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PRESENTATION

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

Good morning. Thank you for joining us today for Humana’s 2019 Investor Day. We’re very appreciative for you all being here in the room, and for those watching on the webcast, we thank you as well.
I have a few housekeeping items for you today. Our agenda is here. It’s in the books at the tables. For those of you in the room and online, you should be seeing it on your screen, and I believe you can download the slides.

So this is the agenda of the day. We will have Q&A sessions. So we will pass around some microphones if you want to ask questions after certain of the panels. We do ask that you try to ask questions that are related to the topics the panel discussed, and then Bruce and Brian will be available at the end of the day Q&A as well for some of your more broad questions.

Our cautionary statement, we do include certain measures that are not in accordance with generally accepted accounting principles. And so we encourage you to look at our GAAP to non-GAAP reconciliations that are included in the back of the presentation.

After the presentations today, for those of you that are here with us, we will have lunch available in [Siebert] Hall. And then we’ll come back in this room and spread out, and you’ll be able to eat lunch with the leaders. So we look forward to that. And as I said, we’ll go straight through the day with no breaks, so please feel free to exit the room if you need to.

And I think, with that, we will get started. Thank you.

(presentation)

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

Well, good morning. Thanks for being here. There’s – excuse me, there’s 2 words that I want you guys to think about throughout the day that was in that video: health outcomes. As we think about sustainable growth for our business and we think about delivering value for our shareholders, we think about health outcomes because we believe in the industry today that the way you grow and the way you deliver value is by improving people’s health.

And so as we think about the industry, we think about it’s an industry of great opportunity. It’s an industry that has demographic growth, both in population but also significant challenges. The complexity of health care, the cost of health care is driving society’s biggest issue. But at the same time, we also would believe we’re at a juncture in health care, a juncture that there are convergence happening in the industry that can help solve those problems.

We also believe, and you’ll see it through the day, that Humana is well positioned to take advantage of that industry. As you think about our strategy, its first foundation is a long-standing history in treating aging and the ability to focus on complex chronic conditions. That is our heritage, but as importantly, it’s our focus. Every day, 50,000 people get up and focus on that one issue, how do we help complex chronic individuals that are aging.

As this video pointed out, it started early in our existence back in the ‘60s when we were a nursing home organization and has grown over the years, but it is at the heart of what Humana is about but not only our deep, rich understanding of the industry, but also the strategy that we are focused on and oriented to.

First, it is about the holistic health of a member. It’s our operating model. But as importantly you’ll see today, it’s the payment model that incentivizes that orientation.

Second, it is about the ability to personalize and simplify the experience. And what’s so important about that is the ability to have trust with our members to engage in their holistic health.

Third is the ability to create personalized and simplified experience through the ability to integrate a health ecosystem across key areas that influence the cost and the health outcomes of our members.

And what you’ll see today in these 3 different areas come alive in different aspects, they will come alive in our discussion about our core business and what we’re doing and the great improvement we’ve seen since the last time we got together, to the investments we’re making to bring this...
alive in technology and clinical capabilities and people. And you all will also see it in the culture of the organization in the way it operates and acts on a daily basis.

We appreciate you being here, and we know you are here for one reason, and that's to understand the investment thesis of our organization. If you can -- as you can see, the last number of years have been great years for Humana, growing at a compounded annual growth rate of about 18% on an earnings per share basis through some tough, tough times, decreasing rates as a result of ACA, a broken merger with Aetna and some further public policy changes that have put stress on the industry.

But our strong position in the industry, our orientation to health outcomes that is the solution for the complexity and the cost of the industry, oriented with a strong operating model have carried us through the day. In addition, as we see the future and what you will take away from today is what we build and are building will carry us not only to the operating model of today, Medicare Advantage, but an opportunity to expand into Medicaid, the opportunity to be able to expand into TRICARE and other payment models that are oriented to delivering health outcomes.

We got together 2 years ago and discussed the strategy subsequent to the Aetna break. That strategy was very consistent, albeit matured in its development, what we've been talking about for the last decade: integrated care. But we've made great progress since that period of time. You will see today our ability to personalize and simplify the experience has greatly evolved. You'll see our investments in our clinical capabilities around these key areas of influence for health care has built a great platform for the future. And you'll see technology that we've invested in and built that enables the integration, the personalization and the proactive care as a platform for the future.

Now I'd like to step back for a minute and talk a little bit about the industry. And you guys are the experts in the industry, but I want to set context of our view of the industry. We all know that health care costs are crowding out consumer discretionary income, are crowding out dollars employers can invest. It's crowding out federal and state budgets as a result of the significant growth from demographic growth, our changes in health conditions and, in addition, the inefficiencies of the system.

The inefficiencies of the system, because of its complexity, because of the incentives around fee-for-service, it's created an industry that is oriented to being siloed, being paid on volume, being oriented to institutions versus consumers and not paid on health outcomes. And as we think about that industry, what we see is there's a shining star inside that industry of Medicare Advantage.

Medicare Advantage has proven significant benefits as an example of a model that can solve a significant amount of the complexity and cost in the health care system. We see that both on who is paying, the government in this particular case, and who's receiving, the consumer. And we see great support, both at the consumer level, congressional level and the administrative level for Medicare Advantage.

What we've seen is there's also people who are voting with their feet. We've seen significant increase in a time of significant change in Medicare Advantage. Whether you look at the numbers from 2014 to now, it has grown by 7 million members, forecasted to grow to a low of 7 million for the next 7 years and a high of 13 million. We've seen great penetration in the industry when there was a forecast in 2010 that you were going to see a reduction in MA.

So consumers are voting with their feet. And the reason why they're voting with their feet is there are some structural aspects of the industry that drive this orientation to health outcomes. First, it's a consumer-oriented model, not an institutional-oriented model. It's a demand versus supply model. The individual that's making the decision is not the employer, it's not the government, it's the individual that is looking for the care.

The second thing is payment is at the holistic health that allows companies like Humana to not only worry about someone's health care journey and the health care cost, but allows them to worry about their lifestyle. So if someone wants to go to primary care or a specialist or a hospital, we are there to assist them. But if they need a bar in their shower for support, we're there to help them. Because we are incentivized for the total health of somebody as opposed to the individual health.

Another key aspect of Medicare Advantage is that it rewards people for taking care of the sick, the vulnerable through the payment model of risk adjustment. It also rewards for quality and cost. And as we see where health care is going, we see that Medicare Advantage proven over many years as a model that allows for population health, allows for consumer centricity and the integration of the health care system.
But what we do see is that there is an evolution going on in Medicare Advantage, first moving from waiting for someone to show up in the health care system and how do we help them navigate through the most cost-effective care model, to assisting them early on and preventing them the need to use the health care system. And this is truly an example of health outcomes, the progression of disease.

The example that we've outlined here is an example of real data from Humana. And the green line is what we know we can do in assisting people and engaging in their health and slowing that disease progression, that their life is better and the cost and the clinical outcomes are better. And there is significant value for society, and there is significant value for our organization in achieving that.

But this operating model is not an operating model that is built on just managing the transaction, it's built on having a relationship with somebody that is personalized and simplified. It's having partnerships and own clinical capabilities that are integrated together that is proactively managed. Interventions are given prior to the need of them showing up at the health care system.

And so as we set our targets of where the organization is going, it’s about how do we help people in their disease progression. And what you're going to take away from is the initiatives that we have in being able to manage the holistic aspect of the individual, the technology we're rolling out, the analytics we're oriented to, our partnerships with providers and the integration of that is all oriented to how do we slow disease progression.

I mentioned at the beginning that we're at this juncture in health care that we are very excited about. There is convergence happening in health care that is going to facilitate this evolution. We see customer preferences changing and being more demanding. "[Brian], make it simple for me. Make it easier access points. Know me. Personalize the interaction." We also see providers beginning to evolve to being able to successfully manage value-based payment models.

A few weeks ago, I was with a chief medical officer for a large integrated health system, and we were talking about last year's performance. And they said that 75% of their profits this year came from value-based payment. I was with a primary care group in a large city talking to the leader there who made the same comment about the success that they're seeing in being able to manage through the assistance of Humana populations and being able to take risks.

So we're beginning to see that providers are now making the turn, the more sophisticated ones, when say it would be every provider making the turn to be able to manage population health. We are also seeing through concepts like Blue Button, FHIR API and other mechanisms that interoperability is starting to become more and more part of the conversation and becoming more and more part of the processes in health care.

And the velocity of information is going to reduce the silos in the health care system and the ability to proactively manage upstream in the health care system and downstream in an individual's health and be able to do it in a much more proactive basis. Complementing the interoperability is devices and telehealth, where we can become more proactive in monitoring somebody and be able to respond to them before they need the intervention.

And then lastly, we're starting to see genomics and genetics become more and more an opportunity in being able to personalize the science, make it much more deliverable -- delivered in a way that's important to the individual and the outcomes.

So we're seeing an industry that's broken, complex. We're seeing a system like Medicare Advantage rewarding holistic care. And we're seeing our strategy around managing large populations holistically, engaging on a personalized basis and integrating across the health care system as a platform for us to deliver the sustainable growth that you'll hear about today. But we've been building this for quite some time. This isn't a new phenomena. It's been a phenomenon that has been part of the company for quite some period, but we're seeing great maturity.

This integration of the health care service side with the insurance side, the clinical side with managing risk has shown some great success over the past number of years. Whether you look at our Medicare growth, you look at our Medicaid growth in a de novo way, you look at our growth in TRICARE and even some of our programs in commercial, driven by our health care service side, whether you look at primary care home, behavioral and our social determinants. And you will see today that these are not only at scale, but they're scaling.
But one thing I want you to take away as a subpart to health care -- health outcomes is trust. It sounds soft in a room where we’re here to talk about numbers, but it is so important to have trust, to have an ability to engage in someone’s health that is so personal that delivers health outcomes. And if you don’t have that ability to engage and have that conversation, which I think you’ll see today in some of our discussions, you will never get to improved health outcomes.

And so as we think about trust, we think about it in different levels. And what you’re going to hear today are 3 areas of our strategy that we’re working on. One is around evolving our operating model. How we interact and how we operate the business is an important part. You’ll see some great progress in our core business, and you’re going to see a brief discussion about how we’re evolving our operating model to be more health-oriented.

The second thing is around personalized and simplified of using technology to have that interaction that’s personalized and simplified and proactive. And then lastly, building these areas of influence, 5 areas that we’re oriented to, and being able to have that interaction that is proactive and is oriented to the most costly and most impactful areas of health care.

To give you a brief view of what you’ll see today is we’re going to talk a lot about what we’re doing in our core business, why our Net Promoter Scores are improving over the last few years. But in addition, what you see and where we’re investing is, is how do we change that conversation with our customer from being insurance-oriented to being health-oriented and working back from the customer in developing a model that isn’t built on the managed care chassis.

We'll also spend time today in where we're investing in technology: expanding access points, leveraging telehealth, remote monitoring and other technologies that allow us to be able to take something that was once in a physical plan, that can be done in somebody’s home; same capability, remote monitoring, along with interoperability and data analytics, to become much more proactive in predicting the intervention that’s needed, making it simpler and personalized; taking friction points out; and knowing somebody for who they are, not what they have; and being proactive and being able to have clinical models that trigger when it’s needed as much as where they’re at.

You will also see through Reneé and William our discussion around 2 primary areas, primary care and home health and the expansion of that but, as importantly, the integration of those capabilities across the health care system. And an important part of our strategy underneath these clinical capabilities is delivering it in the communities that our members are in, expanding our community presence to allow them to do it in their neighborhood and to do it in their home and at their convenience. So as we think about these clinical capabilities, it's not only about having them, it's not only about integrating them, but it's about being in their communities.

And the last area that I hope you'd take away is that we’re not doing this for size and scale. We’re not doing this as a separate service and managing the company from a portfolio point of view. We’re doing it and investing our dollars to integrate across the organization and our partners to improve the health of our members, to drive health outcomes through integration as opposed to just size and scale.

And that’s probably one of the largest differences as you look at Humana among other organizations, not picking on anybody, not saying our strategy is better than theirs, just making a contrast, is the integration and the partnerships that we establish is around how do we improve the health outcomes of our members. And our partnerships that we establish have some common elements to it. First, best-in-breed and contemporary, an ability to test and learn new models and the ability to scale.

And then the last part of our organization I want to talk about is our associate base. One thing that we’ve established over the years that has driven our social determinants work, has delivered our -- has determined our integration is our goal of improving the health of the communities we serve by making it easier for people to achieve their best health. That has been a beacon for us for a long time. And that beacon has driven a highly engaged employee population, best-in-breed, 90-some-percent over the last 5 years in engagement. That engagement drives extra effort on behalf of our customers, extra effort on behalf of our shareholders.

In addition, this year, we took a step in aligning our customer interest, our shareholder interest and 28,000 employees through offering an incentive plan that they are rewarded on Net Promoter Score and earnings per share. So we’ve taken a highly engaged employee base and reward them for...
the outcomes of you in this room and the outcomes of our shareholders. And we feel that, that extra effort that they put in every day on behalf of you, on behalf of our customers is an important element of our strategy.

You'll see that our core business continues to be strong in every area, whether you look at our brand, you look at our employee engagement, you look at our productivity, you look at our earnings growth, you look at our clinical outcomes. This year will be another good year for us in both earnings per share growth and customer growth and growing other products, like Medicaid. So the organization is not only oriented to the future, but is delivering today.

And as we think about our value proposition of sustainable growth, it has a few elements to it. First element is this perpetual cycle of as we deliver more and more clinical capabilities, deliver more and more health outcomes in the strategy that you will hear today that drives better quality. That quality drives the opportunity to provide more value to our members, which ultimately provides more membership growth and value to our shareholders. But it starts with the beacon of orienting to health outcomes.

So in conclusion, you will see many members of our management team today, which is really the basis of why we get together. Brian and I engage with you on an active basis, but we want you to see the strength of the team that's behind what you see on the 10-Ks and the earnings releases and our financial results. But what you will see is a complementary management team that's oriented to execution, that has a deep, rich experience within Humana of our core business, complemented with individuals outside the industry that bring a different perspective of industries that have gone through transition, that have customer-centricity orientation, have technology, have clinical and provider strength and understanding. And this complementary nature of being executed -- or execution-oriented day by day in the ability to deliver where we see the industry going is one of the strengths that you see within Humana as a whole.

So with that, I would love to turn it over to Alan Wheatley to begin the conversation today about our retail and about some of the great work we're doing within the provider world. So Alan? You need that.

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**T. Alan Wheatley - Humana Inc. - Segment President of Retail**

I do. Thanks, Bruce. Health outcomes, that will be comments, words that you'll hear a lot from me, my team and I think throughout the entire day because that's what our company is focused on. I have the pleasure of leading the Medicare and Medicaid businesses at Humana.

I'm going to spend a few minutes giving you a little bit of an industry overview. And then I'm going to bring up some of my colleagues, George Renaudin and Vicki Perryman, and they'll talk about the provider integration and the value-based relationships and how that creates differentiation for us. And also, Vicki will cover personalized experience in what we've been able to do to change how our customers think about us by measuring Net Promoter Score and how we've been able to be much more efficient in our operating structure. Then I'll come back and try to tie it all together and give you a view of how we think about markets and applying all of our assets across various markets as well as touch on the Medicaid business and the prescription drug plan business.

So as we think about our products and services, we step back and we say, “What do seniors have as choices for health care?” And we look at the broad portfolio of products a senior may choose. And they can stay on traditional Medicare and purchase a prescription drug plan. And while a good product, it's fragmented, it's multiple insurance products, there's no coordinated care and there's no protection for consumers in terms of out-of-pocket costs.

Customers can also purchase a Medicare supplement plan. Medicare supplement plan plus a prescription drug plan, those premiums are in excess of $200 a month. And as you think about today, seniors and the boomers that are aging in, more and more those products are unaffordable. Also, they have the same problems of a traditional program: lack of coordinated care, lack of value-based providers, built on a fee-for-service chassis.

And then there's Medicare Advantage plans. It's an integrated plan. It provides substantial financial protection for customers to the maximum out-of-pocket. It also is built on a chassis of value-based providers. You heard Bruce up here talk about more and more providers are seeing more and more of their margins come from value-based care. Medicare Advantage is built on that value-based care. Bruce had a slide that he showed a
few minutes ago that talked about, on average, seniors experience $1,200 additional benefits per year on an MA plan versus a traditional Medicare offering.

Also improved outcomes, customers who purchase Medicare Advantage plans will see vastly improved outcomes. Bruce had a slide that’s in the deck that talked about 17% lower inpatient admissions. So what that means is you join a Medicare Advantage plan, you get better benefits. You get coordinated care. You get to see the best providers, focused on managing holistic health. You get healthier, you spend less time in the hospital. That’s what’s so compelling about an MA offering.

And as we think about Humana in that space, we have the most and most balanced portfolio across the largest number of geographies than any MA plan. And we believe that’s because we think from the customer’s lens first. Not all individuals want a PPO plan. Not all individuals want a tightly integrated HMO plan. So we think about tightly integrated HMOs and loosely managed PPOs and open-access HMOs, we think about it from the customer’s perspective. We segment the customers in our markets, and we say, “What are the kinds of offerings that they want?” And it’s important that we have a broad portfolio of products from which to sell them. And we believe that’s part of our success story.

I think seniors agree with me in terms of the value they see in MA. I think about the pressures that we experienced from 2011, 2017, the implementation of the Affordable Care Act, how that brought our top line down on average across the industry by more than 12%. Yet, Medicare Advantage grew each year.

Bruce had a slide up that talk -- quote from Seema Verma, CMS Administrator, “Medicare Advantage represents value for beneficiaries and taxpayers.” Again, today, there are more options and more choices delivering more value to customers in this space than there were 10 years ago. I believe that’s only going to increase. The CBO predicts Medicare Advantage penetration by 2025 will be 41%. There are other organizations that are suggesting it could be as high as 50%. So by 2025, we could potentially see one in 2 Medicare eligibles having a Medicare Advantage plan. Think about the possibilities we have to leverage our products and services, leverage our assets, our data, our technology to improve the health of those individuals enrolled in a Humana Medicare Advantage plan.

I love this business. I came up here in 2014 and said that 3 or 4 times. I love my job. I love this business. Because all we are doing every day is getting up and trying to figure out how we take the customers who chose us as their health insurance partner and how do we improve their health, how do we reach out to them proactively, help them understand their conditions and their problems and get them better care with the best providers across the United States to drive better outcomes.

And we’re seeing our strategy pay dividends, not just in terms of growth, although we were #1 in growth in 2019 AEP, and we’re actually very proud of that. But also in terms of outcomes and how we think about quality, when you look at our Star rating, 2020 Star ratings, 84% of members in 4-star plans. We’re the only national carrier with multiple 5-star plans.

So again, as you think about what that means, quality and outcomes leads to growth. This business is very simple. I get paid what it costs a traditional Medicare program to provide that benefit to their consumers. I then have to lower costs by improving health and improving outcomes in a manner that allows me to pay for my admin, my margin and additional benefits to attract customers. And the assets that we’re accumulating and have been accumulating and now integrating more and more are allowing us to deliver superior outcomes to customers, creating the opportunities for us to reinvest in better benefits, creating the opportunity for us to grow.

I love what the opening video said. If you listened to it, we are not a passive health care company. We are an active ally, making a tangible difference. I think that really frames up who we are and how we think. Members spent 89,000 fewer days in the hospital in 2018 versus 2017. That is demonstrating the ability for us to improve health, the ability for us to work with our provider partners to drive more value-based care, to look holistically at health and improve outcomes.

George is going to come up now, and he’s going to talk about how we think about value-based care and do a deep dive on some of our provider relationships. George?
Hey, thanks, Alan. Good morning. So you heard Bruce talk about how value-based care providers are starting to get it. Humana’s focus on value-based care is not new. While many industry have started coming to value-based care for the last few years talking about it a lot, Humana has been at this for 3 decades. For 3 decades, we've been working at this, and we are leveraging our best-in-class value-based platform now to more fully integrate care across the health care spectrum.

Humana has been doing this, as I said, for 3 decades. And we're working together with our providers through a number of different ways to improve the health outcomes of our members. One of the things we're doing that has been very successful is our affiliation models. In our affiliation models, we invest in proven health care providers who are able to deliver better health outcomes. We take those proven capabilities, expand them and export them to new markets. In that way, we're able to proliferate value-based care across the country.

We also are working with the provider system, knowing that the continuum of who can do value-based care is pretty varied. So we work in -- to align incentives in a way that helps us collaborate with the providers to ensure the best health outcomes for their patients. Meeting providers in this customizable way allows us to do a number of things. Importantly, one of the things it allows us to do is to meet our pretty significant growth objectives.

Humana has been the national leader that's well-recognized in value-based care for quite some time. We continue to drive for greater and greater enrollment in value-based care. Just a few years ago, we were a largely regionalized with a lot of our value-based care and about 45% of our members being taken care of by a value-based provider. Today, we now have a very broad national network of value-based providers caring for 67% of our members.

But it doesn't only drive benefits for our membership. One of the ways we've been able to grow our value-based provider system is because our value-based providers have higher satisfaction, and they are now the vast majority surplusing. So they're earning rewards above what they would get in the traditional Medicare system.

I'm sure when you speak -- have spoken with a number of providers, what you've heard from them is that Medicare just barely pays the bills. Well, that's not true in a value-based system. You heard Bruce talk about some of the providers he has spoken to that are seeing that a lot of their profits now are being driven in their -- with their Medicare patients through value-based care.

In fact, an interesting stat that we've been following is that our value-based PCPs earned almost 2.5x the health care dollar for their patients that nonvalue-based PCPs earned. That makes for a highly engaged PCP base. That makes for a PCP who's very open to the discussions we have with them about how to drive better health outcomes for their patients and for our members.

To do this, it takes a very disciplined process where we think about our people, process and technology. I think Brian's going to talk a little bit about, when he comes up, a analytic system we have through Service Fund that allows us to take very rich data and turn that into information that provides insights through our CareBook platform, insights that our primary care doctors can act upon.

CareBook had over 1 million reports run on it last year. A million reports downloaded so that we can improve upon the health outcomes of their patients. Many providers have gotten so sophisticated that they are way ahead of the curve here. In order to meet them where they are, we also give them direct access to this system. And last year, over 700 provider groups are directly self-servicing through CareBook on that platform to download information that provides actionable insights how they can better close gaps in care and provide better health outcomes for their members.

But it's not just about technology. One of the other things that we have to have in order to help our providers make the transition to population health is we have to have a pretty significant provider engagement infrastructure where we have folks in the field who work one on one with providers to make the transition from fee-for-service care to population health. That's a pretty significant differentiator from us -- for us.

What we hear from our providers is that many others have much more centralized systems. They don't have people in the field at the market level that work with their providers one on one. As you know, that one-on-one interaction sometimes can make all the difference in the world in how
someone views both the health plan and how they view the information they’re being provided. Bruce talked about trust. When you have people in the field working directly with a provider, you are much more likely to gain that trust that’s necessary.

However, we know it’s not just about the PCP. It takes more than just the PCP to advance health outcomes. So as a result of that, we have developed a provider analytic suite we call Care Decision Insights. And Care Decision Insights provides information to our primary care doctors to help them with the referral decisions they make and where the most appropriate site of care is.

In this room, we all know that there is a wide variation in the quality of care that’s provided by various specialists, and there is widely different outcomes depending upon the site of service of where you receive your care. Care Decision Insights allows us to engage our providers and drive analytics and transparency into the referral care decisions they are making.

As I mentioned, we have a very flexible system in how we engage our value-based providers. There’s a continuum out there. And the continuum differentiates us in that we can customize our approach to the markets and the providers. This customization allows us to have value-based care grow pretty broadly across the country. The variation in type of provider groups that we have involved in this system that are doing well. As I said, the vast majority of them are surplusing, their earning surpluses.

It varies from groups such as Summit in Knoxville, Tennessee; the Vancouver Clinic in Washington; the Cleveland Clinic; Advocate in Chicago; Ochsner Health Plan – Ochsner Health System down in New Orleans, all the way through to our proprietary clinics, which you’re going to hear Reneé talk a lot about which are spread from Florida through the Carolinas, up through Illinois, all the way over to Arizona and Texas. It’s a very broad network that we’ve put in place for our proprietary clinics. You’re going to hear a lot more about that.

As you can see in this line graph, as you move across the value-based spectrum, it’s a steady progression of ever improving cost, clinical outcomes and quality. Simply put, those over 3 decades of experience that I talked about that we have had in value-based care we know demonstrates that integrating population health into what we do makes a discernible difference in the outcomes and the cost of the system.

I mentioned before the PCP is just one part of the system, a very important part of the system. We put the PCP in the center. That’s why we believe, for example, what I mentioned before about paying them 2.5x what a PCP outside of a value-based system earns is well worth it. They are critical to making this whole thing work.

But we’re building upon our best-in-class capabilities in value-based care to approach other parts of the health care system. Our nationwide pharmacy quality network has been in place for a few years now and has over 98% of the pharmacies participating. When we put that in place, frankly, we had no idea that it would be that deep of a penetration into the pharmacy space. 98% is remarkable. We never thought we would get to that level, but we’re there, and it’s driving great results for us.

In just a couple of years, we’ve been very successful with moving value-based care into the specialty space. We have 82 groups now participating in specialty bundles. Those specialty bundles have been growing very well for us. We just announced a new one with spinal fusion. And the reason why we chose spinal fusion, for example, is that it’s grown 62% over the last couple of years, and there’s a very wide variation. The variation cost ranges from about $9,000 to $52,000. That’s why we look at this kind of specialty bundles.

You’re going to hear William talk about the great progress we’re making in transforming home health to a population health focus by aligning incentives with Kindred at Home.

In summary, we’re using our national leading value-based system to evolve our relationship with our providers and our consumers through a proven fully integrated care model.

Okay. With that and speaking of provider experience, I’d like to introduce Vicki Perryman, who’s our Senior Vice President for Consumer and Provider Services, and she is going to talk about the simplified and personalized experience we’re driving with our members. Here you go, Vicki.
Humana is helping our members confidently achieve their best health by delivering simple, personal and integrated experiences. We have 3 overarching guiding principles that direct our efforts. Our focus on digital first and omnichannel capabilities support our members in key moments that matter. Our robust data and analytics capabilities support Humana’s members, and it allows us to be a true partner in health management. And our interoperable processes and technology advancements make Humana easy to do business with.

Through our key focus areas, we’re building trust and deeper relationships with our members. And by doing that, we’re leading our members to enable them to have better health management and engagement and utilization of value-added services that then drives better health outcomes for our members as well as higher member growth and higher member retention.

We’re simplifying interactions with our members and our providers through digital self-service capabilities as well as our analytical capabilities. We’ve made really important investments in intelligent automation and text and speech analytics. And those are the underpinnings to the meaningful progress we’re making on simplification.

Some examples include our pharmacy enrollment calculator that allows our current and prospective members to shop for the best Humana plan based on their prescription drug needs. The calculator tool is integrated with Blue Button 2.0. And when our members add their medications to those medical records, it allows Humana to work proactively with those members on prescriptions savings opportunities, including Humana mail order pharmacy.

Our redesigned digital enrollment and billing experience meets the demand for easy online interactions by creating a seamless experience as members enroll and then begin utilizing their plan benefits. These benefits could include things like they’re selecting their primary care physician, ordering their ID card, or paying their plan premiums. Adoption of our simplified billing tool drove a 41% increase in digital engagement in 2018.

We also have a new model for holistically managing communications across Humana in an organized and coordinated manner. And this is leading to the most relevant focused communications with clearer messages. In several 2018 pilots, we saw a 65% reduction in discretionary communications and an 18% improvement in our message clarity. As a result of being easier to do business with, we’ve driven a 10% reduction in calls per thousand members per month into our customer service centers in 2018.

Our distribution, predictive analytics and segmentation efforts are customizing experiences for our members. From a distribution perspective, we’re delivering industry-leading tools and technology that make it easy for our agents to sell our products and to serve our members. One key example is Humana’s robust book of business management tool that facilitates member growth and engagement. As a result of our industry-leading tools, we had a 34-point improvement in our external agent Net Promoter Score in the most recent annual enrollment period, and we also had record high sales from that same channel.

We’re meeting the unique needs of our members, leveraging predictive analytics and segmentation to drive customized and contextualized experiences. We’ve established dedicated customer service teams to support behavioral segments, along with teams to support some of our most complex product offerings. The segmentation alignment is driving partnerships with our members and true health management.

We’re also proactively connecting every one of our members with the best, most knowledgeable associates to meet that unique member’s needs as well as to minimize effort and to exceed expectations.

As a result of the work that we’ve done over the last 2 years in both simplification and personalization, we’ve driven an 11-point improvement in our Net Promoter Score for our Medicare business. And in 2018 where we applied that targeted segmentation, we saw an incremental 9-point improvement in Net Promoter Score.

Humana’s enterprise-wide, integrated customer relationship management capability is the foundation to our experience efforts and powering really strong outcomes. Through improved health engagement and expanded solutions, we have closed over 3.2 million gaps in care in 2018.
As I noted earlier, we are optimizing our customer messaging by delivering hyper-personalized communications and campaigns that are leveraging tailored content, channel preferences and focused information. These communications are helping us close gaps in care, improve our [key] messages, drive digital adoption and improving integration through referrals to clinical programs, such as Humana at Home.

Humana’s sales CRM platform optimize lead management, and it’s also increasing lead conversion rates. Our integrated quote and enrollment tool supported a 49% reduction in the time for sales agents’ applications. The integration of our platforms enabled a streamlined flow of information between our sales and our service organizations.

And speaking of our service organizations, our CRM service, Rapid Force development team, was recently named a 2019 digital edge business innovator award winner. This collaborative technology and business team uses a rapid and iterative agile approach to reducing friction points in our customer interactions. Through the work that this team did last year, we generated an 8% improvement in customer service call efficiency.

So in the years ahead, what does success look like as we help our members confidently achieve their best health by delivering simple, personal and integrated experiences? Aligned with our guiding principles, we’ll be delivering meaningful improvements in our key performance metrics that are focused on both generating higher quality and lower cost.

And as I hand the time back to Humana -- or to Alan, I’ll leave you with this. At Humana, we know the customer experience is a cornerstone for our business success. And that through the work we are doing, we’re consistently building trust and deeper relationships with our members. Thank you.

T. Alan Wheatley  - Humana Inc. - Segment President of Retail

Thanks, Vicki. George spent a lot of time talking about provider relationships and how we are working with providers. Vicki talked about simple personalized experiences with customers. What I think is important across both Vicki and George’s comments and conversations for what we’re trying to do and the theme there, and Bruce said it earlier, is build trust. Build trust by supporting the relationship and the partnership we have with the providers such that they’ll want to seek us out and work with us as we work to figure out through data, technology information what gaps in care exists, how they can better treat their customers, where there are opportunities to maybe refer to more high-performing specialists, where there are opportunities to close gaps in care to work on proactive care. That’s extremely important because if we don’t have a good working relationship with the providers and the providers don’t trust us, we will never get them where we want them to be and where they want to be on that provider continuum, that value-based continuum that George showed.

Vicki talked about how we’re making interactions easier for customers, how we’re trying to take the insurance processes, give them better information, think of things from an omnichannel perspective, have them connect with us the way they want to connect and when they want to connect. And again, that’s extremely important because if our customers don’t trust us, they are never going to allow us and the providers to engage with them and convince them they need to change how they operate or how they move or how they improve their health. So this concept of trust and engagement is extremely important. It’s how we think and operate every day.

Now I’m going to take you through all the things that we’ve tried to talk about and apply it at a market level. When you think about Humana, we are a collection of assets that are focused on a variety of things. We’re focused on attracting seniors. We’re focused on understanding seniors. And we’re focused on improving the health of seniors. And I’m going to walk you through a couple of market examples of how we deploy the portfolio of assets we have to do just that.

Take Chicago. Chicago is the third-largest market in the U.S., over 9 million people, has approximately 1.5 million Medicare eligibles. It only has a 25% MA penetration rate, but that MA penetration rate has been accelerating an average of double digits or more over the past 7 years. So it’s a fast-growing MA market. We have greater than 40% market share in Chicago. It’s just over 100,000 MA lives. We have a very strong value proposition of 4.5-star plans. We’re the only 4.5-star plan in Chicago.

The provider landscape in Chicago is very different. It is led by a number of strong integrated delivery systems with a collection and variety of different independent physician groups. So what we’ve done in Chicago is we’ve taken the best of those groups and the best partners who are
thinking about value-based care. And 80% of our members are tied in the value-based care relationships. We work with great partners like Advocate Health and DuPage Medical Group.

We have also understood that in a variety of locations in Chicago, access to care is a problem. So we've brought in some alliance partners. You've heard George talk about our alliance relationships. Brought in JenCare, partnered with Oak Street Health to focus on access and to focus on dual-eligible populations. It's working within the healthcare ecosystem in that market, and then supporting that healthcare ecosystem with new value-based providers is what makes that market a unique winning combination for us.

Also, we have nearly a 50% mail order penetration rate. That's important across a variety of fronts. One, we see higher engagement with mail order. We see higher retention of our customers with mail order. And then we see significantly higher medication adherence with mail order. Retention and med adherence 2 important Star measures. So as you think about how we take the value-based healthcare ecosystem and support it through leveraging our mail order capabilities, an example of how we're creating a winning environment in a unique ecosystem.

Now turn to Tampa quickly. It's a top 20 large market, 1.2 million Medicare Advantage eligibles. It's 45% penetrated. We have 170,000 MA lives. We've been in this market for more than 30 years. We have a strong value proposition, some combination of 4- and 5-star plans. The key to winning in Tampa for us has been be present and be there for a long time, be a part of the community, a part of the healthcare ecosystem. There are a large number of independent provider groups that are very savvy, that take risk, that have very loyal patient bases. We have a huge presence in this market as well.

So what we do is we work through a lot of the technology and tools that George mentioned in the Tampa market to provide information and data the way those provider groups want. George mentioned the million reports driven from our systems. That's what we're doing. That's what we're doing with these providers. We're working with them to style information and analytics the way they want it.

We don't need to put the JenCares and the Oak Streets and other providers in Tampa. Tampa is a very strong, very solid healthcare ecosystem. What we need to do is to continue to support the Tampa market and the providers that are in that market to continue to drive more and better outcomes for their customers.

We also need to continue to support our members. We have over 17,000 visits a month from our members to the guidance centers. These members when they go to guidance centers, they are focused and engaging in social programs, in fitness programs and at the same time having access to our customer service reps and access to a sales agent if they have any concerns over their plan.

Also through our Bold Goal activities, we have partnered with more than 50 local organizations, to think about social isolation and the problems that the community of Tampa has and how we can apply those problems and solutions that we cocreate to the community at large and to our members. We are also very focused on food and security in that market because we know in Tampa that, that is a problem for the local government, a problem for the local community. We are also very focused on food and security, to be able to set our products and services up from a member perspective such that they can get food that they need when they need it as they're working through the health care system.

So as you think about the markets, our competitive advantage is we understand the healthcare ecosystem. We're willing to work within it. We deploy value-based capabilities that are second to none. Providers tell us more and more that we like working with Humana because they are a good partner. They provide us information that others will not. And I love hearing those words. And I want to keep doing it. We don't think of relationships with providers as how do we get more members, so we have more leverage. We think about relationships with providers as how do we get more members with those providers, so we get more mind share, we get more time with them, we get more focus. We have a larger ability to partner. That's what's important to us and that's what I think makes us unique.

Now I'm going to turn and talk about Medicaid for a few minutes. We see Medicaid as an attractive and growing market that has become increasingly more connected at the federal and state level, particularly around the dual-eligible populations. We see more complex populations coming into this program, particularly around the long-term support services.
There are 12 million duals in the United States. Duals are adopting MA at a much faster rate than ever before. That, coupled with the integration at the federal and state level, leads us to believe that Medicaid is an important business for us and an important business opportunity. You’ve heard me say that before. We are going to continue to look, to be opportunistic about how we expand our broad Medicaid presence in key Medicaid Advantage geographies.

We're very proud of the platform that we've built. We will have approximately 450,000 lives enrolled in Medicaid across the 3 state contracts that we have. I believe the recent statewide award in Florida, where we were only 1 of 2 statewide awardees, demonstrates and showcases the strength of our platform.

To me, thinking about our MA value proposition is the same way we think about our Medicaid value proposition. It’s about partnering with providers and members to drive improved health outcomes, to understand their needs, to understand what’s important to them, to understand social determinants of health and what it is we need to drive to get to remove the barrier for them to engage with us and with the providers to improve their health.

I mentioned our capabilities on Medicaid. While we’re small and we’ve been building our platform out, we’ve recently engaged a leading consulting firm to perform a comprehensive outside-in assessment of our platform and capabilities relative to the large national payers. And those results from that independent review demonstrated that we compare very favorably and have a very strong and capable platform. We saw very favorable results and clinical capabilities in data and analytics, in core business operations and in network management. So we believe we’re very well positioned to compete with the largest entities in this space.

And we’re very bullish on what the future looks like. Because as we have talked to a number of state Medicaid agencies, they’re looking for different solutions. They understand that they have more complex populations coming at them, and they need nontraditional capabilities. And we believe our Medicare Advantage capabilities demonstrates that we -- and what we’ve done in Florida demonstrates that we can deliver superior health outcomes in a Medicaid population as we think about the chronic care capabilities and what we have been able to do and transitions in the long-term support services space.

More and more Medicaid RFPs are coming out, focused on value-based care. And demonstrating that you have capabilities in value-based care because state agencies believe that’s important in Medicaid too, and they’re right. And we believe we’re the leader in value-based care. We believe that was a key to us winning the Florida statewide award. And it makes us bullish on other awards that are coming out soon and other RFPs that are in process between now and the next 24 months.

Also think about home and community-based support. Think about our Kindred operation, which William will talk about later. Think about our ability to get into the home on these kinds of complex populations, and not just coordinate care, but to deliver care in the home on a Medicaid population that’s generally largest problem is access. And when we create that access by -- and create the opportunity to get into their home and work with them to improve their health, we will be able to deliver superior outcomes in this space, just like we’ve been doing in Medicare for years. I’m very bullish on this business and very excited about what the future brings.

Our prescription drug plan business is a strong and performing asset for us. We have size and scale here. We have it growing the way we want it to grow over the past couple of years. We have a long history of repositioning our portfolio for growth long term, and that’s where we’re focused here. But as we think about performance of this business, we look broadly. We think -- we take an enterprise view of this business. We think about the performance that this line of business drives and creates for our Healthcare Services organization and also this business, the performance it drives and how we think about conversions from the prescription drug plan to our Medicare Advantage plan. And if you look since 2014, 330,000 Medicare Advantage members drives over $3.5 billion of additional revenue to our top line, all driven out of our prescription drug plan portfolio. So we need to continue to grow this business. This business drives tremendous value across our enterprise, and we’re excited about the future.

Now there has been a significant amount of buzz over the prospect of pharmacy rebates moving to point of sale and what that means to plans, consumers and manufacturers. To be clear, Humana is very supportive of consumers seeing lower drug prices. And if CMS wants to move rebates to point of sale, in a variety of cases for consumers that utilize brand drugs, they will see lower drug prices at the counter. However, there are overall cost implications that must be considered, especially for consumers that take mostly generics.
For Medicare Advantage plans and prescription drug plans in today's environment, the full value of pharmacy rebates are included in the cost structure that we submit when we file our bids, the full value. That's why -- that's one way we've been able to keep drug plan prices so low.

As you can see, brand prescriptions have inflated double digits, while prescription drug plan prices are lower than CPI. Pharmacy rebates is a lever to help make that happen. So if the entire value of rebates are loaded into our bids and the rules change to reallocate how they're applied, ultimately, it's a redistribution of the same dollars. Those consumers that utilize brand drugs, which are generally less than 15% but do make up 80% of costs, will see meaningful lower out-of-pocket costs. However, the broad range of customers in prescription drug plans will experience premium disruption to offset that. And that's how organizations will have to account for it in bids. And those 2 items will largely offset.

Medicare Advantage plans, the nature of the business and the size and scope have the same dynamics at play, but will have significantly less overall impact in terms of how the calculation works for a variety of reasons, which I won't bore you with. But the MA plans are going to have a significantly smaller issue in terms of how that redistribution will happen versus a prescription drug plan.

I do want to thank you guys for taking time to listen to us. I hope you understand how we think about the Medicare and Medicaid business, the growth opportunities in both, the opportunities for us to continue to build on our asset base and integrate our assets to improve the health of the customers we serve. And that's what our story is today, that's what we're all about.

Now I'd like to bring a friend and colleague, Chris Hunter, up at the stage to cover up the Employer Group and Military business. Thank you.

Christopher Howal Hunter - Humana Inc. - Segment President of Group Business

Thanks, Alan, and good morning. We are really privileged in the Employer Group and Military segment to serve over 17 million members. Many of you are familiar with the Employer Group segment, where we’re currently in 15 states that you can see in the light green coloring in the top chart. This is a traditional focus on small group, under 100 employees, where we offer fully insured and ASO coverage.

You’re probably less familiar with our specialty business and our military business, and we want to spend a little bit more time educating you on the opportunity that we think that we see in both. We have over 10 million dental and vision members today serving employers and individuals with or without Medicare. And we think this is a very attractive margin profile. We also think that it has very attractive ROIC, given the low capital requirements, and we’re excited about the potential growth here.

On the military front, and Brent Densford will come up shortly to talk a little bit more about what we’re seeing in military, but you can see we are currently in 32 states. We are the -- we are serving the Defense Health Agency and serving just under 6 million members today. DHA went out and actually consolidated from 3 different regions in 2017 down to 2. We bid for both regions and were fortunate to prevail and win both. We were only allowed to keep one. We chose the eastern region. That was unprecedented to ultimately win both. And so we are servicing the eastern region with just under 6 million members today.

Our segment plays an important role in Humana’s broader portfolio, not only the financial impact that you can see in the left, the $361 million of group pretax that we contributed in 2018, but also the intercompany pretax that we were able to contribute to William's business, another $40 million that flowed through to Healthcare Services. In addition, we've been a real partner for continuing to help grow our group Medicare business. Our pre-65 retiree coverage bundle has been a low-cost turnkey employer solution that has helped fuel our group Medicare growth and they have helped fuel our growth.

We've also been a real pipeline to senior products. So 27,000 group medical and specialty members were led to a Humana MA product in 2018. 6,000 of those were group medical transitions, and the rest were dental members that we had started a relationship with on the dental side that ultimately led to an MA sale and helped fuel Alan's business.

And then finally, we're empowering our service members. We are the #1 Department of Defense health contractor today. We are also one of the top 10 contractors for the entire Department of Defense.
And Bruce discussed earlier our high associate engagement and our Bold Goal, which is improving the health of the communities we serve. We also have proven an ability to contribute to improving the health of our active military and their dependents and have continued to invest strongly in that business, which we think, as Brent will talk about here shortly, is really a matter of national security.

So I'm going to ask Brent Densford, the President of our military business, to talk a little bit further about this business.

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**Brent Densford** - Humana Inc. - SVP, President, Humana Military

Thank you, Chris. Good morning. The Inspector General for the Department of Defense released a report on the top 10 challenges facing our nation’s military. And you might expect on that list were things included like cybersecurity, global terrorism, countering Russia, China, North Korea. But also on that list was healthcare. How is it that healthcare can be one of the challenges equal to terrorism or North Korea?

There are 2 going on in our military today. First, there are rising costs with the aging population of retirees within our military. And secondly, there are increasing percentages of our troops in uniform that are not deployable for war because of obesity and chronic disease. And so as Chris said, healthcare has truly risen to a matter of national security for our country. But Humana is committed to helping our military solve this problem. And let me tell you just a very brief amount about our business that you might see why we’re positioned to do so.

First of all, I would like for you just to consider our scale and scope for a moment. TRICARE is the health plan for the Department of Defense. It covers some 9.4 million beneficiaries or members across the country. We have the privilege of covering 6 million of these members in our east region contract.

We know the military family very well. We have some 20 million interactions with them on an annual basis through our customer service channels. We pay claims for some 45 million interactions that they have with the healthcare system. We provide 500,000 providers proprietary network or access to care to this population. So our scale and our scope allows us to be able to make an impact on this problem.

Secondly, I want to highlight our relationship. We have a deep relationship with the Department of Defense. We have been in this business since 1996. We know this business well. We know the military family well.

Not only have we grown geographically through each iteration of the contract, not only have we grown in population through each iteration of the contract, but we’ve also -- even though we’ve been largely in an ASO type of structure of our contract, we’ve been introducing innovation, introducing clinical capabilities, introducing best practice disease and case management programs, integration of behavioral and medical care to this population. So we have a scale and scope, and we have a deep relationship.

So we have the scale and scope and we have a deep relationship. And why we’re very excited about the future of this business is that it’s a business in transformation. Because of the crisis that the military population is in, as I mentioned a moment ago, Congress is active. Congress is -- in the 2017 Defense Budget Act, began to mandate that reform would occur in this business, that introduction of reimbursement reform, value-based care, risk sharing would be part of the contracts to come in the future, and we’re well positioned to be helping the Department of Defense test and learn and we’re doing so right now. We’re introducing models, pulling from our Medicare Advantage platforms you just heard about and introducing how that model can work for this military population.

Consider that retiree population that I mentioned just a moment ago, moving just a slight small percentage of that population into an MA-like plan or into a value-based care relationship, would be significant for the taxpayers in the United States, would reduce cost tremendously for the Department of Defense, allowing them to use their funds for fighting the other challenges on the top 10 challenges that they’re facing. And we provide great opportunity for Humana because we’re well positioned to be able to make an impact with this problem. Chris?
Christopher Howal Hunter - Humana Inc. - Segment President of Group Business

Thank you, Brent. We’re going to go back to specialty and talk a little bit more about the specialty business. Both ocular care and oral care have proven to be important clinical components of our members’ health. Dental and vision coverage today for over 10 million members. One of the things that we continue to hear is that beyond medical, dental and vision are the most important benefits that we hear from our members and from employers.

There are several different segments that we’re going to break down here. You can see in the left Employer Group, over 4 million members. Over 1/3 of our medical customers today in Employer Group have dental and/or vision coverage with Humana, but over half of our dental customers actually do not have Humana Medical. And we think that this really presents a significant opportunity for us to continue to build relationships with these dental members and continue to grow.

In the center around Individual Commercial, we have just under 1 million members. Just under half of those individual specialty members are 65 or older, so this is a senior population. And as we said before, over 21,000 of our MA sales in 2018 actually originated with the relationship with a dental member. We think that this is something that we can continue to invest in. We think that integration between dental and vision and MA is something that will continue to enable us to grow as well.

And then you can see on the right, this is our over 5 million Medicare members where over 3/4, either through plan design or through a buy-up, have Humana Dental and vision benefits today. So we see significant opportunity for further integration and the ability to grow this specialty business over time.

Next, I want to spend a few minutes speaking to small group and the opportunity that we also see here. Small business has historically been the area that we have focused in recent years. Over 95% of our employer customers have under 100 employees today. But when you actually do research and you talk to these members, and I’ve spent a lot of time in my first few months in this role out in the field talking to brokers and to end customers, there’s a significant amount of dissatisfaction with existing offerings.

The smallest businesses, those that are under 25, 75% across the country are not offering any type of group coverage today. We think that represents a significant opportunity. 14 million -- there are 14 million members in our 15 states where we have medical that we think that we can continue to grow, in addition to our existing membership. And you can see on the bottom, small group customers, more so than when you go further upmarket, really want an integrated solution. So our ability to bundle with our PBM, with our Go365 wellness and rewards platform, and then you can see over 1/3 with the dental or vision product as well has been a really differentiated solution for us.

I think the other thing that I would impress upon you is the level of investment. Bruce talked earlier about the level of technology investment that you’re going to continue to see as a theme across the day to day. We went out and spent some time talking to brokers and to employers, trying to understand their pain points, particularly downmarket. One of the things that we continue to hear was that there were significant challenges with the enrollment process and also significant challenges in getting timely quotes. We took both of those on in 2018 and invested heavily. We started with some work early last year and put together what we called Launch My Group, which is a digital experience that enables 2/3 of our accounts to actually launch with no human touch. And we did this in under 9 months, brought it to market last year and have gotten tremendous reviews in terms of the ability to actually enroll an account in an automated way that many of our competitors cannot.

Likewise, one of the pain points that we heard frequently from brokers is the challenges around the underwriting process and getting a timely quote. We have invested significantly in automating that process, which is a very manual process. We’re able to use data analytics and take disparate data sources together and form the way that we provide a quote and we’ve been able to do that in an actuarially efficient and effective manner. We have seen significant improvement. 200% increase in quoting volume year-over-year that has really helped to drive our level-funded ASO products, where we’ve seen 50% LFP growth and continue to expect that going forward.

We’ve seen significant increase in Net Promoter Score. Vicki talked about this, that we’re seeing clearly in the retail business, but these investments that we’re making in technology are making it easier for our employer customers as well as brokers to do business with Humana. We increased our Net Promoter Score by 30% last year and we think we can do the same again this year. So these investments are really paying off for us.
Finally, while we have operated further downmarket historically, we think there is a real opportunity for Humana to be a disruptor further upmarket. We continue to see unmet needs across the commercial market, whether it’s high medical trend, the continued low customer satisfaction scores, limited access to care. It comes up in every meeting that we go through and yet, when you look at Humana’s broader capabilities and what we set forth in 2017 when we were here going through our Investor Day, our consumer-centric orientation and capabilities, our clinical capabilities, our value-based expertise, our emphasis on communities and the Bold Goal, we think all of that comes together and enables us to have a real strong growth proposition moving forward.

We think that there’s an opportunity to reignite growth in this segment. The partnership that we announced with Accolade, which is a Seattle-based company last Friday, we think is an illustration of this. Accolade has a very impressive engagement solution, very high Net Promoter Score. They have historically operated upmarket with really jumbo ASO accounts of over 10,000 lives. We think that there is a real opportunity in the mid-tier ASO market for us to combine our solutions, our dental, our EAP, our distribution, our network, along with their engagement platform to come to market with an innovative solution that drives high levels of engagements and ultimately drives much higher health outcomes. So we were going to initially do a test and learn, experimenting in 2 markets, Milwaukee and Cincinnati, and we are really excited about our ability to drive growth as we continue to look to move beyond our historic sweet spot downmarket and continue to move upmarket in ASO.

So with that, I’m out of time and I’m going to ask Alan to come up. We are going to spend a few minutes taking Q&A and Amy Smith is going to be our moderator.

**QUESTIONS AND ANSWERS**

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

There are microphones, so we will find you with a microphone if you raise your hand. And I just have to say, Alan, I believe I heard you describe our business as simple in your presentation and that might be the first time I’ve ever heard that. Okay, Matt?

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

Chris, maybe just picking up on what you just talked to. Humana for the last -- well, for a long time has talked to intense competition in the ASO space. I know that's been more with the large jumbo accounts. Can you just talk about the competitive trends and what you've seen recently and what you see in the mid-market that you're targeting?

**Christopher Howal Hunter** - Humana Inc. - Segment President of Group Business

Yes. I think one of the things that we continue to hear is that there is desire for much more integration, particularly in that mid-market, which is something that is just not currently being served. I think the other thing that we continue to hear is that the health outcomes that are being achieved are just not sufficient relative to what the expectation is further upmarket. That’s really one of the things that led us to Accolade because they’ve had such success operating really in that jumbo space. And we think that they can bring many of the proven capabilities they’ve had around engagement further downmarket with us. We think their capabilities are very complementary to what we do well, our distribution, our network capabilities as well as all the specialty capabilities as well. Putting that together though in an integrated way is really going to be the differentiation.

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

But what about -- it just seems to me that Humana has avoided or stepped out of the ASO space to some degree over the years, citing the intensity of competition. So I’m just trying to understand to the extent that you’re targeting the middle market there, maybe what’s changed or where you might have a different view of that segment.
Christopher Howal Hunter - Humana Inc. - Segment President of Group Business

Yes. We're selectively targeting the middle market. We think that there's opportunity. We've had significant success with our level-funded product, which we've been able to significantly grow. We think the components of the level-funded product really set up nicely to our historical capabilities. We've been able to significantly grow that over the last year and already seeing significant growth in LFP. So that's LFP further downmarket with smaller ASO cases with the stop loss wrapper. We think that we can grow that business. I think the question is really how far upmarket we can go and that's something that we're going to continue to experiment with.

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

Scott?

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

Well, I guess we made it one question -- without a question yet on the HHS rebate proposal so I guess I'll have to ask one. Appreciate very much the slide where you gave us the interactions on sort of the money flows and how the rebates, the changes to POS will affect that. Can you help us just think about in terms of the $700 more that the plans would pay, would that effectively mean that PDP plans would need to raise premiums or reduce benefits in PDP by $58 in terms of PMPM? Or is there another way that we should be thinking about that effect of the $700 increase in member share or plan share?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

So great questions. A couple of things to think about. One, rebates are one lever. So there are other things we can do throughout the year to try to improve our run rate, to try to build that into next year. So there are other opportunities to be able to keep premiums lower than you otherwise would. So that's one. Two, on a standard plan, you can't change your benefits, right? So if you have a defined standard plan, your benefit load, you can change the way they might look but you have a percent minimum that you have to cover, so any standard plan would have to either adjust formulary, raise premiums or some combination of the 2. So obviously, you can expect plans to understand their formularies to try to understand how to manage those formularies a little bit better or differently, and then the rest of it is going to go premium.

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

Thank you.

Unidentified Participant

Just a quick question about the military. I'm not very familiar with that business but is there opportunities that are offered with the move -- with the VA administration to change how VA is handled? Is there opportunities for managed care players?

Christopher Howal Hunter - Humana Inc. - Segment President of Group Business

I didn't hear it.

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

Is there an opportunity in the VA and how that is handled for you in managed care.
Christopher Howal Hunter - Humana Inc. - Segment President of Group Business

Yes. Brent may want to speak to this. I mean, I think there is opportunity in the VA potentially. I mean, we've really focused with DHA initially around these value-based programs. But Brent, is there anything you want to say around the VA?

Brent Densford - Humana Inc. - SVP, President, Humana Military

Yes. Just for clarity and because there is some confusion sometimes, DoD, Department of Defense, and VA are 2 completely different health systems, 2 completely different budgets, and so what we spoke of today was our involvement with the Department of Defense. We are currently not doing business with the VA. Your question is, are there opportunities? Our business continues to look for those opportunities. We work with the VA on a regular basis, looking for where we can bring a platform such as you've heard today, integrated care, value-based care into the VA. Currently, there are no contracts that VA is offering that allows that, but we continue to work with them to look for that as an opportunity.

T. Alan Wheatley - Humana Inc. - Segment President of Retail

We do have a lot of relationships with veterans through our Medicare Advantage plans. We have several hundred thousand individuals in our MA plans that are American veterans. And then so we actually do coordinate some care with the VA because the veterans can go to the VA to get lots of services, as you well know. And we're actually excited about the opportunity to be able to grow our veterans business through some of the segmentation work that we're doing.

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

Ana?

Anagha A. Gupte - SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst

Yes. Question for Alan. In 2019, you've returned to double-digit MA growth and you had a bit of a slowdown recently. How much of that do you think is because of tax policy, improving rate policy, has eased up relative to all of what you talked about today around distribution and the clinical engine and value-based care, dual Special Needs Plans? And how comfortable do you feel about retaining or sustaining that level of growth going forward?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

So we don’t give growth guidance, right? But what I would tell you is, as to your -- the first part of your question, a lot of our value-based care initiatives, you’ve seen some pretty compelling statistics in the ways that we’ve been able to improve health and lower outcomes. So clearly, our model is working that allowed us to reinvest those dollars into improving benefits. The health insurance fee was -- and how we handle the health insurance fee, obviously, was a big lift to benefits broadly. What happens to that in ’20 and how we handle it relative to others in the industry will tell a story on how we think about our growth targets for 2020. So there’s a lot of things up in the air that we have to work through and figure out but I’ll just say broadly our model’s working. We had to reinvest. We grew nicely in 2018 as well, a couple of hundred thousand. Obviously, we did much better in ’19 but we’re very focused on trying to figure out how to maintain momentum on growth.

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

We only have a couple of minutes. I see Kevin and A.J. so that might be the last 2 for this session.
Kevin Mark Fischbeck - BofA Merrill Lynch, Research Division - MD in Equity Research

So you talked a lot about investing and engaging both the patients as well as the brokers and then the growth that you guys saw this year with the external brokers. Is -- can you tell us a little bit about where you are relative to your competitors there? Were you playing catch-up? Were you behind and now you've caught up? Are you ahead of where everyone else is? And then, I guess, when you think about the time line for when those improvements come in and when you would expect growth and retention to improve or is 2019 a reflection of that? Or is this the beginning of what you see as multiyear benefit from what you've been doing?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

A lot packed in those questions. So I'll just say we started making significant investments in how we work with brokers and the technology that we deployed in 2017. We saw some benefits of that in '18 and in '19. What I would tell you is we were slightly behind 1 or 2 of our larger competitors and we believe that we've leapfrogged them. Now we have to continue to maintain investments and continue to maintain the relationships between us and them. But we believe when you do that and you're able to maintain a relative parity position in benefits, you'll continue to see nice retention results and that's what we're focused on. But you have to continue to invest in those channels.

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

A.J.?

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

I might just go back to the Medicare Part D question. When you think about -- assuming that we're going ahead with the rebate rule change, when you think about 2020 and setting your bids, I guess some of the variables are how beneficiaries react to rising premiums or whatever, how pharma reacts and how your competitors react. When you think about those variables, which ones of those are the big unknowns and which one do you feel like you have your arms around? And then if pharma is not it, can you just comment on how you're dealing with pharma and positioning yourself for next year, given the uncertainty? Do you have the ability to wait until you get better clarity?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

Well, we don't have a lot of time, as you well know. Getting clarity on the rule sets is going to be important. We have engaged proactively with pharma and they've engaged with us. We're having open dialogue. Until we see the exact rules, it's hard for me to answer those questions. I will say this. We're spending a lot of time at Humana doing some game theory, a variety of different ways to try to understand what different options we have, depending on the rule -- the specifications of the rules. It could be disruptive, obviously, on a prescription drug plan side because of the potential impact to premiums and you just have to look across the system and work with Pharma and understand what you want to do to minimize the disruption.

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

And I know there are a lot more questions but we're out of time. So at the end of the day, the last Q&A, if you want to ask those questions at that time. So thank you. Thank you, Alan. Thank you, Chris. Next, we're going to cover the value-based health ecosystem, so I'd like to welcome to the stage, Renee Buckingham, the President of Humana Care Delivery Organization, and William Fleming, the President of our Healthcare Services segment.
So Renee and I want to talk with you all about how our progress has matured in these 5 areas of influence over the last couple of years.

On the primary care side, we’ve been quite active. We consolidated our South Florida and Texas care delivery assets to form Conviva. We deepened our partnerships with both Iora and Oak Street Health, and we acquired the Florida Physician Group in Orlando to expand our footprint and to enhance our capabilities in that geography. We’ve been advancing our de novo clinic builds with Partners in Primary Care to give us more scale and more capabilities, including in the Walgreens locations in Kansas City. In 2017, we dove deep on home health, resulting in the closing of Kindred at Home and Curo in July 2018. And since that time, we’ve been operationalizing those pilots and I’ll dig deep with you on -- in a second on that.

In 2018, we laid the road map for integrating our platforms and more meaningful data sharing between our various clinical assets and you’re going to hear more about that in just a second. We’ve also more deeply embedded behavioral health and pharmacy as integrated capabilities in our operations. And we are now beginning to operationalize social determinants of health. All of these serve us as very important use cases. And all this progress has been focused on advancing chronic condition management, getting local in our communities and the communities that we serve, with the priority of demonstrating improved clinical quality and health outcomes that you heard Bruce and Alan and others talk about.

We’ve talked to you several times this morning about the importance of being local and we put this map up here to show you that we’ve built over a period of years a broad proprietary network of primary care models. Those models include not only our own brands of Partners in Primary Care, Family Physicians Group and Conviva care centers, but also our joint venture relationships and our unique contractual relationships that George referred to as well. Collectively, we refer to these as our proprietary primary care models. Today, we operate those models in 30 markets across the country, and we’re continuing our investment and expansion to bring primary care to local communities. So in 2019, you’ll see us continue to expand in places like Houston, Texas, Charleston, South Carolina, Memphis, Tennessee, just to name a few.

These models are different from the traditional fee-for-service practices in that they focus on whole person care and they’re expressly designed for the needs of seniors with chronic conditions. What makes these organizations different is that we tend to place these in communities that are medically underserved, in lower socioeconomic communities where the emergency room is typically utilized as the primary care office. We recognize that there is a shortage of primary care physicians and so we want to bring these services to communities that otherwise might not have them.

What’s also different about these is that they are built around not only a primary care physician but a care team of clinicians. That includes a social worker, a behavioral health specialist and a care coach that all work collaboratively with the primary care physician to make sure that we are coordinating care and helping our patients navigate the entire health care ecosystem. Because this care model is built around this integrated care team, we limit the number of patients that the care team takes care of. So in our model, there are about 700 patients are managed by a care team. They see somewhere between 12 to 15 patients a day. Typically, our patients are highly complex, polychronic seniors, who require longer appointment times in order to ensure that we’re addressing all of their needs, not only their clinical needs, but also many of their social determinants of health needs as well.

The way in which we ensure that we can continue to make these kinds of investments is that we operate our centers within a value-based model. And so that means that we can make strategic investments in building out capabilities that we know deliver better outcomes for our patients, like providing social work inside a primary care practice, because we’re not focused on the traditional fee-for-service transaction and billing of a specific service. We’re accountable for the entire population and all the care that goes on relative to that population.

And finally, we work very diligently to make sure that we are coordinating care across the entire ecosystem. And so that means that we work to identify preferred specialists and other allied health professionals to make sure that not only are they providing the right kind of care for our patients but they’re doing that in the right setting. But equally important that they’re open to working with us in a open dialogue and a part of a broader care team rather than us simply referring the patient, handing the patient off and then not knowing what’s happening post that visit.
We have several models that we refer to as our proprietary models. And in the case of both Conviva Care Centers and Partners in Primary Care, we have the same mission and we have the same business model, but our strategy as to how we utilize those are different. Partners in Primary Care is a payer-agnostic model. It’s purposely built for repeatability. Its intent is to go into markets that are less mature as a Medicare Advantage marketplace and in communities that typically don’t have this type of primary care.

On the Conviva Care Center side, this is bringing together a variety of brands, primarily in South Florida and Texas, where the marketplace is far more mature. The physicians participate in a care model that has advanced to meet the needs of that more mature marketplace, and we felt that it was important that we allow them to continue to focus on practicing that in more advanced environment without being slowed down by the needs of less mature marketplaces.

Our preference is to build centers de novo. But that doesn’t mean that we won’t look for opportunistic -- opportunities to acquire practices where there are aligned philosophies with regard to care and where there might be geographic or unique capabilities that round out our capability. But acquisition is far more difficult in that there are more risks associated with the transformation and the change management with those physicians necessary to get them to change from the traditional fee-for-service model that they are likely to be currently practicing in to the integrated value-based senior approach that we have in our model. It’s difficult for physicians to participate in multiple workflow changes where they operate one way because it’s the fee-for-service transactional business and they operate a different way in a value-based holistic approach.

We recognize that there is a shortage and so we’re working very closely with organizations to create partnerships where we can find physicians who are like-minded, who are interested in this. And we have also changed the way in which we recruit physicians, focusing more on making sure that they understand our model of care and inviting those physicians to come participate in a site visit with us locally, so that they can really opt in to the care model versus that traditional interviewing process where they simply learn about the practice in an interview and agree to participate.

**William Kevin Fleming** - **Humana Inc. - Segment President of Healthcare Services**

So we are bullish, as you've heard throughout the day, on home as an important place for care. Most people want to be in their home. It’s where they want to be. It’s a powerful point of influence to connect with them where they are and to understand the context of their life and how it impacts health. It’s a lower-cost site of care. And the advancements in technology with things like remote monitoring and telehealth make home a powerful place for care delivery and how we can truly advance health for the people we serve.

And we’ve been maturing our capabilities in the home. We started with telephonic and in-home care coordination with Humana At Home many years ago. And we’re now extending our capabilities by actually laying hands on the member, on the patient, with our work with Kindred at Home. These combined capabilities allow us to deeply advance the clinical care models for not only post-acute care but pre-acute. And all these capabilities allow our clinical models to progress from restoration to palliation, to advanced illness.

Our journey into the home is in full gear. We are going. We are intentional about not only advancing the pace of it but also the nature of the integration and how these capabilities come alive as platforms from which many care models can be delivered. We believe these next few years will be an important period of time for us and powerful work as we transform the home into a comprehensive care delivery setting.

The power of this work will continue to allow us to address the inherent wastage in the system that’s represented by the nearly $3.5 billion of post-acute spend as one of the primary value levers that we’re chasing. Without question, Kindred at Home brings us scale, with the more than 100,000 patients they see every day through their nearly 50,000 clinicians in the patient’s home. These clinicians are truly able to lay hands on the patient. They’re able to touch the patient because they are Medicare certified for home health. And they’re able to do all the important things as they’re helping that person solve their health problem around some of the basics like taking blood pressure, to the more advanced like taking care of a wound if a person has diabetes, like in the graph that you saw where -- that Bruce showed, where it was going up and to the right, along with all the other complexities of comorbid and chronic disease.

When these capabilities are combined with Humana At Home, it really forms a powerful thing around care coordination and care delivery. It creates a difference in the life of the patient when they need us and they need it the most. It is these capabilities that serve not only as trend benders for the health plan but also serve to improve clinical quality by way of the Star scores that you heard Alan and George talk about, by continuing our
progress on medication adherence that you heard Alan talk about, and importantly, in solving medication reconciliation problems as people leave the hospital. All of these capabilities come alive as an being an extender of the physician, outside their office into the patient's home where they live their life. And the feedback loops that we've created and that we are going to continue to create will allow the doctor's office to have stronger clinical integration and how the care team that Renee in part talked about and then we will talk about a little further here, comes to life on behalf of the patient.

So we're excited about our results. While we are early in our journey -- with our journey to the home, our conviction is validated by what we're seeing. These care models are coming to life in 5 pilot markets here in the U.S., in Charlotte, Virginia Beach, Richmond, Dallas, and recently, in Cleveland. We are now sharing data about the whole person between our respective organizations, between Humana and Kindred at Home. This helps with a stronger care plan. So when that clinician is in the home, they know about the person well ahead of time. It’s a productivity opportunity for that local clinician who’s working on the front line. And importantly, what that product activity opportunity gives the clinician is the gift of time. It gives them the gift of time so they can practice at the top of their license. They can do more for the person rather than be a historian of the person’s care because of the sharing of the data.

We have also advanced many operational and operating model changes with our respective organizations. We are targeting patients with chronic conditions, who need deeper nursing engagements versus the typical therapy that you see home health chase today. We are selling into different referral sources. Typically, it’s about institutions. We’re focused on community-based physician referrals and you’re going to see some of that here in a second that Renee will talk about. We have made timeliness to start of home health a priority in our value-based contract. We want Kindred at Home to be out with our members in much less than the 48 hours that the contract calls for. And all of this aligns nicely with the new PDGM payment model that is hitting the home health industry 1/1/20. The work we’re doing with Kindred at Home certainly helps our members, our health plans, our population, but it also serves to prepare Kindred at Home for that fundamental change that’s come in at the home health industry here in a few short 9 months. While we’re early in our journey, I think this slide demonstrates a lot for you and it shows you that our results are promising and I hope you feel the energy that we feel around this.

On the health outcomes side, I think you will agree that a 38% reduction in hospitalization rates and a 15% lower ER visit rate is a powerful thing to lower cost, improve quality and keep people where they want to be, which is in their home. And advancing the timeliness to start of home health, along with measuring patient satisfaction, demonstrates that we really want to work on these products and these services through a member-backed lens. What's important to the consumer, what's important to the patient is important to us. We're trying to wrap that in our products and services as we're bringing this to life.

And these results are important, not only for the health plan side of Humana, but also how Kindred at Home shows up in the future as a payer-agnostic capability. At the same time, we have been very intentional about Humana's focus in pharmacy and pharmacy advancement. You've already heard some of it this morning. From a scale perspective, we have it relative to the fundamentals of running a pharmacy and running a PBM. We pay for more than 430 million prescription equivalents for the 10 million members we serve. For those of you who wonder about the notion of scale in this room, that equates about 40 million commercial equivalents. We have scale. We dispense more than 42 million mail-order prescriptions and well more than 500,000 specialty prescriptions. All of this representing just more than a 30% combined Humana Pharmacy usage rate across our various products and services. And we've done all of this, I might remind you, from a member-backed lens. We know that pharmacy is the first-use benefit. We also know it's the most used benefit.

And so winning these awards and combining that with our work on Net Promoter Score and having our associates every day showing up, thinking about how do I improve the experience, how do I create a better digital platform, how do I do things that are member backed is a powerful combination. It's resulted in an external validation where over the last 8 years, we've either been first or second in J.D. Power from a consumer perspective and we've won that in that context most recently.

We've been operating our pharmacy business, I would argue, as the industry's longest-standing, retail-focused pharmacy benefit manager, where the financials around rebates and network are passed to the health plan and they show up to the consumer and the fundamentals as you heard Alan talk about and in part Chris talked about around premium and point-of-service cost. We believe deeply in giving everything we can to helping our consumers win.
And we focus the deeper goodness of our work on the clinical integration for how we show up. It’s how we integrate with the health plan. It’s how we integrate with the physician practice that matters. It helps us advance things like medication adherence and providing medication reconciliation at scale. Those capabilities are super important to driving to better health outcomes, improved quality and better trend benders.

And we’re supporting Renee’s care delivery business with 45 embedded pharmacies that get these local pharmacists to the tops of their clinical license. They’re participating as part of the care team that Renee is going to demonstrate for you here in a few minutes. These pharmacists inside these local clinics act way beyond the value of being a dispenser of pills. They have the freedom to serve, to be an extender of the physician, way beyond the exam room in the daily and monthly interactions with the patients they serve. And it’s all in the context of chronic condition management and chasing disease progression and the slowing of it.

And on top of all that, as another area of influence, our Bold Goal work has matured such that we’re now starting to operationalize – easy for me to say, operationalize social determinants of health. We develop both local and national partnerships that help with these various aspects of social determinants, whether it’s food insecurity, whether it’s isolation, whether it’s loneliness amongst many other things that make up social determinants. Understanding our members beyond the context of a medical or pharmacy claim is what we’re chasing. We believe it is a powerful area that helps us understand their health trajectory and what’s going on in their life and that how that influences overall health care costs.

For example, if you have diabetes and you cannot afford your medicine and you don’t have edible food at home, both of those are challenging circumstance. On the public front, we often hear about the affordability of medication. What we rarely hear about is the access to food. And if you believe food is medicine, and you believe that we’ve got to make sure that our members, our patients are able to – not only be able to afford their medication but also have access to adequate food. Especially, if you have diabetes, this is important context for how we show up and how we solve the problems of these members to avoid that hospitalization, to avoid that ER visit. Similarly, understanding the safety of a person who’s in their home, especially when they’ve come out of the hospital post procedure. You can imagine we have our members who come home from hip replacements and knee replacements, and they’re often challenged with rugs that are flipped up, bedrooms that are upstairs, and all the daily living things that make it challenging to recover adequately post procedure. Could you imagine going home in your bedroom upstairs and you just had a hip or a knee?

Those are the things that we’re really trying to think through and evolve in our clinical models with Kindred at Home, with Humana At Home and how we’re showing up. Because we know if we can get to the pre-habilitation visits in that type of example and that type of context, it allows us to understand how the member is living but also how do we avoid that next event that could happen from a population basis. These type of examples have an incredible impact on us from a healthy and an unhealthy day perspective for our members. Making this a priority, embedding this capability deeply and how we show up every day, whether it’s Kindred at Home or Humana At Home, or pharmacy, or in Renee’s shop, is really what we’re striving for.

Renee Jacqueline Buckingham - Humana Inc. - President of Care Delivery Organization

So our consistent strategy of developing clinical capabilities in local communities, purposely built to support those with chronic conditions has matured over the last few years. As William showed you, our investment in pharmacy locations, our relationship with Kindred at Home and Humana At Home and our continued development of primary care clinics results in our ability to create an integrated health ecosystem in several communities across the U.S. and growing.

Today, we want to share with you and bring to life our integrated care model. Several years ago, we talked to you about launching our primary care clinics, Partners in Primary Care, in Greenville, South Carolina, where we now operate 4 clinics throughout that market, as well as one clinic in Gastonia, which is just over the South Carolina line in North Carolina. The marketplace, when we entered, lacked adequate access to all primary care and had no senior-focused primary care. It is an immature managed care marketplace but a growing senior retirement community. And we -- today, we serve over 5,000 patients in our practice, including our Anderson Center, which is now at capacity, and we are looking for additional expansion opportunities to be able to continue to serve the needs of Anderson, as well as the rural community that surrounds Anderson, South Carolina.
What we're going to show you today is a critical component of our care model, which is our morning huddle. Every morning, the clinicians within our care center meet to talk about the needs of our patients who are coming into our practice that day, as well as the patients who are either at home or in an acute or subacute setting that we need to make sure we're coordinating the care and making sure that there are appropriate care plans in place to meet their needs.

I hope that you'll see that we coordinate not only what's happening inside the center for that patient that day, but that we're also coordinating across the entire ecosystem. And we'll show you how that coordination comes to life with our partner, Kindred at Home. So welcome to our morning huddle.

(presentation)

Renee Jacqueline Buckingham - Humana Inc. - President of Care Delivery Organization

So our care model is maturing and I hope that you saw through the video that the services that we can provide through Partners in Primary Care truly are differentiated and coordinated across the entire patient need. You saw in the video that we're focused not only on the care required to manage our patients but also on the social determinants of health, making sure that people have access to healthy foods, as William mentioned, in this particular case, helping a couple with their financial needs, helping them to qualify for special assistance programs, including Medicaid, is a big part of what we're doing to make sure that we're holistically addressing the needs of our patients.

So we're excited about the fact that comprehensive care coaching, transition of care planning and leveraging our integrated home care capabilities is really demonstrating that it's working in terms of results. We're seeing reductions in overall admissions. We're seeing reduction in avoidable admissions as well as readmissions. And because we're focused on early intervention and early disease identification, we've committed to a focus on seeing our patients early and often and completing an annual comprehensive wellness assessment each and every year to ensure that all of the patient's needs, inclusive of their disease burden, is identified early so that we can ensure that their care plan is well identified and communicated through our emerging common care plan that is being enabled by technology and our platform.

William Kevin Fleming - Humana Inc. - Segment President of Healthcare Services

And so we are smartly utilizing our resources to test and learn. We like giving ourselves the optionality to prove that the care models and care teams work before we spend the company's precious capital on these businesses. With each of these capabilities that you've seen, we are employing things like rapid test and learn, like managing through lower investments earlier while giving ourselves pathways to scale.

As an example, our pathway to full acquisition of Kindred at Home affords us the gift of time to demonstrate that a payer-owned home health agency can deliver and fulfill the clinical goodness and the slowing of disease progression that Bruce talked about. At the same time, our pathway to scale the clinics inside the retail locations with Walgreens also gives us time to work through many dimensions of that work. Things like membership growth and how fast that scales, creation of the clinical care teams, getting the right clinicians to work in those types of practice environments, site location amongst many others.

And importantly, advancing our infrastructure around technology and analytics in everything that we have just described is absolutely paramount to delivering a differentiated clinical experience and in delivering robust health outcomes. You're going to hear from Brian and Heather in a few minutes, and they're going to dig deeper with you around technology and digital health. And that's so important to supporting everything we just described. From the business operations view, we have prioritized several things and how we show up for both the member, the patient as well as the clinician, where we're advancing things like sharing the data across our various capabilities so that we get to one common care plan, no matter where that member or patient is at in the system.

Advancing our analytics with the usual claims data to be sure but also adding in the social determinant data so that we can get to the next best action for that member in the context of their life. Bringing forward a refined clinical product management mindset in our capability so that everything we do and everything we think about is customer first. We want our products and services to be deeply understood and understandable
in that context of how each member lives their life. If we do good for the member, we believe we can and will do good for delivering experiences that improve quality care and drive towards that health outcomes.

Let me give you an example of something that I think might bring some of this to life for you and it's something that I suspect many of you or most of you in this room use regularly and that is to use the Internet and maybe, even specifically, Amazon to order your stuff.

And so if you think about it, when you go to Amazon and you tell the system that you want to buy shoes, Amazon does a call-out into its ecosystem that it's created of all the shoemakers. And they bring back what does it cost, what are the features of them and what manufacturer do you want to buy them from. From there, you're able to receive that information and make your purchasing decision. What Amazon does not have is a database of all the shoemakers in the world. They've created a connected ecosystem where the shoemakers can plug in to their operation and when that call-out happens, it brings back the information about what they're trying to sell.

I would submit to you that we've embarked upon a similar journey, a similar path to create a connected ecosystem that allows our capabilities to interact in that way, whether you're in a primary care office, whether you're in home health, whether you're in a pharmacy, whether you're in behavioral health or whether you're in a partner that's dealing with social determinants. Imagine for a second being a physician in a clinic, whether we own it or not; imagine being a nurse in the home; imagine being a behavioral therapist on the phone; imagine being a pharmacist in one of our specialty pharmacies or an aid in one of our personal care services program, no matter where that clinician is engaging, imagine their system doing a call-out and asking for the question, "Tell me everything you know about Renee Buckingham." Their local system calls out and because we've created this connective tissue layer similar to what Amazon has done, it allows all the people who know anything about Renee Buckingham, all the systems, all the operations, all the capabilities to bring it back to form one common care plan. And when we do that, we know that good things come to life. We know we get a common care plan, which is important for the physician to do good for the member. We know we get an integrated view of the member because understanding all that's happening is important versus the siloed context of what I might have today.

It allows a team-based approach to care delivery to come to life. You can imagine when we get to that next best action, that maybe the patient today needs a dietitian phone call or visit. Maybe tomorrow, they need a nurse in the home. Maybe they need a pharmacist to help with the med rec issue. Maybe they need some sort of other therapy because that's what's important to them. But it's that context of understanding how this works that allows us to come to life. And on top of that, if you can imagine, as we get this developed, what it looks like through the member lens, maybe even the caregiver lens, if the patient has a caregiver, they'll be able to plug in through their own humana.com or their app and do that same type of call-out to get that same type of rich information versus how they experience the system today. I have my prescriptions over here, I see this doctor, I go to this lab, all that is on disconnected, isolated systems. Bringing all that together, we think, is super important from a platform perspective, from a capability perspective and how we show up. And we believe that this evolution represents for Humana an important movement around our pivot and our going down the path of becoming a health company. It signals a lot of important things for you as we're demonstrating our goodness around health.

The first is the need for deeper integration at these key differentiation points that we've described. And the second is the need for interdisciplinary, clinically oriented care teams and clinical models. And as we do those things, I think you'll see the richness of chasing better health outcomes, getting to a slowing of disease progression, lowering costs, improving health and how all that shows up for the people we serve. And so all of these, we believe, have an important impact on member health, the member experience and growth and retention of the health plan. Thank you all.

And so to demonstrate and further talk about our -- how this gets supported, I'd like to bring on stage now good friends and colleagues, Brian LeClaire and Heather Cox, to talk about technology and digital health.

Heather Cox - Humana Inc. - Chief Digital Health & Analytics Officer

Thank you. Good afternoon. Good morning. So you've heard us talking about personalized and simple experiences as being key and core to our entire strategy. Well, underlying that then is how digital health and analytics will help integrate and deliver against those simple and personalized experiences.
Well, if there’s anything that I’ve learned over the course of time, is that our actual delivery of this is all core to data. Data is at the key and core of all of this. And when you start to think about data, there’s an element here that deserves some context. So let me step this back for you.

When you think about how data is proliferating around the world, I’ve got some interesting statistics here, you have 2.5 quintillion bytes of data being generated every single day. That’s an interesting number, not many of us probably know what that stands for. So a single quintillion has 17 -- excuse me, 18 zeros behind it. 1 quintillion is 1,000 quadrillions. 1 quadrillion is 1,000 trillions. Now we’re starting to get to a number most of us recognize. That’s every single day, that much data, bytes of data is being created.

Now when you start to think about the introduction of things like the 5G network, we will only start to exasperate the amounts of data being generated that’s in the world. At Humana, every single day, we create about 30 terabytes of new data or updated data that is coming into our ecosystem. And when you think about what we’re talking about and thinking about the creation of virtual care, when we get more specific, elements of telehealth and remote monitoring and creating new signals that we want to capture, you start thinking about how we will be proliferating more and more data. You have to start to think about how we then capture, how we organize, how we synthesize, analyze and then create new actions, which then turn into actual interventions that then create new signals for our providers, our caregivers, our care teams that turn into actual real outcomes for our members.

What does this all mean? It means we have to take that data and do something with it. We have to actually turn into something and that’s why this connected digital infrastructure actually means something. So if you thought you were going to want to turn off the ears and not pay attention to this section, this is the key to it all. Because if we’re going to actually enable all of our colleagues to do what’s most important and serve our members every single day, we actually have to be an enabler.

You heard Bruce talk about technology as an enabler to drive customer centricity. It is really key. We’re not off doing technology for technology’s sake. We’re actually trying to deliver real outcomes so that our colleagues can do the great work they need to do. It’s about delivering the experiences for our members, for their providers, for their care teams, for their caregivers, their circle and network of caregivers so we can actually get to those health outcomes and live healthier, happier lives.

So you think about the integration as being critical but it’s also reducing time to market. If we do it right in digital health, we can actually close the gap through innovation, yes, but not innovation again for innovation’s sake. And so we actually get to outcomes and we actually have real agility in the marketplace and it all starts with the consumer at the center of everything that we do.

Now I’m relatively new still at Humana but what I’ve also come to see in the last 7 months is that this isn’t a new thing for Humana, driving innovation in the marketplace and delivering real business outcomes through technology has been something that’s happened over decades.

And so Brian, why don’t you actually talk about some of the real outcomes we’ve been able to deliver?

**Brian Phillip LeClaire - Humana Inc. - Chief Information Officer**

So we have a very strong focus around investing in technology. We’ve made a number of investments over the years that are really driven toward strengthening a foundation on which we’ve developed and delivered capabilities. And in particular, it’s really focused on integrating operating platforms together, enabled through a micro services-based architecture, delivered at scale. Some examples are, in the care management space for the health plan, you heard a lot.

You heard a lot about capabilities that we’ve delivered in support of analytics in the moment. So we identify gaps in care, and then we close those. CareHub, which is our integrated system or capability to enable that, is in use by nearly 30,000 people a day at Humana. Our value-based performance management capabilities, a system we refer to as service fund, supports 53,000 value-based relationships with the providers. And to Heather’s point, it delivers the data that we use through simple and easy-to-understand experiences so that our value-based providers are able to understand their clinical outcomes as well as the financial outcomes that they experience in that value-based relationship.
Our customer relationship management capabilities delivered through Salesforce is a cloud-based customer relationship management system that we enabled through 300 micro services to support an experience that is delivered in the cloud and, to Vicki’s point, has allowed us to deliver capabilities at a much faster pace, and starting with the customer and working back, delivered them a valued experience that also has levered up our administrative cost savings opportunities.

OneMed is a micro services-based capability that allows a physician working with a care manager in the home with a patient who’s newly discharged to reconcile in real time the drugs that they’re on, looking for potential drug-drug or drug-disease interactions and no longer have them understand what to take – when to take it, because we’ve got the pharmacist, the care manager working with them as a patient to reconcile that to one list, which is then available throughout all of their interactions with Humana caregivers.

IntelligentRx is all about a real-time capability, whether it’s through e-prescribing or point-of-sale, an ability to identify potential drug-drug interactions and intervene at that moment of truth, that next best action you heard William referring to, which avoids potential issues because of drug-drug interactions.

And then lastly, it isn’t just about capabilities that we delivered to those we serve, it’s how can you be digital unless you yourself are digitized. So we’ve invested in our own associates and Workday in an implementation that supports roughly 73,000 individuals across the company moving from 17 talent-based systems down to a single cloud-based one that offers a differentiated experience and analytics to support them.

So as we talk about this technology, we often use the phrase stack. What do we mean by stack? To Heather’s point, it starts with data and bringing data together from a number of places so that we can apply analytics to it, advanced analytics. But sitting, that data has to reside somewhere, which is often referred to as infrastructure-as-services capabilities. Think about the cloud. On top of that, you have platform-as-a-service, whether it’s a foundry, like pivotal cloud foundry, where you deliver solutions on top of that, or Google cloud platform, it’s hosted capabilities that developers and engineers can build solutions on top of. Sitting on top of those, Software-as-a-Service. Salesforce is an example of Software-as-a-Service. Workday is an example of a Software-as-a-Service.

And then how do you bring them together so they work with one another, that’s this interoperability layer and there are standards for that. In health care, you heard reference to this FHIR API. That stands for fast healthcare interoperability resource, and an API is an application programming interface. Think of it as a Bluetooth headset. You can pair your Bluetooth headset to your iPhone or to your iPad or to a stereo system or other. It’s a way of connecting 2 things to multiple places and spaces. On top of which, you deliver an experience. And that’s the thing we are all trained to and enjoy best, which is how do we have that frictionless experience. And now Heather is going to talk about where are the areas inside that stack we’re looking to specialize.

Heather Cox - Humana Inc. - Chief Digital Health & Analytics Officer

So what’s important in today’s world versus kind of yesteryear where we all – I come from financial services and now I’m fortunate enough to be in health care -- we all in the yesteryear wanted to build because we felt we could differentiate ourselves and technology’s where we wanted to have our own unique space. Well today, it’s mostly in that stack, commoditized. And so you want to find the unique places where you want to differentiate. But where we want to differentiate today is really around owning as much of the data as we can, and there’s many places in that data space where we want to really focus on how do we leverage our data to build the models where most of our IP will sit, and then how do we create the right interventions to get the outcomes, but then how do we also leverage that data to create unique differentiation in the experiences. So between the interventions and the experiences, that is where we will really find the uniqueness of the Humana model. And so it is the models, the analytics, the interventions, the experiences, all driven by data. And that is where you will find we will be spending the bulk of our time and our focus and how we will be partnering with the various business units to really invest and really find the unique differentiation.

Brian Phillip LeClaire - Humana Inc. - Chief Information Officer

When it comes to where are we going to partner, think of that primarily as whether it’s a infrastructure-as-a-service or a platform-as-a-service or software-as-a-service, those are the places we’re looking to partner. It could be example of e-clinical works for our systems of record for electronic
medical record capabilities. Cognitive services could be through, for instance, a Nuance. Machine learning systems, an example is Shape Security that looks and does machine learning-based algorithms for credential stuffing to protect your systems from access by bad people. It's also in for instance, WorkFusion, which is a capability that allows what’s called robotic process automation that will learn a process and then begin to emulate it and, thereby, drive cost or efficiencies in the processing of the company.

Natural language processing in our service operations organization, you heard Vicki make reference to it. There’s a company called Mattersight, which will listen to real-time calls and will use natural language processing then to do informed and intelligent routing, to get them to a customer care specialist right away that's most skilled to service their need, and that’s an example of a capability that's helped to improve our Net Promoter Score. And then clearly, the public cloud which involves a multi-cloud strategy, Amazon Web services, Microsoft Azure as well as Google Analytics.

Heather Cox  -  Humana Inc.  -  Chief Digital Health & Analytics Officer

Brian, I'm going to pile on now, you're going to see another slide. In areas around machine learning and natural language processing as examples, we are going to use those to enhance our analytics capabilities, and we're going to invest very heavily in these core key areas, but it's going to be enhancing what we’re also going to be focusing on in other areas. So I just want to be very clear that these are very important capabilities, but we don't need to build them ourselves. We can leverage the best in market to be -- bring speed to market as well.

Brian Phillip LeClaire  -  Humana Inc.  -  Chief Information Officer

So where are the areas of focus? First, I'm going to start with interoperability. We’ve talked about that today a number of times. You heard Bruce reference openness, FHIR APIs and so forth, that's a very big emphasis for us.

The cloud, that really speaks to how do you get into the cloud, how do you understand what's happening. It's not just about how do you drive capabilities, but it’s a different view of thinking about no longer is it about data centers, it’s now about centers of data. So you understand where that data is and you work your way to that data, which can be done and has to be done in a hybrid cloud space.

And then blockchain. Some of you may be familiar with our Synaptic Health Alliance that we helped form with United, Aetna, MultiPlan and others. It really says what is happening with blockchain. There are some who view it as the Internet of the future. What does that mean for health care? How can we test and learn our way into it, starting out with an initial focus around provider data and understanding how the things we all go after, we can go after once and we have an understanding of and a faith, if you will, in the value and clarity of that data.

Heather Cox  -  Humana Inc.  -  Chief Digital Health & Analytics Officer

And I'll pick a few here to focus on. We've talked about -- a bit about virtual care already. My partners have as well. But machine learning platform, this is a really important focus area for us, making sure that we create scalability, reusability of the algorithms over time. It's 2-end -- a 2-pronged strategy. One for our core data scientists that have a specific set of needs as well as creating a platform for what we're calling citizen data scientist, where we can have our general business analyst out there getting access to algorithms to really enhance the power, where they don't have core data science capabilities, but they need to have access to machine learning capabilities themselves. And so, really, force multiplying our data science community by giving access to a platform for our business analysts. So that's really important set of investments for us, over time.

Analytics platform-as-a-service, creating capabilities for our entire business community to have access to analytics, democratizing our data, a real struggle we have again and companies that have grown up over time, this is not unique to health care as I've learned, me coming from financial services, data is too much in a silo. We've got to find a way to democratize it and get access to folks and get it to their fingertips. And so finding ways to make sure that anyone can get to the templated business reports that they need is core and critical. So this citizen business analyst approach here is what we're going for. And so this is again another core set of capability we're really bring to bear. And again, natural language processing and AI to scale, another core set of capabilities we're going to be focused on over the next few years.
Now in addition to investing, we made a core set of announcements last year, which I was a beneficiary of and was able to join the organization as a result of. And I want to be really clear here. When Humana made the announcement around the formation of the digital health and analytics organization and Studio H, this is a really interesting one because it was not a new organization. A new organization was formed, but not new capabilities. I'm new so I get to say this, I think it was a brilliant decision made by Bruce and the management team, and taking capabilities that existed across Humana and placing them into a single organization. So this isn't new, it's about leveraging existing capabilities but in a fundamentally different way. And here's what, I would say, this new team at Humana looks a whole lot like what you would see at a technology company outside of Humana. It has, as the capabilities indicate here, all of the capabilities that you would see at a core new health care technology that was started. But all of these existed pre- my arrival. I'm the beneficiary of getting to run this new organization.

And the focus here is really to be the sharp edge of the wedge to accelerate and move forward on this digital health agenda. And so we're not something different and off to the side. It's not a lab. It's not the separate thing, [running]. We're really a core part of enabling the business strategy. We're working alongside of all of the folks that you heard this morning. If we don't have their partnership in getting an agenda moving, we don't do the work. So you're not going to see us off working on something separate and interesting and distinct. We are in collaboration with the core business strategy to help them accelerate and help them transform their agenda. And so it's very exciting.

In addition, you heard us talk about opening Studio H in Boston as well as what we're doing to really lift our core capabilities across our major sites in the U.S. And what we're focusing on here is making sure we can continue to attract the talent along these core capabilities, software engineers, core data scientists, human-centered design experts. And what we're finding is we're having great success, especially with a new location like Boston, where it's the epicenter of health tech, where you have core academia surrounding core health innovation, where you have other great health companies really focused on driving the health agenda. And you have a company who's so focused on creating great health outcomes, combined with a giant data set.

And why is this exciting? You have people who are really compelled by our mission, knowing we have a giant data set, and then knowing we are looking to drive real health outcomes. All of that combined together creates real excitement for the agenda and the work that they can do, knowing they can drive real change in the system. So we're finding we have more demand than we have open jobs right now, which is a great problem. We don't even have to advertise, we have people knocking on our door. We have great locations, we have great sites and we have great mission. And we are seeing great people come to, want to work at Humana as a result. So super exciting for the agenda we have ahead of us.

In addition, we have, at the core of what we're trying to do, building this digital health platform. And so enabled by the infrastructure that Brian and I are in partnership and are rebuilding and focusing on as we move forward. And it's really important that we continue to extend this platform. And I have a great surprise as I walked in the door. Renee's work, she's been driving for the care delivery organization in partnership with the team out in California, the Transcend Insights team, which became a part of the digital health and analytics organization. At the core of the work they have been driving, they were building a population health platform. And with that platform, they really were creating a platform that was removing friction from the system. They were building core personalization. They were creating trigger-based interventions. And when you stare at it, it was a cloud-based platform. And they were ingesting data from Humana and creating the opportunity to truly create real health outcome. You saw the video, you heard her talking about it. Well, the way that they constructed and architected this platform, what we now have the opportunity to do from a digital health perspective is at the core of it, ingest new sources of data and extend that platform. And now we're going to be able to use it to deliver against virtual health solutions. We're going to be able to use it to deliver against innovation solutions. And we continue, it's -- let's equate it to an Amazon or a Facebook or other technology platform, and we're very excited about this. The way that it has been architected with open source tools and technology, we're on to something really great because of the way they thoughtfully approached this. So again, we started with nothing new here, we're starting with the source of something great, and we get to extend and build upon it. And so we now have, again, with the source of something really smart and well-architected, a core longitudinal record as well, and we are able to take that technology at the base of it, reuse a large part of it. So they started with a view for the doctors, a view for the care teams, we're now extending it for a care -- a view for pharmacists, a view for utilization management, and we're now extending it for a view for our consumers, because we have an underlying platform built with micro services and APIs. It might not mean anything to you. Brian tried to explain it, thank you. And we're able to reuse and scale technology over and over. And so that's the beauty of modern-day technology and tools and leveraging talent pulled together in a fundamentally different way. And so we actually have a video that we want to show you that kind of shows you the power of leveraging this technology in a different way and what we'll be able to bring to market over the course of the next several months.

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(presentation)

Heather Cox - Humana Inc. - Chief Digital Health & Analytics Officer

So a big thanks to Brian's build on a digital infrastructure, and here we go.

Brian Phillip LeClaire - Humana Inc. - Chief Information Officer

So to close it out, just to take a -- bring the aperture out beyond Studio H and digital health and analytics and across the enterprise, one of our big areas of focus is how are we going to be working differently. And it starts with and you've heard the expression, the customer and working back, leveraging use cases, small cross-functional teams. You heard an example, Vicki referred to as Rapid Force, that was in our service operations organization centered around the customer experience and service delivery. And it creates this test-and-learn environment where we can get to the desired outcome faster, cheaper and we can fail fast, learn from it, adapt and revise.

And with that, I think we're bringing Amy up for a panel and Renée and William as well.

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

Okay, we'll get started with the Q&A. So raise your hand. We have microphones. Dave?

QUESTIONS AND ANSWERS

Unidentified Participant

Just 2 quick questions, actually, on Kindred At Home. It was discussed earlier, just the access problem in Medicaid. I'm curious when you guys did the independent assessment and when you talk to states, do they recognize and acknowledge the differentiation of your home-based capabilities? And then the second question is how do you think about filling in additional markets with what will likely be an accelerating inorganic opportunity post the implementation of PDGM as some of the smaller players likely struggle a little bit more with the implementation?

William Kevin Fleming - Humana Inc. - Segment President of Healthcare Services

I might phone a friend on your first question and ask Alan if he's got any thoughts on the Medicaid. I think that was more of a health plan question. But on the Kindred At Home view, geography, I will tell you one of the things that as a board, we're pressing on with Kindred At Home is taking our thesis of when we went into this deal, that about 65% of our members are within a 45-minute drive time of a typical nurse in a typical agency. We'd love to see that advance, to be sure, beyond 65%, but we're balancing geography expansion versus capability builds. You can imagine home health agencies have been built a lot around therapy and therapy visits, and those are super important. But we also know with this work at PDGM and what we're pressing on, that we need more nursing capabilities, more things like wound care, more technology for chronic care and those sorts of things. So I think going forward, you'll see a balance between us talking about geographic expansion versus going a little broader around capability builds. Fair enough?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

The answer to your question is yes. So I really think what we're doing with Kindred, obviously, we like the way it's going to help us advance Medicare. But I believe there is a big play in Medicaid, too, especially as you think about access and transportation challenges and others and the ability to be able to open up the nation's largest home health care agency to places like Florida Medicaid and other Medicaid states that we may win. I know
that that's something the state is looking at. I believe it helped us as we think about integrated care delivery in Florida. And I'm bullish on where it's going to take us in the future.

Amy K. Smith - Humana Inc. - VP of IR
Thank you. Your initial response wasn't very insightful, but you redeemed yourself there. Charles?

Charles Rhyee - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst
Also 2 quick questions. Partners in Care, maybe talk about the Walgreen's partnership here and how that compares to what you've seen so far? Being as you had more experience. Maybe kind of compare and contrast how the experiences look different for your members? And then second question, you talked on (inaudible) and virtual care. You talked a little about the decision between buy and build. When you look at virtual care, is that something you would look to buy versus build? Or I guess it depends on maybe more granular within that, like behavioral versus general medical?

Renee Jacqueline Buckingham - Humana Inc. - President of Care Delivery Organization
So I'll tackle the first half of your question, on Partners in Primary Care. The centers inside the footprint of Walgreens that are collocated look identical to our freestanding centers. In fact, there's a picture that's been on the loop here that I'd encourage you to look at. They're smaller. They're about 2,500 square feet, so 2 care teams versus traditionally 4 care teams in our standing -- freestanding centers. I think it's early. We're pleased with the progress that we're making. Walgreens has been a good partner. We're finding that seniors understand that it's truly full-service primary care and not services being provided in an urgent care setting or by a nurse practitioner. Obviously, that's very important for seniors, that continuity of care, especially those who have chronic conditions. So I think we -- we're excited that seniors understand the difference. Just a couple of early insights, obviously, being able to come to one geographic location where I can see my primary care team, whether it be a physician or some other care provider within the care setting, inclusive of the clinical pharmacists that Walgreens provides that's now embedded in our care team has been valuable to our patients, but that they can also, in that same visit, have a prescription filled or do whatever business they need to do inside the store has also been positive. You think about people with chronic conditions who oftentimes have mobility issues, or low-income seniors who have transportation challenges, being able to have all of that done in one geographic location has been positive feedback so far.

Heather Cox - Humana Inc. - Chief Digital Health & Analytics Officer
I'll start. Our early hypothesis is we are actually going to quilt. I know it's a strange word, but I think we're looking to quilt together sets of services because I think what we're starting to see is our desires are quite, I won't say unique, but there are -- there's no one set of providers that can provide the services that we're going to want to deliver for our membership. And so quilting together the services is going to be the best set of options for us. And so we will again create the experience layer that is going to be appropriate, and that's where we will create the differentiation.

William Kevin Fleming - Humana Inc. - Segment President of Healthcare Services
And you can imagine differentiation could come to life differently if it's a patient or a member-focused telehealth capability versus something that might be more provider-enabling whether the provider's a nurse in the home, a doctor in the home, a doctor in the clinic. There's different context to how to think about what we're -- we want to think through to enable the care models to come to life.

Amy K. Smith - Humana Inc. - VP of IR
Okay, Gary?

So learning from my peers here, I have a 3-part question. I don’t know if it’s possible to go back to the slides. But on Slide 37, you showed how many Medicare Advantage members were in each different part of the pathway to risk. So path to value, full value, proprietary, et cetera. So my question was, one, can you tell us where you think that is in 5 years? Two, how capital-intensive is that journey? And then three, I really appreciated the couple of the market examples you gave. Could you give us an example of a market where a hospital system, to preserve the status quo, has bought up a lot of the primary care docs or multispecialty groups, how do you engage this strategy in that type of market?

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

It’s an impressive question. I think we’ll ask George to come up and address that for you?

William Kevin Fleming - Humana Inc. - Segment President of Healthcare Services

Yes, yes.

George Renaudin - Humana Inc. - SVP of Medicare East & Provider

Multipart question, okay. So I’ll start off with the -- you asked about capital intensiveness. Obviously, the proprietary models Renee talked about, when we were building out de novo, they take capital. And I think, Renee, you went through some of the numbers on there, about $1 million in the first year, and then a 2- to 3-year rate until you get to breakeven. So I think in the proprietary models because of the size and scale that they are, they are -- they do take capital but it’s rather low when you -- in the grand scheme of things. With regard to our value-based continuum and how we see this evolving. What we want to do is we want to move those more into the full accountability. But we’re not going to push them to a point where they’re uncomfortable. We want to make sure that they can handle that continuum, can handle the risk we’re putting them in. But we obviously see that we want to get to -- over 20% of our members in proprietary models. And then we’d probably like to get to the point where we have 50% or more in the near term of our members in value based and push that -- continue to push that further as time goes on, but again, not pushing them beyond their comfort. With regard to our hospital systems, it’s been interesting. Two of our longest-standing, best-operating provider groups who are at full value, who have been taking risk and have been doing it for a long time, are Advocate in Chicago and Ochsner in New Orleans. They do this very well. I came out of the Ochsner system. I ran Medicare for Ochsner health plan many years ago. In April 1, 2004, we were purchased by Humana. Ochsner has been doing this for a long time. It can work. You have to be focused though. And what we're seeing is more and more systems are getting that focus on value-based care. Just recently, I was talking to a large national provider that we are very close to a full agreement with, that is looking to get into value-based care, and looking to do with us because of all those proven capabilities I discussed. They see learning with us as a lower-risk way to understand value-based care that they see is being pushed, in their perspective, on them. We want to help them make the transition from fee-for-service to population health.

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

And we’re at time, but we will have more time for questions at the end of the day. So with that, unless you all want to skip this portion, we were going to do the financial overview next. I’m guessing this crowd doesn’t want to do that. So please welcome Brian Kane, our Chief Financial Officer. And he will be followed by Vishal Agrawal, our Chief Strategy and Corporate Development Officer.
Very good. Thanks, Amy. I am impressed that you guys have sat here for over 3 hours. We've barely talked about EPS. I don't think the HIF was mentioned. Pretax margin definitely wasn't mentioned. So I will try to rectify some of those imbalances here and give you some color on some of these issues I know you're very focused on. And obviously, we'll have time for questions at the end.

Just to start, '19 is actually starting really nicely. We reaffirmed today our revenue guidance of 11% to 12%, our EPS growth of 17% to 20%, that's really several years in a row of EPS growth in excess of our 11% to 15% growth rate. And while it's very early, and again I want to stress it's very early, it's only March and we have very, very little claims data, so far, so good. So the early indicators look good, our admissions per thousand look good. The drug data that we've seen is looking good. The new members, sometimes when you get a lot of new members, you're concerned that you might see some issues, so far, so good there. So overall, the business is doing quite well.

And in fact, the other thing we've seen from a membership perspective is this OEP, this open enrollment period, which is the first time we've had that in a number of years, where a member has the ability to switch plans, a onetime switch. There's always some concern that you might lose what you got in AP. So far, so good on that.

So we feel good about '19. Again, it's very, very early. We'll get more data in the coming months. But I know that's on your mind, so I wanted to give you a perspective there.

2020, so we're not going to give 2020 guidance today. I know that's disappointing, but we're not. But what I would like to do is just give you some headwinds and tailwinds that we're dealing with.

First, from a tailwind perspective. Clearly, the new MA membership growth that we got in '19, that will grow very significantly this year. They don't come in at a very high margin. In fact, as we've said, typically new members are largely breakeven. So as they get into our clinical programs, as we document them, we start seeing an increase in underwriting margin. In fact, I'll show you that in a bit. So that's clearly a tailwind.

Our stars are 84% in 4-star plus plans, plus our 2 5-star plans, obviously, very, very important. We feel really good about the work that we've done there. And so that will help our 2020 business as well.

We've been very focused on productivity, and I'll come back and talk about that, but that's going to be an important element of our business. It has been the last few years. We've been very focused on taking out costs and being very deliberate about spending money where it makes sense to spend money and cutting things that makes sense to cut. Because there are a lot of things we need to invest in, all the things that we've talked about, we're trying to recycle those dollars as well as drive earnings growth.

Return on strategic investments. You've seen some of that with Kindred, with Partners in Primary Care, with all the IT investments we're making. 2020 we'll start seeing small elements of that really translate into dollars. I would say it's a multiyear process. We invested in Kindred, we're investing in PiPC, a multiyear return, but we do expect to see some of that in 2020.

The other thing that Alan alluded to, and you guys have asked about, we do think there's going to be PDP disruption next year, particularly if the rebate proposal goes into play. And so to the extent that premiums go up, and depending on the plan, premiums will go up, it is conceivable that more members will shop on PDP. And when they shop, and they look at opportunities MA could be a nice alternative to PDP. And as Alan said, the -- we expect the MA disruption, from a premium perspective, to be meaningfully less than PDP, and that's really a function of the structure of the way benefits are designed, it's more co-pay focused than coinsurance-focused, there's higher percentage of brand utilizers in PDP than MA, and so that drives the potential impact from that disruption.

So the business is doing well. We feel good about our performance. But there's a little thing called the HIF that you guys are very focused on for 2020, we're obviously very focused on that. It is a very significant number. It's a very significant headwind that we're focused on overcoming. I'll talk about that in a minute, but it is something that we have to really take into account. Given the size, it's actually increasing from 2018 to 2020,
and that’s a function of the fact that our market share has increased. The HIF is a premium tax, and you pay based on your market share -- actually, based on your ’19 market share, and so we do expect that number to increase and it’s nondeductible.

Some of that rebate uncertainty will play into PDP disruption, as I mentioned. To the extent that the rebate proposal doesn’t go through, we also have to be mindful about how manufacturers are going to behave as we bid for 2020. So we’re very focused on that. I think our teams have done a wonderful job of engaging with the manufacturers, trying to understand what their plans are. But nonetheless, there’s some uncertainty there.

And then we’re going to do to invest in this business. We have to invest in this business. There are a lot of great opportunities that we’re pursuing that we think will have very material impacts on the health of our members.

As Bruce started the day and as you heard everyone talk about, we are focused on improving health outcomes. And in order to improve health outcomes, we have to invest, we have to commit the capital. We could drive earnings growth at the expense of that, and that would be a mistake because we would significantly undermine everything that we’re trying to do. And so you’ll see us invest and we’re going to continue to invest.

Okay, so our favorite topic. It’s actually my least favorite topic, but it’s the health insurance fee. As I mentioned, it’s increasing from 2018. 2019 this year, we benefit and, importantly, the customer benefits from the HIF going away, and, the customer benefited very significantly from the HIF moratorium. In fact, most of those dollars and pretty much all the pretax dollars went back to customer benefits from the HIF.

Now the after-tax element, as you know, we called that out separately, went to shareholders. And so we typically balance that pretax after-tax notion. And again, it’s not a perfect split, but it gives you a broad sense of how it impacted our business in 2019. You can see in 2020, $1.2 billion. That’s $20 PMPM on a pretax basis. That’s a huge number. Now it won’t end up at $20 in our bids because there’s a lot of bid math that nets that down to some extent, but it’s material, and it’s something that we’ve got to deal with. And then as I mentioned, there’s the after-tax impact that’s the $6. In 2020, that’s worth $2.15. So that’s not an insignificant increase from 2018.

And so again, to support and to think about that as we think about 2020 and our ability to drive earnings and growth, that, clearly, is going to impact it. But importantly, this is a major public policy issue. There’s significant customer impact and some disruption that happens when the HIF comes in and out. We’re obviously working very hard in talking to our representatives in the Congress about how important this HIF is for our members.

We’ve talked about our pretax margin of 4.5% to 5%. That doesn’t change. We’re very focused on continuing to drive margin in this business. Importantly, it’s just one lever. Because what -- ultimately what we want to achieve is 11% to 15% EPS growth. That is our long-term growth target. We’ve said many times that some years, we’re going to be above, some years we’re going to be below. That 11% to 15%, that continues to be the case. Now we have driven EPS growth rate. Bruce showed in his slides since 2014 above that long-term growth rate on a CAGR basis, in fact if you did it from ’15 on, it would even be higher. And so we have driven significant EPS growth in part from some margin improvements that we made. And then when tax reform came back or came into effect, that margin went down because we took some of those after-tax dollars and reinvested them on a pretax basis. You’ll recall the tax reform was worth about $4. We gave $2 back to the shareholders, and $2 we invested in the business, about half of which went to our associates. Bruce talked about the AIP, the associate incentive plan for all of our associates so that everyone now is in an incentive-based plan to align all of our incentives, run EPS and MPS. How important that is. Part of that spend went into investing in our business, as I mentioned.

We’re very focused on driving margin, we always talk about trend benders, getting the returns on the investments at Kindred and PiPC and all the other things that we’re doing, talked about productivity. Obviously, scale from growth helps us drive that margin. And so it’s important that we grow. And so we’re committed to achieving that margin.

Now as I mentioned around the operating cost ratio, we’re actually very proud of this chart. If you go back to 2012, we’ve taken out significant costs from this company, while also investing a number -- investing in a number of important initiatives. That obviously negatively impacts this ratio. But taking it down 170 basis points over the last number of years is a huge amount of dollars taken out of the system. And by the way, some of these numbers are impacted by tax reform, because that goes into that ratio for 2018, as well as the fact we outperformed last year, and so we were able to pay our associates above target, that also impacted the ratio. But we’re committed to continue to take out costs in this organization.
Again, part comes from operating leverage, but a lot of it is really reimagining how we run our business. Most businesses, dating back decades, run themselves vertically, and you try to optimize your vertical. What we want to do is think about the business horizontally because there’s so many different touch points that a customer sees and that we have with a customer that may transcend a particular department, in fact it may cross multiple departments. And so we’ve put into place, we have a process transformation office, we’re very focused on looking horizontally. Customer back, starts with the customer and goes back, and says, where do we touch the customer, which departments touch the customer? And if we have 30 touch points, can we have 10? Not only do we get better costs that way, but a much better customer experience because we’re not getting letters from different people because it’s not coordinated, as an example. And so we’re very focused on that.

We’re embracing automation. We’re embracing self-service, and Vicki talked about that in her presentation. And, so that drives savings. And fundamentally, we’re trying to reimagine all the processes in our company. We’ve met all of processes across the board to figure out how can we drive costs out of the equation.

Now shifting gears a little bit. You asked a lot about our underwriting margin and sort of the life progression of a member. And so what we plotted on this chart is basically a cohort of members as they move through their life cycle with Humana, what happens from a profitability perspective. And we also talked about all the other sources of lifetime value that touches a member. We’ve talked about the fact that when a member first comes into Humana, I mentioned that earlier, from a pretax perspective, they’re largely breakeven, plus or minus. There’s some underwriting margin there, it has to cover the variable admin, but it’s a relatively low amount. Over time, that meaningfully increases, and by year 5, it’s almost 2.5x the underwriting profit as it was in year 1. Interestingly, as the member goes through the life cycle, the longer they stay with us, in fact they get into their 80s and 90s, that underwriting margin actually stays pretty strong. And that’s a function of the way the risk adjustment mechanism works. We get a age payment -- age demographic payment, and as people stay longer, typically, we believe that they’re less likely to have comorbid chronic conditions, or we’ve been able to keep them stable. And so when they ultimately pass away, there’s less end-of-life expenses. And so the longer we can keep a member, the more we can keep them healthy, well obviously, there are examples where some members are very expensive, generally, we’re going to see increased profitability over time.

You asked a lot about retention. We’ve told you forever about a 7-year, plus or minus, retention is the way to think about it. But importantly, if they stay with us for over 2 years, we typically have members for life. It varies, but we have a significant increase in membership retention if we can keep them in the first few years. Because they’re in our clinical programs, they like the experience they have, they want to continue to engage with us.

And just as I mentioned, there are multiple touch points there with a member. And so you guys, understandably, are focused on our insurance pretax margin, but what that doesn’t incorporate are all the other things that drive profitability for the enterprise, not to mention the trend benders that we’ve talked about. So pharmacy, dental vision, primary care, clinical in the home adds another 100 to 150 basis points to the profitability in a member. So it’s important that we continue to grow and drive that.

Now George and Renee talked about our primary care business. And so here’s the chart that has some of the economics on it. Importantly, as we’ve talked about, the more members we can get into our proprietary centers, the more profitable, the more sticky those members are. And so we’re very focused on continuing to build out this business that Renee is leading and she talked about. But here’s some of the statistics. It’s about $1 million to $2 million to build a center, of CapEx, somewhere between 3 and 5 years to break even. And what’s driving that is how quickly can we get members into the clinics, how quickly can we manage their medical expenses and get them appropriately documented so the revenues is right, about a 3- to 5-year period, depending on the center. Results in a $3 million to $5 million cumulative EBITDA burn.

So you could see, if you do a lot of these, these are costly. In fact, some of the drag in our Healthcare Services business that you ask a lot about is a function of the fact that we’re actually putting a number of these clinics down, and we’re going to continue to do that. Because you can see how profitable these members are from the insurance perspective. Remember, we think about this as an integrated experience and an integrated company, it’s 2x more profitable. And actually, when the centers are fully at scale, they generate $2 million to $4 million of EBITDA. That’s actually a really nice investment once they’re at scale, and the IRRs are really good.

That’s why we want to do this on a, call it, de novo basis versus necessarily buying these. We’re not averse to buying assets, and we do look. We’ll continue to look, and that’s going to be one of the uses of our capital, to acquire. But we do -- when we do so on a de novo basis, the returns can be better. You’re not paying effectively the goodwill, the extra capital you have apply to the premium. But not just from a financial perspective,
but also from the ability to customize it from the very beginning. We could pick the right location. Picking the right location is really important, not only in terms of is it the right sort of streets coming -- intersections of traffic and the like, as you think about a typical real estate build, but also the demographics in a particular market and a particular place. That’s really important, to get that right, and we spend a lot of time on that. We want to obviously put down centers where there’s significant senior populations and significant amount of duals, because that’s where we can really make an impact. And so site selection is really important. And when we can do it from scratch, it matters.

We could have a consistent operating platform, single technology. Everyone is linked to PiPC, and it’s very powerful. And you’re going to continue to see us build that out and expand that. But having that interoperability, having that connected tissue that Brian and Heather talked about is really, really powerful. And so when we could do it ourselves, it’s a good thing.

Higher culturally aligned physicians. We get to bring the physicians in, we recruit them, we train them. They start thinking in a very different way when they’re in value-based. We’re just not going to go randomly buy physicians willy nilly with the hope that we’re going to convert them to risks. When we recruit them, we bring them into our processes, they understand how our business works, and it becomes a much more powerful relationship. And as I said, ultimately, it leads to a better ROIC.

Now the one thing we’re very focused on is our capital, and how do we deploy our capital? You saw that with Kindred at large. We now control the largest home health and hospice company in the United States for $1 billion. That’s a really good deal. Obviously, PiPC and our clinics is a much smaller scale, but we’re very focused on how can we bring in partners, how can we use other people’s capital to get the same ultimate impact. Now we might have a little bit less of the upside, specifically, on the clinics, but ultimately, we believe it’s the right thing to do for shareholders and to conserve our capital and to minimize that burn. And so you see us partner with JenCare, we partner with Iora, we have other partners that we’re continually looking at, obviously, Walgreens. And so we’ll continue to think about partnering.

Shifting gears to returning capital. We know returning capital is important to you. We’ve been very focused on that. And since 2017, we returned $4.7 billion in the form of share repurchase and dividends. Since 2013, we bought back stock at an average price of $194. That’s a really nice investment.

And so we’ll continue to be focused on share repurchase. But as you think about the waterfall of priorities, first and foremost, we need to be able to fund our organic growth. Every $100 of new premium is about $12 of capital that we have to fund. And that’s the highest and best use of that capital. The returns are great. Just think about the margins on $12 of capital, what kind of returns that generates. So we’ll do that all day long.

Vishal will talk in a minute about strategic M&A. We’re going to do the right transactions at the right time. We’re not just going to buy for the sake of scale, as Bruce mentioned. But we’re going to be thoughtful about the use of capital to increase our capabilities.

I talked about share repurchase. Our inclination is to use accelerated stock repurchase programs. We’ll obviously be in the open market as well. But we like the ASRs because they’re very efficient. For the same amount of EPS impact, we actually get to use less capital because it accelerates the EPS impact to the -- as soon as you do the repurchase, about 80% of that EPS benefit day 1, so that’s very powerful. Also, we get to buy back stock at a discount to the weighted average volume price. That’s just the way these programs work. It’s what the banks guarantee us, and so it’s an efficient way to buy back stock.

Finally, dividends, we know, is an important to a number of our shareholders. We continue to increase our dividend. Again, it’s the fourth on the priority list because it gives us a little bit less flexibility, but we know it’s important and we’ll continue to increase those dividends.

Real quickly, on our sources and uses of capital. You’ve seen this before. Remember, we’re a regulated entity, and so most of our income is regulated by the state’s department of insurance. And so every year, sometimes twice a year, we can request dividends from the states, either ordinary or extraordinary, and effectively think about it as a 100% of last year’s net income. There’s a lot of complexity around that. But broadly, that’s what that represents. And so figure $1.7 billion to $2 billion is a reasonable number to think about, that’s going to vary year by year depending if a subsidiary is over capitalized, if we’re getting out of businesses or whatever it may be, that’s going to change that number. But that’s broadly recently what we’ve been . In fact last year, we were a little bit above $2 billion.
Then all the Healthcare Services income, as well as our TRICARE earnings are not regulated. So you tax effect those, and that’s effectively our sources of capital at the parent company. Now we’re awash in liquidity in our subsidiaries. We’re constantly paying claims. And we’re taking those dollars and investing them and earning a return through our investment portfolio, which is also an important part of our story. But actual free cash flow that comes to the parent is defined in those 2 levers.

Not surprisingly, our major uses, we have CapEx. About 70 plus or minus percent of all consolidated CapEx is paid at the parent. Shareholder dividends, of course; interest expense, that gets you to your net cash; and what’s left is used to deploy capital, as we’ve talked about.

We’re committed to maintaining investment grade. 35% debt to cap plus or minus, we can go to 40%. Once we go above 40%, we’d have to commit to the agencies that we would take it back below 40% for the right acquisition, and we’ll do that for the right acquisition. But largely, we maintain a conservative leverage policy, and that’s important to us. We also think it’s important to maintain liquidity at the parent, and we maintain $500 million as a minimum.

So with that, here’s Vishal.

Vishal Agrawal - Humana Inc. - Chief Strategy & Corporate Development Officer

Thanks, everyone. Thanks, Brian.

Before we get started on the CorpDev and M&A, I just wanted to say how excited I am to be part of this management team, this company at this time. Like Heather and a few others here who are new, we’re just really thrilled to be part of Humana’s next chapter.

I’m going to spend a few minutes talking about our strategy and M&A priorities. First talking about some of our accomplishments in 2018; and then talk about what are we looking at in 2019; and then finally, talking about the how, how do we think about deploying capital efficiently, so we get a good return and advance the strategy that Bruce was describing at the outset, really focused on delivering on health care outcomes for our members.

So let’s start with some highlights over the past year. We’ve been having a very active year, we -- both in terms of the number of deals, the structure of deals, the variety of deals. And a couple of the highlights here, as William noted -- and he talked about the home health capability. A real highlight last year was the Kindred at Home acquisition. This is really a partnership with the Texas Pacific Group and Welsh, Carson, Anderson & Stowe to acquire for Humana a 40% stake in Kindred At Home and Curo Health. And at the time, it was a pretty bold move for us to jump into this part of the care continuum. It was a creative deal that really won an award, it won the private equity deal of the year from an organization called [The Deal Award]. But it’s not just the recognition there. We think that this is really a platform for us and a strategic priority for us as we build out that integrated health care ecosystem.

Importantly, we were able to get the company at a valuation that is very attractive, relative to what other home health companies have been trading at more recently.

As Renee mentioned earlier, Humana is also doubling down on our senior-based primary care strategy and in a couple of key states, Texas and Florida, we acquired Family Physicians Group. And we also formed Conviva. We’re also working to expand our alliance model, as you heard earlier, and that’s with companies like Iora and Oak Street Health. Also, we’re thinking about how do we put physicians in a more convenient place in the retail setting, and that’s through partnerships with Walgreens and the centers that we talked about earlier.

We’re also going to look to continue to shape our portfolio, and that’s by looking at our full assets and where we can get the highest return. Last year, we divested our long-term care insurance business, and that was to really limit some of our exposure -- our business risk exposure in a noncore business.
Collectively what this has helped engender is a real partner of choice concept and a mindset for our organization. We have been a long-standing pioneer in value-based care. And what we’re seeing more recently, though, it’s not just that focus in the senior segment of value-based care, but it’s how we think about partnering with companies that has made us an attractive partner for others to come to.

We believe that we’re going to continue to use creative approaches for our balance sheet, and we’ll talk about the different spectrum of investment approaches we have to create win-win opportunities, not just for ourselves and our shareholders, but also for the ecosystem that we integrate.

We’ve been very purposeful in thinking about the future and how we think about our M&A going into 2019 beyond. Bruce mentioned that we’re not looking at scale for the sake of scale. We’re looking at how do we differentiate through integration, and that term has been used quite a lot today, that horizontal, the quilt, the integration. How do we drive not just the verticals in health care, but really that horizontal layer? A lot of our strategy is finding those assets that we think can best advance that, whether it’s technology assets, other provider assets.

So what we’re going to be looking at is building out our value based healthcare ecosystem. The 5 areas of influence that you heard about throughout the day. And using our balance sheet to help accelerate that path to build the system, we believe that it will be both targeting new capabilities that we can then deploy across our existing provider infrastructure, but also it could be filling holes that we have geographically in certain markets where we need to have extra primary care access or a greater density in a specific market. We believe that these investments will be very focused on helping -- having our members get the best care that’s possible at the right place and the right time.

You may also see us look opportunistically at doing the regional health plan deal, if it helps us deepen our presence in a specific market or geography where we’re underrepresented. And finally to the how. How do we think about deploying our capital efficiently? We want to be creative, capital efficient and disciplined. And what we have here is the ability to -- deflects across a very broad spectrum of different types of investments. We have some examples of -- examples that we did execute -- deals that we executed in 2018 across that full spectrum. We put capital work on the top area, in the green. These are areas that are around -- in -- helping create start-ups or becoming a joint venturing with becoming LP with an organization that isn’t a venture capital community as well as finding small innovative companies that we have partnered with to seed investments. An example of that is Aspen RX. This is a company that is an interesting organization that we help seed. It’s to help patients better match up with pharmacists. In a gig economy-like model, we thought that that’s a capability that would be better housed outside of Humana’s 4 walls to really incubate the capability. So we partnered with a VC organization, Flare Capital, to both help finance that start-up as well as create a management team. And last year, we launched the company.

Moving down the spectrum to both JVs and private equity partnerships. This really helps us stay focused on our core business. So that we're able to both drive our core business but yet still have the optionality to invest in new businesses as those new businesses can mature. And finally, if we believe that the most value is driven through fully integrating the capability and complete integration and control, as we did for, say, Family Physicians Group, those are cases where an acquisition, a full control acquisition would makes sense. So overall, we believe this flexibility up and down the investment spectrum really allows us to deploy our capital efficiently and be a very good partner for other industry innovators out there. And with that, I'll call Brian back up to bring us home.

Brian Andrew Kane - Humana Inc. - CFO

All right. Thanks, Vishal. You guys have seen this slide before. Bruce talked about it. Again, I think it really brings altogether what we're trying to do, which is when we improve health outcomes, we can take those dollars, we can reinvestment them in the product, we can use that to help grow. When we grow, we drive EPS. It really is a great business model. It is not a zero-sum business model, which -- I know managed care sometimes has that reputation. It's the opposite of that. We beg our members to go to see the doctor. We're constantly engaging with our members in every way we can, because when we do that, we have those touch points, we figure out how to engage with them and their providers, we end up with a much better outcome, much lower cost which we can reinvest.

Now again, I just want to emphasize this 11% to 15%. We've been very successful the last number of years of driving EPS growth above 15%. There will be years where we will be below that range. In fact, as you will recall, coming into '18, before tax reform, we were likely to be, at least in the initial guidance, a little bit below that range. So I just again, this is a long-term growth rate. It is not an annual growth rate. And I think that's important to recognize. But on that, I guess Bruce will come up as well with Amy to take your questions for the next 20 minutes. So thanks again for coming.
Amy K. Smith - Humana Inc. - VP of IR

Okay, I am going to ask that we try to limit ourselves to one question so choose your question wisely, and if we have time, we will come back to you. And I see a lot of hands. So whoever gets -- Peter, you're standing next to Lisa, so you win.

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

So I know you're not giving 2020 guidance here, but I can't help but ask if you grow at 13% in sort of the midpoint of your long-term range, that would add $2.25 roughly, but the HIF has an impact of $2.15. So you're saying you're going to be basically flattish in earnings in 2020?

Brian Andrew Kane - Humana Inc. - CFO

Look, we’re not going to comment on earnings, as I said. All I said is that there’s years we’ll be above, years we’ll be below, but that the HIF is quite material. I mean, you mentioned the $2.15 from the tax impact. There’s also the $1.2 billion we got to pass back to our members, so it’s not immaterial, but we’re not going to give EPS guidance today.

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

That’s a good try, Peter. I’ll give you A for trying.

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

I think Justin has the microphone.

Brian Andrew Kane - Humana Inc. - CFO

He’s smiling from ear to ear there.

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

Thanks, over here. The question I have first is, without talking to 2020, can you specifically give us -- I mean, you’ve given us the $2.15 number, your margins are below that target range, Brian. Can you give us some color on how much EPS power there is left in the company if you can get back to that 4.5% to 5% so we could think about the potential offsets even if it’s not in 1 year? And then if I can try to just sneak in one other question. One of your peers gave about a $5 number to basically their estimate of what Part D premiums will go up if rebates go through? I’m just curious if in this kind of setting, you can give us your estimate? Thanks.

Brian Andrew Kane - Humana Inc. - CFO

I’ll address them both and you’re going to be very disappointed in both answers. On the first side, I think we gave you a pretty good sense of where our margins are currently. We said we finished 2018 in the low 3s. We said we made nice improvement in 2019. You can calculate the delta. You know what our individual MA revenue is to see where that earnings power is. The other thing to take into account though, Justin, is the fact that you also grow your top line, you’re applying that membership to a bigger number. And so it’s important to grow that top line for all the reasons that I mentioned in my presentation in addition to the fact that we get Healthcare Services profits from that. And so we think there’s a lot of earnings power in this company. Obviously, we’re facing a significant headwind that’s beyond our control. That creates that instability. But the core operations of the business are really, really strong. With regard to PDP premium, we’re not prepared to answer that question. The honest answer is, as Alan
said, we’re working through that. There’s various levers we can pull. Obviously, formulary, having discussions with our manufacturers will help drive our perspective on premium, but we’re not prepared to do that. It is a material change to the way we price the PDP product today, but it’s a matter of shifting dollars from one -- sort of one area to the other and how that all falls through. We’re genuinely still working through.

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

Ralph?

Ralph Giacobbe - Citigroup Inc, Research Division - Director

Thanks. I was hoping -- one clarification real quick. You guys had mentioned an outside consulting company, I think, coming in to talk to you all about Medicaid. And I think you said their feedback was that you compare favorably and that you’re well-positioned to compete. I guess just is that a completed assessment or is that ongoing?

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

That is a completed assessment. It was done a number of months ago that compared us and they utilized to all the industry leaders and they -- it was both inside the industry and also talking to directors of Medicaid within the plans -- within the states themselves.

Ralph Giacobbe - Citigroup Inc, Research Division - Director

Okay. And then just -- you had noted, I think since 2014, you’ve seen 330,000 PDP convert to MA. So I’m hoping you give us some context. Is that all premium driven at the end of the day? And why sort of that conversion, I guess? And then how much of a move do you expect? I mean, do you think there’s a lag effect even if premiums do jump in year 1?

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

Yes, I would say it’s a combination of few things. I think first, what we see and the -- when people are aging. We see their needs increase. And so as their needs increase, MA becomes more and more important part of their life. So that’s the first thing we see. It’s just evolution of individuals’ needs in their healthcare system. The second thing we do see, a comparison between premiums that are Part D premiums versus premiums that are Medicare Advantage. And as they change, the relative basis and the value, we then see people becoming more and more oriented to Medicare Advantage. We saw that this year in our Medicare -- in our Part D where we did raise premiums and we saw a further penetration in MA. So we do think, to be honest with you, that there will be further move in a time that the insurance premiums will be increasing as a result of point-of-sale, that there will be more move to Medicare Advantage. We have not quantified that, because I’m assuming that’s going to be your next question. But we do believe that there is an evolution that could accelerate as the premiums become more and more in Part D.

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

Sarah?

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

Thanks. So I appreciate the breakout of the HIF impact, the $6 PMPM works out to be about 60 basis points on MA margins. So I’m just wondering, does your long-term guidance hold the 4.5% to 5% in a world where HIF still exists? Can you get there in, not specifically 2020, but long term after you’ve achieved some cost savings, can you get there in a HIF year?
Brian Andrew Kane - Humana Inc. - CFO

Look, the way I would say it is that when the HIF comes in and out, it creates a new baseline. And then it’s the volatility of it coming in and out that creates that challenge with customers as well as frankly, managing earnings. And so our commitment is to 4.5% to 5%. In some respects, in an environment where the HIF is in, you need more pretax to grow. That’s part of the challenge with 2020, as I’ve mentioned. We need more pretax to offset the tax impact. Obviously, once you’re there and you’re at that baseline then you grow off a new baseline. So again, I wouldn’t want to parse it through whether pre-HIF or after HIF. I think it’s a fairer statement to say that when the HIF broadly is in place, it makes it harder to provide a compelling product to our customers and also makes it hard to grow earnings. I mean, it’s just -- there is a -- it’s a very significant number. So.

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

Steve?

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

Steve Valiquette from Barclays. Just in terms of the question here on organic versus inorganic growth in Medicaid over the next few years. I am wondering, first you guys mentioned tuck-ins at regional health plan, wasn’t sure if that was meant to be more Medicaid or Medicare or both. And also when you guys mentioned that you did that study around the Medicaid platform stacking up favorably versus peers. Just curious if that changed your Medicaid M&A strategy at all as far as the outcome from that study? Thanks.

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

All right. You want to go ahead and take that?

Brian Andrew Kane - Humana Inc. - CFO

Sure. Tuck-ins, I think what Alan was referring to was Medicaid. We’d always look for Medicare ones as well to the extent we could get it through, so it’s always an opportunity to look for opportunities. I would say that the win in Florida, obviously, was encouraging. Texas is out there. There are others that are out that we’re bidding on. We’re very focused on developing our Medicaid platform, what Bruce said is we’ve had outside validation. I think Alan and his team have done a wonderful job of building this Medicaid platform really from scratch, and we did some very small acquisitions. So we’ll look to complement that with tuck-ins to the extent they exist. We’ve got to see how some of these other organic opportunities play out over the coming years because there’s a lot of things coming up, a lot of important states, and so we’ll see how we do before I think about more further large-scale M&A.

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

Just to add to that. If you look back at the history of the organization, we have been very deep in organic growth. Look at our Medicare platform, it’s -- 90-some percent of our members have been a result of organic. If you look at our Part D platform, it is all organic. You look at a lot of what we’re doing in the Partners in Primary Care area and in our affiliate, it’s a lot of organic. And so our -- sort of first to go to is in organic growth because we believe it drives great shareholder value, it’s an efficient use of capital, and we can integrate it in the platform that we have. We’ve done tuck-in acquisitions that both help accelerate that. So in 2012 or ’13, we acquired long-term support service company, American Eldercare. That is part of our Medicare -- Medicaid platform. That was a $75 million acquisition. And so as we look at Medicaid today, it is -- the systems are incorporated into our clinical programs, our ability to -- our home-based capability is incorporated in there, our ability from a social determinants is incorporated in there, our community activity is communicated in there, our ability to value -- for value-based payment models are incorporated in there. So we see that organic as being a really, really strong aspect. And frankly, one of the reasons why we’ve gotten such a great confidence in what we can do, whether it’s the Florida win to the survey that we did, I think what we are wrestling with right now is how fast do we need to go. Because we
do believe that we will win awards. It's not a question of are we going to win. It's going to be a question of which ones will we win at what time? And so for us, we're sitting here saying, organic would be the best. If we can find a tuck-in acquisition in a state that allows us to enter that state, we will do it all day long. But we will be reserved and conservative in putting a significant amount of capital to work until we know that we can't win this on a procurement point of view.

Amy K. Smith - Humana Inc. - VP of IR
I think, Scott, you're next. I'm kind of going back and forth across the room. So Scott.

Scott J. Fidel - Stephens Inc., Research Division - MD & Analyst
I want to ask one more HIF question, but only Brian, because you said it is his favorite subject. And it's more like a philosophical question. Just in terms of when we think about the numbers of sort of HIF being a $2.15 headwind and then you sort of walked through tax reform, $4 benefit overall. But you've split that pretty equally between shareholders and then sort of reinvesting in the business and reinvesting in employees. So as we think about sort of those $2 buckets in terms of shareholders and then for other uses versus the $2 headwind from HIF, philosophically, how do you think about sort of, I guess, resegmenting or reordering the tax reform benefit potentially as a partial mitigation effort to sort of balance out the impact on shareholders versus the reinvestments in employees?

Brian Andrew Kane - Humana Inc. - CFO
Look, I would say every year is a balance. The dollar, the $2 is gone, that's the shareholders. The $1 to our associates, that's in the run rate. And as Bruce said and I said, it's really important that we have that alignment. There's obviously the $1, (inaudible) investment. It doesn't break out as neatly as I just said, because it's all mashed together. But every year, we balance earnings growth and investments and benefit design, and it's really the 3 considerations we have. How fast we grow membership? How fast we grow earnings? How much do we invest in the business? And depending on the funding environment, HIF being an important part of that, depending what would happen, we'll calibrate those 3 various factors. But I can't give specifics at this point. And there's a focus on 2020, we're not prepared to do that. But obviously, as I mentioned, HIF is an important element of that for 2020, we just got to calibrate the other levers.

Amy K. Smith - Humana Inc. - VP of IR
A.J.?

Albert J. William Rice - Crédit Suisse AG, Research Division - Research Analyst
So following up on Bruce's comments a few minutes ago about the priority that organic growth has played, you do now have a head of strategic development, that's you've put -- very high profile and you've -- I think, we've historically focused on home health, Medicaid and primary care as areas where you might do bigger deals. Today, there are some things on the table. I'm curious whether those are areas where you'd be open, things like behavioral. It sounds like maybe the PBM. You're looking at potentially broadening that. The IT area and behavioral. Would -- any comments on whether those will be areas you'll look at for bigger deals and are we going to see the pace of deals maybe pick up given a little more focus on it?

Bruce Dale Broussard - Humana Inc. - President, CEO & Director
Well, we had it. Vishal was a replacement for Chris Hunter. So we had somebody in that role before. So this isn't a new role. And so a lot of the deals that you saw, partnerships and acquisitions, were a result of that team and divestitures. But to answer your question, all the clinical areas are up for grab and being able to build and develop along with the technology platform. So if we can find the right capability in behavioral, we will add
it. If it gives us a clinical capability that we don't have, gives us a distribution channel such as telehealth capability, we surely would look at it. In the area of home, we will continue to look at leveraging the home with the physician going into the home and being able to use the home more than just nursing, but the ability to have a -- be able to go in there and service the home. That would be another opportunity for that. On the technology side, you will see us acquire technology companies, but they will be for capabilities and really the question of speed, of being able to accelerate the technology. But our preference, to be honest with you, is to be able to partner with somebody that already has those capabilities and be contemporary. But A.J., in total, I wouldn't say those are going to be large transactions that would be sort of consolidating the industry. I think they're going to be tuck-in acquisitions that are going to be capability driven as opposed to we're going to be the biggest thing in the industry. Kindred, we really were very transparent with our investors in 2017 when we came out and said, listen, we are looking at home, we are looking at the distribution channels because of the need for agencies and the limitation that they -- for us to do that on an organic basis, and it led us to Kindred. But I think we'll be fairly thoughtful on how we deploy capital again in building our capabilities than just entering into a business to be into that business.

Vishal Agrawal - Humana Inc. - Chief Strategy & Corporate Development Officer

I might add, the deployment of capital is not always a full -- full acquisition, but along the spectrum that we were talking about. And so we're actively looking at a number of organizations that we can partner with in a variety of different ways across the balance sheet.

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

Ana?

Anagha A. Gupte - SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst

So it's been what, 2 years now since the Aetna deal broke and you've assembled a very impressive team, a lot of them have come from outside. I think today, it kind of demonstrates how you're using partnerships and more open architecture, and a different cultural approach to growing even though you've capital constraints. Would you say from here, as you and your board deliberate that, that phase is over or would you still look at the opportunity to be acquired? It's a question I get a lot.

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

One thing about you, Ana, is that you're very consistent. I have to give you credit for that. I'm not going to answer that question. I think we, as an organization, feel very confident in us being able to sustainably grow at the targets that Brian has discussed. And we believe if our shareholders stay with us they will be rewarded quite well in that. We always do what's right for our shareholders, in both strategically and how we use our capital and, frankly, value. And if there is that discussion, then obviously, we would consider it. But our intention is to be what we've laid out today and to be an end player.

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

Matt?

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

I was going to ask a long-term strategy question, but I think I'll ask on the HIF instead, which is what is your thought on the timing and likelihood? And do you have -- I mean, obviously, you'll take it whenever it happens, but to the extent the suspension is past, how are you thinking about the timing?
Brian Andrew Kane - Humana Inc. - CFO

Well, as you said, we do have a bid deadline -- first Monday in June. And so we need to have that information beforehand. I mean, could something get suspended or delayed? Could we reopen bids? I mean, it creates a lot of complexity around that. And so the sooner we get that information, the better. As you said, I think we will figure out how to respond if that ever came to pass. We'd obviously be very pleased with that and we would figure out how to respond. So.

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

And I think in general, what we're -- and obviously, the industry and Humana is very active in describing and emphasizing the impact that it has on members and premiums, which we were very transparent today about. We do see that there's support, as you well know, on all sides, whether it's the administration side, whether it's the Republicans or the Democrats. We see a congressional support. The question is, is the vehicle to get it done. And that's really what we're trying to work through. And the most likely vehicle is the raising of the debt ceiling where you're going to see both parties come together to get something done. Right now, it was in March, but they've obviously been able to move that. And it seems to be in the summer, which is past the deadline that Brian is talking about and can we get it accelerated? Something that we are trying to continue to emphasize within the walls in D.C.

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

Another question sticking with politics. Do you spend any time thinking about Medicare for All or any of the other options on the table? And when you dig through the details, it seems like from the way the media portrays it, and talking points from the potential candidates, they don't really distinguish between Medicare and Medicare Advantage. When you dig through it, is there a role for Medicare Advantage or is it going to take education from you, industry groups, to really explain the benefits and the difference between the 2?

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

Yes, I would say that the description of Medicare for All is in the eyes of the individual talking about it. But if you were to look at the policy that's been put in place, they would like to take insurance out of it and put in a Medicare fee-for-service type of environment. Obviously, we don't believe taking insurance out of it and taking risk management out of it, because that's just going to a very expensive, inefficient system of Medicare fee-for-service. And so our support is not around the concept of Medicare for All as described in that. We do believe, as what we've articulated all day today, that coordinating care around a holistic view, managing through taking a payment model that incentivizes you to take care of that individual is an important component of what is needing in healthcare today, whether you look at complexity or cost. And I think anything less than that, I just don't see getting traction. I see Medicare Advantage as being an example. I see payment models that are coming out of the administration today that are encouraging people for quality and cost. I see social determinants being paid for in whatever venue you look at as being part of that. I don't see us going backwards. Now we, as an industry, both healthcare in general, and insurance in specific, have a lot of education to do because I think the sophistication of what coordination of care and what managing risk is about is at a very, very elementary stage and we have to take that on.

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

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

Want to follow up on the rebate rule, also bids are due right the 1st week of June. How much time would it take -- does it take from when a final rule drops to be able to get your bids ready? So in terms of this where the common period ends in early April, and then we've got to guess how long it will take for them to actually go through and actually write the final rule. I mean, is that a week's long process? Because normally, you'd get like Medicaid rates in April, right, you've got 2 months. How long would it take on PDP to?

Brian Andrew Kane - Humana Inc. - CFO

Alan, do you want to take it?

T. Alan Wheatley - Humana Inc. - Segment President of Retail

So what I would tell you is it would depend on the nature of what it is they are trying to do and the exact regulations. Go back to the comments I made about scenario planning. So we understand that early May is likely that the first indication what we will get of exactly what's going to happen. And then if that is the case, we will have several versions in which we've already thought through. So we'll be able to react, we believe, in time to get the bids done. So it's a -- there's a preplanning process and just a number of variables you have to prepare for.

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

And we're going to take our last question from Kevin.

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

Just looking at the headwinds and tailwinds slide. One of the tail winds you mentioned is MA growth from PDP switching. Is that -- you mentioned before that year 1 isn't really very profitable on an MA side. So how do we think about the relative profitability of a year 1 MA life versus a PDP life as we do that tailwind?

Brian Andrew Kane - Humana Inc. - CFO

Well -- and you're right. I mean, the tailwind is more arguably around membership growth than it is profitability from with the PDP disruption going into MA. The profitability per PDP life is, as you know, relatively small on the insurance side. Same thing on the MA side. But to the extent they utilize our healthcare services, particularly our pharmacy, there's real profitability that we get from that. And so a number of our PDP members use our pharmacy. So if we get them into MA, the initial profitability necessarily isn't a big delta unless it comes from someone else's PDP member, obviously. And it comes into MA to us, so there will be some healthcare services benefit. It really just sets us up for a nice long-term trajectory to gain that membership growth for all the reasons I talked about.

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

First, I want to say thank you for persevering through no bathroom breaks and a long morning and I really appreciate for the support that you've had in the organization and the confidence in investing us over the years. I know many of you have been with us for a long time. So thank you. With that, we are going to feed you. And there is food, I think, in the room next door. Please come back in, bring your food back in here and sit around on the tables and we will -- the management team will be available to eat with you and you can ask them as many questions that you want. Now we have forewarned them that you guys will get -- try to get 2020 estimates, want to know when we are going to get to the 4.5% margin, and you're going to ask about the rebates and all the other things. So if they break and tell you anything, I'm coming after them.
Amy K. Smith  -  Humana Inc.  -  VP of IR

They have me. They can blame me on their safety net. Thank you, all.

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

Thank you very much. Again, thank you.