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HUM - Q3 2019 Humana Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2019 / 2:00PM GMT

OVERVIEW:

Co. reported 3Q19 adjusted common diluted EPS of $5.03. Expects 2019 adjusted common diluted EPS to be approx. $17.75.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Humana Third Quarter 2019 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would like to hand the conference over to your speaker today, Ms. Amy Smith, Vice President, Investor Relations. Thank you. You may begin.

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

Thank you, and good morning. In a moment, Bruce Broussard, Humana's President and Chief Executive Officer; and Brian Kane, Chief Financial Officer, will discuss our third quarter 2019 results and our updated financial outlook for the full year. Following these prepared remarks, we will open up the lines for a question-and-answer session with industry analysts. Our Chief Legal Officer, Joe Ventura, will also be joining Bruce and Brian for the Q&A session. We encourage the investing public and media to listen to both management's prepared remarks and the related Q&A with analysts.

This call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana's website, humana.com, later today.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the detailed risk factors discussed in our third quarter 2019 earnings press release as well as in our filings with the Securities and Exchange Commission.

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

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

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

Good morning, and thank you for joining us. Today, we reported adjusted earnings per share of $5.03 for the third quarter of 2019 and raised our full year 2019 adjusted EPS guidance to approximately $17.75, primarily reflecting improved results in our Retail segment.

Our year-to-date results through the third quarter of 2019, including our significant individual Medicare Advantage membership growth now projected to exceed 0.5 million members for the full year, demonstrate the value of our products and services, the strength of our brand with consumers and our progress in simplifying the health care experience for our members, providers, broker partners and associates.

The management team continues to maintain its focus on operational excellence, ensuring our operating results remain consistent despite potential pressure of significant membership growth.

While we celebrate these strong results, we also recognize health care will continue to evolve and will require an ongoing balance between improving our productivity while innovating for long-term sustainability, specifically by improving the health outcomes of our members and simplifying their health care experience.

We believe we have a significant opportunity to improve the efficiency and effectiveness of the health care system. This is highlighted by a recently completed multiyear study conducted by Humana researchers and published in the Journal of the American Medical Association. The study puts a spotlight on the nearly 25% of our country's annual total health care spending that can be deemed as waste. That's 1 out of every 4 health care dollars or between $760 billion and $935 billion each year.

Our integrated approach to holistic health through programs like Medicare Advantage uniquely position us to evolve health care, driving affordability through improving clinical outcomes and simplifying the experience and reducing the waste in the system.

As we look to 2020 and beyond, we are continuing to meaningfully advance our strategy, which centers on improving health outcomes through the most impactful areas of health, home, primary care, pharmacy, behavioral health and social determinants.

In addition, we are making it easier for our members to interact with us and others in the health care system through leveraging technology to develop a health care ecosystem. An important element of our strategy includes establishing partnerships with key organizations. Our multi-partnership approach allows us to minimize risk, move faster and use our capital efficiently.

To that end, you'll recall last quarter, I highlighted our partnership with Epic. And today, I'd like to share additional examples of recent partnerships. In our efforts to simplify the health care experience, in our Group and Specialty business, we recently expanded our partnership with Accolade, first announced in March of this year. We've created a differentiated health engagement experience for individuals and their employers by integrating our organization's capabilities.

Together, we will continue to create personalized and simplified member experiences and leverage new opportunities around solution flexibility, service delivery, partner integration and economic value in health care. Our partnership, which includes a recent additional strategic investment, allows us to tailor the Humana and Accolade solution for a broader base of fully insured and ASO prospects and clients, including expansion of upstream larger group accounts.

At the core of our strategy is interoperability, which facilitates our relationship with our provider partners while simplifying the experience of our members. Recently, Humana Pharmacy developed what we believe is the first Clinical Decision Support FHIR integration and production between a payer and a provider via their clinical workflow. Our partner, Signify Health, is now using our OneMedList in connection with an in-home assessment, giving them the ability to confirm in real-time member adherence to their medication and more proactively identify potential adverse drug interventions and drug disease conflicts.

During 2020, we will roll this same functionality to all Kindred at Home and other health care health -- home health providers, including integration with the new Homecare Homebase system. The integration of technology, like OneMedList with Kindred at Home, is enabled by Humana's integration with the Homecare Homebase electronic medical record and practice management system.

The integration allows the prescription drug information gathered by the Kindred at Home nurse to become part of the Humana record, ensuring a more comprehensive record and reducing the likelihood of medication errors. This will accelerate our ability to proactively identify key clinical interventions while improving revenue capture and business and quality reporting.

Lastly, just a few weeks ago, we announced a strategic partnership with Microsoft, focused on building modern health care solutions for Humana members aimed at improving their health outcomes and making their health care experiences simpler to navigate. The main objectives of this partnership center on evolving our organization to cloud to improve our speed and efficiency while assisting us in key initiatives, such as the build-out of our longitudinal record so that our members and their care teams have a complete view of their health records for real-time interventions.

Importantly, our partnerships with Microsoft will help amplify our home health strategy through the use of their home devices, natural language processing and device data integration. Similarly, we continue to work closely with key partners like IBM, helping enable data interoperability across our ecosystem and voice-based, self-service capabilities using Watson to better serve our providers.

These external partnerships complement our internal resources and accelerate solutions we are developing for our members and providers that simplify their experience, enable proactive clinical interventions and advance value-based population health management.

For example, in January 2020, we are launching a new population health management platform, Population Insights Compass, that makes it easier for primary care providers to manage the complexity of value-based payment models. These tools meet a critical need of our providers in that it delivers a single solution for all payers.

Compass will be a payer agnostic with interoperability for various information systems, complemented with powerful analytics to identify providers that deliver the most effective care interventions. Providers will have access to multiple sources of data in one location, including medical and pharmacy claims, financial data, HEDIS opportunities, clinical programs and predictive models. The analytics and reporting capabilities will be deployed through a contemporary mobile experience based on the deep knowledge of Humana's successful management of population health over the last 30 years.

When it comes to leveraging the power of value-based care, Humana has continued to make progress for our MA members. For example, when comparing members in Humana MA value-based agreements to those in Humana MA fee-for-service arrangements, we see 9% more eye exams for individuals with diabetes and 21% increase in blood sugar control management. A testament to Humana's experience in this -- the combination of the 60% of providers being in a surplus and our increasing number of MA members in 4-star plans or greater.

[Humana will unveil] (corrected by company after the call) an additional value-based care results in our sixth annual Medicare Advantage value-based care report on Thursday morning, November 21. These partnerships and investments, along among others, are designed to continue to improve quality and customer service for our members and providers. Our orientation to these 2 pivotal aspects of health care resulted in recognition from multiple external stakeholders.

In addition to the awards we shared last quarter, including receiving the J.D. Power award for the #1 mail order pharmacy, we recently ranked as the health insurer brand most recommended by customers in Forrester's 2019 Consumer Experience Index and received a #1 Net Promoter Score ranking by Verint ForeSee in their Verint Digital Experience Index 2019 Insurance Edition, which recognizes the most loyalty-inspiring digital experience in health insurance.

Our commitment to patient-focused pharmacy benefits also earned us the Specialty Pharmacy Patient Choice Award in the PBM/Payer Specialty Pharmacy category. This is the second year in a row that MMIT and Zitter Insights have presented Humana with this award.

Further and more importantly, our commitment to quality and services demonstrated by our compelling operational execution leading to strong Star ratings and significant improvement in our CMS program audit results. We are pleased that 3.7 million of our existing Medicare Advantage members, representing approximately 92% of our total MA membership, are in 4-star and above contracts for 2021 bonus year, including 1.3 million members in 4.5-star contracts and 5-star contract in the important state of Florida.

In addition, CMS completes a comprehensive program audit every 3 years, and we saw significant improvement in our results for our recently completed 2018 audit as compared to our 2015 audit. These results are a testament to the strong capabilities we've built through our Medicare Advantage platform, especially in our analytics, enterprise-wide operating structure, talent development and management information systems.

Turning now to 2020. We believe we are competitively positioned in Medicare Advantage based on our early indicators from the annual election period. However, as previously indicated, the likely return of the health insurance industry fee, or HIF, in 2020 is particularly challenging. We began preparing for the return of the HIF last year, working diligently to identify ways to improve our cost structure by leveraging technology to streamline processes. These efforts have also included discontinuing work being performed that no longer align to our strategy to create capacity for activities that drive the most value to our members and advance the company's long-term sustainability.

As a result, we've had to make some tough decisions and recently announced a 2% reduction in our workforce. As a result of initiating our productivity planning over 12 months ago, we've been able to minimize the number of impacted team members by redeploying, where and when appropriate, many of these individuals to other positions. Approximately 2,000 jobs were impacted by these combined changes.

Despite these productivity efforts, there are still members who will see an increase in premium or a reduction in benefits next year, given the magnitude of the HIF. Given that the HIF is a premium-based fee, beneficiaries in Medicare Advantage and Medicaid, the sicker and most vulnerable population, are disproportionately taxed. As we've mentioned before, there is a bipartisan support to further suspend the HIF. Given the significant positive benefit the removal of the fee would have on members, we continue to urge Congress to address the HIF.

We continue to expand our Medicare offerings and segment our products to align to the unique needs of our -- of certain populations. For example, we are expanding our dual special needs plan offerings and launched Humana Honor Medicare Advantage plans. In the Honor plan, which is available to any -- excuse me, which are available to anyone eligible for Medicare, but are designed in a way that complement the benefits of a veteran receives through VA Healthcare, underscoring our commitment to veterans.

We are also expanding our supplement benefit offerings and introduced offerings under the CMS Value-Based Insurance Design or VBID, and Special Supplement Benefits for the Chronically Ill or SSBCI programs. Our VBID offerings include healthy food cards, Part D rewards, COPD adherence and wellness and health planning. SSBCI is a tailored benefit to address gaps in care and improve specific health outcomes that we are piloting in 2 markets.

As I said previously, while it is early based on the results to date in the AEP, we believe we are competitively positioned in Medicare Advantage as expected at the time of bids. Our brand resonates with seniors, giving our focus on customer service and quality, our strong clinical programs and provider relationships as well as our longevity in the MA market.

We also believe we are competitively positioned in Medicare Part D prescription drug plans or PDP. We introduced a new line of PDP offerings for 2020 designed to provide a wide range of options to meet the varying needs of people with Medicare. Following 2 years of significant PDP membership losses, recognizing that historically, individual plan selections have been driven by price alone, it was important for us to redesign our products for 2020 in order to address the needs of our members while offering a competitive low price plan.

We also recognize that these changes had to be made under CMS's regulation, which limits us to 3 PDP plans per region. Accordingly, we launched a new low price plan co-branded with Walmart, the Humana Walmart Value Rx Plan. We are pleased that the national monthly plan premium of $13.20 is the lowest available in the most markets.

The 2019 Humana Enhanced Rx and the 2019 Humana Walmart Rx prescription drug plans were combined to create the 2020 Humana Premier Rx Plan. This plan is designed to include our most robust coverage for 2020. Members from the previous plan are now enrolled in the new Premier Rx Plan. This change affects approximately 2.6 million customers. We recognize consumers have varying health care needs, so we are anticipating a certain level of member movement between our premier plan and our new low-premium Walmart plan. We have empathy for our customers who are experiencing changes to their plans. We've been reaching out to them proactively to find the best plan for their budget and health care needs.

Lastly, we continue to offer our basic plan designed to keep premiums and benefits stable. These changes are required for positioning us for the long-term growth, but create short-term uncertainty in PDP membership expectations for 2020. Brian will provide more detailed 2020 commentary in his remarks, including high-level EPS and membership guidance.

In closing, we are confident that the measures we've taken in 2019, combined with our relentless focus on the activities that drive the most value to our members and advance the company's long-term sustainability, will allow us to continue to operate from a position of strength. That means meeting the commitments we've made, including to positively impact the health outcomes of our members, to consistently deliver growth for our shareholders and continue to create an environment where our team members can do their best work on behalf of those we serve.

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

Brian Andrew Kane - *Humana Inc. - CFO*

Thank you, Bruce, and good morning, everyone. Today, we reported adjusted EPS of $5.03 for the third quarter, exceeding our previous expectations, and raised our full year 2019 adjusted EPS guidance to approximately $17.75 from approximately $17.60. The increase in the quarter primarily was driven by continued outperformance in our Retail segment.

The improvement in our results throughout the year has afforded us the opportunity to make important incremental investments across all of our businesses that we expect to help position the company for a solid 2020, a year in which we are facing a meaningful headwind from the scheduled return of the health insurance industry fee.

In addition, we are pleased that our strong 2019 financial results, together with significant individual Medicare Advantage membership growth and improving Net Promoter Scores, have resulted in increased incentive-based compensation for associates across all segments of the organization, aligning compensation to shareholder value and the member experience.

As a result of this higher investment spending in 2019 to benefit 2020 and beyond and the increased incentive-based compensation relative to our prior guidance, we increased our full year 2019 consolidated operating cost ratio guidance by 15 basis points at the midpoint to a range of 11.3% to 11.6%. I would note that a number of the incremental investments we are making will occur in the fourth quarter and include, among other items, higher Medicare annual election period marketing spend and increased sales and service costs associated with the PDP plan changes Bruce discussed in his remarks.

I will now briefly discuss our segment results for the quarter. In our Retail segment, our individual and group Medicare Advantage businesses continued to perform exceptionally well with higher-than-anticipated membership growth and lower than previously expected utilization. As a consequence, we increased our individual MA membership growth to approximately 530,000 members versus the prior range of 480,000 to 500,000, and decreased our full year Retail segment benefit ratio by 30 basis points from the prior range at the midpoint. Additionally, our pretax income for the segment is increasing $100 million at the midpoint.

Our Healthcare Services segment also continues to perform well and is delivering strong results as expected. All of our businesses in this segment, including pharmacy, clinical, provider and Kindred, are having a very solid year.

In our Group and Specialty segment, various factors, mostly onetime in nature, resulted in a higher benefit ratio than previously expected. I would note, however, that core trend remains as expected and in the range of 6% plus or minus 50 basis points. Investments include a dental platform enhancement to position this very attractive business for future growth. This required a significant IT upgrade and network revisions, including recontracting and rate adjustments resulting in payments to providers. We are also making other enhancements to make our commercial infrastructure more robust and scalable to move up market, including investments in local teams in key markets and a medical network that is more attractive to larger groups to capitalize on our new partnerships and the innovation we are looking to drive.

The higher benefit ratio, along with increased compensation from the enterprise incentive-based program, resulted in a $100 million decline in our full year pretax income guidance from our previous midpoint to a range of $125 million to $175 million.

From a capital deployment and cash flow perspective, you will recall that we entered into a $1 billion accelerated share repurchase agreement last quarter. It is important to note that under the ASR, we paid the entire $1 billion upon entering into the agreement and received 80% of the shares based on the average share price on that date. We expect the ASR to complete in the fourth quarter, at which time we will settle it based on the volume weighted average price at which the stock was ultimately purchased over the term of the ASR, less the negotiated discount.

Additionally, we now expect operating cash flows of $4.1 billion to $4.3 billion for the full year. The increase of $1 billion from our previous guidance primarily reflects higher earnings, continued top line outperformance driven by significant MA membership growth, which has exceeded expectations, and other working capital changes.

With that, I will now discuss our high-level expectations for 2020 membership, revenue and earnings per share. We believe that the strong results in 2019, which we were able to reinvest in 2020 product design, along with the strategic investments we have made and meaningful productivity initiatives that we have pursued, have set us up to weather the headwinds we are facing and provide investors with a solid 2020 outlook.

As it relates to the productivity initiatives, we began working on these well over a year ago to prepare for the scheduled HIF return. And the entire company rallied to not only reduce cost, but also to drive longer-term sustainability and a simplified experience for our members across all of our major processes.

We looked horizontally across silos to identify efficiencies, leveraging automation wherever possible. We removed management layers that were keeping us further from our customer. We created efficiencies in our local markets to ensure that every customer touch point was adding value. We rationalized our real estate portfolio, and we streamlined our corporate structure, eliminating non-value-added work from our centralized functions.

We did all of this to free up capacity, not only to minimize the disruption to our members and our shareholders from the scheduled return of the HIF, but also so we could continue to invest in technology and new clinical models to drive quality and an improved and simplified experience for our members, distribution partners and providers. Ultimately, we had to make very difficult decisions. And as Bruce discussed, we reduced our workforce by around 2%, taking a onetime charge of approximately $46 million.

Importantly, we were able to minimize the number of associates impacted by these efforts by meaningfully reducing hiring over the past year, evaluating the necessity of open roles and, where possible, transitioning individuals to strategically aligned open positions from roles that no longer support our strategy. All in, these workforce initiatives affected approximately 2,000 positions.

Notwithstanding these significant efforts, the scheduled return of the HIF forced us to reduce benefits for some of our members. We were prudent and thoughtful in our approach. And based on what we are seeing early in the ongoing annual election period, we expect to grow our individual MA membership by 270,000 to 330,000 members in 2020. This represents growth of approximately 7.5% to 9.2%, with the low end representing our view of 2020 individual MA membership growth for the industry.

The number we are providing today could change materially depending on how sales develop and where voluntary terminations ultimately come in. As is typical, we have very little member termination data at this point in the AEP cycle.

With respect to group Medicare Advantage, as we have previously stated, growth can vary widely from year-to-year based on the pipeline of opportunities, particularly large accounts going out to bid. While we had solid growth in 2019, we expect more robust growth in 2020 of approximately 90,000 members, an increase of 18%. This includes a large contract win from a competitor.

Regarding PDP, the repositioning of the product for 2020 has affected approximately 60% or 2.6 million of our 4.4 million PDP members. We proceeded with the important principle that it is critical to have a low premium product in the marketplace to attract a balanced risk pool. We are also committed to returning to growth in this business.

While the actions we took were necessary to drive long-term sustainability and provide a growth path going forward following 2 years of significant PDP membership losses, these changes are resulting in more uncertainty around our membership expectations for the PDP business in 2020. Based on what we have experienced in the annual election period to date, we expect a net decline in PDP membership of at least a few hundred thousand in 2020.

We expect to grow nicely in the new low-priced Humana Walmart Value Rx Plan, but we are seeing high plan-to-plan changes and terminations associated with the Premier Rx Plan. However, we will caution that we are still early in the AEP, and the open enrollment period from January to March adds additional uncertainty given the potential member disruption from these changes.

With respect to Medicaid, excluding the Louisiana contract win as we await the results of the protest and member allocations among the winning plans, we anticipate 2020 membership growth of approximately 150,000 to 200,000 lives. This increase primarily reflects the impact of discontinuing our reinsurance agreement with CareSource and assuming full financial risk for our existing Kentucky Medicaid contract as of 1/1. We are currently awaiting the results of the Kentucky contract rebid, which we expect in relatively short order.

Finally, in our Group and Specialty segment, we expect total group commercial medical membership losses in the range of 80,000 to 100,000 members. This reflects robust membership growth in our small-group, level-funded ASO products, which will be more than offset by continued pressure in our community-rated and large-group fully insured box as well as our large-account ASO product due to the competitive pricing environment.

I will now briefly turn to our 2020 expected financial performance. With respect to the top line, we anticipate our revenue growth percentage to once again be in the double digits, primarily reflecting solid Medicare Advantage membership growth and per member per month premium increases.

From an earnings perspective, we believe we have struck the appropriate balance between membership and earnings growth in light of significant headwind that the HIF creates, and we continue to expect reasonable growth in earnings per share off of our initial $17.25 2019 guidance midpoint, so below our long-term target of 11% to 15%.

More specifically, we anticipate that the current Wall Street consensus estimate for 2020 EPS will fall within the initial EPS guidance range that we provide on the fourth quarter call, albeit we expect this consensus number to approach the top end of the range that we will provide. We look forward to providing more specifics on our fourth quarter earnings call in February.

With that, we will open the lines up for your questions. (Operator Instructions) Operator, please introduce the first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

And thanks for all the color on the guidance side of things. So obviously, hefty top line growth. You mentioned some of the margin pressure, obviously, or continued margin pressure largely from sort of HIF. So if you can balance out sort of how you're thinking about kind of margin and the margin ramp as we think about not just '20, but then into '21 as well. Just directional commentary there. I know you don't want to give too much specifics.

And then just more specifically around this year in the population base that you've captured kind of within individual MA, anything you can call out that makes the initial margins maybe a little bit better than usual or processes that you put in place that helped sort of better manage the margin earlier to give you sort of maybe some runway as we think about 2020 and potentially better margin as we move through the year.

Brian Andrew Kane - *Humana Inc. - CFO*

Ralph, it's Brian. With regard to the individual MA margin, we're not prepared to give specifics today. I would tell you that for 2019, obviously, as we continue to raise guidance, we are getting closer to our margin target, but we are still below it. I'll remind you that we've taken some of this outperformance and reinvested that in a benefit design for 2020. So that will obviously adversely impact the margin, but yet, we also need to grow pretax. And so I would tell you that our margin for 2020 will continue to be below our long-term target, albeit, we continue to make progress against that goal.

Beyond that, as we've committed, is to getting back to that 4.5% to 5% margin target. Obviously not prepared to give specifics on beyond 2020 today, but it's a focus of the organization to do that while we balance membership growth because ultimately, what we want to achieve is our 11% to 15% EPS growth target.

With respect to new members, what I would say is that we've been pleased with how new members are running. As you know, we typically price them to breakeven in the first year as it takes several years for them to be documented appropriately and get into our clinical programs to ultimately drive margin from those members. I would say that our new members are running a little bit better than expectations as we approach the fourth quarter here. So that's obviously good news.

Operator

Your next question comes from the line of David Windley from Jefferies.

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

I'll also focus on Medicare Advantage. In enrollment growth this year, I think you've raised now 5x, and growth is about double where your original expectations were. So kind of a follow-up to Ralph, one, have you done anything differently from a selling standpoint, either broker channel or anything like that, that has driven the intra-year growth higher than you normally experience?

And then secondly, Brian, on the answer you just gave Ralph, is the upside to margin this year more attributable to new membership doing better? Or is it more of the base doing better?

Brian Andrew Kane - *Humana Inc. - CFO*

I'll just start with the second question. I would say it's more of the base. I would just tell you that new members are running a little bit better than expectations. But our core, what we call concurrent members, are running really exceptionally well, which is what's driving the outperformance.

As it relates to membership guidance, this is obviously a difficult number to predict because you're trying to understand what competitors have done, what the broker channel is doing. And what we've seen this year really are several things. First off, in the optional election period or open enrollment period, effectively, members have a onetime option to change plans early in the year. That was something new this year. And we outgrew our expectations there, really, as a consequence of the fact that our benefit design and our, I think, our broker relationships were really positive. And so that was one of the lifts that we got.

Obviously, coming out of the AEP, it's always unpredictable where you ultimately finish because there's so little data when we first give guidance. But I would say the first upside was around the OEP. And I would just say, throughout the year, we've been pleasantly surprised about how our membership has been resonating with -- our benefit design has been resonating with new potential members. Again, the broker channel is really outperforming. I would say they're the channel that's producing most of the outperformance currently. And that's just a function of it, the relationship that we develop, the tools that we provide them and the brand in the marketplace that we've been able to establish because of the, really, service we provide and the provider relationships that we've had. And so we've just seen continued resonance in the marketplace that have been above our expectations.

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

And just to add, I think we also had expanded our Special Needs Plans, and the ability to market them all year long has also contributed to the over-performance. I think we continue to see us being strong in that marketplace, both in the current year and in subsequent years.

Operator

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

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

Thanks for that discussion about the HIF for next year and its impact. Hopefully, somebody hears that. From -- my question, though, is looking at your guidance for 2020, at consensus of [$18.75] for next year, that's sort of 8.5% growth, which sort of matches what you talked about before early in the year about the growth you expected for 2020. Having said that, your performance this year has pretty dramatically outperformed where you originally thought you would be, and your growth has been faster.

Can you tell us, has that number come up in your mind over -- since you first discussed the reasonable or good growth for next year? Or has that number stayed about the same? And if it has stayed about the same, why has it not gone higher?

Brian Andrew Kane - *Humana Inc. - CFO*

Okay. It's a fair question. I really would -- I prefer not to give all the specific play-by-play as to how our guidance points ultimately develop. Obviously, there are a lot of factors that go into our guidance. The outperformance that we've seen this year has been a positive with respect to that. We incorporated a lot of that outperformance into our benefit design, which is really important. We talked about that the last quarter. Obviously, the more you outperform, you feel better about the guidance that you're giving. But beyond that, I wouldn't want to comment. We feel good about the guidance, the number that we're giving today, and we'll provide more details on the fourth quarter call.

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

If I could, just a follow-up. Is there a concern about the group business being underperforming and that's holding you back? Or is it a concern about the Part D business? Although that's -- you're talking about that down only a couple of hundred thousand lives, which seems really good given the price increases so many of those members are facing.

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. Look, we are still a ways away from understanding the membership that we've attracted. In AEP, we're just starting the process. PDP matters, too, just in terms of the member movement and who moves and how that occurs. And so there's always lots of uncertainty at this time of year in providing guidance, which is why we hesitatingly do so, but I know it's important for our investors that we do. And so we try to give you a broad context of how we're seeing things.

And I would just say there's lots of uncertainty at this point of the year. And I think the guidance we've given is appropriate and reflects our (inaudible) thinking.

Operator

Your next question comes from the line of Charles Rhyee from Cowen.

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

Just wanted to ask about -- let me switch over to Medicaid here. Obviously, the win in Louisiana is positive, but you didn't get anything necessarily in Texas for the Star Plus program. Just question is have you seen the scoring yet? And to give you a sense of sort of where you think you might have missed out here, is that something that you might want to consider appealing for? And then more broadly, with some of the RFP opportunities coming up, like in Pennsylvania at the end of the year, and possibly Ohio as well, how do you think about your organic efforts to grow the business going forward?

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

Let me take that question. Obviously, we're very excited about the Louisiana opportunity coming in second in really the top for-profit organization in the scores, which I think also supports how we did in Florida. And what we see is in the states that are looking for a progressive view on Medicaid and looking for a comprehensive program, that really ____ isn't taking some of the historical programs and carrying them forward but really doing with things like social determinants, doing things in areas of value-based payment models, using predictive models to allow much more clinical interaction we've seen as being very responsive to our capabilities.

I think Texas, we continue to be engaged in Texas. We're not going to comment on how we approach the -- both this current award and then in addition the award that will be coming out in subsequent months. But we do believe that Texas probably erred a little bit on the area of staying a little bit true to what has been their traditional players as opposed to looking a little broader in market and where other states have gone and being able to more oriented to some of the programs that we offer.

That being said, we continue to be very oriented to markets that are complementary to our Medicare platform as a -- and you'll see us participate in other states where we have a good position in the marketplace, both in our relationships with providers around value-based capability where we have social programs to help support communities that we have there and in addition where we have strong relationships with the states.

So you'll see us respond to RFPs. I don't think we're giving out where we're responding to. But I think if you look at the overlap of where we have deep capabilities and with our MA, that will give you guys some insight of what we -- where we would prioritize our states.

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

Just to clarify, in Kentucky, there was no actual official date that the states ever -- the state ever notified that they would make a decision by? Is it just sort of that we've been expecting a decision around this time?

Brian Andrew Kane - *Humana Inc. - CFO*

That's correct. We're -- we expect a decision relatively short order on that.

Operator

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

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

I appreciate the fact that throughout the year you guys have outperformed and reinvested some of the outperformance into the bids for 2020, but ____ winning later into the year and so the MA outperformance in Q3 feels like it's probably difficult to say that that's been kind of built back into the bid. So just trying to think about how that flows through into your thinking about next year's margin targets?

Brian Andrew Kane - *Humana Inc. - CFO*

I think that's fair. I mean, look, we've outperformed in the third quarter. That obviously does flow through to next year. We're mindful of that, and it's incorporated in the 2020 perspective that we've given today.

But you're correct. I mean, obviously, the better the Medicare business performs in the back half of the year, the better we're set up for a stronger 2020.

Operator

Your next question comes from the line of Scott Fidel from Stephens.

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

Wanted to ask just about the group and specialty business and sort of thinking about that, I guess, over the next sort of multiyear framework. So if you look at the updated revenue and segment profit guidance, it implies only a little bit more than a 3% pretax margin for 2019.

Obviously, I know there's some investments in there but also some of these mix shifts. Maybe talk about what you think the longer-term sort of margin range for that business conceptually should be. And if the margins stayed at these levels, let's call it 3% or so, a little bit north of that, how do you think about sort of returns in this business in terms of the risk-based capital and the resources that you provide into this as compared to sort of other options that you would have for deploying still meaningful capital that you have for the group business.

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. We haven't given specific margin guidance targets for the commercial business. What I would say is though that we are committed to growing it and really appealing to an employer base that is really crying out for a different offering. And we believe we've the opportunity to leverage our clinical chassis from our retail business, some of the partnerships that Bruce outlined, frankly some of the innovative DNA that we have within Humana to, we believe, offer a product that is compelling to the group space. We view this space as having a lot of optionality. It's something that we want to continue to invest in and something we will invest in. As you indicated, we have invested this year. And you'll continue to see us invest in it.

The margins on the specialty product, meaning the dental and vision product, are very attractive. And so it's important to get that right. So we set ourselves up for a strong growth path over the coming years. And I would say also, we have an opportunity to leverage really the pipeline that group provides into the retail segment for the -- going from under 65 to over 65, both for our individual business as well as for our group MA business. And I think that's something we haven't really capitalized as much as we can do and you will see us continue to focus there.

And so as Bruce mentioned in his remarks, we're continuing to look upmarket. So we're very focused on the small group customer, and it's something we've done quite well and particularly on the ASO level-funded side and the traditional underwritten product, where we've done quite well. But we think there's the opportunity to move a little bit upmarket, really build out key markets where some of the infrastructure hasn't been as geared to some of these larger account customers and, I think, offer an innovative product. It's going to take several years, but we're committed to that.

And I think also you'll see -- because of a number of more onetime investments this year, you'll see an increase in pretax for next year, meaning for 2020.

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

As Brian has highlighted, we realize that we need to improve the group performance. And we look at it in a few different ways. First, I think you'll continue to see us focus on how can we improve the productivity of the business and do it in a way that has long-term sustainability, is one.

I think second is that you're going to see us orient to markets that we feel are complementary to Medicare and be much more oriented to what markets we're in as opposed to being in a number of different markets. We find our products are more regional based. They are -- they serve a customer base that has a large employment base that's in that region. The school districts would be a good example of that, and municipalities and other governmental agencies that we serve.

The third thing I think you'll see is that we -- Accolade is a great example of that, that you'll -- that we'll continue to focus on how we differentiate ourselves through experience and also health offerings, which is at the core of what our -- the company is about. If you look at our Medicare success, our clinical capabilities and in addition our customer service sort of ranks as being best in breed, I think you'll see us continue to do that. So we realize this year's performance in group is not something that we're proud of. We are very active to both improving it in the short run. But, as Brian says, that I think under Chris Hunter's leadership that we are very oriented to improving the business in a way that complements the existing platforms that we have in both markets and in specific capabilities.

Operator

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

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

We got the final home health rates with a little over 4% behavioral assumption baked in. And some of your peers have [sized] a not insignificant margin pressure for 2020. How do you think about this rate structure impacting Humana's home health margins? Is it impactful at all to the 2020 guide that you alluded to as a headwind we should consider there? And I realize that there's a big strategic importance of home health beyond the unit itself but was wondering if this impacts at all your vision for growing or potentially exercising the call option in the future?

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

I'll take it. I think there's multiple layers of points to the reimbursement. And let me sort of talk a little bigger picture and then we'll get down to the specifics of the 8% versus 4% behavioral adjustment.

I think in general, we -- when we went into the Kindred investment, we went into it with the view that there would be reimbursement changes. And those reimbursement changes would not only be rate impacted but also just the way the business was going to have the drivers of the business. And we are very excited about the changes of the reimbursement model, moving to a model that is going to reward more for nursing and reward more for chronic conditions as opposed to just therapy and be more oriented to less chronic conditions.

So first, just the structural changes there we find are very helpful for our member base and in advancing the downstream costs such as admissions and readmissions and in addition complications of particular conditions in total.

The second thing is when we constructed the deal and did our forecast, we constructed the deal with knowing that there would be a transition, but that would require operational transition and, in addition, require us from a financial point of view. And so when we did the deal and based our valuations, we also assumed this particular transition there. That is one of the reasons why you saw the organization invest in technology in '19 to be able to prepare for these changes. And I think if you were sitting in the boardroom of Kindred, you would also see a number of other changes both from competencies, clinical programs and so on and preparing for it. So I think the -- both Kindred and Humana are very active in that evolution.

The third thing is on the -- just the financial side. And I would say that it is incorporated in our outlook for 2020 and the years beyond that. But I do also want to highlight that in -- when we were to exercise the put or call, it is on the operating performance post that reimbursement change. So it does reflect in the other 60% that we purchased on.

So in summary, we're very excited about the changes. It structurally changes the economics to take on the conditions that we feel are most important for our members. Secondarily, we have incorporated that in the transaction, both in the operating results that we see over the coming years. But then most importantly, as our -- as we move to exercising the put or call, it will be reflected in the purchase price accordingly.

Operator

Your next question comes from the line of Josh Raskin from Nephron Research.

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

Question around retail partnerships and specifically with Walmart. And just as you guys went through the big changes in PDP this year and got to learn a little bit more about the retail side of things, maybe any lessons learned about the importance of having local sort of community-based care? And then sort of as an aside, with bigger growth in the low-cost product and some bigger declines in Premier, are there differences in profitability by product in PDP?

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

All right. I'll take the first part, and I'll let Brian take the second part. In our relationships with retailers, we feel though the combination of local convenience of both the pharmacy itself but also the pharmacist is a very important part of the delivery, both in Part D and also in MA in total because we find the pharmacist is an important conversation to have, not only about the drug but also about just conditions in general.

And so we -- our relationships, whether it's Walmart or Walgreens or other drugstores, are very important for that and the delivery of that. We've had a long-standing and a very positive relationship with Walmart over the years. And their drive of being low-cost in the marketplace and our preference to be low-cost in the marketplace is sort of an important synergy that we drive towards, and we feel that it continues to be that going forward.

This year is obviously an exceptional year for us in the conversion as a result of moving -- having to combine 2 plans to create capacity for a low-cost plan and the confusion that takes. And -- but Walmart was very excited about our opportunity to bring a low-cost plan out to be the leader in the low-cost plan, which really fits what their -- one of their missions is both locally and nationally.

I'll turn it over now to Brian to maybe just talk a little bit about the profitability between the different products.

Brian Andrew Kane - *Humana Inc. - CFO*

And without providing too much color because we typically don't give a lot of detail on individual products. Obviously, the premium being much lower in the low priced Walmart plan, the dollar margin's going to be less per unit sold. The question then becomes, what is the impact on the health care services side? And we'll see what the mail order uptick rate is, and that will be an important element of the profitability.

And so, obviously, as we went into this year and we set guidance, we're aware of those dynamics as they're shifting between the plans. And some of that question around what -- how many people migrate from one plan to the other, obviously, is an important assumption in our ultimate guidance range that we gave today.

Operator

Next question comes from the line of Stephen Tanal from Goldman Sachs.

Stephen Vartan Tanal - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I guess the results year-to-date, some of the commentary as well, would suggest the new members this year seem to be somewhat more profitable than you typically see in the first year. And so I guess I have 2 questions on the back of that. First, is there any reason to think that the ramp-up in underwriting margins in 2020 would be less helpful than in a typical year? And perhaps you could comment on what you assumed in your initial view on that front.

And then, second, is it reasonable to view the uptick in DCPs kind of display a favorable commentary on cost trends, solid MBRs reported year-to-date is maybe a bit of a hedge against the risk of adverse selection or just higher MLR into next year just given how fast you guys have grown the business?

Brian Andrew Kane - *Humana Inc. - CFO*

With respect to 2020 new members, again, I -- just trying to provide commentary that the new members are running well. And so one of the biggest concerns you have when you particularly grow 530,000 members, that you could get adversely selected and you'd have problems there. And what the message we're communicating today is actually that the members are running well. We're not going to make any change in our assumptions. We always assume the members are breakeven because, again, these are -- it's largely on the margin. But we want to make sure that we appropriately reflect the fact that our experience has been that these new members are breakeven. And so that will be the assumption, and certainly the assumption in our guidance today.

With respect to DCPs, I wouldn't read too much into DCPs. We feel that we are properly reserved. This statistic can vary meaningfully quarter to quarter. If you look back over time, it varies several days, not uncommonly, from quarter to quarter or year over year, whatever that may be. I would just say we feel good about how we're reserved and we think we're reserved appropriately.

Operator

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

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

I may have missed this, so I just want to ask as a technical clarification and then ask you about the health care service division. Did you put a savings number on the productivity initiative you're rolling out, an annualized savings number that you hope to get at some point in the future from that?

And then on the PBM, I guess we haven't asked you on this type of call in a while about your thinking there. Any update on thought about investments there, whether you would look to potentially add capabilities? You're also in a situation where the other major PBMs are now aligned with a commercial insurer. Does that give you any interest in potentially getting in the market, maybe helping other health plans or even smaller PBMs with some of the capabilities that you have expanding your reach?

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. It's Brian. So on the savings numbers, we haven't given a specific number in terms of what the 2020 savings are going to be, but they're very meaningful. We mentioned that there are 2,000 positions that we -- were really impacted by this. And so that's a meaningful number. And there were a number of non sort of personnel-related decisions that we made that will result in significant savings.

I would just say also going forward the intention is to continue the productivity initiatives into the future. We believe it's essential to be efficient with our resources, not only to drive down cost but also we believe it creates a better experience and outcome for our members and also, frankly, from a compliance perspective. So you'll see us continue to leverage automation and AI and other elements of looking really across processes rather than within vertical silos.

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

Just on that -- just to add to what Brian is saying. And A.J. I think you remember when the tax reform came out 24 months ago or so, we committed to our shareholders that we were going to invest in technology that would give us longer-term savings.

What you're seeing in 2019 that will show up in 2020 is the leveraging of that investment to come back and provide value to the shareholders. In a year that's needed considering the (inaudible) and the need to continue to remain competitive in the marketplace. So I wanted to just go back in history to connect the dots there. Brian, you want to maybe (inaudible).

Brian Andrew Kane - *Humana Inc. - CFO*

Yes, sure. On the PBM side, obviously this is a critical business for us. We're going to continue to invest. There's really several elements of it. There's the traditional PBM side and how do we become best-in-class in sort of our claims processing and our formulary management, in our IT capabilities, et cetera. And so we're very focused there on investing on that side of the business. There's then sort of the traditional mail order pharmacy both in terms of driving penetration as well as, frankly, creating a much better customer experience. As Bruce has mentioned, we've been given awards on that front. We continue to invest in that and want to continue to lead the space there with regard to customer experience.

We will look for opportunities to grow our specialty franchise. And so you'll see that as we look to grow that business. Obviously, more and more of the pharmaceuticals fill today is in the specialty space, and that's something that we want to continue to grow.

We want to figure out ways to grow our traditional mail order penetration, and so you'll see us invest there.

And so -- and with regard to third parties, we actually have a small third-party business. We would be open to continuing to grow that depending on the opportunity. And so again, we're always looking for opportunistic opportunities out there to grow the business. And so I think we're thinking broadly about the PBM. It's a business that we want to continue to grow, frankly, beyond just the MA and PDP membership growth in our retail segment. So we're very focused there.

Operator

Your next question comes from the line of Michael Newshel from Evercore ISI.

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

I wanted to follow up on the dental recontracting upgrade. Can you just size how big of an impact that was? And is that wholly a 1 quarter issue? Or is there like a longer headwind as premiums catch up to lower reimbursement rates and renewals over the next few quarters?

Brian Andrew Kane - *Humana Inc. - CFO*

There was definitely a number of onetime costs. I'd rather not quantify it. If it weren't meaningful, we wouldn't have called it out, obviously. But I just rather not give that level of granularity.

I would say that this is going to be a several-quarter investment in dental and getting us onto a growth path. We've actually done quite well in that business. We just think it's an opportunity to grow much faster, not only leveraging our individual MA growth, which we think is meaningful, to cross-sell in terms of what are called OSBs or optional supplementary benefits that we can cross-sell, but also on the group side as well. And so we continue to look to how to grow the group dental business. And so we want to ensure that we have platforms, systems and provider relationships that allow us to achieve that growth. And so we're going to continue to invest in it. And I think you're going to start seeing a payoff over time. And as I said, we're committed to that.

Operator

Your next question comes from the line of Ricky Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

So focusing on the relationship with Walmart, obviously you had a long-term relationship that focused on the pharmacy and the pharmacist and Part D. Walmart recently launched their health care hub strategy in some markets. Do you see opportunities to extend the partnership with Walmart and cross over to the medical side as well?

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

Yes. I mean we are always in discussion of how we can expand our partnership with Walmart. We find -- as I mentioned on the previous question, that we find our culture and our goals are aligned, especially in the health care area.

What we've found in their quest to expand their platform and health care within some place like Rome, Georgia, is that it is very catered to the commercial and their associate base as opposed to being more senior focused as what our products and services are. So we are a little more narrower in our approach. And so if you take our relationship with Walgreens in both in the Kansas City area and expanding into the South Carolina area, that is a senior-oriented delivery model that is very much oriented around chronic conditions and value-based payment models. That's a different operating approach than what Walmart is doing in some of their stores, where that's very commercial oriented, it's very fee-for-service oriented, low-priced in nature. I think they're really trying to help the health care system and bring in efficiencies to it, but in a much different model whereas we're much more oriented to seniors, much more oriented to broader health conditions that we are managing over a longer period of time as opposed to maybe a little more volume and fee-for-service orientation.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

And then just 1 follow-up on the Medicaid side. Obviously, you're growing Medicaid nicely. When we think about future opportunities, are you open to pursuing M&A to accelerate growth? Or are you primarily still focused on growing through winning contracts?

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

No, I think we look at it as a combination. We believe that our capabilities that we've built over the last number of years afford us the opportunity to enter states organically, which you've seen. But in addition, we find that if there are regional areas where we can expand in a quicker and more capital-efficient way through acquisitions, then we will be more than open to go that approach, too.

Operator

Your next question comes from the line of Matt Borsch from BMO Capital Markets.

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

Yes. Sorry, if I missed this and you covered it. But on the 4th quarter earnings implied projection, it seems significantly conservative given how much you beat by this quarter. Is there anything else to read into it?

Brian Andrew Kane - *Humana Inc. - CFO*

Well, I would just say a number of investments are going to take place in the fourth quarter, as they typically do, really reflecting the annual enrollment period and also the significant PDP sort of flux that we've seen because of the number of members that are impacted by our changes. And so we're investing significantly just to ensure that, that transition goes as smoothly as possible. So I wouldn't read anything into it.

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

And just if I could, on the health insurer fee. As you look ahead to 2021, is there anything that gives you a reasonable hope at this basis -- sorry, at this point, given it's an election year that we're going to try to get this done, get another suspension?

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

Matt, we would -- I would love to be able to speculate on this and give you the specifics on it. I think what we do believe is that there is a bipartisan support for this. I think if you were to talk to anybody, they would say it just doesn't make sense the way it's constructed. It taxes the underprivileged, and it's just not appropriate.

What we're -- I think the industry is wrestling with not support, it's wrestling with how does it get through the legislative process and all the, I don't want to say dysfunction, but the confusion that's in Washington right now. It's just hard to predict how this will get going through. There are some things they need to pass. There's some -- how long do they pass it? Is it sort of a -- do they give a 30-day extension on certain things and get it through to January? Do they do 6 months? I mean there's just so many ways that this could get navigated through that. We're just sort of sitting there and believing that it should be done. We believe that there's support. We're just trying to find the avenue to do it. And I think that's a little bit out of our control. We're influencing it as much as possible. But we are finding -- trying to find that right opportunity.

Operator

Your next question comes from the line of Steve Valiquette from Barclays.

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

So you guys mentioned in the prepared remarks a new group membership contract win from a competitor for 2020. I'm guessing that new win is the Alabama Public Education Employees contract, unless there was a different large win separate from Alabama. But either way, just on Alabama specifically, we calculated previously this contract alone could add up to $0.20 to $0.25 of EPS for next year depending on the margin profile. I doubt you want to get down to discussing that level of granularity. But the question is, I guess I'm just wondering at a high level, do you typically assume a decent level of profitability and margin in year 1 for new group contracts of this nature or does profitability get overwhelmed by onboarding costs in year 1 like it does in individual MA that you've talked about historically?

Brian Andrew Kane - *Humana Inc. - CFO*

Without commenting on the specifics of the actual contract, I think it's fair to say that in the initial year, the profitability is significantly less, and that profitability ramps up over the time of the contract.

We bid to ensure that we're contribution-margin positive. It's important for us to drive returns on capital. But there's definitely an improvement in those results over time, largely for similar reasons. These members get into our clinical programs, which we find have a meaningful impact on their medical costs and their health. And then also the -- their conditions get documented more appropriately. So for the same reasons that impact individual MA, there's also a similar dynamic in group MA.

Operator

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

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

Just had a clarification and then a question. On the clarification, Brian, with respect to the 2020 EPS guidance, the last couple of years you've given a range of $0.40 to $0.50 in the initial annual guide. Is there any reason why we should expect that range to be wider this year?

Brian Andrew Kane - *Humana Inc. - CFO*

I think that's probably reasonable.

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

And then the real question I want to ask, I know this has been discussed a little bit. But just on the retail MA enrollment guidance for 2020, the 7.5% to 9.2%, you mentioned some benefit reductions in your plans. To us, it looked like your benefit reductions are more conservative than others, yet you're still guiding for above-market growth in your MA business. So is that optimism just purely the broker relationships, the marketing, the overall value-add that you think your plans represent in the marketplace? Or is there something more specifically, given we're almost halfway through open enrollment, that it's just perhaps trending better than you might have thought a couple of months ago?

Brian Andrew Kane - *Humana Inc. - CFO*

Well, I think it's a combination of things. We are still early in open enrollment in terms of the data. The termination data is a really important element here, and that's something that we just really don't have a lot of data on. It's very incomplete. I think you've better view of sales, but still quite early in sales. A lot of the sales happen towards the end of the AEP period.

So clearly our guidance is based in part on that. But also we evaluate on a market-by-market basis how we're positioned competitively. We have, obviously, all the plans that are out there. So we can see how we stack up versus others.

We do think that our relationships with the broker community are very important, and our external channel and internal rear force is very focused on driving growth. And so, obviously, that's a part of the calculation as well. And so we'll see where it goes. I mean it's very hard to predict at this part of the cycle. As Bruce said, we did have to reduce benefits for certain of our members. We are very thoughtful and prudent about that. And that's entirely on account of the health insurance fee. We've taken a balanced approach, as we always do, to growth and to margin. But we think we've been thoughtful about how we've done that. And so the guidance we put out today is really our best estimate of where we think we'll be. And as we get further into the AEP period and obviously after, we'll have more clarity around that.

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

I believe this will be our last question. So next question, please.

Operator

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

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

You guys have really scaled up your special need D-SNP presence this year. Would anything change your expectation on seeing growth in those special need plans next year? Just curious how you're thinking about the strategy around SNP plans in 2020. And then with 2021 around the corner in ESRD eligibility, just any update on conversations with CMS would be helpful.

Brian Andrew Kane - *Humana Inc. - CFO*

So on the D-SNP side, we -- as Bruce said earlier, we are committed to growing our D-SNPs. You've seen significant increase in growth this year on the D-SNP side. We've expanded our D-SNP offering. I think you'll continue to see us expand our D-SNP offering. We believe that these members play right to Humana's strengths, which is managing difficult conditions and clinical challenges. And so it really is right in our strike zone. And so you'll see us continue to expand that. We'll see where it goes with this year. And obviously it's a competitive space, but we're committed to growing it.

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

On the ESRD, I mean, we are very actively engaged with CMS on the details of that particular program, realizing that those members are both in great need of assistance and we see the Medicare Advantage program as being able to slow the disease progression down for members and at the same time finding cost-effective treatment for their complex disease.

I would say that over the coming months, we'll probably see more details that come out of how that program will roll out all the way from is there going to be an adjustment in benchmark to things like network adequacy, to areas of how the home ESRD will evolve. So there's a lot of -- we believe there's a lot of changes that are needed in that. We've communicated these changes to ensure that our -- both those members and members that do not have ESRD but would have adjustments made if the proper -- rates are not adjusted accordingly.

With that, I think we'll call it a -- that's it, right, last caller? And we -- again, like every quarter, we really appreciate both our shareholders' support and in addition, our analysts' support in helping us communicate the story.

In addition, we couldn't do this without the 50,000 associates that every day get up and help our members and help us be successful like we have over the last number of years.

So we appreciate everyone's support, and have a wonderful day.

Operator

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