UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-0647538**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

500 West Main Street
Louisville, Kentucky 40202
(Address of principal executive offices, including zip code)

(502) 580-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, $0.16 2/3 par value	HUM	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class of Common Stock	**Outstanding at June 30, 2020**
$0.16 2/3 par value	132,292,566 shares

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Humana Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

		June 30, 2020		December 31, 2019
		(in millions, except share amounts)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	7,163	$	4,054
Investment securities		12,836		10,972
Receivables, less allowance for doubtful accounts of $88 in 2020 and $69 in 2019		2,238		1,056
Other current assets		5,631		3,806
Total current assets		27,868		19,888
Property and equipment, net		2,118		1,955
Long-term investment securities		389		406
Equity method investments		1,122		1,063
Goodwill		4,443		3,928
Other long-term assets		2,515		1,834
Total assets	$	38,455	$	29,074
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Benefits payable	$	7,980	$	6,004
Trade accounts payable and accrued expenses		6,175		3,754
Book overdraft		310		225
Unearned revenues		266		247
Short-term debt		1,724		699
Total current liabilities		16,455		10,929
Long-term debt		6,058		4,967
Future policy benefits payable		203		206
Other long-term liabilities		1,323		935
Total liabilities		24,039		17,037
Stockholders' equity:				
Preferred stock, $1 par; 10,000,000 shares authorized; none issued		—		—
Common stock, $0.16 2/3 par; 300,000,000 shares authorized; 198,629,992 shares issued at June 30, 2020 and December 31, 2019		33		33
Capital in excess of par value		2,898		2,820
Retained earnings		19,616		17,483
Accumulated other comprehensive income		317		156
Treasury stock, at cost, 66,337,426 shares at June 30, 2020 and 66,524,771 shares at December 31, 2019		(8,448)		(8,455)
Total stockholders' equity		14,416		12,037
Total liabilities and stockholders' equity	$	38,455	$	29,074

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(in millions, except per share results)			
Revenues:				
Premiums	$ 18,556	$ 15,776	$ 36,918	$ 31,427
Services	450	355	874	710
Investment income	77	114	226	215
Total revenues	19,083	16,245	38,018	32,352
Operating expenses:				
Benefits	14,175	13,318	29,804	26,811
Operating costs	2,354	1,703	4,471	3,363
Depreciation and amortization	119	109	234	216
Total operating expenses	16,648	15,130	34,509	30,390
Income from operations	2,435	1,115	3,509	1,962
Interest expense	76	60	136	122
Other (income) expense, net	(227)	(174)	70	(135)
Income before income taxes and equity in net earnings	2,586	1,229	3,303	1,975
Provision for income taxes	783	301	1,035	484
Equity in net earnings	25	12	33	15
Net income	$ 1,828	$ 940	$ 2,301	$ 1,506
Basic earnings per common share	$ 13.83	$ 6.96	$ 17.41	$ 11.14
Diluted earnings per common share	$ 13.75	$ 6.94	$ 17.31	$ 11.10

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Net income	$ 1,828	$ 940	$ 2,301	$ 1,506
Other comprehensive income:				
Change in gross unrealized investment gains/losses	358	169	266	365
Effect of income taxes	(85)	(40)	(63)	(85)
Total change in unrealized investment gains/losses, net of tax	273	129	203	280
Reclassification adjustment for net realized gains	(2)	(6)	(47)	(6)
Effect of income taxes	—	2	10	2
Total reclassification adjustment, net of tax	(2)	(4)	(37)	(4)
Other comprehensive income, net of tax	271	125	166	276
Comprehensive loss attributable to equity method investments	(2)	(3)	(5)	(5)
Comprehensive income	$ 2,097	$ 1,062	$ 2,462	$ 1,777

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock						
	Issued Shares	Amount	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	(dollars in millions, share amounts in thousands)						
Three months ended June 30, 2020							
Balances, March 31, 2020	198,630	$ 33	$ 2,857	$ 17,871	$ 48	$ (8,454)	$ 12,355
Net income				1,828			1,828
Other comprehensive loss					269		269
Common stock repurchases			—			(8)	(8)
Dividends and dividend equivalents			—	(83)			(83)
Stock-based compensation			46				46
Restricted stock unit vesting	—	—	(9)			9	—
Stock option exercises	—	—	4			5	9
Balances, June 30, 2020	198,630	$ 33	$ 2,898	$ 19,616	$ 317	$ (8,448)	$ 14,416
Three months ended June 30, 2019							
Balances, March 31, 2019	198,595	$ 33	$ 2,722	$ 15,563	$ (10)	$ (7,467)	$ 10,841
Net income				940			940
Other comprehensive income					122		122
Common stock repurchases			—			—	—
Dividends and dividend equivalents			—	(74)			(74)
Stock-based compensation			43				43
Restricted stock unit vesting	32	—	(3)			2	(1)
Stock option exercises	1	—	1				1
Balances, June 30, 2019	198,628	$ 33	$ 2,763	$ 16,429	$ 112	$ (7,465)	$ 11,872

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY — (Continued)
(Unaudited)

	Common Stock						
	Issued Shares	Amount	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	(dollars in millions, share amounts in thousands)						
Six months ended June 30, 2020							
Balances, December 31, 2019	198,630	$ 33	$ 2,820	$ 17,483	$ 156	$ (8,455)	$ 12,037
Net income				2,301			2,301
Impact of adopting ASC 326 - Current expected credit loss standard (CECL)				(2)			(2)
Other comprehensive income					161		161
Common stock repurchases			—			(25)	(25)
Dividends and dividend equivalents			—	(166)			(166)
Stock-based compensation			82				82
Restricted stock unit vesting	—	—	(15)			15	—
Stock option exercises	—	—	11			17	28
Balances, June 30, 2020	198,630	$ 33	$ 2,898	$ 19,616	$ 317	$ (8,448)	$ 14,416
Six months ended June 30, 2019							
Balances, December 31, 2018	198,595	$ 33	$ 2,535	$ 15,072	$ (159)	$ (7,320)	$ 10,161
Net income				1,506			1,506
Other comprehensive loss					271		271
Common stock repurchases			150			(160)	(10)
Dividends and dividend equivalents			—	(149)			(149)
Stock-based compensation			76				76
Restricted stock unit vesting	32	—	(3)			3	—
Stock option exercises	1	—	5			12	17
Balances, June 30, 2019	198,628	$ 33	$ 2,763	$ 16,429	$ 112	$ (7,465)	$ 11,872

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	2020	2019
	(in millions)	
Cash flows from operating activities		
Net income	$ 2,301	$ 1,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(51)	(5)
Equity in net earnings	(33)	(15)
Stock-based compensation	82	76
Depreciation	252	240
Amortization	43	36
Benefit for deferred income taxes	(3)	(21)
Changes in operating assets and liabilities, net of effect of businesses acquired and dispositions:		
Receivables	(1,185)	123
Other assets	(2,124)	(548)
Benefits payable	1,976	980
Other liabilities	2,267	(116)
Unearned revenues	19	29
Other	(3)	45
Net cash provided by operating activities	3,541	2,330
Cash flows from investing activities		
Acquisitions, net of cash acquired	(709)	—
Purchases of property and equipment	(418)	(296)
Purchases of investment securities	(5,464)	(3,135)
Maturities of investment securities	1,645	894
Proceeds from sales of investment securities	2,084	2,626
Net cash (used in) provided by investing activities	(2,862)	89
Cash flows from financing activities		
Receipts from contract deposits, net	389	473
Proceeds from issuance of senior notes, net	1,088	—
Proceeds (repayments) from issuance of commercial paper, net	21	(356)
Proceeds from term loan	1,000	—
Change in book overdraft	85	33
Common stock repurchases	(25)	(10)
Dividends paid	(156)	(142)
Proceeds from stock option exercises and other, net	28	18
Net cash provided by financing activities	2,430	16
Increase in cash and cash equivalents	3,109	2,435
Cash and cash equivalents at beginning of period	4,054	2,343
Cash and cash equivalents at end of period	$ 7,163	$ 4,778
Supplemental cash flow disclosures:		
Interest payments	$ 115	$ 110
Income tax payments, net	$ 36	$ 346

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT EVENTS

The accompanying condensed consolidated financial statements are presented in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America, or GAAP, or those normally made in an Annual Report on Form 10-K. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, the reader of this Form 10-Q should refer to our Form 10-K for the year ended December 31, 2019, that was filed with the Securities and Exchange Commission, or the SEC, on February 20, 2020. We refer to the Form 10-K as the “2019 Form 10-K” in this document. References throughout this document to “we,” “us,” “our,” “Company,” and “Humana” mean Humana Inc. and its subsidiaries.

The preparation of our condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The areas involving the most significant use of estimates are the estimation of benefits payable, the impact of risk adjustment provisions related to our Medicare contracts, the valuation and related impairment recognition of investment securities, and the valuation and related impairment recognition of long-lived assets, including goodwill. These estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results may ultimately differ materially from those estimates. Refer to Note 2 to the consolidated financial statements included in our 2019 Form 10-K for information on accounting policies that we consider in preparing our consolidated financial statements.

The financial information has been prepared in accordance with our customary accounting practices and has not been audited. In our opinion, the information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature.

COVID-19

The temporary deferral of non-essential care resulting from stay-at-home and physical distancing orders and other restrictions on movement and economic activity implemented throughout the country beginning the second half of March 2020 to reduce the spread of the novel coronavirus, or COVID-19 has impacted our business. Hospital admissions and utilization were significantly depressed in April, increased throughout May and June, and remained modestly below normal historical levels at the close of the quarter. The impact of the deferral of non-essential care on our second quarter operating results was partially offset by COVID-19 testing and treatment costs, as well as our ongoing pandemic relief efforts.

Revenue Recognition

Our revenues include premium and service revenues. Service revenues include administrative service fees that are recorded based upon established per member per month rates and the number of members for the month and are recognized as services are provided for the month. Additionally, service revenues include net patient service revenues that are recorded based upon established billing rates, less allowances for contractual adjustments, and are recognized as services are provided. For more information about our revenues, refer to Note 2 to the consolidated financial statements included in our 2019 Form 10-K for information on accounting policies that we consider in preparing our consolidated financial statements. See Note 14 for disaggregation of revenue by segment and type.

At June 30, 2020, accounts receivable related to services were $147 million. For the three and six months ended June 30, 2020, we had no material bad-debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the condensed consolidated balance sheet at June 30, 2020.

For the three and six months ended June 30, 2020, services revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price), was not material. Further, services revenue expected to be recognized in any future year related to remaining performance obligations was not material.

Health Care Reform

The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act of 2010 (which we collectively refer to as the Health Care Reform Law) enacted significant reforms to various aspects of the U.S. health insurance industry. Certain of these reforms became effective January 1, 2014, including an annual insurance industry premium-based fee. The Continuing Resolution bill, H.R. 195, enacted on January 22, 2018, included a one year suspension in 2019 of the health insurance industry fee, but the fee resumed in calendar year 2020. The Further Consolidated Appropriations Act, 2020, enacted on December 20, 2019, permanently repealed the health insurance industry fee beginning in calendar year 2021.

In September 2020, we expect to pay the federal government $1.2 billion for the annual health insurance industry fee attributed to calendar year 2020. This fee, fixed in amount by law and apportioned to insurance carriers based on market share, is not deductible for tax purposes. Each year on January 1, except when suspended, we record a liability for this fee in trade accounts payable and accrued expenses which we carry until the fee is paid. We record a corresponding deferred cost in other current assets in our condensed consolidated financial statements which is amortized ratably to expense over the calendar year. Amortization of the deferred cost was recorded in operating cost expense of approximately $286 million and $592 million for the three and six months ended June 30, 2020, respectively, resulting from the amortization of the 2020 annual health insurance industry fee.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued guidance introducing a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The guidance was effective for us beginning January 1, 2020. The new current expected credit losses (CECL) model generally calls for the immediate recognition of all expected credit losses and applies to loans, accounts and trade receivables as well as other financial assets measured at amortized cost, loan commitments and off-balance sheet credit exposures, debt securities and other financial assets measured at fair value through other comprehensive income, and beneficial interests in securitized financial assets. The new guidance replaces the current incurred loss model for measuring expected credit losses, requires expected losses on available for sale debt securities to be recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities, and provides for additional disclosure requirements. Our investment portfolio consists primarily of available for sale debt securities. We adopted the new standard effective January 1, 2020. Due to the high concentration of our financial assets measured at amortized cost being with the federal government resulting in zero nonpayment risk as well as our available for sale debt securities primarily being in an unrealized gain position, the adoption of the new standard did not have a material impact on our results of operations, financial condition, or cash flows.

In September 2018, the FASB issued new guidance related to accounting for long-duration contracts of insurers which revises key elements of the measurement models and disclosure requirements for long-duration contracts issued by insurers and reinsurers. The new guidance is effective for us beginning with annual and interim periods in 2022, with earlier adoption permitted, and requires retrospective application to previously issued annual and interim financial statements. The FASB has recently proposed delaying the effective date beginning with annual and interim periods in 2023. We are currently evaluating the impact on our results of operations, financial position and cash flows.

There are no other recently issued accounting standards that apply to us or that are expected to have a material impact on our results of operations, financial condition, or cash flows.

3. ACQUISITIONS AND DIVESTITURES

On January 31, 2020, we purchased privately held Enclara Healthcare, or Enclara, one of the nation’s largest hospice pharmacy and benefit management providers for cash consideration of approximately $709 million, net of cash received. This resulted in a preliminary purchase price allocation to goodwill of $515 million, other intangible assets of $240 million, and net tangible liabilities assumed of $11 million. The goodwill was assigned to the Healthcare Services segment. The other intangible assets, which primarily consist of customer contracts, have an estimated weighted average useful life of 11.4 years. The purchase price allocation is preliminary, subject to completion of valuation analysis, including for example, refining assumptions used to calculate the fair value of intangible assets.

On February 1, 2020, our Partners in Primary Care wholly-owned subsidiary entered into a strategic partnership with Welsh, Carson, Anderson & Stowe, or WCAS, to accelerate the expansion of our primary care model. The WCAS partnership is expected to open approximately 50 payor-agnostic, senior-focused primary care centers over 3 years beginning in 2020. Partners in Primary Care committed to the acquisition of a non-controlling interest in the approximately $600 million entity accounted for under the equity method of accounting. In addition, the agreement includes a series of put and call options through which WCAS may require us to purchase their interest in the entity, and through which we may acquire WCAS’s interest, over the next 5 to 10 years.

During 2020 and 2019, we acquired other health and wellness related businesses which, individually or in the aggregate, have not had a material impact on our results of operations, financial condition, or cash flows. The results of operations and financial condition of these businesses acquired in 2020 and 2019 have been included in our condensed consolidated statements of income and condensed consolidated balance sheets from the respective acquisition dates. Acquisition-related costs recognized in 2020 and 2019 were not material to our results of operations. The pro forma financial information assuming the acquisitions had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenues and earnings generated during the year of acquisition, were not material for disclosure purposes.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

4. INVESTMENT SECURITIES

Investment securities classified as current and long-term were as follows at June 30, 2020 and December 31, 2019, respectively:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
June 30, 2020				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 929	$ 3	$ —	$ 932
Mortgage-backed securities	3,861	183	(1)	4,043
Tax-exempt municipal securities	1,464	35	(3)	1,496
Commercial mortgage-backed securities	961	44	(4)	1,001
Asset-backed securities	1,186	4	(17)	1,173
Corporate debt securities	4,398	190	(8)	4,580
Total debt securities	$ 12,799	$ 459	$ (33)	$ 13,225
December 31, 2019				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 353	$ 1	$ —	$ 354
Mortgage-backed securities	3,628	85	(3)	3,710
Tax-exempt municipal securities	1,433	30	—	1,463
Commercial mortgage-backed securities	786	18	—	804
Asset-backed securities	1,093	3	(3)	1,093
Corporate debt securities	3,867	82	(2)	3,947
Total debt securities	$ 11,160	$ 219	$ (8)	$ 11,371

We also held $7 million of equity securities consisting of common stock carried at fair value as of December 31, 2019.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Gross unrealized losses and fair values aggregated by investment category and length of time of individual securities that have been in a continuous unrealized loss position were as follows at June 30, 2020 and December 31, 2019, respectively:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in millions)			
June 30, 2020						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 342	$ —	$ —	$ —	$ 342	$ —
Mortgage-backed securities	406	(1)	—	—	406	(1)
Tax-exempt municipal securities	181	(3)	12	—	193	(3)
Commercial mortgage-backed securities	204	(3)	33	(1)	237	(4)
Asset-backed securities	152	(1)	814	(16)	966	(17)
Corporate debt securities	301	(4)	177	(4)	478	(8)
Total debt securities	$ 1,586	$ (12)	$ 1,036	$ (21)	$ 2,622	$ (33)
December 31, 2019						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 48	$ —	$ 23	$ —	$ 71	$ —
Mortgage-backed securities	315	(1)	204	(2)	519	(3)
Tax-exempt municipal securities	58	—	75	—	133	—
Commercial mortgage-backed securities	118	—	36	—	154	—
Asset-backed securities	20	—	607	(3)	627	(3)
Corporate debt securities	589	(2)	155	—	744	(2)
Total debt securities	$ 1,148	$ (3)	$ 1,100	$ (5)	$ 2,248	$ (8)

Approximately 96% of our debt securities were investment-grade quality, with a weighted average credit rating of AA by Standard & Poor's Rating Service, or S&P, at June 30, 2020. Most of the debt securities that were below investment-grade were rated BB, the higher end of the below investment-grade rating scale. Tax-exempt municipal securities were diversified among general obligation bonds of states and local municipalities in the United States as well as special revenue bonds issued by municipalities to finance specific public works projects such as utilities, water and sewer, transportation, or education. Our general obligation bonds are diversified across the United States with no individual state exceeding 1% of our total debt securities. Our investment policy limits investments in a single issuer and requires diversification among various asset types.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Our unrealized losses from all securities were generated from approximately 200 positions out of a total of approximately 1,500 positions at June 30, 2020. All issuers of securities we own that were trading at an unrealized loss at June 30, 2020 remain current on all contractual payments. After taking into account these and other factors previously described, we believe these unrealized losses primarily were caused by an increase in market interest rates in the current markets since the time the securities were purchased. At June 30, 2020, we did not intend to sell the securities with an unrealized loss position in accumulated other comprehensive income, and it is not likely that we will be required to sell these securities before recovery of their amortized cost basis. Additionally, we did not record any material credit allowances for securities that were in an unrealized loss position at June 30, 2020.

The detail of realized gains (losses) related to investment securities and included within investment income was as follows for the three and six months ended June 30, 2020 and 2019:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(in millions)			
Gross realized gains	$ 13	$ 8	$ 69	$ 18
Gross realized losses	(11)	(1)	(18)	(13)
Net realized capital gains	$ 2	$ 7	$ 51	$ 5

There were no material other-than-temporary impairments for the three and six months ended June 30, 2019.

The contractual maturities of debt securities available for sale at June 30, 2020, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$ 1,790	$ 1,795
Due after one year through five years	2,043	2,114
Due after five years through ten years	1,834	1,944
Due after ten years	1,124	1,155
Mortgage and asset-backed securities	6,008	6,217
Total debt securities	$ 12,799	$ 13,225

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

5. FAIR VALUE

Financial Assets

The following table summarizes our fair value measurements at June 30, 2020 and December 31, 2019, respectively, for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(in millions)			
June 30, 2020				
Cash equivalents	$ 6,771	$ 6,771	$ —	$ —
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	932	—	932	—
Mortgage-backed securities	4,043	—	4,043	—
Tax-exempt municipal securities	1,496	—	1,496	—
Commercial mortgage-backed securities	1,001	—	1,001	—
Asset-backed securities	1,173	—	1,173	—
Corporate debt securities	4,580	—	4,580	—
Total debt securities	13,225	—	13,225	—
Total invested assets	$ 19,996	$ 6,771	$ 13,225	$ —
December 31, 2019				
Cash equivalents	$ 3,660	$ 3,660	$ —	$ —
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	354	—	354	—
Mortgage-backed securities	3,710	—	3,710	—
Tax-exempt municipal securities	1,463	—	1,463	—
Commercial mortgage-backed securities	804	—	804	—
Asset-backed securities	1,093	—	1,093	—
Corporate debt securities	3,947	—	3,947	—
Total debt securities	11,371	—	11,371	—
Common stock	7	7	—	—
Total invested assets	$ 15,038	$ 3,667	$ 11,371	$ —

Financial Liabilities

Our debt is recorded at carrying value in our consolidated balance sheets. The carrying value of our senior notes debt outstanding, net of unamortized debt issuance costs, was $6,457 million at June 30, 2020 and $5,366 million at December 31, 2019. The fair value of our senior notes debt was $7,609 million at June 30, 2020 and $5,916 million at December 31, 2019. The fair value of our senior note debt is determined based on Level 2 inputs, including quoted market prices for the same or similar debt, or if no quoted market prices are available, on the current prices estimated to be available to us for debt with similar terms and remaining maturities. Due to the short-term nature, carrying value approximates fair value for our term note and commercial paper borrowings. The term loan outstanding and commercial paper borrowings were $1,325 million as of June 30, 2020. The commercial paper borrowings were $300 million as of December 31, 2019.

Put and Call Options Measured at Fair Value

As part of our investment in Kindred at Home, we entered into a shareholders agreement with TPG Capital, or TPG, and Welsh, Carson, Anderson & Stowe, or WCAS, the Sponsors, that provides for certain rights and obligations of each party. The shareholders agreement with the Sponsors includes a put option under which they have the right to require us to purchase their interest in the joint venture beginning on July 2, 2021 and ending on July 1, 2022. Likewise, we have a call option under which we have the right to require the Sponsors to sell their interest in the joint venture to Humana beginning on July 2, 2022 and ending on July 1, 2023. The put and call options, which are exercisable at a fixed EBITDA multiple and provide a minimum return on the Sponsor's investment if exercised, are measured at fair value each period using a Monte Carlo simulation.

The put and call options fair values were $116 million and $592 million, respectively, at June 30, 2020, and $28 million and $557 million, respectively, at December 31, 2019. The put option is included within other long-term liabilities and the call option is included within other long-term assets. The change in fair value of the put and call options is reflected as "Other (income) expense, net" in our condensed consolidated statements of income.

The significant unobservable inputs utilized in these Level 3 fair value measurements (and selected values) include the enterprise value of Kindred at Home, annualized volatility and secured credit rate. Enterprise value was derived from a discounted cash flow model, which utilized significant unobservable inputs for long-term net operating profit after tax margin, or NOPAT, to measure underlying cash flows, weighted average cost of capital and long term growth rate. The table below presents the assumptions used for each reporting period.

	June 30, 2020	December 31, 2019
Annualized volatility	34.8 %	19.8 %
Secured credit rate	1.1 %	2.2 %
NOPAT	12.0 %	12.0 %
Weighted average cost of capital	10.0 %	10.0 %
Long term growth rate	3.0 %	3.0 %

The calculation of NOPAT utilized net income plus after tax interest expense. We regularly evaluate each of the assumptions used in establishing these assets and liabilities. Significant changes in assumptions for weighted average cost of capital, long term growth rates, NOPAT, volatility, credit spreads, risk free rate, and underlying cash flow estimates, could result in significantly lower or higher fair value measurements. A change in one of these assumptions is not necessarily accompanied by a change in another assumption.

Other Assets and Liabilities Measured at Fair Value

As disclosed in Note 3, we acquired Enclara during 2020. The values of net tangible assets acquired and the resulting goodwill and other intangible assets were recorded at fair value using Level 3 inputs. The majority of the net tangible liabilities assumed were recorded at their carrying values as of the date of acquisition, as their carrying values approximated their fair values due to their short-term nature. The fair values of goodwill and other intangible assets acquired in this acquisition were internally estimated primarily based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets are expected to generate in the future. We developed internal estimates for the expected future cash flows and discount rates used in the present value calculations. Other than assets acquired and liabilities assumed in this acquisition, there were no other material assets or liabilities measured at fair value on a recurring or nonrecurring basis during 2020.

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6. MEDICARE PART D

We cover prescription drug benefits in accordance with Medicare Part D under multiple contracts with the Centers for Medicare and Medicaid Services, or CMS, as described further in Note 2 to the consolidated financial statements included in our 2019 Form 10-K. The accompanying condensed consolidated balance sheets include the following amounts associated with Medicare Part D at June 30, 2020 and December 31, 2019. CMS subsidies/discounts in the table below include the reinsurance and low-income cost subsidies funded by CMS for which we assume no risk as well as brand name prescription drug discounts for Part D plan participants in the coverage gap funded by CMS and pharmaceutical manufacturers.

	June 30, 2020		December 31, 2019	
	Risk Corridor Settlement	CMS Subsidies/ Discounts	Risk Corridor Settlement	CMS Subsidies/ Discounts
	(in millions)			
Other current assets	$ 26	$ 1,010	$ 5	$ 585
Trade accounts payable and accrued expenses	(100)	(1,193)	(120)	(356)
Net current (liability) asset	(74)	(183)	(115)	229
Other long-term assets	313	—	6	—
Other long-term liabilities	(149)	—	(61)	—
Net long-term asset (liability)	164	—	(55)	—
Total net asset (liability)	$ 90	$ (183)	$ (170)	$ 229

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for our reportable segments for the six months ended June 30, 2020 were as follows:

	Retail	Group and Specialty	Healthcare Services	Total
	(in millions)			
Balance at January 1, 2020	$ 1,535	$ 261	$ 2,132	$ 3,928
Acquisitions	—	—	515	515
Balance at June 30, 2020	$ 1,535	$ 261	$ 2,647	$ 4,443

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The following table presents details of our other intangible assets included in other long-term assets in the accompanying condensed consolidated balance sheets at June 30, 2020 and December 31, 2019.

		June 30, 2020			December 31, 2019		
	Weighted Average Life	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
		($ in millions)					
Other intangible assets:							
Customer contracts/ relationships	9.5 years	$ 849	$ 534	$ 315	$ 646	$ 496	$ 150
Trade names and technology	7.0 years	122	86	36	84	84	—
Provider contracts	11.8 years	70	47	23	70	44	26
Noncompetes and other	7.3 years	29	29	—	29	28	1
Total other intangible assets	9.3 years	$ 1,070	$ 696	$ 374	$ 829	$ 652	$ 177

For the three months ended June 30, 2020 and 2019, amortization expense for other intangible assets was approximately $22 million and $18 million, respectively. For the six months ended June 30, 2020 and 2019, amortization expense for other intangible assets was approximately $43 million and $36 million, respectively. The following table presents our estimate of amortization expense remaining for 2020 and each of the five next succeeding years:

	(in millions)
For the years ending December 31,	
2020	$ 44
2021	56
2022	53
2023	40
2024	33
2025	33

8. BENEFITS PAYABLE

On a consolidated basis, activity in benefits payable, was as follows for the six months ended June 30, 2020 and 2019:

	For the six months ended June 30,	
	2020	2019
	(in millions)	
Balances, beginning of period	$ 6,004	$ 4,862
Less: Reinsurance recoverables	(68)	(95)
Balances, beginning of period, net	5,936	4,767
Incurred related to:		
Current year	30,039	27,086
Prior years	(235)	(275)
Total incurred	29,804	26,811
Paid related to:		
Current year	(22,665)	(21,700)
Prior years	(5,098)	(4,108)
Total paid	(27,763)	(25,808)
Reinsurance recoverable	3	72
Balances, end of period	$ 7,980	$ 5,842

Amounts incurred related to prior periods vary from previously estimated liabilities as the claims ultimately are settled. Negative amounts reported for incurred related to prior years result from claims being ultimately settled for amounts less than originally estimated (favorable development).

Our reserving practice is to consistently recognize the actuarial best estimate of our ultimate liability for claims. Actuarial standards require the use of assumptions based on moderately adverse experience, which generally results in favorable reserve development, or reserves that are considered redundant.

Incurred and Paid Claims Development

The following discussion provides information about incurred and paid claims development for our Retail and Group and Specialty segments as of June 30, 2020 and 2019, net of reinsurance, and the total estimate of benefits payable for claims incurred but not reported, or IBNR, included within the net incurred claims amounts.

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Retail Segment

Activity in benefits payable for our Retail segment was as follows for the six months ended June 30, 2020 and 2019:

	For the six months ended June 30,	
	2020	2019
	(in millions)	
Balances, beginning of period	$ 5,363	$ 4,338
Less: Reinsurance recoverables	(68)	(95)
Balances, beginning of period, net	5,295	4,243
Incurred related to:		
Current year	27,921	24,657
Prior years	(205)	(311)
Total incurred	27,716	24,346
Paid related to:		
Current year	(21,063)	(19,826)
Prior years	(4,528)	(3,592)
Total paid	(25,591)	(23,418)
Reinsurance recoverable	3	72
Balances, end of period	$ 7,423	$ 5,243

At June 30, 2020, benefits payable for our Retail segment included IBNR of approximately $4.4 billion, primarily associated with claims incurred in 2020.

Group and Specialty Segment

Activity in benefits payable for our Group and Specialty segment, was as follows for the six months ended June 30, 2020 and 2019:

	For the six months ended June 30,	
	2020	2019
	(in millions)	
Balances, beginning of period	$ 641	$ 517
Incurred related to:		
Current year	2,434	2,693
Prior years	(30)	36
Total incurred	2,404	2,729
Paid related to:		
Current year	(1,918)	(2,131)
Prior years	(570)	(516)
Total paid	(2,488)	(2,647)
Balances, end of period	$ 557	$ 599

At June 30, 2020, benefits payable for our Group and Specialty segment included IBNR of approximately $490 million, primarily associated with claims incurred in 2020.

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Reconciliation to Consolidated

The reconciliation of the net incurred and paid claims development tables to benefits payable in the consolidated statement of financial position is as follows:

Reconciliation of the Disclosure of Incurred and Paid Claims Development to Benefits Payable, net of reinsurance

	June 30, 2020
	(in millions)
Net outstanding liabilities	
Retail	$ 7,420
Group and Specialty	557
Benefits payable, net of reinsurance	7,977
Reinsurance recoverable on unpaid claims	
Retail	3
Total benefits payable, gross	$ 7,980

9. EARNINGS PER COMMON SHARE COMPUTATION

Detail supporting the computation of basic and diluted earnings per common share was as follows for the three and six months ended June 30, 2020 and 2019:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(dollars in millions, except per common share results; number of shares in thousands)			
Net income available for common stockholders	$ 1,828	$ 940	$ 2,301	$ 1,506
Weighted average outstanding shares of common stock used to compute basic earnings per common share	132,248	135,063	132,192	135,223
Dilutive effect of:				
Employee stock options	89	67	90	98
Restricted stock	686	449	635	449
Shares used to compute diluted earnings per common share	133,023	135,579	132,917	135,770
Basic earnings per common share	$ 13.83	$ 6.96	$ 17.41	$ 11.14
Diluted earnings per common share	$ 13.75	$ 6.94	$ 17.31	$ 11.10
Number of antidilutive stock options and restricted stock excluded from computation	130	761	395	732

10. STOCKHOLDERS' EQUITY

Dividends

The following table provides details of dividend payments, excluding dividend equivalent rights for unvested stock awards, in 2019 and 2020 under our Board approved quarterly cash dividend policy:

Record Date	Payment Date	Amount per Share	Total Amount (in millions)
2019 payments			
12/31/2018	1/25/2019	$ 0.50	$ 68
3/29/2019	4/26/2019	$ 0.55	$ 74
6/28/2019	7/26/2019	$ 0.55	$ 74
9/30/2019	10/25/2019	$ 0.55	$ 73
2020 payments			
12/31/2019	1/31/2020	$ 0.55	$ 73
3/31/2020	4/24/2020	$ 0.625	$ 83
6/30/2020	7/31/2020	$ 0.625	$ 83

Stock Repurchases

Our Board of Directors may authorize the purchase of our common stock shares. Under the share repurchase authorization, shares may be purchased from time to time at prevailing prices in the open market, by block purchases, through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, or in privately-negotiated transactions, including pursuant to accelerated share repurchase agreements with investment banks, subject to certain regulatory restrictions on volume, pricing, and timing.

On July 30, 2019, the Board of Directors replaced a previous share repurchase authorization of up to $3 billion (of which approximately $1.03 billion remained unused) with a new authorization for repurchases of up to $3 billion of our common shares exclusive of shares repurchased in connection with employee stock plans, expiring on June 30, 2022.

On July 31, 2019, we entered into an accelerated stock repurchase agreement, the July 2019 ASR, with Citibank, N.A., or Citi, to repurchase $1 billion of our common stock. On August 2, 2019, we made a payment of $1 billion to Citi and received an initial delivery of 2.7 million shares of our common stock. We recorded the payment to Citi as a reduction to stockholders' equity, consisting of an $800 million increase in treasury stock, which reflects the value of the initial 2.7 million shares received upon initial settlement, and a $200 million decrease in capital in excess of par value, which reflects the value of stock held back by Citi pending final settlement of the July 2019 ASR. Upon final settlement of the July 2019 ASR on December 26, 2019, we received an additional 0.7 million shares as determined by the average daily volume weighted-averages share price of our common stock during the term of the agreement, less a discount, of $296.19, bringing the total shares received under the July 2019 ASR to 3.4 million. In addition, upon settlement we reclassified the $200 million value of stock initially held back by Citi from capital in excess of par value to treasury stock.

Our remaining repurchase authorization was approximately $2 billion of the $3 billion share repurchase program as of August 4, 2020.

In connection with employee stock plans, we acquired 0.08 million common shares for $25 million and 0.03 million common shares for $10 million during the six months ended June 30, 2020 and 2019, respectively.

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11. INCOME TAXES

The effective income tax rate was 30.0% and 31.0% for the three and six months ended June 30, 2020, respectively, compared to 24.2% and 24.3% for the three and six months ended June 30, 2019, respectively, primarily due to the reinstatement of the non-deductible health insurance industry fee in 2020.

12. DEBT

The carrying value of debt outstanding, net of unamortized debt issuance costs, was as follows at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(in millions)	
Short-term debt:		
Commercial paper	$ 325	$ 300
Term note	1,000	—
Senior notes:		
$400 million, 2.50% due December 15, 2020	399	399
Total short-term debt	$ 1,724	$ 699
Long-term debt:		
Senior notes:		
$600 million, 3.15% due December 1, 2022	$ 598	$ 598
$400 million, 2.90% due December 15, 2022	398	397
$600 million, 3.85% due October 1, 2024	597	597
$600 million, 4.50% due April 1, 2025	594	—
$600 million, 3.95% due March 15, 2027	596	595
$500 million, 3.125% due August 15, 2029	495	495
$500 million, 4.875% due April 1, 2030	494	—
$250 million, 8.15% due June 15, 2038	262	262
$400 million, 4.625% due December 1, 2042	396	396
$750 million, 4.95% due October 1, 2044	739	739
$400 million, 4.80% due March 15, 2047	396	396
$500 million, 3.95% due August 15, 2049	493	492
Total long-term debt	$ 6,058	$ 4,967

Senior Notes

In March 2020, we issued $600 million of 4.500% senior notes due April 1, 2025 and $500 million of 4.875% senior notes due April 1, 2030. Our net proceeds, reduced for the underwriters' discount and commission and offering expenses paid, were approximately $1,088 million as of June 30, 2020. We intend to use the net proceeds for general corporate purposes, which may include the repayment of existing indebtedness.

Our senior notes, which are unsecured, may be redeemed at our option at any time at 100% of the principal amount plus accrued interest and a specified make-whole amount. The 8.15% senior notes are subject to an interest rate adjustment if the debt ratings assigned to the notes are downgraded (or subsequently upgraded). In addition, our senior notes contain a change of control provision that may require us to purchase the notes under certain circumstances.

Credit Agreement

Our 5-year, $2.0 billion unsecured revolving credit agreement expires May 2022. Under the credit agreement, at our option, we can borrow on either a competitive advance basis or a revolving credit basis. The revolving credit portion bears interest at either LIBOR plus a spread or the base rate plus a spread. If drawn upon, the revolving credit would revert to using the alternative base rate once LIBOR is discontinued. The LIBOR spread, currently 110.0 basis points, varies depending on our credit ratings ranging from 91.0 to 150.0 basis points. We also pay an annual facility fee regardless of utilization. This facility fee, currently 15.0 basis points, may fluctuate between 9.0 and 25.0 basis points, depending upon our credit ratings. The competitive advance portion of any borrowings will bear interest at market rates prevailing at the time of borrowing on either a fixed rate or a floating rate based on LIBOR, at our option.

The terms of the credit agreement include standard provisions related to conditions of borrowing which could limit our ability to borrow additional funds. In addition, the credit agreement contains customary restrictive covenants and a financial covenant regarding maximum debt to capitalization of 50%, as well as customary events of default. We are in compliance with this financial covenant, with actual debt to capitalization of 35% as measured in accordance with the credit agreement as of June 30, 2020. Upon our agreement with one or more financial institutions, we may expand the aggregate commitments under the credit agreement to a maximum of $2.5 billion, through a $500 million incremental loan facility.

At June 30, 2020, we had no borrowings and no letters of credit outstanding under the credit agreement. Accordingly, as of June 30, 2020, we had $2.0 billion of remaining borrowing capacity (which excludes the uncommitted $500 million incremental loan facility under the credit agreement), none of which would be restricted by our financial covenant compliance requirement. We have other customary, arms-length relationships, including financial advisory and banking, with some parties to the credit agreement.

Commercial Paper

Under our commercial paper program we may issue short-term, unsecured commercial paper notes privately placed on a discount basis through certain broker dealers at any time not to exceed $2 billion. Amounts available under the program may be borrowed, repaid and re-borrowed from time to time. The net proceeds of issuances have been and are expected to be used for general corporate purposes. The maximum principal amount outstanding at any one time during the six months ended June 30, 2020 was $600 million, with $325 million outstanding at June 30, 2020 compared to $300 million outstanding at December 31, 2019. The outstanding commercial paper at June 30, 2020 had a weighted average annual interest rate of 1%.

Term Note

In February 2020, we entered into a new $1 billion term loan commitment with a bank that matures 1 year after the first draw, subject to a 1 year extension. In March 2020, we made a draw on the entire term loan commitment of $1 billion. The facility fee, interest rate and financial covenants are consistent with those of our revolving credit agreement. There is no prepayment penalty.

13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Government Contracts

Our Medicare products, which accounted for approximately 83% of our total premiums and services revenue for the six months ended June 30, 2020, primarily consisted of products covered under the Medicare Advantage and Medicare Part D Prescription Drug Plan contracts with the federal government. These contracts are renewed generally for a calendar year term unless CMS notifies us of its decision not to renew by May 1 of the calendar year in which the contract would end, or we notify CMS of our decision not to renew by the first Monday in June of the calendar year in which the contract would end. All material contracts between Humana and CMS relating to our

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Medicare products have been renewed for 2021. Our product offerings under those contracts are subject to approval by CMS in the third quarter of 2020.

CMS uses a risk-adjustment model which adjusts premiums paid to Medicare Advantage, or MA, plans according to health status of covered members. The risk-adjustment model, which CMS implemented pursuant to the Balanced Budget Act of 1997 (BBA) and the Benefits Improvement and Protection Act of 2000 (BIPA), generally pays more where a plan's membership has higher expected costs. Under this model, rates paid to MA plans are based on actuarially determined bids, which include a process whereby our prospective payments are based on our estimated cost of providing standard Medicare-covered benefits to an enrollee with a "national average risk profile." That baseline payment amount is adjusted to reflect the health status of our enrolled membership. Under the risk-adjustment methodology, all MA plans must collect and submit the necessary diagnosis code information from hospital inpatient, hospital outpatient, and physician providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to MA plans, which CMS adjusts for coding pattern differences between the health plans and the government fee-for-service program. We generally rely on providers, including certain providers in our network who are our employees, to code their claim submissions with appropriate diagnoses, which we send to CMS as the basis for our payment received from CMS under the actuarial risk-adjustment model. We also rely on these providers to document appropriately all medical data, including the diagnosis data submitted with claims. In addition, we conduct medical record reviews as part of our data and payment accuracy compliance efforts, to more accurately reflect diagnosis conditions under the risk adjustment model. These compliance efforts include the internal contract level audits described in more detail below, as well as ordinary course reviews of our internal business processes.

CMS is phasing-in the process of calculating risk scores using diagnoses data from the Risk Adjustment Processing System, or RAPS, to diagnoses data from the Encounter Data System, or EDS. The RAPS process requires MA plans to apply a filter logic based on CMS guidelines and only submit diagnoses that satisfy those guidelines. For submissions through EDS, CMS requires MA plans to submit all the encounter data and CMS will apply the risk adjustment filtering logic to determine the risk scores. For 2019, 25% of the risk score was calculated from claims data submitted through EDS. CMS increased that percentage to 50% in 2020 and will increase that percentage to 75% in 2021. The phase-in from RAPS to EDS could result in different risk scores from each dataset as a result of plan processing issues, CMS processing issues, or filtering logic differences between RAPS and EDS, and could have a material adverse effect on our results of operations, financial position, or cash flows.

CMS and the Office of the Inspector General of Health and Human Services, or HHS-OIG, are continuing to perform audits of various companies' selected MA contracts related to this risk adjustment diagnosis data. We refer to these audits as Risk-Adjustment Data Validation Audits, or RADV audits. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to MA plans.

In 2012, CMS released a "Notice of Final Payment Error Calculation Methodology for Part C Medicare Advantage Risk Adjustment Data Validation (RADV) Contract-Level Audits." The payment error calculation methodology provided that, in calculating the economic impact of audit results for an MA contract, if any, the results of the RADV audit sample would be extrapolated to the entire MA contract after a comparison of the audit results to a similar audit of the government's traditional fee-for-service Medicare program, or Medicare FFS. We refer to the process of accounting for errors in FFS claims as the "FFS Adjuster." This comparison of RADV audit results to the FFS error rate is necessary to determine the economic impact, if any, of RADV audit results because the government used the Medicare FFS program data set, including any attendant errors that are present in that data set, to estimate the costs of various health status conditions and to set the resulting adjustments to MA plans' payment rates in order to establish actuarial equivalence in payment rates as required under the Medicare statute. CMS already makes other adjustments to payment rates based on a comparison of coding pattern differences between MA plans and Medicare FFS data (such as for frequency of coding for certain diagnoses in MA plan data versus the Medicare FFS program dataset).

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The final RADV extrapolation methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to CMS RADV contract level audits conducted for contract year 2011 and subsequent years. CMS is currently conducting RADV contract level audits for certain of our Medicare Advantage plans.

Estimated audit settlements are recorded as a reduction of premiums revenue in our consolidated statements of income, based upon available information. We perform internal contract level audits based on the RADV audit methodology prescribed by CMS. Included in these internal contract level audits is an audit of our Private Fee-For Service business which we used to represent a proxy of the FFS Adjuster which has not yet been finalized. We based our accrual of estimated audit settlements for each contract year on the results of these internal contract level audits and update our estimates as each audit is completed. Estimates derived from these results were not material to our results of operations, financial position, or cash flows. We report the results of these internal contract level audits to CMS, including identified overpayments, if any.

On October 26, 2018, CMS issued a proposed rule and accompanying materials (which we refer to as the “Proposed Rule”) related to, among other things, the RADV audit methodology described above. If implemented, the Proposed Rule would use extrapolation in RADV audits applicable to payment year 2011 contract-level audits and all subsequent audits, without the application of a FFS Adjuster to audit findings. We believe that the Proposed Rule fails to address adequately the statutory requirement of actuarial equivalence, and have provided substantive comments to CMS on the Proposed Rule as part of the notice-and-comment rulemaking process. Whether, and to what extent, CMS finalizes the Proposed Rule, and any related regulatory, industry or company reactions, could have a material adverse effect on our results of operations, financial position, or cash flows.

In addition, as part of our internal compliance efforts, we routinely perform ordinary course reviews of our internal business processes related to, among other things, our risk coding and data submissions in connection with the risk adjustment model. These reviews may also result in the identification of errors and the submission of corrections to CMS, that may, either individually or in the aggregate, be material. As such, the result of these reviews may have a material adverse effect on our results of operations, financial position, or cash flows.

We believe that CMS' statements and policies regarding the requirement to report and return identified overpayments received by MA plans are inconsistent with CMS' 2012 RADV audit methodology, and the Medicare statute's requirements. These statements and policies, such as certain statements contained in the preamble to CMS’ final rule release regarding Medicare Advantage and Part D prescription drug benefit program regulations for Contract Year 2015 (which we refer to as the "Overpayment Rule"), and the Proposed Rule, appear to equate each Medicare Advantage risk adjustment data error with an “overpayment” without addressing the principles underlying the FFS Adjuster referenced above. On September 7, 2018, the Federal District Court for the District of Columbia vacated CMS's Overpayment Rule, concluding that it violated the Medicare statute, including the requirement for actuarial equivalence, and that the Overpayment Rule was also arbitrary and capricious in departing from CMS's RADV methodology without adequate explanation (among other reasons). CMS has appealed the decision to the Circuit Court of Appeals.

We will continue to work with CMS to ensure that MA plans are paid accurately and that payment model principles are in accordance with the requirements of the Social Security Act, which, if not implemented correctly could have a material adverse effect on our results of operations, financial position, or cash flows.

At June 30, 2020, our military services business, which accounted for approximately 1% of our total premiums and services revenue for the six months ended June 30, 2020, primarily consisted of the TRICARE T2017 East Region contract. The T2017 East Region contract is a consolidation of the former T3 North and South Regions, comprising thirty-two states and approximately 6 million TRICARE beneficiaries, under which delivery of health care services commenced on January 1, 2018. The T2017 East Region contract is a 5-year contract set to expire on December 31, 2022 and is subject to renewals on January 1 of each year during its term at the government's option.

Our state-based Medicaid business accounted for approximately 5% of our total premiums and services revenue for the six months ended June 30, 2020. In addition to our state-based Temporary Assistance for Needy Families, or

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TANF, Medicaid contracts in Florida and Kentucky, we have contracts in Florida for Long Term Support Services (LTSS), and in Illinois for stand-alone dual eligible demonstration programs serving individuals dually eligible for both the federal Medicare program and the applicable state-based Medicaid program.

The loss of any of the contracts above or significant changes in these programs as a result of legislative or regulatory action, including reductions in premium payments to us, regulatory restrictions on profitability, including reviews by regulatory bodies that may compare our Medicare Advantage profitability to our non-Medicare Advantage business profitability, or compare the profitability of various products within our Medicare Advantage business, and require that they remain within certain ranges of each other, or increases in member benefits or member eligibility criteria without corresponding increases in premium payments to us, may have a material adverse effect on our results of operations, financial position, and cash flows.

Legal Proceedings and Certain Regulatory Matters

As previously disclosed, the Civil Division of the United States Department of Justice provided us with an information request in December 2014, concerning our Medicare Part C risk adjustment practices. The request relates to our oversight and submission of risk adjustment data generated by providers in our Medicare Advantage network, as well as to our business and compliance practices related to risk adjustment data generated by our providers and by us, including medical record reviews conducted as part of our data and payment accuracy compliance efforts, the use of health and well-being assessments, and our fraud detection efforts. We believe that this request for information is in connection with a wider review of Medicare Risk Adjustment generally that includes a number of Medicare Advantage plans, providers and vendors. We continue to cooperate with and voluntarily respond to the information requests from the Department of Justice. These matters are expected to result in additional qui tam litigation.

As previously disclosed, on January 19, 2016, an individual filed a qui tam suit captioned United States of America *ex rel. Steven Scott v. Humana, Inc.*, in United States District Court, Central District of California, Western Division. The complaint alleges certain civil violations by us in connection with the actuarial equivalence of the plan benefits under Humana's Basic PDP plan, a prescription drug plan offered by us under Medicare Part D. The action seeks damages and penalties on behalf of the United States under the False Claims Act. The court ordered the qui tam action unsealed on September 13, 2017, so that the relator could proceed, following notice from the U.S. Government that it was not intervening at that time. On January 29, 2018, the suit was transferred to the United States District Court, Western District of Kentucky, Louisville Division. We take seriously our obligations to comply with applicable CMS requirements and actuarial standards of practice, and continue to vigorously defend against these allegations since the transfer to the Western District of Kentucky. We have substantially completed discovery with the relator who has pursued the matter on behalf of the United States following its unsealing, and expect the Court to consider our motion for summary judgment.

On November 2, 2017, we filed suit against the United States of America in the United States Court of Federal Claims, on behalf of our health plans seeking recovery from the federal government of approximately $611 million in payments under the risk corridor premium stabilization program established under Health Care Reform, for years 2014, 2015 and 2016. Our case had been stayed by the Court, pending resolution of similar cases filed by other insurers. On April 27, 2020, the U.S. Supreme Court ruled that the government is obligated to pay the losses under this risk corridor program, and that Congress did not impliedly repeal the obligation under its appropriations riders. On July 7, 2020, the Court of Federal Claims then issued a judgment for Humana in the amount of $609 million. We are currently pursuing payment of this amount, although the payment timing, processing and receipt remain uncertain. We have not recognized revenue, nor have we recorded a receivable, for any amount due from the federal government for unpaid risk corridor payments as of June 30, 2020. We have fully recognized all liabilities due to the federal government that we have incurred under the risk corridor program, and have paid all amounts due to the federal government as required.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Other Lawsuits and Regulatory Matters

Our current and past business practices are subject to review or other investigations by various state insurance and health care regulatory authorities and other state and federal regulatory authorities. These authorities regularly scrutinize the business practices of health insurance, health care delivery and benefits companies. These reviews focus on numerous facets of our business, including claims payment practices, statutory capital requirements, provider contracting, risk adjustment, competitive practices, commission payments, privacy issues, utilization management practices, pharmacy benefits, access to care, and sales practices, among others. Some of these reviews have historically resulted in fines imposed on us and some have required changes to some of our practices. We continue to be subject to these reviews, which could result in additional fines or other sanctions being imposed on us or additional changes in some of our practices.

We also are involved in various other lawsuits that arise, for the most part, in the ordinary course of our business operations, certain of which may be styled as class-action lawsuits. Among other matters, this litigation may include employment matters, claims of medical malpractice, bad faith, nonacceptance or termination of providers, anticompetitive practices, improper rate setting, provider contract rate and payment disputes, including disputes over reimbursement rates required by statute, general contractual matters, intellectual property matters, and challenges to subrogation practices. Under state guaranty assessment laws, including those related to state cooperative failures in the industry, we may be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of insolvent insurance companies that write the same line or lines of business as we do.

As a government contractor, we may also be subject to qui tam litigation brought by individuals who seek to sue on behalf of the government, alleging that the government contractor submitted false claims to the government including, among other allegations, those resulting from coding and review practices under the Medicare risk adjustment model. Qui tam litigation is filed under seal to allow the government an opportunity to investigate and to decide if it wishes to intervene and assume control of the litigation. If the government does not intervene, the individual may continue to prosecute the action on his or her own, on behalf of the government. We also are subject to other allegations of nonperformance of contractual obligations to providers, members, and others, including failure to properly pay claims, improper policy terminations, challenges to our implementation of the Medicare Part D prescription drug program and other litigation.

A limited number of the claims asserted against us are subject to insurance coverage. Personal injury claims, claims for extra contractual damages, care delivery malpractice, and claims arising from medical benefit denials are covered by insurance from our wholly owned captive insurance subsidiary and excess carriers, except to the extent that claimants seek punitive damages, which may not be covered by insurance in certain states in which insurance coverage for punitive damages is not permitted. In addition, insurance coverage for all or certain forms of liability has become increasingly costly and may become unavailable or prohibitively expensive in the future.

We record accruals for the contingencies discussed in the sections above to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described above because of the inherently unpredictable nature of legal proceedings, which also may be exacerbated by various factors, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes.

The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting judgments, penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities or as a result of actions by third parties. Nevertheless, it is reasonably possible that any such outcome of litigation, judgments, penalties, fines or other sanctions could be substantial, and the outcome of these matters may have a material adverse effect on our results of operations, financial position, and cash flows, and may also affect our reputation.

14. SEGMENT INFORMATION

We manage our business with three reportable segments: Retail, Group and Specialty, and Healthcare Services. The reportable segments are based on a combination of the type of health plan customer and adjacent businesses centered on well-being solutions for our health plans and other customers, as described below. These segment groupings are consistent with information used by our Chief Executive Officer, the Chief Operating Decision Maker, to assess performance and allocate resources.

The Retail segment consists of Medicare benefits, marketed to individuals or directly via group Medicare accounts. In addition, the Retail segment also includes our contract with CMS to administer the Limited Income Newly Eligible Transition, or LI-NET, prescription drug plan program and contracts with various states to provide Medicaid, dual eligible, and Long-Term Support Services benefits, which we refer to collectively as our state-based contracts. The Group and Specialty segment consists of employer group commercial fully-insured medical and specialty health insurance benefits marketed to individuals and employer groups, including dental, vision, and other supplemental health benefits, as well as administrative services only, or ASO products. In addition, our Group and Specialty segment includes our military services business, primarily our TRICARE T2017 East Region contract. The Healthcare Services segment includes our services offered to our health plan members as well as to third parties, including pharmacy solutions, provider services, and clinical care service, such as home health and other services and capabilities to promote wellness and advance population health, including our minority investment in Kindred at Home and the strategic partnership with WCAS to develop and operate senior-focused, payor-agnostic, primary care centers.

Our Healthcare Services intersegment revenues primarily relate to managing prescription drug coverage for members of our other segments through Humana Pharmacy Solutions®, or HPS, and includes the operations of Humana Pharmacy, Inc., our mail order pharmacy business. These revenues consist of the prescription price (ingredient cost plus dispensing fee), including the portion to be settled with the member (co-share) or with the government (subsidies), plus any associated administrative fees. Services revenues related to the distribution of prescriptions by third party retail pharmacies in our networks are recognized when the claim is processed and product revenues from dispensing prescriptions from our mail order pharmacies are recorded when the prescription or product is shipped. Our pharmacy operations, which are responsible for designing pharmacy benefits, including defining member co-share responsibilities, determining formulary listings, contracting with retail pharmacies, confirming member eligibility, reviewing drug utilization, and processing claims, act as a principal in the arrangement on behalf of members in our other segments. As principal, our Healthcare Services segment reports revenues on a gross basis, including co-share amounts from members collected by third party retail pharmacies at the point of service.

In addition, our Healthcare Services intersegment revenues include revenues earned by certain owned providers derived from risk-based and non-risk-based managed care agreements with our health plans. Under risk-based agreements, the provider receives a monthly capitated fee that varies depending on the demographics and health status of the member, for each member assigned to these owned providers by our health plans. The owned provider assumes the economic risk of funding the assigned members’ healthcare services. Under non risk-based agreements, our health plans retain the economic risk of funding the assigned members' healthcare services. Our Healthcare Services segment reports provider services revenues associated with risk-based agreements on a gross basis, whereby capitation fee revenue is recognized in the period in which the assigned members are entitled to receive healthcare services. Provider services revenues associated with non-risk-based agreements are presented net of associated healthcare costs.

We present our condensed consolidated results of operations from the perspective of the health plans. As a result, the cost of providing benefits to our members, whether provided via a third party provider or internally through a stand-alone subsidiary, is classified as benefits expense and excludes the portion of the cost for which the health plans do not bear responsibility, including member co-share amounts and government subsidies of $4.0 billion and $3.6 billion for the three months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020 and 2019 these amounts were $7.4 billion and $6.7 billion, respectively. In addition, depreciation and amortization expense associated with certain businesses in our Healthcare Services segment delivering benefits to our members, primarily associated with our provider services and pharmacy operations, are included with benefits expense. The amount of this expense was $31 million for both the three months ended June 30, 2020 and 2019. For the six months ended June 30, 2020 and 2019, the amount of this expense was $61 million and $60 million, respectively.

Other than those described previously, the accounting policies of each segment are the same and are described in Note 2 to the consolidated financial statements included in our 2019 Form 10-K. Transactions between reportable segments primarily consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and clinical care services, to our Retail and Group and Specialty segment customers. Intersegment sales and expenses are recorded at fair value and eliminated in consolidation. Members served by our segments often use the same provider networks, enabling us in some instances to obtain more favorable contract terms with providers. Our segments also share indirect costs and assets. As a result, the profitability of each segment is interdependent. We allocate most operating expenses to our segments. Assets and certain corporate income and expenses are not allocated to the segments, including the portion of investment income not supporting segment operations, interest expense on corporate debt, and certain other corporate expenses. These items are managed at a corporate level. These corporate amounts are reported separately from our reportable segments and are included with intersegment eliminations in the tables presenting segment results below.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Our segment results were as follows for the three and six months ended June 30, 2020 and 2019:

	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
Three months ended June 30, 2020			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 13,005	$ —	$ —	$ —	$ 13,005
Group Medicare Advantage	1,976	—	—	—	1,976
Medicare stand-alone PDP	731	—	—	—	731
Total Medicare	15,712	—	—	—	15,712
Fully-insured	169	1,208	—	—	1,377
Specialty	—	425	—	—	425
Medicaid and other	1,042	—	—	—	1,042
Total premiums	16,923	1,633	—	—	18,556
Services revenue:					
Provider	—	—	105	—	105
ASO and other	6	192	—	—	198
Pharmacy	—	—	147	—	147
Total services revenue	6	192	252	—	450
Total external revenues	16,929	1,825	252	—	19,006
Intersegment revenues					
Services	—	6	4,712	(4,718)	—
Products	—	—	1,977	(1,977)	—
Total intersegment revenues	—	6	6,689	(6,695)	—
Investment income	32	4	—	41	77
Total revenues	16,961	1,835	6,941	(6,654)	19,083
Operating expenses:					
Benefits	13,251	1,094	—	(170)	14,175
Operating costs	1,638	435	6,603	(6,322)	2,354
Depreciation and amortization	83	19	46	(29)	119
Total operating expenses	14,972	1,548	6,649	(6,521)	16,648
Income (loss) from operations	1,989	287	292	(133)	2,435
Interest expense	—	—	—	76	76
Other income, net	—	—	—	(227)	(227)
Income before income taxes and equity in net earnings	1,989	287	292	18	2,586
Equity in net earnings	—	—	25	—	25
Segment earnings	$ 1,989	$ 287	$ 317	$ 18	$ 2,611

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Three months ended June 30, 2019	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 10,793	$ —	$ —	$ —	$ 10,793
Group Medicare Advantage	1,626	—	—	—	1,626
Medicare stand-alone PDP	818	—	—	—	818
Total Medicare	13,237	—	—	—	13,237
Fully-insured	144	1,284	—	—	1,428
Specialty	—	387	—	—	387
Medicaid and other	724	—	—	—	724
Total premiums	14,105	1,671	—	—	15,776
Services revenue:					
Provider	—	—	111	—	111
ASO and other	5	193	—	—	198
Pharmacy	—	—	46	—	46
Total services revenue	5	193	157	—	355
Total external revenues	14,110	1,864	157	—	16,131
Intersegment revenues					
Services	—	5	4,496	(4,501)	—
Products	—	—	1,733	(1,733)	—
Total intersegment revenues	—	5	6,229	(6,234)	—
Investment income	48	5	1	60	114
Total revenues	14,158	1,874	6,387	(6,174)	16,245
Operating expenses:					
Benefits	12,019	1,442	—	(143)	13,318
Operating costs	1,206	406	6,135	(6,044)	1,703
Depreciation and amortization	77	21	40	(29)	109
Total operating expenses	13,302	1,869	6,175	(6,216)	15,130
Income from operations	856	5	212	42	1,115
Interest expense	—	—	—	60	60
Other income, net	—	—	—	(174)	(174)
Income before income taxes and equity in net earnings	856	5	212	156	1,229
Equity in net earnings	—	—	12	—	12
Segment earnings	$ 856	$ 5	$ 224	$ 156	$ 1,241

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Six months ended June 30, 2020	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External revenues					
Premiums:					
Individual Medicare Advantage	$ 25,799	$ —	$ —	$ —	$ 25,799
Group Medicare Advantage	3,987	—	—	—	3,987
Medicare stand-alone PDP	1,486	—	—	—	1,486
Total Medicare	31,272	—	—	—	31,272
Fully-insured	332	2,437	—	—	2,769
Specialty	—	854	—	—	854
Medicaid and other	2,023	—	—	—	2,023
Total premiums	33,627	3,291	—	—	36,918
Services revenue:					
Provider	—	—	209	—	209
ASO and other	10	387	—	—	397
Pharmacy	—	—	268	—	268
Total services revenue	10	387	477	—	874
Total external revenues	33,637	3,678	477	—	37,792
Intersegment revenues					
Services	—	13	9,662	(9,675)	—
Products	—	—	3,887	(3,887)	—
Total intersegment revenues	—	13	13,549	(13,562)	—
Investment income	86	9	—	131	226
Total revenues	33,723	3,700	14,026	(13,431)	38,018
Operating expenses:					
Benefits	27,715	2,405	—	(316)	29,804
Operating costs	3,170	864	13,403	(12,966)	4,471
Depreciation and amortization	164	39	89	(58)	234
Total operating expenses	31,049	3,308	13,492	(13,340)	34,509
Income (loss) from operations	2,674	392	534	(91)	3,509
Interest expense	—	—	—	136	136
Other expense, net	—	—	—	70	70
Income before income taxes and equity in net earnings	2,674	392	534	(297)	3,303
Equity in net earnings	—	—	33	—	33
Segment earnings (loss)	$ 2,674	$ 392	$ 567	$ (297)	$ 3,336

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Six months ended June 30, 2019	Retail	Group and Specialty	Healthcare Services	Eliminations/ Corporate	Consolidated
			(in millions)		
External Revenues					
Premiums:					
Individual Medicare Advantage	$ 21,502	$ —	$ —	$ —	$ 21,502
Group Medicare Advantage	3,258	—	—	—	3,258
Medicare stand-alone PDP	1,627	—	—	—	1,627
Total Medicare	26,387	—	—	—	26,387
Fully-insured	284	2,595	—	—	2,879
Specialty	—	760	—	—	760
Medicaid and other	1,401	—	—	—	1,401
Total premiums	28,072	3,355	—	—	31,427
Services revenue:					
Provider	—	—	231	—	231
ASO and other	10	387	—	—	397
Pharmacy	—	—	82	—	82
Total services revenue	10	387	313	—	710
Total external revenues	28,082	3,742	313	—	32,137
Intersegment revenues					
Services	—	9	8,802	(8,811)	—
Products	—	—	3,369	(3,369)	—
Total intersegment revenues	—	9	12,171	(12,180)	—
Investment income	89	10	1	115	215
Total revenues	28,171	3,761	12,485	(12,065)	32,352
Operating expenses:					
Benefits	24,346	2,729	—	(264)	26,811
Operating costs	2,354	819	12,023	(11,833)	3,363
Depreciation and amortization	150	43	78	(55)	216
Total operating expenses	26,850	3,591	12,101	(12,152)	30,390
Income from operations	1,321	170	384	87	1,962
Interest expense	—	—	—	122	122
Other income, net	—	—	—	(135)	(135)
Income before income taxes and equity in net earnings	1,321	170	384	100	1,975
Equity in net earnings	—	—	15	—	15
Segment earnings	$ 1,321	$ 170	$ 399	$ 100	$ 1,990

Humana Inc.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The condensed consolidated financial statements of Humana Inc. in this document present the Company's financial position, results of operations and cash flows, and should be read in conjunction with the following discussion and analysis. References to "we," "us," "our," "Company," and "Humana" mean Humana Inc. and its subsidiaries. This discussion includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in filings with the Securities and Exchange Commission, or SEC, in our press releases, investor presentations, and in oral statements made by or with the approval of one of our executive officers, the words or phrases like "believes," "expects," "anticipates," "intends," "likely will result," "estimates," "projects" or variations of such words and similar expressions are intended to identify such forward–looking statements. These forward–looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including, among other things, information set forth in Item 1A. – Risk Factors in our 2019 Form 10-K, as modified by any changes to those risk factors included in this document including the potential impacts of risks related to the spread of, and response to, the COVID-19 pandemic as further discussed in Part II of this report and in other reports we filed subsequent to February 20, 2020, in each case incorporated by reference herein. In making these statements, we are not undertaking to address or update such forward-looking statements in future filings or communications regarding our business or results. In light of these risks, uncertainties and assumptions, the forward–looking events discussed in this document might not occur. There may also be other risks that we are unable to predict at this time. Any of these risks and uncertainties may cause actual results to differ materially from the results discussed in the forward–looking statements.

Executive Overview

General

Humana Inc., headquartered in Louisville, Kentucky, is a leading health and well-being company committed to helping our millions of medical and specialty members achieve their best health. Our successful history in care delivery and health plan administration is helping us create a new kind of integrated care with the power to improve health and well being and lower costs. Our efforts are leading to a better quality of life for people with Medicare, families, individuals, military service personnel, and communities at large. To accomplish that, we support physicians and other health care professionals as they work to deliver the right care in the right place for their patients, our members. Our range of clinical capabilities, resources and tools, such as in home care, behavioral health, pharmacy services, data analytics and wellness solutions, combine to produce a simplified experience that makes health care easier to navigate and more effective.

Our industry relies on two key statistics to measure performance. The benefit ratio, which is computed by taking total benefits expense as a percentage of premiums revenue, represents a statistic used to measure underwriting profitability. The operating cost ratio, which is computed by taking total operating costs, excluding depreciation and amortization, as a percentage of total revenue less investment income, represents a statistic used to measure administrative spending efficiency.

COVID-19

We have continued to take actions to protect, inform, and care for our members, providers, employees, and other stakeholders associated with the outbreak of the novel coronavirus, or COVID-19. Specifically, we have taken the following actions to support our members:

- waiving all cost sharing for in-network primary care, outpatient behavioral health, and telehealth visits for the remainder of 2020 for our Medicare Advantage members, to reduce financial barriers to members seeking to re-engage with their providers, while continuing to encourage the use of telehealth;
- making it easier for members to be tested for COVID-19 by offering a pilot at-home testing program, as well as collaborating with other providers to deploy drive-thru testing at hundreds of sites throughout the country;

- mailing in-home screening kits to members, to encourage members to seek preventative care that may have been delayed during the pandemic;

- proactively delivering safety kits, including face masks, to members and employee homes to facilitate access to care and support visits to providers safely;

- continuing to extend grace periods for premium payments for our fully-insured commercial group members, to ensure continuity of coverage during times of financial stress; and

- providing a concierge line dedicated to COVID-19 related inquiries.

In addition, we took steps to support our provider partners and boost system viability:

- expanding modifications to certain utilization management processes, to ease administrative stress and make sure providers are able to most efficiently care for their patients; and

- simplifying and expanding claims processing and releasing advanced funding to providers, to get reimbursement payments to providers as quickly as possible and ease financial concerns so that members are able to continue to access the care and information they need.

Finally, we continued to support the communities we serve by donating $200 million ($150 million during the second quarter of 2020) to the Humana Foundation to address social determinants of health in an effort to promote more health days and encourage greater health equity.

The temporary deferral of non-essential care resulting from stay-at-home and physical distancing orders and other restrictions on movement and economic activity implemented throughout the country beginning the second half of March 2020 to reduce the spread of COVID-19 has impacted our business. Hospital admissions and utilization were significantly depressed in April, increased throughout May and June, and remained modestly below normal historical levels at the close of the quarter. The impact of the deferral of non-essential care on our second quarter operating results was partially offset by COVID-19 testing and treatment costs, as well as our ongoing pandemic relief efforts.

We significantly increased our liquidity position during March 2020 with the issuance of $1.1 billion in senior notes and a $1 billion draw under the prior one-year term loan bank commitment. At June 30, 2020, we held $2.5 billion of cash and short-term investments at our parent company and access to an additional $2.0 billion under our credit agreement.

For the remainder of 2020, we expect our second quarter 2020 performance will be offset as demand for previously deferred non-essential care normalizes, combined with the financial impact of our ongoing relief efforts to ease the burden of the pandemic for our constituents. A number of significant variables and uncertainties will impact these trends including, among others, the severity and duration of the pandemic, continued actions taken to mitigate the spread of COVID-19 and in turn, relax those restrictions, the timing and degree in resumption of demand for deferred health care services, the ability of our commercial members to pay their premium, the nature and level of diagnostic testing, the cost and timing of new therapeutic treatments and vaccines, all of which are difficult to predict. As such, our response to this global health crisis and the subsequent recovery will continue to evolve over the coming months to support the needs of our stakeholders.

Recent Transactions

In the first quarter of 2020, we purchased privately held Enclara, one of the nation’s largest hospice pharmacy and benefit management providers, for cash consideration of approximately $709 million, net of cash received.

We have entered into a strategic partnership with WCAS to accelerate the expansion of our primary care model. The WCAS partnership is expected to open approximately 50 payor-agnostic, senior-focused primary care centers over 3 years beginning in 2020.

These transactions are more fully discussed in Note 3 to the condensed consolidated financial statements.

Business Segments

We manage our business with three reportable segments: Retail, Group and Specialty, and Healthcare Services. The reportable segments are based on a combination of the type of health plan customer and adjacent businesses centered on well-being solutions for our health plans and other customers, as described below. These segment groupings are consistent with information used by our Chief Executive Officer, the Chief Operating Decision Maker, to assess performance and allocate resources.

The Retail segment consists of Medicare benefits, marketed to individuals or directly via group Medicare accounts. In addition, the Retail segment also includes our contract with CMS to administer the Limited Income Newly Eligible Transition, or LI-NET, prescription drug plan program and contracts with various states to provide Medicaid, dual eligible, and Long-Term Support Services benefits, which we refer to collectively as our state-based contracts. The Group and Specialty segment consists of employer group commercial fully-insured medical and specialty health insurance benefits marketed to individuals and employer groups, including dental, vision, and other supplemental health benefits, as well as administrative services only, or ASO products. In addition, our Group and Specialty segment includes our military services business, primarily our TRICARE T2017 East Region contract. The Healthcare Services segment includes our services offered to our health plan members as well as to third parties, including pharmacy solutions, provider services, and clinical care service, such as home health and other services and capabilities to promote wellness and advance population health, including our minority investment in Kindred at Home and the strategic partnership with WCAS to develop and operate senior-focused, payor-agnostic, primary care centers.

The results of each segment are measured by segment earnings, and for our Healthcare Services Segment, also include equity in net earnings from our equity method investees. Transactions between reportable segments primarily consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and clinical care services, to our Retail and Group and Specialty segment customers. Intersegment sales and expenses are recorded at fair value and eliminated in consolidation. Members served by our segments often use the same provider networks, enabling us in some instances to obtain more favorable contract terms with providers. Our segments also share indirect costs and assets. As a result, the profitability of each segment is interdependent. We allocate most operating expenses to our segments. Assets and certain corporate income and expenses are not allocated to the segments, including the portion of investment income not supporting segment operations, interest expense on corporate debt, and certain other corporate expenses. These items are managed at a corporate level. These corporate amounts are reported separately from our reportable segments and are included with intersegment eliminations.

Seasonality

One of the product offerings of our Retail segment is Medicare stand-alone prescription drug plans, or PDPs, under the Medicare Part D program. Our quarterly Retail segment earnings and operating cash flows are impacted by the Medicare Part D benefit design and changes in the composition of our membership. The Medicare Part D benefit design results in coverage that varies as a member’s cumulative out-of-pocket costs pass through successive stages of a member’s plan period, which begins annually on January 1 for renewals. These plan designs generally result in us sharing a greater portion of the responsibility for total prescription drug costs in the early stages and less in the latter stages. As a result, the PDP benefit ratio generally decreases as the year progresses. In addition, the number of low income senior members as well as year-over-year changes in the mix of membership in our stand-alone PDP products affects the quarterly benefit ratio pattern.

In addition, the Retail segment also experiences seasonality in the operating cost ratio as a result of costs incurred in the second half of the year associated with the Medicare marketing season.

Our Group and Specialty segment also experiences seasonality in the benefit ratio pattern. However, the effect is opposite of Medicare stand-alone PDP in the Retail segment, with the Group and Specialty segment's benefit ratio increasing as fully-insured members progress through their annual deductible and maximum out-of-pocket expenses.

2020 Highlights

- Our strategy offers our members affordable health care combined with a positive consumer experience in growing markets. At the core of this strategy is our integrated care delivery model, which unites quality care, high member engagement, and sophisticated data analytics. Our approach to primary, physician-directed care for our members aims to provide quality care that is consistent, integrated, cost-effective, and member-focused, provided by both employed physicians and physicians with network contract arrangements. The model is designed to improve health outcomes and affordability for individuals and for the health system as a whole, while offering our members a simple, seamless healthcare experience. We believe this strategy is positioning us for long-term growth in both membership and earnings. We offer providers a continuum of opportunities to increase the integration of care and offer assistance to providers in transitioning from a fee-for-service to a value-based arrangement. These include performance bonuses, shared savings and shared risk relationships. At June 30, 2020, approximately 2,552,300 members, or 66%, of our individual Medicare Advantage members were in value-based relationships under our integrated care delivery model, as compared to 2,272,300 members, or 65%, at June 30, 2019. Medicare Advantage and dual demonstration program membership enrolled in a Humana chronic care management program was 901,000 at June 30, 2020, an increase of 5.6% from 853,600 at June 30, 2019. These members may not be unique to each program since members have the ability to enroll in multiple programs. The increase is driven by our improved process for identifying and enrolling members in the appropriate program at the right time, coupled with growth in Special Needs Plans, or SNP, membership.

- Net income was $1.8 billion, or $13.75 per diluted common share, in the 2020 quarter compared to $940 million, or $6.94 per diluted common share, in the 2019 quarter and was $2.3 billion, or $17.31 per diluted common share, in the 2020 period compared to $1.5 billion, or $11.10 per diluted common share, in the 2019 period. The comparisons were significantly impacted by the put/call valuation adjustments associated with certain equity method investments which increased earnings $227 million in the 2020 quarter compared to $174 million in the 2019 quarter. The put/call valuation reduced earnings $70 million in the 2020 period, but increased earnings $135 million in the 2019 period. Excluding the impact of the put/call valuation adjustments, the favorable comparison was driven by the temporary deferral of non-essential care amid the COVID-19 pandemic. The temporary reduction in utilization was partially offset by COVID-19 testing and treatment costs along with our ongoing pandemic relief efforts, including the waiver of all cost sharing for in-network primary care, outpatient behavioral health, and telehealth visits for our Medicare Advantage members. These changes were also favorably impacted by a lower number of shares used to compute dilutive earnings per common share, primarily reflecting share repurchases completed during 2019, partially offset by a higher tax rate resulting from the return of the non-deductible health insurance industry fee in 2020.

- Contributing to our Retail segment revenue growth was our individual Medicare Advantage membership, which increased 392,700 members, or 11.3%, from June 30, 2019 to June 30, 2020.

- Our operating cash flows for the 2020 period increased from the 2019 period due to higher income from operations and the timing of working capital items, primarily related to benefits payable, including higher provider surplus accruals from our risk sharing arrangements, and the delayed payment of estimated second quarter of 2020 federal income taxes until the third quarter of 2020 in accordance with the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act. These favorable working capital items were partially offset by the timing of the mid-year Medicare risk adjustment premium revenue collections that were received in July 2020 versus the the second quarter in 2019.

Health Care Reform

The Health Care Reform Law enacted significant reforms to various aspects of the U.S. health insurance industry. Certain significant provisions of the Health Care Reform Law include, among others, mandated coverage requirements, mandated benefits and guarantee issuance associated with commercial medical insurance, rebates to policyholders based on minimum benefit ratios, adjustments to Medicare Advantage premiums, the establishment of federally facilitated or state-based exchanges coupled with programs designed to spread risk among insurers, and the introduction of plan designs based on set actuarial values. In addition, the Health Care Reform Law established insurance industry assessments, including an annual health insurance industry fee. The annual health insurance industry fee, which was suspended in 2019, but has resumed for calendar year 2020, is not deductible for income tax purposes and significantly increases our effective tax rate. We expect to pay the federal government $1.2 billion in September 2020 for this fee. Under current law, the health industry fee will be permanently repealed beginning in calendar year 2021.

It is reasonably possible that the Health Care Reform Law and related regulations, as well as other current or future legislative, judicial or regulatory changes, such as legislative and regulatory changes associated with COVID-19, including restrictions on our ability to manage our provider network or otherwise operate our business, or restrictions on profitability, including reviews by regulatory bodies that may compare our Medicare Advantage profitability to our non-Medicare Advantage business profitability, or compare the profitability of various products within our Medicare Advantage business, and require that they remain within certain ranges of each other, increases in member benefits or changes to member eligibility criteria without corresponding increases in premium payments to us, or increases in regulation of our prescription drug benefit businesses, in the aggregate may have a material adverse effect on our results of operations (including restricting revenue, enrollment and premium growth in certain products and market segments, restricting our ability to expand into new markets, increasing our medical and operating costs, further lowering our Medicare payment rates and increasing our expenses associated with assessments); our financial position (including our ability to maintain the value of our goodwill); and our cash flows.

We intend for the discussion of our financial condition and results of operations that follows to assist in the understanding of our financial statements and related changes in certain key items in those financial statements from year to year, including the primary factors that accounted for those changes. Transactions between reportable segments primarily consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and clinical care services, to our Retail and Group and Specialty segment customers and are described in Note 14 to the condensed consolidated financial statements included in this report.

Comparison of Results of Operations for 2020 and 2019

The following discussion primarily deals with our results of operations for the three months ended June 30, 2020, or the 2020 quarter, and the three months ended June 30, 2019, or the 2019 quarter, the six months ended June 30, 2020, or the 2020 period, and the six months ended June 30, 2019, or the 2019 period.

Consolidated

	For the three months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(dollars in millions, except per common share results)			
Revenues:				
Premiums:				
Retail	$ 16,923	$ 14,105	$ 2,818	20.0 %
Group and Specialty	1,633	1,671	(38)	(2.3) %
Total premiums	18,556	15,776	2,780	17.6 %
Services:				
Retail	6	5	1	20.0 %
Group and Specialty	192	193	(1)	(0.5) %
Healthcare Services	252	157	95	60.5 %
Total services	450	355	95	26.8 %
Investment income	77	114	(37)	(32.5) %
Total revenues	19,083	16,245	2,838	17.5 %
Operating expenses:				
Benefits	14,175	13,318	857	6.4 %
Operating costs	2,354	1,703	651	38.2 %
Depreciation and amortization	119	109	10	9.2 %
Total operating expenses	16,648	15,130	1,518	10.0 %
Income from operations	2,435	1,115	1,320	118.4 %
Interest expense	76	60	16	26.7 %
Other income, net	(227)	(174)	(53)	30.5 %
Income before income taxes and equity in net earnings	2,586	1,229	1,357	110.4 %
Provision for income taxes	783	301	482	160.1 %
Equity in net earnings	25	12	13	108.3 %
Net income	$ 1,828	$ 940	$ 888	94.5 %
Diluted earnings per common share	$ 13.75	$ 6.94	$ 6.81	98.1 %
Benefit ratio (a)	76.4 %	84.4 %		(8.0) %
Operating cost ratio (b)	12.4 %	10.6 %		1.8 %
Effective tax rate	30.0 %	24.2 %		5.8 %

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	For the six months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(dollars in millions, except per common share results)			
Revenues:				
Premiums:				
Retail	$ 33,627	$ 28,072	$ 5,555	19.8 %
Group and Specialty	3,291	3,355	(64)	(1.9)%
Total premiums	36,918	31,427	5,491	17.5 %
Services:				
Retail	10	10	—	— %
Group and Specialty	387	387	—	— %
Healthcare Services	477	313	164	52.4 %
Total services	874	710	164	23.1 %
Investment income	226	215	11	5.1 %
Total revenues	38,018	32,352	5,666	17.5 %
Operating expenses:				
Benefits	29,804	26,811	2,993	11.2 %
Operating costs	4,471	3,363	1,108	32.9 %
Depreciation and amortization	234	216	18	8.3 %
Total operating expenses	34,509	30,390	4,119	13.6 %
Income from operations	3,509	1,962	1,547	78.8 %
Interest expense	136	122	14	11.5 %
Other expense (income), net	70	(135)	205	(151.9)%
Income before income taxes and equity in net earnings	3,303	1,975	1,328	67.2 %
Provision for income taxes	1,035	484	551	113.8 %
Equity in net earnings	33	15	18	120.0 %
Net income	$ 2,301	$ 1,506	$ 795	52.8 %
Diluted earnings per common share	$ 17.31	$ 11.10	$ 6.21	55.9 %
Benefit ratio (a)	80.7 %	85.3 %		(4.6)%
Operating cost ratio (b)	11.8 %	10.5 %		1.3 %
Effective tax rate	31.0 %	24.3 %		6.7 %

(a) Represents benefits expense as a percentage of premiums revenue.
(b) Represents operating costs as a percentage of total revenues less investment income.

Summary

Net income was $1.8 billion, or $13.75 per diluted common share, in the 2020 quarter compared to $940 million, or $6.94 per diluted common share, in the 2019 quarter and was $2.3 billion, or $17.31 per diluted common share, in the 2020 period compared to $1.5 billion, or $11.10 per diluted common share, in the 2019 period. The comparisons were significantly impacted by the put/call valuation adjustments associated with certain equity method investments which increased earnings $227 million in the 2020 quarter compared to $174 million in the 2019 quarter. The put/call valuation adjustment reduced earnings $70 million in the 2020 period, but increased earnings $135 million in the 2019 period. Excluding the impact of the put/call valuation adjustments, the favorable comparison was driven by the result of the previously discussed impact of the temporary deferral of non-essential care amid the COVID-19 pandemic. The temporary reduction in utilization was partially offset by COVID-19 testing and treatment costs along with our ongoing pandemic relief efforts, including the waiver of all cost sharing for in-network primary care, outpatient behavioral health, and telehealth visits for our Medicare Advantage members. These changes were also favorably impacted by a lower number of shares used to compute dilutive earnings per common share, primarily reflecting share repurchases completed during 2019, partially offset by a higher tax rate resulting from the return of the non-deductible health insurance industry fee in 2020.

Premiums Revenue

Consolidated premiums increased $2.8 billion, or 17.6%, from $15.8 billion in the 2019 quarter to $18.6 billion in the 2020 quarter and increased $5.5 billion, or 17.5%, from $31.4 billion in the 2019 period to $36.9 billion in the 2020 period. These increases were primarily due to higher premiums in the Retail segment, mainly resulting from Medicare Advantage and state-based contracts membership growth and higher per member Medicare Advantage premiums, partially offset by the impact of declining stand-alone PDP membership as more fully described in the detailed segment results discussion that follows.

Services Revenue

Consolidated services revenue increased $95 million, or 26.8%, from $355 million in the 2019 quarter to $450 million in the 2020 quarter and increased $164 million, or 23.1%, from $710 million in the 2019 period to $874 million in the 2020 period. These increases were primarily due to an increase in services revenue in the Healthcare Services segment associated with higher external pharmacy revenues resulting from the Enclara acquisition in the first quarter of 2020.

Investment Income

Investment income decreased $37 million, or 32.5%, from $114 million in the 2019 quarter to $77 million in the 2020 quarter primarily due to lower interest rates and lower realized gains, partially offset by higher average invested balances. Investment income increased $11 million, or 5.1%, from $215 million in the 2019 period to $226 million in the 2020 period primarily due to higher realized capital gains and higher average invested balances, partially offset by lower interest rates.

Benefits Expense

Consolidated benefits expense increased $857 million, or 6.4%, from $13.3 billion in the 2019 quarter to $14.2 billion in the 2020 quarter and increased $3.0 billion, or 11.2%, from $26.8 billion in the 2019 period to $29.8 billion in the 2020 period. The consolidated benefit ratio decreased 800 basis points from 84.4% for the 2019 quarter to 76.4% for the 2020 quarter and decreased 460 basis points from 85.3% for the 2019 period to 80.7% for the 2020 period. These benefit ratio decreases were primarily due to the previously discussed impact of the temporary deferral of non-essential care amid the COVID-19 pandemic. The temporary reduction in utilization was partially offset by COVID-19 testing and treatment costs along with our ongoing pandemic relief efforts. These relief efforts include the waiver of all cost sharing for in-network primary care, outpatient behavioral health, and telehealth visits for our Medicare Advantage members, delivery of approximately 840,000 meals to senior members in need through the 2020 period, and establishing a clinical outreach team to proactively engage with our most vulnerable members.

The benefit ratio was further impacted by the reinstatement of the non-deductible health insurance industry fee in 2020 which was contemplated in the pricing and benefit design of our products.

We experienced negative prior-period development for the 2020 quarter as a result of the suspension of certain financial recovery programs for a period of time in the quarter. The suspension was intended to provide financial and administrative relief for providers facing unprecedented strain during the COVID-19 pandemic. We anticipate that we will recover some of the amounts associated with the temporary suspension in the latter half of 2020 and 2021. The unfavorable prior-period medical claims reserve development increased the consolidated benefit ratio by approximately 30 basis points in the 2020 quarter, whereas the favorable prior-period medical claims reserve development decreased the consolidated benefit ratio by approximately 10 basis points in the 2019 quarter. The favorable prior-period medical claims reserve development decreased the consolidated benefit ratio by approximately 60 basis points in the 2020 period versus approximately 90 basis points in the 2019 period.

Operating Costs

Our segments incur both direct and shared indirect operating costs. We allocate the indirect costs shared by the segments primarily as a function of revenues. As a result, the profitability of each segment is interdependent.

Consolidated operating costs increased $651 million, or 38.2%, from $1.7 billion in the 2019 quarter to $2.4 billion in the 2020 quarter and increased $1.1 billion, or 32.9% from $3.4 billion in the 2019 period to $4.5 billion in the 2020 period.

The consolidated operating cost ratio increased 180 basis points from 10.6% for the 2019 quarter to 12.4% for the 2020 quarter and increased 130 basis points from 10.5% for the 2019 period to 11.8% for the 2020 period. These increases were primarily due to the reinstatement of the non-deductible health insurance industry fee in 2020, and a $200 million contribution, of which $50 million was contributed in the first quarter 2020, to the Humana Foundation to support the communities served by us, particularly those with social and health disparities. These increases were also driven by COVID-19 related costs, including those associated with personal protective equipment, member response efforts, and the build-out of infrastructure necessary to support employees working remotely. These increases were partially offset by scale efficiencies associated with growth in our Medicare Advantage membership and significant operating cost efficiencies in the 2020 quarter driven by previously disclosed productivity initiatives. The non-deductible health insurance industry fee impacted the operating cost ratio by 150 basis points in the 2020 quarter, and 160 basis points in the 2020 period.

Depreciation and Amortization

Depreciation and amortization increased $10 million, or 9.2%, from $109 million in the 2019 quarter to $119 million in the 2020 quarter and increased $18 million, or 8.3%, from $216 million in the 2019 period to $234 million in the 2020 period.

Interest Expense

Interest expense increased $16 million, or 26.7%, from $60 million in the 2019 quarter to $76 million in the 2020 quarter and increased $14 million, or 11.5%, from $122 million in the 2019 period to $136 million in the 2020 period.

Income Taxes

The effective income tax rate was 30.0% and 31.0% for the three and six months ended June 30, 2020, respectively, compared to 24.2% and 24.3% for the three and six months ended June 30, 2019, respectively. These increases were primarily due to the reinstatement of the non-deductible health insurance industry fee in 2020.

Retail Segment

	June 30,		Change	
	2020	2019	Members	Percentage
Membership:				
Medical membership:				
Individual Medicare Advantage	3,877,200	3,484,500	392,700	11.3 %
Group Medicare Advantage	608,300	519,100	89,200	17.2 %
Medicare stand-alone PDP	3,888,400	4,400,500	(512,100)	(11.6)%
Total Retail Medicare	8,373,900	8,404,100	(30,200)	(0.4)%
State-based Medicaid	689,200	465,200	224,000	48.2 %
Medicare Supplement	324,600	276,000	48,600	17.6 %
Total Retail medical members	9,387,700	9,145,300	242,400	2.7 %

	For the three months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Individual Medicare Advantage	$ 13,005	$ 10,793	$ 2,212	20.5 %
Group Medicare Advantage	1,976	1,626	350	21.5 %
Medicare stand-alone PDP	731	818	(87)	(10.6)%
Total Retail Medicare	15,712	13,237	2,475	18.7 %
State-based Medicaid	1,042	724	318	43.9 %
Medicare Supplement	169	144	25	17.4 %
Total premiums	16,923	14,105	2,818	20.0 %
Services	6	5	1	20.0 %
Total premiums and services revenue	$ 16,929	$ 14,110	$ 2,819	20.0 %
Segment earnings	$ 1,989	$ 856	$ 1,133	132.4 %
Benefit ratio	78.3 %	85.2 %		(6.9)%
Operating cost ratio	9.7 %	8.5 %		1.2 %

	For the six months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Individual Medicare Advantage	$ 25,799	$ 21,502	$ 4,297	20.0 %
Group Medicare Advantage	3,987	3,258	729	22.4 %
Medicare stand-alone PDP	1,486	1,627	(141)	(8.7)%
Total Retail Medicare	31,272	26,387	4,885	18.5 %
State-based Medicaid	2,023	1,401	622	44.4 %
Medicare Supplement	332	284	48	16.9 %
Total premiums	33,627	28,072	5,555	19.8 %
Services	10	10	—	— %
Total premiums and services revenue	$ 33,637	$ 28,082	$ 5,555	19.8 %
Segment earnings	$ 2,674	$ 1,321	$ 1,353	102.4 %
Benefit ratio	82.4 %	86.7 %		(4.3)%
Operating cost ratio	9.4 %	8.4 %		1.0 %

Segment Earnings

- Retail segment earnings increased $1.1 billion, or 132.4%, from $856 million in the 2019 quarter to $2.0 billion in the 2020 quarter and increased $1.4 billion, or 102.4%, from $1.3 billion in the 2019 period to $2.7 billion in the 2020 period. These increases were primarily due to a lower benefit ratio, partially offset by a higher operating cost ratio as more fully described below.

Enrollment

- Individual Medicare Advantage membership increased 392,700 members, or 11.3%, from June 30, 2019 to June 30, 2020, primarily due to membership additions associated with the most recent Annual Election Period, or AEP, and Open Election Period, or OEP, for Medicare beneficiaries. The OEP sales period, which ran from January 1 to March 31, 2020 added approximately 30,000 members. Since the conclusion of the 2020 OEP, enrollment continued to increase due to special elections, age-ins, and Dual Eligible Special Need Plans, or D-SNP, members. Individual Medicare Advantage membership includes 365,300 D-SNP members as of June 30, 2020, a net increase of 101,100, or 38%, from 264,200 as of June 30, 2019.

- Group Medicare Advantage membership increased 89,200, or 17.2%, from June 30, 2019 to June 30, 2020, primarily due to the addition of a large account in January 2020, along with net membership additions associated with the most recent AEP for Medicare beneficiaries.

- Medicare stand-alone PDP membership decreased 512,100 members, or 11.6%, from June 30, 2019 to June 30, 2020 primarily reflecting net declines during the most recent AEP for Medicare beneficiaries. The anticipated decline was primarily the result of terminations driven by premium and benefit adjustments experienced by members that were previously enrolled in our 2019 Humana Walmart Rx plan and the 2019 Humana Enhanced plan, which were consolidated into the Premier Rx plan in 2020. The expected PDP losses were partially offset by growth in the new low-price Humana Walmart Value Rx plan, driven by both new sales and plan to plan changes.

- State-based Medicaid membership increased 224,000 members, or 48.2%, from June 30, 2019 to June 30, 2020. This increase primarily reflects the impact of discontinuing the reinsurance agreement with CareSource and the assumption of full financial risk for the existing Kentucky Medicaid contract as of

January 1, 2020, as well as additional enrollment, particularly in Florida, resulting from the current economic downturn driven by the COVID-19 pandemic.

Premiums Revenue

- Retail segment premiums increased $2.8 billion, or 20.0%, from $14.1 billion in the 2019 quarter to $16.9 billion in the 2020 quarter and increased $5.6 billion, or 19.8%, from $28.1 billion in the 2019 period to $33.6 billion in the 2020 period. These increases primarily reflect higher premiums as a result of Medicare Advantage and state-based contracts membership growth and higher per member Medicare Advantage premiums. These favorable items were partially offset by the decline in membership in our stand-alone PDP offerings.

Benefits Expense

- The Retail segment benefit ratio decreased 690 basis points from 85.2% for the 2019 quarter to 78.3% for the 2020 quarter and decreased 430 basis points from 86.7% for the 2019 period to 82.4% for the 2020 period. These decreases were primarily due to the impact of the temporary deferral of non-essential care amid the COVID-19 pandemic. The temporary reduction in utilization was partially offset by COVID-19 testing and treatment costs along with our ongoing pandemic relief efforts. These relief efforts include the waiver of all cost sharing for in-network primary care, outpatient behavioral health, and telehealth visits for our Medicare Advantage members, delivery of meals to senior members in need, and establishing a clinical outreach team to proactively engage with our most vulnerable members. These decreases were further driven by the reinstatement of the non-deductible health insurance industry fee in 2020 which was contemplated in the pricing and benefit design of our products.

- The Retail segment's benefits expense for the 2020 quarter included $33 million in unfavorable prior-period medical claims reserve development versus $28 million in favorable prior-period medical claims reserve development in the 2019 quarter. For the 2020 period, the Retail segment's benefit expense includes the beneficial effect of $205 million in favorable prior-period reserve development versus $311 million in the 2019 period. Prior-period medical claims reserve development increased the Retail segment benefit ratio by approximately 20 basis points in the 2020 quarter, but decreased the benefit ratio by approximately 20 basis points in the 2019 quarter. Favorable prior-period reserve development decreased the Retail segment benefit ratio by approximately 60 basis points in the 2020 period versus approximately 110 basis points in the 2019 period.

- We experienced negative prior-period medical claims reserve development for the 2020 quarter as a result of the suspension of certain financial recovery programs for a period of time in the quarter. The suspension was intended to provide financial and administrative relief for providers facing unprecedented strain during the COVID-19 pandemic. We anticipate that we will recover some of the amounts associated with the temporary suspension in the latter half of 2020 and in 2021.

Operating Costs

- The Retail segment operating cost ratio increased 120 basis points from 8.5% for the 2019 quarter to 9.7% for the 2020 quarter and increased 100 basis points from 8.4% for the 2019 period to 9.4% for the 2020 period. These increases were primarily due to the reinstatement of the non-deductible health insurance industry fee in 2020 and COVID-19 related costs as previously discussed, partially offset by scale efficiencies associated with growth in our Medicare Advantage membership and significant operating cost efficiencies in the 2020 quarter driven by previously disclosed productivity initiatives. The non-deductible health insurance industry fee impacted the operating cost ratio by 160 basis points in the 2020 quarter and period.

Group and Specialty Segment

	June 30,		Change	
	2020	2019	Members	Percentage
Membership:				
Medical membership:				
Fully-insured commercial group	820,800	942,500	(121,700)	(12.9)%
ASO	506,200	496,000	10,200	2.1 %
Military services	6,033,300	5,971,400	61,900	1.0 %
Total group medical members	7,360,300	7,409,900	(49,600)	(0.7)%
Specialty membership (a)	5,344,900	5,860,000	(515,100)	(8.8)%

(a) Specialty products include dental, vision, and other supplemental health. Members included in these products may not be unique to each product since members have the ability to enroll in multiple products.

	For the three months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Fully-insured commercial group	$ 1,208	$ 1,284	$ (76)	(5.9)%
Group specialty	425	387	38	9.8 %
Total premiums	1,633	1,671	(38)	(2.3)%
Services	192	193	(1)	(0.5)%
Total premiums and services revenue	$ 1,825	$ 1,864	$ (39)	(2.1)%
Segment earnings	$ 287	$ 5	$ 282	5640.0 %
Benefit ratio	67.0 %	86.3 %		(19.3)%
Operating cost ratio	23.8 %	21.7 %		2.1 %

	For the six months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(in millions)			
Premiums and Services Revenue:				
Premiums:				
Fully-insured commercial group	$ 2,437	$ 2,595	$ (158)	(6.1)%
Group specialty	854	760	94	12.4 %
Total premiums	3,291	3,355	(64)	(1.9)%
Services	387	387	—	— %
Total premiums and services revenue	$ 3,678	$ 3,742	$ (64)	(1.7)%
Segment earnings	$ 392	$ 170	$ 222	130.6 %
Benefit ratio	73.1 %	81.3 %		(8.2)%
Operating cost ratio	23.4 %	21.8 %		1.6 %

Segment Earnings

- Group and Specialty segment earnings increased $282 million, from $5 million in the 2019 quarter to $287 million in the 2020 quarter and increased $222 million, or 130.6%, from $170 million in the 2019 period to $392 million in the 2020 period. These increases were primarily due to a lower benefit ratio, partially offset by a higher operating cost ratio as more fully described below.

Enrollment

- Fully-insured commercial group medical membership decreased 121,700 members, or 12.9%, from June 30, 2019 to June 30, 2020. These anticipated declines primarily reflect lower membership in small group accounts due in part to more small group accounts selecting level-funded ASO products, as well as the loss of certain large group accounts due to disciplined pricing in the competitive environment. Additionally, the declines in membership were modestly impacted by the current economic downturn driven by the COVID-19 pandemic resulting in higher unemployment rates and loss of coverage for fully-insured commercial group members. The portion of group fully-insured commercial medical membership in small group accounts was approximately 57% at June 30, 2020 and 61% at June 30, 2019.

- Group ASO commercial medical membership increased 10,200 members, or 2.1%, from June 30, 2019 to June 30, 2020 reflecting more small group accounts selecting level-funded ASO products partially offset by the loss of certain large group accounts due to continued discipline in pricing of services for self-funded accounts amid a highly competitive environment and the modest impact from the current economic downturn driven by the COVID_19 pandemic as previously discussed. Small group membership comprised 45% of group ASO medical membership at June 30, 2020 versus 37% at June 30, 2019.

- Military services membership increased 61,900 members, or 1.0%, from June 30, 2019 to June 30, 2020. Membership includes military service members, retirees, and their families to whom we are providing healthcare services under the current TRICARE East Region contract.

- Specialty membership decreased 515,100 members, or 8.8%, from June 30, 2019 to June 30, 2020 primarily due the loss of certain group accounts, including one jumbo account, offering stand-alone dental and vision products, as well as a modest impact from the current economic downturn driven by the COVID-19 pandemic as previously discussed.

Premiums Revenue

- Group and Specialty segment premiums decreased $38 million, or 2.3%, from $1.7 billion in the 2019 quarter to $1.6 billion in the 2020 quarter and decreased $64 million, or 1.9%, from $3.4 billion in the 2019 period to $3.3 billion in the 2020 period. These decreases were primarily due to the decline in our fully-insured group commercial membership, partially offset by higher stop-loss revenues related to our level-funded ASO accounts resulting from membership growth in this product and higher per member premiums across the fully-insured commercial business.

Services Revenue

- Group and Specialty segment services revenue decreased $1 million, or 0.5%, from $193 million in the 2019 quarter to $192 million in the 2020 quarter and was unchanged at $387 million in the 2020 period from the 2019 period.

Benefits Expense

- The Group and Specialty segment benefit ratio decreased 1,930 basis points from 86.3% in the 2019 quarter to 67.0% in the 2020 quarter and decreased 820 basis points from 81.3% in the 2019 period to 73.1% in the 2020 period. These decreases were primarily the result of the previously discussed impact of the temporary deferral of non-essential care amid the COVID-19 pandemic. The temporary reduction in utilization was partially offset by COVID-19 testing and treatment costs along with our ongoing pandemic relief efforts.

These decreases were further impacted by the reinstatement of the non-deductible health insurance industry fee in 2020 which was contemplated in the pricing and benefit design of our products.

- The Group and Specialty segment's benefits expense included $16 million in unfavorable prior-period medical claims reserve development in the 2020 quarter versus $20 million in the 2019 quarter. This unfavorable prior-period medical claims reserve development increased the Group and Specialty segment benefit ratio by approximately 100 basis points in the 2020 quarter and by approximately 120 basis points in the 2019 quarter. The Group and Specialty segment's benefits expense included the effect of a favorable prior-period medical claims reserve development of $30 million in the 2020 period versus an unfavorable prior-period medical claims reserve development of $36 million in the 2019 period. The favorable prior-period medical claims reserve development for the 2020 period decreased the Group and Specialty segment benefit ratio by approximately 90 basis points and the unfavorable development for the 2019 period increased the Group and Specialty segment benefit ratio 110 basis points.

- We experienced negative prior-period medical claims reserve development for the 2020 quarter as a result of the suspension of certain financial recovery programs for a period of time in the quarter. The suspension was intended to provide financial and administrative relief for providers facing unprecedented strain during the COVID-19 pandemic. We anticipate that we will recover some of the amounts associated with the temporary suspension in the latter half of 2020 and in 2021.

Operating Costs

- The Group and Specialty segment operating cost ratio increased 210 basis points from 21.7% for the 2019 quarter to 23.8% for the 2020 quarter and increased 160 basis points from 21.8% for the 2019 period to 23.4% for the 2020 period. These increases were primarily due to the reinstatement of the non-deductible health insurance industry fee in 2020, and COVID-19 related costs as previously discussed. These increases were partially offset by significant operating cost efficiencies driven by previously disclosed productivity initiatives. The non-deductible health insurance industry fee impacted the operating cost ratio by 130 basis points in the 2020 quarter and period.

Healthcare Services Segment

	For the three months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(in millions)			
Revenues:				
Services:				
Provider services	$ 79	$ 82	$ (3)	(3.7)%
Pharmacy solutions	147	45	102	226.7 %
Clinical care services	26	30	(4)	(13.3)%
Total services revenues	252	157	95	60.5 %
Intersegment revenues:				
Pharmacy solutions	5,977	5,465	512	9.4 %
Provider services	575	602	(27)	(4.5)%
Clinical care services	137	162	(25)	(15.4)%
Total intersegment revenues	6,689	6,229	460	7.4 %
Total services and intersegment revenues	$ 6,941	$ 6,386	$ 555	8.7 %
Segment earnings	$ 317	$ 224	$ 93	41.5 %
Operating cost ratio	95.1 %	96.1 %		(1.0)%

	For the six months ended June 30,		Change	
	2020	2019	Dollars	Percentage
	(in millions)			
Revenues:				
Services:				
Pharmacy solutions	$ 268	$ 81	$ 187	230.9 %
Provider services	155	161	(6)	(3.7)%
Clinical care services	54	71	(17)	(23.9)%
Total services revenues	477	313	164	52.4 %
Intersegment revenues:				
Pharmacy solutions	12,117	10,662	1,455	13.6 %
Provider services	1,151	1,201	(50)	(4.2)%
Clinical care services	281	308	(27)	(8.8)%
Total intersegment revenues	13,549	12,171	1,378	11.3 %
Total services and intersegment revenues	$ 14,026	$ 12,484	$ 1,542	12.4 %
Segment earnings	$ 567	$ 399	$ 168	42.1 %
Operating cost ratio	95.6 %	96.3 %		(0.7)%

Segment Earnings

- Healthcare Services segment earnings increased $93 million, or 41.5%, from $224 million in the 2019 quarter to $317 million in the 2020 quarter and increased $168 million, or 42.1%, from $399 million in the 2019 period to $567 million in the 2020 period. These increases were primarily due to higher earnings from our pharmacy operations, as well as operational improvements and reduced utilization resulting from COVID-19 in our provider services business.

Script Volume

- Humana Pharmacy Solutions script volumes on an adjusted 30-day equivalent basis increased to approximately 116 million in the 2020 quarter, up 2.7%, versus scripts of approximately 113 million in the 2019 quarter. For the 2020 period, script volumes increased to approximately 236 million, up 5.8%, versus scripts of approximately 223 million in the 2019 period. These increases were primarily due to the growth associated with higher individual Medicare Advantage and state-based contracts membership along with the impact of early prescription refills as members prepared for extended supply needs in response to COVID-19. These increases were partially offset by the decline in stand-alone PDP membership.

Services Revenues

- Services revenues increased $95 million, or 60.5%, from $157 million in the 2019 quarter to $252 million in the 2020 quarter and increased $164 million, or 52.4%, from $313 million in the 2019 period to $477 million in the 2020 period. These increases were primarily due to the additional pharmacy revenues associated with the acquisition of Enclara in the 2020 period.

Intersegment Revenues

- Intersegment revenues increased $460 million, or 7.4%, from $6.2 billion in the 2019 quarter to $6.7 billion in the 2020 quarter and increased $1.4 billion, or 11.3%, from $12.2 billion in the 2019 period to $13.5 billion in the 2020 period. These increases were primarily due to strong Medicare Advantage membership growth and an increase in pharmacy revenues as a result of members being allowed early prescription refills to permit them to prepare for extended supply needs in response to COVID-19, along with a modest shift by members to 90-day mail supply. These increases were partially offset by the loss of intersegment revenues associated with the decline in stand-alone PDP membership.

Operating Costs

- The Healthcare Services segment operating cost ratio decreased 100 basis points from 96.1% for the 2019 quarter to 95.1% for the 2020 quarter and decreased 70 basis points from 96.3% for the 2019 period to 95.6% for the 2020 period. These decreases were primarily the result of operational improvements and reduced utilization resulting from COVID-19 in our provider services business, as well as significant operating cost efficiencies in the 2020 quarter driven by previously disclosed productivity initiatives. These improvements were partially offset by COVID-19 administrative related costs, including expenses associated with additional safety measures taken for our pharmacy, provider, and clinical teams who have continued to provide services to members during the pandemic.

Liquidity

Historically, our primary sources of cash have included receipts of premiums, services revenue, and investment and other income, as well as proceeds from the sale or maturity of our investment securities, and borrowings. Our primary uses of cash historically have included disbursements for claims payments, operating costs, interest on borrowings, taxes, purchases of investment securities, acquisitions, capital expenditures, repayments on borrowings, dividends, and share repurchases. Because premiums generally are collected in advance of claim payments by a period of up to several months, our business normally should produce positive cash flows during periods of increasing premiums and enrollment. Conversely, cash flows would be negatively impacted during periods of decreasing premiums and enrollment. From period to period, our cash flows may also be affected by the timing of working capital items including premiums receivable, benefits payable, and other receivables and payables. Our cash flows are impacted by the timing of payments to and receipts from CMS associated with Medicare Part D subsidies for which we do not assume risk. The use of cash flows may be limited by regulatory requirements of state departments of insurance (or comparable state regulators) which require, among other items, that our regulated subsidiaries maintain minimum levels of capital and seek approval before paying dividends from the subsidiaries to the parent. Our use of cash flows derived from our non-insurance subsidiaries, such as in our Healthcare Services segment, is generally not restricted by state departments of insurance (or comparable state regulators).

For additional information on our liquidity risk, please refer to the section entitled “Risk Factors” in our 2019 Form 10-K and Item 1A of Part II of this document.

Cash and cash equivalents increased to approximately $7.2 billion at June 30, 2020 from $4.1 billion at December 31, 2019. The change in cash and cash equivalents for the six months ended June 30, 2020 and 2019 is summarized as follows:

	Six Months Ended	
	2020	2019
	(in millions)	
Net cash provided by operating activities	$ 3,541	$ 2,330
Net cash (used in) provided by investing activities	(2,862)	89
Net cash provided by financing activities	2,430	16
Increase in cash and cash equivalents	$ 3,109	$ 2,435

Cash Flow from Operating Activities

Our operating cash flows for the 2020 period increased from the 2019 period due to higher income from operations and the timing of working capital items, primarily related to benefits payable, including higher provider surplus accruals from our risk sharing arrangements, and the delayed payment of estimated second quarter of 2020 federal income taxes until the third quarter of 2020 in accordance with the CARES Act. These favorable working capital items were partially offset by the timing of the mid-year Medicare risk adjustment premium revenue collections that were received in July 2020 versus the the second quarter in 2019.

The most significant drivers of changes in our working capital are typically the timing of payments of benefits expense and receipts for premiums. We illustrate these changes with the following summaries of benefits payable and receivables.

The detail of benefits payable was as follows at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019	2020 Period Change	2019 Period Change
		(in millions)		
IBNR (1)	$ 4,848	$ 4,150	$ 698	$ 327
Reported claims in process (2)	959	628	331	307
Other benefits payable (3)	2,173	1,226	947	346
Total benefits payable	$ 7,980	$ 6,004	$ 1,976	$ 980

(1) IBNR represents an estimate of benefits payable for claims incurred but not reported (IBNR) at the balance sheet date and includes unprocessed claim inventories. The level of IBNR is primarily impacted by membership levels, medical claim trends and the receipt cycle time, which represents the length of time between when a claim is initially incurred and when the claim form is received and processed (i.e. a shorter time span results in a lower IBNR). IBNR includes unprocessed claims inventories.

(2) Reported claims in process represents the estimated valuation of processed claims that are in the post claim adjudication process, which consists of administrative functions such as audit and check batching and handling, as well as amounts owed to our pharmacy benefit administrator which fluctuate due to bi-weekly payments and the month-end cutoff.

(3) Other benefits payable primarily include amounts owed to providers under capitated and risk sharing arrangements.

The increase in benefits payable from December 31, 2019 to June 30, 2020 was primarily due to an increase in amounts owed to providers under the capitated and risk sharing arrangements which were affected by the response to COVID-19 and resulting deferral of care impact on medical claims reserves. In addition, the increases in benefits payable from December 31, 2019 to June 30, 2020 and from December 31, 2018 to June 30, 2019 were due to an increase in IBNR primarily as a result of Medicare Advantage membership growth and an increase in the amount of processed but unpaid claims which fluctuate due to month-end cutoff.

The detail of total net receivables was as follows at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019	2020 Period Change	2019 Period Change
	(in millions)			
Medicare	$ 2,014	$ 835	$ 1,179	$ (139)
Commercial and other	175	162	13	19
Military services	137	128	9	3
Allowance for doubtful accounts	(88)	(69)	(19)	6
Total net receivables	$ 2,238	$ 1,056	$ 1,182	$ (111)
Reconciliation to cash flow statement:				
Receivables from disposition (acquisition) of business			3	(12)
Change in receivables per cash flow statement resulting in cash from operations			$ 1,185	$ (123)

The changes in Medicare receivables for the 2020 period reflects only the final settlement with CMS, whereas the 2019 period reflects both the mid-year and final settlements with CMS. We received the 2020 mid-year settlement in July 2020. The changes in Medicare receivables for both the 2020 period and the 2019 period reflect the typical pattern caused by the timing of accruals and related collections associated with the CMS risk-adjustment model. Significant collections occur with the mid-year and final settlements with CMS in the second and third quarter.

Cash Flow from Investing Activities

In the first quarter of 2020, we acquired privately held Enclara for cash consideration of approximately $709 million, net of cash received as discussed in Note 3 to the condensed consolidated financial statements.

Our ongoing capital expenditures primarily relate to our information technology initiatives, support of services in our provider services operations including medical and administrative facility improvements necessary for activities such as the provision of care to members, claims processing, billing and collections, wellness solutions, care coordination, regulatory compliance and customer service. Total capital expenditures, excluding acquisitions, were $418 million in the 2020 period and $296 million in the 2019 period.

Net purchases of investment securities in the 2020 period were $1.7 billion as compared to net proceeds from investment securities sales and maturities of $385 million in the 2019 period.

Cash Flow from Financing Activities

Receipts from CMS associated with Medicare Part D claim subsidies for which we do not assume risk were higher than claims payments by $412 million in the 2020 period and $539 million in the 2019 period.

Under our administrative services only TRICARE contracts, health care cost payments for which we do not assume risk exceeded reimbursements from the federal government by $23 million in the 2020 period and $66 million in the 2019 period.

In March 2020, we issued $600 million of 4.500% senior notes due April 1, 2025 and $500 million of 4.875% senior notes due April 1, 2030. Our net proceeds, reduced for the underwriters' discount and commission and offering expenses paid as of June 30, 2020 were $1,088 million.

In March 2020, we drew $1 billion on our existing term loan commitment.

We acquired common shares in connection with employee stock plans for an aggregate cost of $25 million in the 2020 period and $10 million in the 2019 period.

Net proceeds from the issuance of commercial paper were $21 million in the 2020 period and net repayments from the issuance of commercial paper were $356 million in the 2019 period. The maximum principal amount outstanding at any one time during the 2020 period was $600 million.

We paid dividends to stockholders of $156 million during the 2020 period and $142 million during the 2019 period.

Future Sources and Uses of Liquidity

Dividends

For a detailed discussion of dividends to stockholders, please refer to Note 10 to the condensed consolidated financial statements.

Stock Repurchases

For a detailed discussion of stock repurchases, please refer to Note 10 to the condensed consolidated financial statements.

Debt

For a detailed discussion of our debt, including our senior notes, term loan, credit agreement and commercial paper program, please refer to Note 12 to the condensed consolidated financial statements.

Acquisitions and Divestitures

During the 2020 period, we completed the acquisition of privately held Enclara, one of the nation’s largest hospice pharmacy and benefit management providers for cash consideration of approximately $709 million, net of cash received. For a detailed discussion of this transaction, please refer to Note 3 to the condensed consolidated financial statements.

Liquidity Requirements

We believe our cash balances, investment securities, operating cash flows, and funds available under our credit agreement and our commercial paper program or from other public or private financing sources, taken together, provide adequate resources to fund ongoing operating and regulatory requirements, acquisitions, future expansion opportunities, and capital expenditures for at least the next twelve months, as well as to refinance or repay debt, and repurchase shares.

Adverse changes in our credit rating may increase the rate of interest we pay and may impact the amount of credit available to us in the future. Our investment-grade credit rating at June 30, 2020 was BBB+ according to Standard & Poor's Rating Services, or S&P, and Baa3 according to Moody's Investors Services, Inc., or Moody's. A downgrade by S&P to BB+ or by Moody's to Ba1 triggers an interest rate increase of 25 basis points with respect to $250 million of our senior notes. Successive one notch downgrades increase the interest rate an additional 25 basis points, or annual interest expense by less than $1 million, up to a maximum 100 basis points, or annual interest expense by $3 million.

In addition, we operate as a holding company in a highly regulated industry. Humana Inc., our parent company, is dependent upon dividends and administrative expense reimbursements from our subsidiaries, most of which are subject to regulatory restrictions. We continue to maintain significant levels of aggregate excess statutory capital and surplus in our state-regulated operating subsidiaries. Cash, cash equivalents, and short-term investments at the parent company were $2.5 billion at June 30, 2020 compared to $1.4 billion at December 31, 2019. This increase primarily was due to the net proceeds from the issuance of senior notes, proceeds from a term loan, and commercial paper issuance. The increase was further impacted by regulated subsidiary dividends and non-regulated subsidiary earnings in our Healthcare Services segment. These increases were partially offset by the Enclara acquisition, capital expenditures, cash dividends to shareholders, and other working capital changes. Our use of operating cash derived from our non-insurance subsidiaries, such as our Healthcare Services segment, is generally not restricted by departments of insurance (or comparable state regulators).

Regulatory Requirements

Certain of our subsidiaries operate in states that regulate the payment of dividends, loans, or other cash transfers to Humana Inc., our parent company, and require minimum levels of equity as well as limit investments to approved securities. The amount of dividends that may be paid to Humana Inc. by these subsidiaries, without prior approval by state regulatory authorities, or ordinary dividends, is limited based on the entity's level of statutory income and statutory capital and surplus. If the dividend, together with other dividends paid within the preceding twelve months, exceeds a specified statutory limit or is paid from sources other than earned surplus, it is generally considered an extraordinary dividend requiring prior regulatory approval. In most states, prior notification is provided before paying a dividend even if approval is not required.

Although minimum required levels of equity are largely based on premium volume, product mix, and the quality of assets held, minimum requirements vary significantly at the state level. Based on the most recently filed statutory financial statements as of March 31, 2020, our state regulated subsidiaries had aggregate statutory capital and surplus of approximately $7.7 billion, which exceeded aggregate minimum regulatory requirements of $6.3 billion. The amount of dividends paid to our parent company was approximately $360 million during the six months ended June 30, 2020 compared to $1.2 billion during the six months ended June 30, 2019. Actual dividends paid may vary year over year due to consideration of excess statutory capital and surplus and expected future surplus requirements related to, for example, premium volume and product mix.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our earnings and financial position are exposed to financial market risk, including those resulting from changes in interest rates.

Interest rate risk also represents a market risk factor affecting our consolidated financial position due to our significant investment portfolio, consisting primarily of fixed maturity securities of investment-grade quality with a weighted average S&P credit rating of AA at June 30, 2020. Our net unrealized position increased $215 million from a net unrealized gain position of $211 million at December 31, 2019 to a net unrealized gain position of $426 million at June 30, 2020. At June 30, 2020, we had gross unrealized losses of $33 million on our investment portfolio primarily due to an increase in market interest rates since the time the securities were purchased. There were no material credit allowances during the six months ended June 30, 2020. While we believe that these securities in an unrealized loss will recover in value over time and we currently do not have the intent to sell such securities, given the current market conditions and the significant judgments involved, there is a continuing risk that future declines in fair value may occur and material realized losses from sales or credit allowances may be recorded in future periods.

Duration is the time-weighted average of the present value of the bond portfolio’s cash flow. Duration is indicative of the relationship between changes in fair value and changes in interest rates, providing a general indication of the sensitivity of the fair values of our fixed maturity securities to changes in interest rates. However, actual fair values may differ significantly from estimates based on duration. The average duration of our investment portfolio, including cash and cash equivalents, was approximately 2 years as of June 30, 2020 and approximately 2.5 years as of December 31, 2019. The decline in the average duration is reflective of the increased holdings of cash and cash equivalents, along with other portfolio management activities. Based on the duration, including cash equivalents, a 1% increase in interest rates would generally decrease the fair value of our securities by approximately $398 million at June 30, 2020.

Item 4. Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer, or CEO, our Chief Financial Officer, or CFO, and our Principal Accounting Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures for the quarter ended June 30, 2020.

Based on our evaluation, our CEO, CFO, and our Principal Accounting Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information the Company is required to disclose in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including, without limitation, ensuring that such information is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company’s internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

For a description of the legal proceedings pending against us and certain other pending or threatened litigation, investigations, or other matters, see “Legal Proceedings and Certain Regulatory Matters” in Note 13 to the condensed consolidated financial statements beginning on page 27 of this Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, and the risk factor set forth below.

The spread of, and response to, the novel coronavirus, or COVID-19, underscores certain risks we face, including those discussed in our Form 10-K for the fiscal year ended December 31, 2019, and the rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact to us of COVID-19.

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China. COVID-19 has since spread to over 200 countries, including every state in the United States. On March 11, 2020 the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020 the United States declared a national emergency with respect to COVID-19. The spread of COVID-19 underscores certain risks we face in our business, including those discussed in our Form 10-K for the fiscal year ended December 31, 2019.

Governmental and non-governmental organizations may not effectively combat the spread and severity of COVID-19, increasing the potential for harm for our members. If the spread of COVID-19 is not contained, the premiums we charge may prove to be insufficient to cover the cost of health care services delivered to our members, which may increase significantly as a result of higher utilization rates of medical facilities and services and other increases in associated hospital and pharmaceutical costs. Over time, we may also experience increased costs or decreased revenues if, as a result of our members being unable to see their providers due to actions taken to mitigate the spread of COVID-19, we are unable to implement clinical initiatives to manage health care costs and chronic conditions of our members, and appropriately document their risk profiles. In addition, we are offering our members expanded benefit coverage, such as providing full coverage for COVID-19 diagnostic testing and treatment, certain additional coverages have been mandated by governmental action and we are taking actions designed to help provide financial and administrative relief for the health care provider community. Such measures and any further steps taken by us, or governmental action, to continue to respond to and to address the ongoing impact of COVID-19, including further expansion or modification of the services delivered to our members, the adoption or modification or regulatory requirements associated with those services and the costs and challenges associated with ensuring timely compliance with such requirements, further relief for the health care provider community, or in connection with the relaxation of stay-at-home and physical distancing orders and other restrictions on movement and economic activity, including the potential for widespread testing as a component of lifting these measures, could adversely impact our profitability.

The spread and impact of COVID-19, or actions taken to mitigate this spread, could have material and adverse effects on our ability to operate effectively, including as a result of the complete or partial closure of facilities or labor shortages. Disruptions in public and private infrastructure, including communications, availability of in-person sales and marketing channels, financial services and supply chains, could materially and adversely disrupt our normal business operations. We have transitioned a significant subset of our employee population to a remote work environment in an effort to mitigate the spread of COVID-19, as have a number of our third-party service providers, which may exacerbate certain risks to our business, including an increased demand for information technology resources, increased risk of phishing and other cybersecurity attacks, and increased risk of unauthorized dissemination of sensitive personal information or proprietary or confidential information about us or our members or other third-parties. The outbreak of COVID-19 has severely impacted global economic activity, including the businesses of some of our commercial customers, and caused significant volatility and negative pressure in the financial markets. In addition to disrupting our operations, these developments may adversely affect the timing of commercial customer premium collections and corresponding claim payments, the value of our investment portfolio, or future liquidity needs.

The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact to us of COVID-19. We are continuing to monitor the spread of COVID-19, changes to our benefit coverages, the ongoing costs and business impacts of dealing with COVID-19, including the potential costs and impacts associated with lifting, or reimposing restrictions on movement and economic activity and ultimately a vaccine, and related risks. The magnitude and duration of the pandemic and its ultimate impact on our business, results of operations, financial position, and cash flows is uncertain as this continues to evolve globally, but such impacts could be material to our business, results of operations, financial position and cash flows.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) N/A

(c) The following table provides information about our purchases of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the three months ended June 30, 2020:

Period	Total Number of Shares Purchased (1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 2020	—	$ —	—	$ —
May 2020	—	—	—	—
June 2020	—	—	—	—
Total	—	$ —	—	

(1) On July 30, 2019, the Board of Directors replaced a previous share repurchase authorization of up to $3 billion with a new authorization for repurchases of up to $3 billion of our common shares exclusive of shares repurchased in connection with employee stock plans, expiring on June 30, 2022. Under our share repurchase authorization, shares may be purchased from time to time at prevailing prices in the open market, by block purchases, through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, or in privately-negotiated transactions (including pursuant to accelerated share repurchase agreements with investment banks), subject to certain regulatory restrictions on volume, pricing, and timing. Our remaining repurchase authorization was approximately $2 billion as of August 4, 2020.

(2) Excludes 80,000 shares repurchased in connection with employee stock plans.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6: Exhibits

3(i)	Restated Certificate of Incorporation of Humana Inc. filed with the Secretary of State of Delaware on November 9, 1989, as restated to incorporate the amendment of January 9, 1992, and the correction of March 23, 1992 (incorporated herein by reference to Exhibit 4(i) to Humana Inc.'s Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (Reg. No. 33-49305) filed February 2, 1994).
3(ii)	By-Laws of Humana Inc., as amended on December 14, 2017 (incorporated herein by reference to Exhibit 3(b) to Humana Inc.'s Current Report on Form 8-K, filed December 14, 2017).
31.1	Principal Executive Officer certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
32	Principal Executive Officer and Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Humana Inc.'s Quarterly Report on Form 10-Q formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at June 30, 2020 and December 31, 2019; (ii) the Condensed Consolidated Statements of Income for the three months and six months ended June 30, 2020 and 2019; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2020 and 2019; (iv) the Consolidated Statements of Equity for the three and six months ended June 30, 2020 and 2019; (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019; and (vi) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File formatted in Inline XBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			HUMANA INC.
			(Registrant)
Date:	August 5, 2020	By:	/s/ CYNTHIA H. ZIPPERLE
			Cynthia H. Zipperle
			Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Bruce D. Broussard, principal executive officer of Humana Inc., certify that:

1. I have reviewed this Report of Humana Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2020;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	August 5, 2020
Signature:	/s/ Bruce D. Broussard
	Bruce D. Broussard Principal Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Brian A. Kane, principal financial officer of Humana Inc., certify that:

1. I have reviewed this Report of Humana Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2020;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	August 5, 2020
Signature:	/s/ Brian A. Kane
	Brian A. Kane Principal Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of Humana Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Humana Inc., that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Bruce D. Broussard

Bruce D. Broussard
Principal Executive Officer

August 5, 2020

/s/ Brian A. Kane

Brian A. Kane
Principal Financial Officer

August 5, 2020

A signed original of this written statement required by Section 906 has been provided to Humana Inc. and will be retained by Humana Inc. and furnished to the Securities and Exchange Commission or its staff upon request.