation of the state contracts. So it's earlier in the contract, you see less profitability as it progresses through the contract.

We continue to see improvement, both because of volume and in addition just being able to help individuals with their health and continuing to lower the use of the health care system as a result of prevention.

I would say from a performance point of view, it's going to be contract based. But in our more mature contracts, it's performing quite well. And as Susan said, there were ones that -- one of our divisions that actually was performing above plan.

On the RFP process, I really don't want to share the details of what we're trying to improve on. But I will try to address your third point around the social determinants. That has been an area we've invested heavily in over the last number of years, both in health equity side with our Chief Equity Officer and leading that and really focusing on certain populations that have been disadvantaged and along with ensuring that people have access to non-health care benefits that help them with their health care.

We mentioned in areas like food insecurity would be an area where we're focused on some markets, actually, social isolation would be another area that we are focused on. And that's a combination of both the plan and our Foundation as we support communities that we have Medicaid in through our Foundation too.

And so to summarize, performance is going well. It's based on the maturation of the contract, but I would say it's going quite according to plan. And then on the social determinant side, it's really a focus of ours and both on the health equity side and in addition and being able to provide benefits outside the health care side.

Operator

Our next question comes from Nate Rich with Goldman Sachs.

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

I wanted to follow up on the utilization commentary. And I'm just curious if inpatient utilization was favorable to your expectations if you exclude the decline in COVID admissions? And do you anticipate inpatient volumes to continue to pick up given you alluded to capacity increasing? And Susan, is there anything that we should kind of keep in mind in terms of cadence of MCR this year?

Susan Marie Diamond - *Humana Inc. - CFO*

Nate, yeah, no, it's a great question. So in the first quarter, as part of that lower utilization, some of that was COVID, which was lower than we had initially expected. I would say one thing to keep in mind too, is the first quarter of last year, we did see a very high level of COVID last year and very significant depression in non-COVID. And then as the COVID dropped more quickly than we historically seen, we didn't see non-COVID bounce back at the same rate and pace.

So as we thought about our 2023 plan, we did anticipate the first quarter trends in particular, would be higher than the full year average because of that dynamic. But all in, we expected trends to be normalized. And as you said, we also incrementally then anticipated some increase -- modest increase in health care capacity over the course of the year.

I would say that while we had some COVID favorability on admissions, non-COVID was also slightly favorable. So it was not all attributable to COVID. But certainly, given the seasonality of the COVID last year and what we're expecting this year, we would expect the first quarter favorability not to trend at a full run rate into the rest of the year because of that dynamic. But so far, really pleased with what we've seen again across both our new and existing numbers, similar trends across both.

Operator

Our next question comes from Joshua Raskin with Nephron Research.

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

Just a quick clarification. I heard Bruce's comments on long-term industry growth well positioned. But was that supposed to mean 2024 also a year of industry growth. And then my real question is just within CenterWell. It looks like the number of physicians is growing faster than both the center count and the patient count. I'm assuming that it's not patient panels are capped at 400 per physician. So what's causing that dynamic? Should we think about a ramp in patients relative to that capacity, especially in light of the stronger-than-expected MA membership.

Susan Marie Diamond - *Humana Inc. - CFO*

Yes. Josh, so to your first question on industry growth, we do continue to believe that we will see strong growth, including in 2024. We do recognize with the rate notice. There may be more disruption in 2024 than we've seen in the last couple of years and also because of some of the Star pressure that some will see and have to address in their benefit design. But given the overall strength of the value proposition of MA, even in a less variable rate environment, we would expect to see strong growth.

And as Bruce mentioned in his previous -- in his commentary, even in historical years when we had multiple years in succession of a negative rate environment, the industry still grew quite nicely when benefit values were much lower than they are today.

So we do think the strength of the offering will continue to drive strong industry growth and that Humana, in particular, will be well positioned to grow high single-digit rate or above would be our hope.

In terms of CenterWell, honestly, we'll have to probably look at that and maybe get back to you. What I would say is what logically comes to mind is just with the opening -- planned openings of the centers, they certainly try to get ahead of that and add the physicians. They're ready to go. I

know we did have some delays in center openings as a result of some sort of supply chain and other issues. And so it may be that some of the clinical teams were on staff in advance of some of those delays. So it's likely to do to that, but we will follow up with the team and get back to you on that.

Operator

Our next question comes from Scott Fidel with Stephens.

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

I was interested just to get if your thinking has been evolving at all around the impact of Medicaid redeterminations on MLR? And just remind us how you're thinking about the impact of redeterminations on acuity mix in Medicaid and whether you're assuming there could be some timing mismatches around the states getting to fully factoring in changes in the acuity mix into the Medicaid rates?

Susan Marie Diamond - *Humana Inc. - CFO*

Scott, yes, I think we have previously mentioned that we believe we've seen about 300,000 additional members as a result of the PHE and the waiver of those redeterminations. We've assumed that we will retain only about 20% of those as they go through the redetermination process this year. We are over-indexed obviously to Florida, and we do think Florida is probably a little bit better prepared than some other states in terms of how they're planning to go about the process.

To your point, and as we've stated, we have seen lower acuity for the members who are maintaining access through the PHE. And our assumption is that those will be the members who are largely lost as a result of the process. We know that Florida intends to focus on members with lower utilization at the start of their process. And so within our plan, we have assumed that as those members roll off that, particularly in the State of Florida, those lower acuity members will, in fact, be the ones that we see move off more quickly.

So we do feel confident in sort of how we've approached the planning for this year and the redeterminations, but obviously, as the process begins in May, particularly in the state of Florida, we'll be watching closely to see if the ultimate retention matches our assumption and then certainly over the next number of months, watched the acuity. But our assumption is that the 20% that remain look more like a typical pre-COVID sort of block of Medicaid business.

Operator

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

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

Just 2 quick questions touching on stuff you've already talked about. But in Bruce's comments talking about the differentiation between MA and traditional Medicare. I wonder as we're often asked when there's a rate update that's less than optimal, whether that's going to slow down people's preference for MA. I wonder in your research, and I know you guys pick up with this. When you think about what prioritizes someone to choose MA over?

I know you used to say that at least out-of-pocket maximums was the #1 and then some of the standard benefits hearing vision and dental and the supplemental now has been added.

I wonder would -- any way to expand on your view about why M&A will continue to be a priority even in a year where maybe there won't be the additional supplemental benefits that they've been able to see in the last few years, there won't be a new benefits added as much?

And then the other thing, I guess, and I appreciate Susan's comments here on -- there's been -- we've been asked a lot about -- we've had 3 public hospital companies talk about how strong their inpatient utilization has been at least relative to recent quarters. I'm wondering is the rationalizing that versus what you guys are saying is that just that you plan for a step-up in utilization, and it hasn't happened to the amount that you thought or is there any other way?

Because a lot of those public companies focused particularly in Florida and Texas and are seeing seemingly strong volumes, but you're saying your inpatient side has been one of the areas of outperformance.

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

I'll take the first one and then Susan will take the second one. Just on your question on industry growth and preferences of our customers. I'd say, first, on the industry growth, we continue to see just really strong value proposition between Medicare Advantage and Medicare fee-for-service. As I mentioned, there's about $2,400 savings for Medicare Advantage beneficiaries.

So just in totality, and we've seen that grow over the last number of years as a result of the industry's innovation and continuing to effectively reduce the cost of care through prevention. We don't -- we just believe that, that is so compelling that people are not going to walk away from that even though some of the benefits might be changed.

Which relates to your second question is really, we've been doing a lot of work, and we won't -- I won't give you details on each of the areas there because there's some competitiveness there. But we've been doing a lot of work on what are the priority benefits that people have and what are the less oriented ones. And it might be that you reduce some of the benefits, not eliminate them would be an example of that or alter them a little bit.

But it does depend on the -- also on the type and the segment that you're oriented to. For example, in the duals, we do find the supplemental benefit to be an important part of their decision-making and that I think will continue to be an important part of the offering within the industry in totality.

In the other segments, we do see there's some uniqueness in their needs, but I would say that they're probably more refinement than actually elimination at all.

And after the conclusion of our bid process, we can give you guys more detail and obviously, in October when the bids come out. But I do believe, to answer your question, it's still highly compelling. I do think that we will alter some benefits, but we'll alter them in a way that is very manageable on behalf of the beneficiary, but it will be personalized to the segments themselves.

Susan Marie Diamond - *Humana Inc. - CFO*

And A.J., I'll touch on your inpatient question. Before I do that, just a couple of things I'd add to what Bruce mentioned. Within the population, the duals in particular, as we said before, arguably, every duals should be in MA. The non-duals, certainly some have a preference for Med Supp, but within duals, it's a very clear value proposition. And we think ultimately, we'll see higher penetration in the non-duals, which is why it continues to be a focus.

The other thing is -- which is interesting is the age-ins are electing MA at the time of eligibility at a faster rate than they did years ago. Years ago, it would take a number of years to get these sort of new cohort of age-ins up to the average industry penetration, we have seen adoption out of the gate more quickly, which has helped support some of the continued penetration increases as well.

And the last thing for '24, which is important to remember, as we said before, de-averaging that recalibration impact, in particular, is important. And the places where you see higher impact are those places that have disproportionately high benefit value. And so the ability to absorb some level of adjustment and still have a very compelling value proposition to beneficiaries.

In terms of your question about the strong inpatient trends that some of the hospital systems have reported, just as you said, we expected that, particularly in the first quarter. Because if you look at the medical costs last year over the quarters, it was depressed in the first quarter. And with our expectation that we would see trends return to normal levels, we would expect a higher first quarter trend relative to the average we would have planned for, for the year. So again, I do think that's very consistent with what we've seen. And even with that expectation and what the hospitals are reporting, we are still seeing some net favorability in the quarter.

Operator

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

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

Maybe just a follow-up on that point there for a second, because it does seem like hospital companies, med tech companies, broadly speaking, reporting good volumes. And so we've been struggling to figure out why all the sudden Q1, that would be so strong. So I guess two questions then. The first one is from your perspective, that strength is, to some degree, just comps and something that you planned for? Just to make sure I understand that correctly.

And then second, to the extent that utilization is rising higher, you don't have to price until June. So that gives you time to monitor these trends and put it into your pricing. But if I hear it correctly, at this point, you don't necessarily see a reason to add additional cushion into pricing next year because you're not seeing a trend issue so far on this data. Is that the right way to think about it?

Susan Marie Diamond - *Humana Inc. - CFO*

Yes. So a couple of things. So one, yes, as I said, the first quarter of 2022, we believe, was more depressed relative to the subsequent quarters because of the COVID dynamics. If you remember last year, we were all speaking of the fact that COVID declined much more quickly than it had in previous surges, but non-COVID didn't bounce back at the same rate, and we got a little bit of a lag. So the first quarter overall utilization was lower. And so we did anticipate that from a seasonality perspective, first quarter trends would be higher than the average for the year.

The other thing to keep in mind from our perspective is also that the -- we had, I think it was 65 admissions per 1,000 of COVID in January of last year. Those all carried that extra 20% payment. And so because COVID on an absolute level is lower this year, we are also seeing some benefit in terms of year-over-year trends related to unit cost because we'd be paying a lower average unit cost. This all -- was all contemplated in our outlook for the year.

In terms of our '24, I would say even though we've seen some favorability on the inpatient side, it's too early in the year for us to take a position at the entire year, inclusive of inpatient and non-inpatient is when you run favorable. So, you can think of our assumptions going into pricing as assuming that we will come in on as expected in '23 and then again, normal course trend in 2024 as well as, again, some further modest increase in health care capacity, which, as we've said, we would expect to take a number of years to get back to pre-COVID levels. So we are not assuming any favorability in '23 as we go into '24 pricing and assuming normalized trend will continue.

Operator

Our next question comes from Sarah James with Cantor.

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

Can you give us any color on the new members that are joining? So what does the sales channel mix look like compared to past years? And are you able to identify in retrospect any particular products or geographies where you're showing strength?

Susan Marie Diamond - *Humana Inc. - CFO*

Sure, Sarah. So in terms of new members, as we commented, I think, on our fourth quarter call, we did see -- and all throughout AEP, we did see a meaningful decline in share within the call center partners. We had talked about the desire to incrementally shift some of that share back to our proprietary channels over a number of years. And because of some of the actions that the call center partners themselves took to pull back on some of the lower sort of quality lead marketing that they had done as well as some in the improvements we think in just the quality of their sales processes. They did see a meaningfully lower share year-over-year. I think it was about 700 basis points lower than the prior year.

That volume largely shifted to the independent field agent channel, which you can think of is more typical -- more like our proprietary channel in the sense that more of that's going to be through a face-to-face interaction through an independent broker. And what we've seen historically is that when you have a really strong value proposition, that channel will -- the product will sort of do the work, and you'll see nice strong uptake within that community, which is what we saw this year.

And 1 thing that we view very positively is that channel tends to perform much more similar to our proprietary channel in terms of ultimate retention and plan satisfaction by the beneficiaries enrolled through that channel. So that's very positive.

In terms of products and geographies, as Bruce mentioned in his comments, we were pleased to see some nice growth in some of our more mature highly penetrated risk markets, which we view as quite positive. And that was intentional in terms of our strategy going into 2023 of where we want to make investments to grow.

From a product perspective, certainly pleased with the strong dual growth that we continue to see. That remains to be a priority as well as our veteran plan. But as we said before, broadly, we saw a meaning -- the biggest increase year-over-year was seen in the non-dual space, which is by far the larger population. So again, was a priority for us.

From a product perspective, we did introduce some new offerings that were intended to attract specific segment of the population. The Part B Giveback plan is 1 example where that really is designed for someone who is likely to have less sort of traditional utilization and is attracted to other -- some of the supplemental benefits that Bruce described as well as that Part B Giveback.

And we have seen strong growth there, and those claims are tracking in line with what we had expected in terms of the acuity that they would attract. But really, we saw a broad improvement across geographies and products, given the way in which we deploy the investment dollars for 2023.

Operator

Our next question comes from George Hill with Deutsche Bank.

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

Yes. Thanks for sneaking in. Bruce, kind of a big picture question. As you now know, kind of the 2024 rate environment and the Star's environment, do you think the company will have the ability to continue to take share like it has in calendar ''23? Or should we think of -- my short question is, should we think of ''24 as more of a share gain opportunity for Humana or more chance for the company to kind of flex its margin capability in the individual MA market?

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

Yes. It's obviously early in the bid cycle for us to give you the details that you want here. I would say, in general, we continue to remain committed to growing our membership growth in the high single digits there. And I would just use that as a sort of a measurement for us as we think about whether it's share gain or not. As we enter 2024, obviously, our Star's position is a positive for the company.

Operator

Next question comes from Ben Hendrix with RBC Capital Markets.

Benjamin Hendrix - *RBC Capital Markets, Research Division - Assistant VP*

I just wanted to dig a little deeper on the earlier distribution question. You noted higher mix of new MA members switching from competitor plans, which you've said in the past can be favorable from a risk assessment perspective, but to what degree can you attribute those switching directly to that third-party broker channel? Any worry that these members may represent frequent switchers who could impair the overall persistency of the book? And then any efforts or investments you've made to ensure that switchers do translate to accretive high LTV business?

Susan Marie Diamond - *Humana Inc. - CFO*

Ben, what I would say broadly is just given the outsized growth we've seen this year, our current estimate is about 17% versus the overall industry growth rate of closer to 7% to 8% we predict for the year. I would say, by definition, you're going to see more switchers. The absolute number of agents and eligibles isn't materially different year-over-year. And so a lot of that increase in outsized growth and market share gains is going to naturally come from switchers.

So I would say there is a portion that we believe is sort of that chronic switcher where you think it's probably about 7% of the population, which is just always going to be out there looking to see if they've got the best value. And we do tend to see that, that cohort traditionally over indexes through the call center channel, and they've become comfortable with that channel in terms of initiating a plan change.

I would say, though, as we've been talking really all year, we've been very focused on efforts to improve retention, both internally through some of our onboarding experiences particularly when we have a member enrolled through one of our non-proprietary channels to make sure we engage with them, ensure they understand the plan design and their benefits and are able to access those benefits.

But also working with the call center partners in particular, where we commented that for 2022, that was where we saw the largest deterioration in retention rates year-over-year. We were really happy to see that as a result of their efforts and ours, that channel, in particular got back nearly to the retention rate that we saw in 2021 prior.

So about a 380 basis improvement in their attrition rate year-over-year. So really, we're able to make up much of the deterioration that we saw in 2022. And I would just say that we all continue to be very focused on retention and identify additional opportunities to engage with our members and ensure that they understand their benefits and are able to access them and that they're in the right plan to meet their needs in the hopes of seeing further improvement going forward.

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

We do see just on that -- in the switchers that there were a number of switchers that came to us as a result of frustration with service. And we feel those to have much more stickier relationships. And then in addition, as we see the brokers and how they look out to the future, the quality ratings and the number of members that you have in Stars, 4 Stars or greater plans becomes an important because they can predict sort of the benefit level as a result of that.

And so we do see brokers really oriented to a much more stable book and putting their members in with companies that have that stability, both from a service point of view and then also predictability of the future.

Operator

Our next question comes from Michael Ha with Morgan Stanley.

Hua Ha - *Morgan Stanley, Research Division - Equity Analyst*

Maybe just another one on plan switchers. I understand you got roughly 50% this year for your new members. How does that compare to prior years? How should we think about that percentage going forward? Do you think it's sustainable? Or maybe there's a bit of a reversion back to the normalized level? The reason I bring it up is that, I believe industry average for annual plan switchers is about 10% to 20%. So if industry MA growth does slow a bit in '24, then certain plans with a higher percentage of new members that typically comes from plan switchers might be less impacted by the ebbs and flow, the total industry growth, if that makes sense?

Susan Marie Diamond - *Humana Inc. - CFO*

So Michael, I think to your first question in terms of quantifying. So historically, we've commented that the switchers would represent more like 30% of our overall new enrollment. And this year, we've seen that closer to 50%. And if you wouldn't mind, would you repeat the second part of your question?

Hua Ha - *Morgan Stanley, Research Division - Equity Analyst*

Do you believe that's sustainable going forward into next year, years after, 50%?

Susan Marie Diamond - *Humana Inc. - CFO*

Yes. I would -- sure, I would say, to the degree you take market share, then you would expect to see a higher percentage of your enrollment come from switchers. If you were more at the industry rate, it would probably revert back to something more similar to historical. And so it really does depend on the absolute level of growth relative to the industry, I think is the main indicator of how that should trend.

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

We do believe next year, there will be more shopping as a result of the change in the benefits. And so there -- I think it's going to be important both in your ability to have a predictable benefit plans after 2024 and the brokers can see that along with the fact that when they do shop, they will be satisfied with the existing plan once they realize that the value that's provided there. So we do -- in essence, we do believe there will be more shopping in 2024.

Operator

Our next question comes from Whit Mayo with SEB Securities.

Benjamin Whitman Mayo - *SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst*

My question is around the growth in PPO versus HMO. And I'm just trying to think of any challenges that you may have with all this growth this year. And I guess I mean this in the context of CenterWell and should we expect that this could negatively impact them or any of your physician partners anyway around just attribution and what you're doing to maybe accelerate processes to minimize some disruption?

Susan Marie Diamond - *Humana Inc. - CFO*

Yes, Whit, no, it's a great question. And one that we debated with our CenterWell partners actually historically. But it's important to keep in mind that outside of certain markets, particularly South Florida and some of the other very highly penetrated risk markets, most of our HMO products operate more like a PPO where they're open access. And so the beneficiaries do have the option to go out of network and still receive services.

So we would argue that the benefit or the plans operate similarly. And certainly from a pricing perspective, we would take that into account in the way that we price those PPO products and the level of benefits that are offered recognizing you may see more out of network utilization.

I would say risk providers historically, a number of years ago, typically only took risk on HMO, but they have generally started to become comfortable taking risk on PPO offerings as well, including our CenterWell. And so I do think that's something we'll continue to watch and see does the performance look comparable across the 2. I would say it's still fairly early in the penetration of PPO products and probably too early to declare. But my expectation would be that they are not materially different in terms of the ultimate performance for the risk providers.

Based on the way that we would price them and then also given the strong capabilities the risk providers have and the relationships they develop, that can allow them to see results that are comparable to what they see in the HMO in non-gated markets.

Operator

Our next question comes from Stephen Valiquette with Barclays.

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

A couple of things here. The -- first, the latest inter-quarter individual MA membership guidance increased from 625,000 to 775,000. It wasn't totally clear the breakdown of that? Latest additional 150,000 members, how much of that was additional new members versus retained members, if you have any color on that?

And then Bruce, your comment on the switchers being frustrated with service levels at their previous plan. Does that feedback surprise you? Or is that normal course of business from your perspective?

And then finally, just aside from those members switching because of service issues at their old plan, was there any consistent pattern of what variables and the benefit design that Humana that resonated the most among the new members, aside from just people switching because of -- to you guys because of the issues at their old plan?

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

I'll take the second and the third one, maybe and then Susan can take the first one. Just on the second one, relative to service. We did see in 2022 more frustration as a result of some plans growing -- really outgrowing their plan coverage there and frustrating the brokers and the members. And so that was a carryover and probably a little more extreme in 2022 that impacted '23 more.

But as we've said many times, the strength of the brand and the strength of the product really carries us in the marketplace. And when we are competitive in the marketplace, our brand usually carries us forward.

And do you want to take the first one real quick?

Susan Marie Diamond - *Humana Inc. - CFO*

Yes, sure. In terms of the driver of the additional growth, what I would say is -- in the D-SNP space, the improvement is more related to improved retention relative to what we had expected. And then in the non-D-SNP I'd say it's more attributable to new sales. So a combination of the 2, but more indexed to favorable retention on the duals and sales on the non-duals.

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

And Steven, what was your third question again?

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

Yes. Sorry, I threw a lot at you there. The third one was just besides people switching because of service issues, any consistent pattern on which variables and your benefit design resonated the most to attract new members? If you're able to comment on that without giving the (inaudible) dynamics.

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

Yes, yes. I think we've said it before, I think 2 things. What we saw in the Part B Giveback, that was one that was really where we saw a lot of non-dual members go to and really it was in markets that, as Susan has mentioned and I've mentioned in value-based markets that we've traditionally have not grown as fast in.

And then the other one is just the healthy food card. I mean that's the other one that stands out for the duals.

Susan Marie Diamond - *Humana Inc. - CFO*

Yes. And to add to that, if you remember last year, while we had a comparable value benefit to others and United in particular on the dual side, United had more flexibility in the way that card can be used. So we introduced a similar option for 2023 as well as expand in the service category. So as Bruce said, we do think that was very attractive and stood out relative to other options for 2023.

Operator

Our next question comes from Lisa Gill with JPMorgan.

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

Susan, I just want to go back to your comments on the Rx side where you talked about a positive mix. Can you just give us a little more color on that? And then secondly, can you talk about your commitment to Medicare Part D going forward? And as we think about the changes in Part D around DIR fees, how do we think about your bidding strategy for Part D? And again, how do you think about your commitment to that product line?

Susan Marie Diamond - *Humana Inc. - CFO*

Sure. Lisa, so in terms of the favorability we mentioned in the first quarter, specifically the drug mix, okay, that's just going to be generic versus brand. And then within each of those categories, just a literal sort of line-by-line mix of drugs underneath, recognizing each one would have different sort of margin profiles, so mostly related to that.

In terms of Part D, I mean, we remain committed to Part D in serving those duals and offering a strong value prop to them as well. Although we also, as we said before, really look to that product too to try to take disproportionate share of members enrolled in PDP who ultimately then make the decision to move to MA.

And as we've' said before, we do anticipate —-- we do see that we get a disproportionate share of those conversions within our own block relative to the share we get in the open market. And we do expect about 80,000 conversions out of that book for 2023.

I would say there is a lot of complexity going forward in terms of some of the Part D changes, the phasing changes, the introduction of a maximum out of pocket and the responsibility changes. And as I've said before, the thing that we're very mindful of is just understanding the implications in terms of the risk pool underneath how the margin profile looks for different types of utilizing members and ensuring that we can maintain stability in that book.

CMS has introduced some mechanics that will help the industry navigate through that with the premium stabilization, which is certainly helpful and we appreciate. So I would say still a lot of work to do, but I would say we remain committed to continuing to support the Part D beneficiaries and provide a strong value prop, but do you recognize there will be probably some additional volatility in the coming years to some of these changes are implemented.

Operator

Our next question comes from Ann Hynes with Mizuho.

Ann Kathleen Hynes - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

I would like to talk about operating cash flow because excluding the Medicare prepayment, it looked a little light versus last year. So anything you can provide on that would be very helpful. And secondly, can we have an update on RADV? I know the industry was waiting to talk to CMS to get more clarity on some things that were in the rules, so any update would be great.

Susan Marie Diamond - *Humana Inc. - CFO*

Sure. With respect to cash flow, I would say that the year-over-year change in reduction is really just normal course working capital items. Two things in particular that driven majority of that change is commission payables and the timing of those and the amount of those as well as then rebate collections. Those are really the 2 main drivers.

On RADV, I think as we said before, we did not expect to see anything additional as per the final rate notice, which is what played out. And frankly, that we don't have anything further to update at this time. Our position remains the same. We continue to be disappointed that it didn't acknowledge the need for an adjuster, and it will be important to work with CMS and really understand how they intend to implement that program -- audit program going forward, as the details have not yet been released. So we'll continue to try to practically work with them and hopefully get to a reasonable solution that everyone is comfortable with, but nothing new to report currently.

Operator

That concludes today's 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*

Well, thank you, operator. And in closing, we continue to be pleased with the solid start to the year, which, as I mentioned before, reflects our high-quality fundamentals and the execution across the enterprise and really demonstrates our commitment to the adjusted EPS target of $37 in 2025.

I do want to thank our nearly 70,000 teammates and are really contributing to the success and continuing to serve the customers in the best way.

With that, I also want to thank each one of you for supporting the organization over the years, and we look forward to having similar results in the coming quarters.

Operator

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