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ANTM - Q4 2019 Anthem Inc Earnings Call

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OVERVIEW:

Co. reported 4Q19 total operating revenue of $27.1b and GAAP EPS of $3.62. Expects 2020 operating revenue to be approx. $117b and adjusted EPS to be greater than $22.30.

CORPORATE PARTICIPANTS

Chris Rigg *Anthem, Inc. - VP, IR*

Felicia Farr Norwood *Anthem, Inc. - Executive VP & President of Government Business Division*

Gail Koziara Boudreaux *Anthem, Inc. - President, CEO & Director*

John Edward Gallina *Anthem, Inc. - Executive VP & CFO*

Peter David Haytaian *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Frank George Morgan *RBC Capital Markets, Research Division - MD of Healthcare Services Equity Research & Analyst*

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

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

Joshua Richard Raskin *Nephron Research LLC - Research Analyst*

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

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

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

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

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

Ralph Giacobbe *Citigroup Inc, Research Division - Director*

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

Sarah Elizabeth James *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

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

Stephen Barr Willoughby *Cleveland Research Company - Senior Research Analyst*

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Anthem fourth quarter earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to the company's management. Please go ahead.

Chris Rigg - *Anthem, Inc. - VP, IR*

Good morning, and welcome to Anthem's Fourth Quarter 2019 Earnings Call. This is Chris Rigg, Vice President of Investor Relations. And with us this morning are Gail Boudreaux, President and CEO; John Gallina, our CFO; Pete Haytaian, President of our Commercial & Specialty Business Division; and Felicia Norwood, President of our Government Business Division. Gail will begin the call by giving an overview of our fourth quarter financial results, followed by comments on our key business initiatives and enterprise-wide growth priorities. John will then discuss our key financial metrics in greater detail and review our 2020 financial guidance. We will then be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, antheminc.com. We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Good morning, everyone, and thank you for joining Anthem's Fourth Quarter 2019 Earnings Call. In 2019, Anthem delivered strong top and bottom line growth across the enterprise. We achieved record organic top line growth of 13%, and we had our best year of organic, risk-based membership growth in over a decade.

At our Investor Day last March, we talked about this being a new era for Anthem, one focused on growth, innovation and the transformation of health care as we know it. We also committed to long-term revenue growth of 10% to 12% and adjusted earnings per share growth of 12% to 15%. 10 months later, we delivered on our commitments, and we are poised for another year of success in 2020.

In the fourth quarter, we reported GAAP earnings per share of $3.62 and adjusted earnings per share of $3.88. For the full year, we delivered GAAP earnings per share of $18.47 and adjusted earnings per share of $19.44, up 22% versus the prior year. Our 2020 adjusted earnings per share guidance of greater than $22.30 represents core growth near the upper end of our long-term guidance range when normalized to the impact of the health insurer fee beginning in 2021. We also expect another strong year of revenue growth, over 13% on a reported basis and nearly 12% on a HIF-adjusted basis.

On January 1 of this year, we successfully completed the IngenioRx migration, transitioning more than 15 million people over the past 8 months. The launch of IngenioRx is a key milestone in the realization of our strategy to integrate pharmacy with medical and behavioral health as part of whole person care. The success of our accelerated migration will allow us to deliver greater health care value and increased transparency to the people we serve.

At Investor Day, we also shared our goal of reducing our number of technology platforms from 6 to 2 by the end of 2022. Today, I am pleased to share that we are well on our way and expect to have 80% of our consumers on their destination platform by the end of this year. By reengineering our business processes and simplifying our technology infrastructure, we are driving greater operating performance, and we're making it easier to do business with Anthem. We remain committed to keeping health care affordable and slowing health care spending growth, by partnering with care providers through value-based care arrangements and by empowering consumers with the information they need to take an active role in their own health and wellness.

Today, Anthem has more than 60% of medical spend tied to value-based care arrangements, with 32% in upside, downside risk arrangements, creating greater alignment of cost and quality, while delivering improved health outcomes.

Total Health, Total You, our integrated end-to-end digital-first clinical model, now serves more than 2 million consumers since its introduction in 2018. Using both AI and machine learning to engage members with emerging risks, Total Health, Total You has delivered a nearly 12% reduction in hospital admissions and a reduction in emergency room visits of more than 10% to date.

In our Commercial business, we improved sales effectiveness and strengthened how we work with our distribution partners through investments in our front-end broker portal and sales management technology. We added valuable digital capabilities that make it easier for our broker partners to do business with us. Our integrated tools are helping to ensure that our distribution partners can seamlessly sell and renew Anthem's medical and specialty businesses. Our focus on upgrading talent and improving sales execution helped us deliver one of our strongest overall commercial membership growth performances in more than a decade, while maintaining our pricing discipline. Sales of specialty benefits, pharmacy solutions and clinical programs exceeded expectations in 2019, with specialty products growing by more than 1 million members and at a rate faster than our medical membership. Overall fee-based profitability is increasing, and we are well on our way to narrowing the profit gap between risk-based and fee-based members from 5 to 1, to 3 to 1.

Shifting to our Government Business. We recognize that social and environmental factors are intrinsically tied to a person's health. Among all social barriers, food insecurity is the most pervasive, affecting 1 in 8 Americans. Since its inception 20 years ago, the Anthem Foundation has been fighting food insecurity, and our impact is being felt across the country. Because of our efforts, Anthem is 1 of only 50 companies and the only national health care company to be deemed a leadership partner by Feeding America, the nation's largest domestic hunger relief organization. Our focus on service, and positively impacting our local communities, continues to be a hallmark of our culture at Anthem.

In Medicaid, despite facing challenges with changing risk pool as a result of enrollment reverification throughout the first half of 2019, the second half of the year was strong, and our state business ended the year in line with expectations. We continued our strong track record of winning more than 80% of Medicaid procurements in 2019. And we continue to see an $80 billion pipeline of opportunity over the long term. And as we announced last week, we were pleased to welcome 2 new Medicaid health plans into Anthem. The new plans in Missouri and Nebraska allow us to expand our industry-leading specialized care to more than 300,000 new consumers, bringing our full Medicaid reach to a total of 23 states in the District of Columbia.

During the year, Medicare Advantage enrollment grew by more than 20%, outpacing the market and in line with our guidance. As of year-end, we are now the fourth largest individual Medicare Advantage plan in the nation. Our steady momentum is carrying over into 2020, as we saw solid growth during the annual enrollment period, and we expect our membership growth rate to continue to lead the industry for the fourth year in a row.

Similar to 2019, our growth is tied to our strong brand recognition among seniors, along with our robust supplemental offerings, which are unmatched in the industry. Our essential extras benefit is highly valued by seniors as it provides coverage for services such as healthy food delivery, transportation, home assistance, alternative medicine and more. Additionally, our over-the-counter benefit continues to be valued by this important population.

Sales of Medicare Part D also accelerated during the recent annual enrollment period, reflecting our improved pharmacy cost structure, enabling us to compete more effectively. We are entering 2020 with confidence in our ability to drive growth, reduce costs and create meaningful change within the overall health care system. Our business expectations include robust membership growth of 1.1 million members, at the midpoint of our guidance, driven by growth in both risk and fee-based membership.

Despite the return of the health insurer fee in 2020, we anticipate stable commercial risk-based membership, a significant improvement compared to the decline experienced in 2018, the last time the HIF returned. We expect growth to continue in our specialty businesses at a pace similar to 2019, in addition to delivering strong clinical program and pharmacy benefit sales.

Medicaid membership is expected to grow in the 400,000 member range, excluding the implementation of the North Carolina contract, which is likely to be delayed until 2021. Once again, we expect Medicare Advantage membership to surpass the industry growth rate and increase by 150,000 to 200,000 in both individual and group Medicare Advantage. We will also continue to invest in digital technologies and innovations to enhance engagement with the people we serve and to achieve our goal of making health care simpler, more affordable and more effective.

Our innovative Sydney application provides wellness incentive packages, health and wellness content, telehealth services and full integration with our electronic health record. Interest in this new digital tool has been strong, with more than 625,000 downloads since its launch last October. In addition, LiveHealth Online, our easy-to-use telehealth solution, grew by nearly 40% over the prior year, giving people greater flexibility over where and how they receive care.

And finally, Anthem's focus on social responsibility and sustainability continues to gain national attention. We were pleased to be included on Fortune's List of Most Admired Companies again this year and recognized by Bloomberg on their list of companies exemplifying gender equality.

And now I'll turn it over to John Gallina for a detailed look at our performance numbers. John?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Gail, and good morning. As Gail stated, we are pleased to report strong fourth quarter and full year financial results, and are well positioned for robust growth in 2020. Fourth quarter adjusted earnings per share was $3.88, up 59% year-over-year. For the full year, adjusted earnings per share was $19.44, representing growth of 22% over 2018.

2019 was a year of major milestones at Anthem. As Gail mentioned earlier, we successfully launched IngenioRx on an accelerated and compressed time line with minimal customer abrasion. After adjusting for the benefit from IngenioRx, which contributed a little more than $1 to our full year results, earnings grew at the upper end of our 12% to 15% target range. Simply put, our core business is solid, and we are delivering real growth across each of our segments.

Total operating revenue in the fourth quarter was $27.1 billion, an increase of 16% over the prior year quarter. This increase in operating revenue was driven by membership growth in our risk-based businesses, premium increases to cover overall trends, revenue related to the launch of IngenioRx and increased penetration of our specialty and integrated clinical offerings. For the full year, operating revenue grew nearly 13% or 15% on a HIF-adjusted basis, coming in solidly above our 10% to 12% target range.

Overall, the fourth quarter medical loss ratio was 89%, representing an increase of 220 basis points over the prior year, which, as expected, was primarily driven by the 1-year waiver of the health insurer fee. The remaining drivers of the medical loss ratio coming in at the high end of our expectations included the fact that with our excellent results in the Individual business, we reduced our risk adjuster position by $50 million and the flu season started earlier than normal, resulting in more flu costs than expected in the fourth quarter. Medical costs continued to be well maintained and in line with our expectations. And our Local Group medical cost trend approximated 6% for the year.

The SG&A expense ratio in the fourth quarter was 12.9%, a decline of 260 basis points over the prior year, driven by a robust, double-digit top line growth, combined with the 1-year waiver of the health insurer fee, along with our continued focus on operational efficiency.

Turning to the balance sheet. The debt-to-cap ratio was 39.5% at the end of 2019, consistent with our target range. During the quarter, we took advantage of weakness in our stock price and repurchased 1.2 million shares at a weighted average price of $260.87. In total, we repurchased approximately $1.7 billion of stock in 2019 or 6.3 million shares, consistent with our guidance provided last quarter.

Full year operating cash flow was $6.1 billion, reflecting 58% growth over 2018. Operating cash flow exceeded expectations through the year, coming in well above our previous outlook of greater than $5.5 billion and was primarily driven by growth in our government businesses. Our full year operating cash flow at 1.3x net income illustrates the high quality of earnings in 2019.

Now to our 2020 guidance. Before I begin, it is important to note that our 2020 guidance includes the acquisitions of the Missouri and Nebraska Medicaid plans that closed last week, but does not include the pending acquisition of Beacon, which we now expect to close later in the first quarter. We are also closing on the TPA acquisition that will enhance Anthem's already strong capabilities in the large group segment. Anthem is already the largest customer of this TPA, but that acquisition will increase our self-funded membership by 200,000 and is already included in our membership guidance.

As Gail stated earlier, total medical membership is expected to reach 42.1 million members at the guidance midpoint or a growth of 1.1 million members. In 2020, we expect operating revenue to grow over 13% to approximately $117 billion, reflecting premium rate increases to cover overall cost trends and the return of the health insurer fee as well as membership growth and the full year impact from the launch of IngenioRx. The consolidated medical loss ratio is expected to be 85.8%, plus or minus 50 basis points, a decrease of 100 basis points at the midpoint and largely driven by the return of the health insurer fee. The MLR is further impacted by changing business mix where the Government Business continues to be the faster-growing portion of our business, including the Missouri and Nebraska Medicaid acquisitions and margin normalization in the individual business. These headwinds are partially offset by improved Medicaid performance.

As a result of our improved pharmacy cost structure with the launch of IngenioRx, coupled with medical cost management initiatives, we expect our local group medical cost trend to be in the range of 4%, plus or minus 50 basis points.

The SG&A expense ratio is expected to be 12.8%, plus or minus 30 basis points, primarily due to growth in operating revenue and reduced spending related to the IngenioRx migration.

Looking to below the line, we project investment income of $970 million and interest expense of $815 million. The tax rate is expected to be in the range of 24% to 26%, with the increase primarily driven by the return of the nondeductible health insurer fee in 2020. Full year operating cash flow is expected to be greater than $6.4 billion, contributing to another year of quality earnings. Our long-term capital deployment targets are unchanged, and we remain committed to delivering sustainable, long-term shareholder returns.

Anthem has increased its dividend every year since it began paying dividends, and we have done so again in 2020, increasing our dividend by nearly 19%. We expect full year share repurchases of at least $1.5 billion and our weighted average share count to end the year in the range of 255 million to 257 million shares outstanding.

The permanent repeal of the health insurer fee beginning in 2021 represents a significant step forward in improving the affordability of health care and is consistent with our commitment to driving the lowest net cost of care for our members. With that said, our full year 2020 outlook now incorporates a total health insurer fee related headwind of approximately $0.80, of which approximately $0.50 have been included in our prior commentary. We now expect full year adjusted earnings per share of greater than $22.30, which includes a benefit of $2.30 related to the full year contribution from IngenioRx and the incremental headwind from the repeal of the health insurer tax beginning in 2021. This level of earnings represents growth of over 40% since 2018.

Finally, it is important to keep in mind that the seasonality of earnings and key financial metrics will be impacted by a number of factors this year. The first half of 2020 will benefit from the IngenioRx contribution, which was immaterial to the financial results in the first half of 2019. In addition, leap day and the number of workdays in the first quarter of 2020 compared to 2019 will increase the HIF-adjusted MLR by nearly 100 basis points, with the impact reversing the rest of the year.

Further, a majority of the margin normalization in the individual business will occur in the first half of the year, whereas the improvement in Medicaid will be more evenly distributed throughout the year. Taken together, we expect first half earnings will approximate 55% of the full year total, with a little more than half of that coming in the first quarter. In total, 2020 will be another strong year.

And with that, we will now open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will go to Ralph Giacobbe with Citi.

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

I just want to go to sort of back to the MLR and the commentary there. You came in, obviously, at the higher end of the range that you had raised in 3Q. I know you mentioned sort of the risk adjuster, maybe visibility on kind of when you got details there. And then the medical cost growth for 2020, obviously, the 4%, plus or minus 50 basis points, obviously, aided by the Ingenio savings. But maybe if you can kind of exclude that and maybe help how you see sort of core trends for comparability in '20 versus the 6% that you cited for 2019?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Ralph, and this is John. Thank you for the question. In terms of the 2019 medical loss ratio, we did end the year at 86.8%, which was within the guidance range that had been previously provided. We certainly would have been below the high end of the range had it not been for a couple of nonrecurring issues that serve to increase the ratio at the end of the year.

First, with the exceptional performance we've had in our individual business and after reviewing the Wakely information and doing our own analysis, we did reduce our risk-adjusted position by $50 million. That goes through as a negative to the MLR. It increases MLR when you do things like that.

And then the flu season, it began earlier than anticipated. And so there's more flu cost in 2019, in the fourth quarter of 2019 that had been anticipated. So obviously, we covered both of those with all of our earnings information. But without those 2 really nonrecurring issues, we would have been below the high end of the range, and we still ended up within the range.

Associated with 2020, obviously, a lot of moving parts. We're very, very excited to have a 4% cost trend. We are pricing for that. And our pricing remains very disciplined, but we think that will really help us in terms of future growth potential.

Operator

And we'll go to Justin Lake with Wolf Research.

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

Before I get to my question, I just want to follow-up on Ralph's quickly. In terms of being at the higher end of the range, ex that $50 million, you still would have been around 86.8%. I don't know what the flu costs are. But it's been a trend of 2 to 3 quarters now where it's been pushing towards the high end rather than the midpoint. And if you guys understand that from our viewpoint, it's hard to understand what's driving that? So is there anything you can tell us that would give us comfort that there's not some trend inside the business that maybe hasn't been fully taken account and might be a headwind into 2020? And then my question is around membership growth for next year, specifically around Medicare Advantage. Gail, I think you said 150,000 to 200,000. Is that 150,000 to 200,000 total? Or is that 150,000 to 200,000 in each of individual and group? And if it's 150,000 to 200,000 in total, can you tell us how that breaks down?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Let me ask John to first discuss the medical cost and MLR issues, and then I'll come back to membership. John?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, Justin, I certainly understand your perspective, but there really isn't anything that's lurking beneath the surface that causes an issue for 2020. And just to level set the 2020, maybe I'll talk about that for a moment. We did end 2019 at 86.8%. Our guidance for next year is 85.8%. So that's an improvement of 100 basis points.

But given the fact that the HIF is out, the HIF is in and the dynamics of that and pricing for the tax nondeductibility, on an apples-to-apples basis, you could expect that our MLR would go down by 150 basis points in 2020, and it's going down 100. So that's actually a 50 basis point increase. And it's really -- it's largely the result of business mix. And I really can't emphasize enough how much the mix does change the MLR. Our government business continues to be growing -- a growing portion of our premium revenue, very strong growth. We've had some of the best organic growth in the sector over the last several years. And the fully insured growth has been driven primarily by the Government Business division. And the government's MLR is higher than the company's average. And so then, that causes the overall MLR increase. I will say that our pricing does remain disciplined, and we cover cost trends. So we feel very comfortable with our guidance and expectations, and that the numbers for 2020 are very solid.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Justin, in terms of your second question around Medicare Advantage membership. Yes, that is a total number. As you think about the breakdown, it's roughly 75% individual MA and about 25% group.

In terms of the overall numbers, we feel very strongly about our -- as I mentioned, our individual MA growth. And actually, we're coming off of strong growth in the group market in 2019. And as we think about 2020, we're expecting additional growth in group. But again, just the time line of the procurements has been a little bit longer, but we still feel very strongly about our group offering. The brand is resonating extremely well, and we're really pleased, again, with the individual MA open enrollment season that we just had and the -- that we will grow at a pace faster than the industry once again. So thanks for the question, and next question please.

Operator

We'll go to A.J. Rice with Crédit Suisse.

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

Just one quick point of clarification to John's comment and then a question about margin trends for 2020. It sounds like on the third quarter call, you guys were sort of implying in your broad comments that it would be at least $22.50 or at least $22.60. Based on John's comments, the fact that it's now at least $22.30. It sounds like that's 100% due to the HIF repeal, which was not expected. I just want to confirm that.

And then just more of the margin trends for 2020. Is there any way to flesh out a little bit how much of a headwind, normalization the individual margin is? How much of a tailwind the comments about Medicaid are next year versus this year? And sort of how those will impact the margin? And I'm assuming you're assuming relative stability of Medicare, but maybe that's not true. Can you comment on that?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

No, thank you for that one question, A.J. I'll do my best to see if I can answer it. But on the 2020 guidance, you're exactly correct. Our core assumptions from the third quarter are unchanged. The growth rates that we had, that we laid out in terms of Ingenio adding $2.30 for the year contributed a little bit more than $1 to 2019, increasing our earnings by the low end of the 12% to 15% growth rate that we had promised at Investor Day. And that included covering a $0.50 HIF headwind that we knew about.

But what we didn't know about was that there will be a permanent repeal of the HIF starting in 2021. And when you look at how that impacts our 2020 mid-year renewals, that the 2020 mid-year renewals no longer need to charge and price for that incremental cost structure. And so the impact on 2020 is an incremental $0.30 headwind on top of what had been communicated in the third quarter. And so that is entirely the differential between today's guidance and the expectations that we had from 90 days ago.

The -- that was the first question. Actually, could you repeat the other part of the question?

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

In your guidance, in terms of headwinds and tailwinds on the margin...

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, yes. Thank you, A.J. That was the individual margin normalization versus Medicaid. We have been talking all along about how those 2 mitigated each other. As we finalized our plans for 2020, and we've been working very, very hard with the states and everything else, we expect that the margin normalization from individual will probably be about 10 basis points worse in terms of margin than the incremental benefit that we expect to achieve from improvement in the Medicaid business. So that's about a 10 basis point impact on overall margins. And also, that 10 basis points works its way through the MLR calculation as well. I didn't really talk about that as part of the 50 basis point increase in MLR, but that's part of that reconciling item as well, is that the individual headwind is about 10 basis points more than the Medicaid tailwind.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you, John. And just a quick comment, sort of reaffirming what John said. Overall, our guidance is very consistent with what we said. And also, we view, obviously, the repeal of the health insurer fee as a big positive for affordability and are very pleased that, that happened. Next question, please.

Operator

And we'll go to Steve Tanal with Goldman Sachs.

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

I guess I just wanted to dig into a little bit the fully insured enrollment outlook as well as the MBR guidance and trying to square this all with the $4 billion of pharmacy cost savings. I guess, it seems like growth could have been a little bit better or MBR maybe a little lower. If I'm doing the math right, it looks like commercial fully insured enrollment is implied down about 130,000 to up 120,000 when I take the 2020 fully insured aggregate growth outlook and net out Medicaid and MA. So first, I wanted to confirm if we're thinking about commercial risk right that way. And I guess, maybe, Pete, any commentary on how you've been able to use those savings to drive enrollment gains or attention? And John, any thoughts on sort of the MBR? And whether you could add lower than the range or somewhere towards the lower end, if you end up earning more than at least 20% that you guys have committed to in the past, that would be helpful.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Great. Thank you for the many questions. We'll try to hit them each, but just in terms of fully insured, and I'll have Pete give some commentary on that.

If you look at the midpoint of our guidance, essentially, we're guiding to flat commercial risk membership. And remember, if you think about the return of the health insurer fee, when this occurred a few years ago, the market overall was down pretty significantly as were we. So our growth is actually inside of that when you think about flat quite good, given the market dynamics. But let me ask Pete to give some additional commentary about what's really happening inside of this.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes, that's it. Thanks, Steve, and thanks, Gail. It's exactly right. We're very pleased with our fully insured growth. You saw that play through in 2019. We've experienced growth in the large group and 4 out of the last 5 quarters.

And as Gail said, the flat nature of our growth in 2020 is really this 1 large account, which is not really that unusual in light of the fact that the HIF coming back and a very large account moving from fully insured to ASO.

And as Gail said, the last time this happened was in 2018, and we saw a mid-single-digit progression in membership. So a really nice improvement from that perspective. But longer term, outside of that 1 large client, our fully insured growth would have been positive in 2020. And now with the value of Ingenio coming through, you'd asked about that, and yes, we are seeing that play through in our value. It's very nice to have that play through in a year when the HIF was coming back. So that was definitely an offset.

And then all the things that we've talked about in the past, our product portfolio, our sub-segment strategy, what we're doing around brokers and broker engagement are all really playing through. So again, longer term, outside of this 1 large account, we see positive growth in the large fully insured and fully insured business in general.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. And thank you, Steve, for the -- following up on the other part of your question on the $4 billion savings from a full year implementation of IngenioRx. We're actually very excited about that because at the end of the day, that $4 billion in savings makes health care more affordable. And group trend is just one aspect of that business and a very important aspect. And -- but as we've stated in the past, the impact of the savings and the $3.2 billion that we're returning to the customers, it's really based on a market-by-market, line-of-business by line-of-business assessment. And each marketplace is a little bit different. Our competitive advantage differs in certain marketplaces in the extent that we're close to an MLR rebate. We obviously would include it all into the pricing. In the extent that we have really good market share and really good competitive positioning, we may let a little bit more drop to the bottom line.

And then you have to go back through line of business by line of business. In our ASO, some of our customers have passed through pricing. They actually receive 100% of the benefit of the better pricing.

In Medicare Advantage, we are utilizing the benefit to offset some of the 4-star headwinds that we have. All in, we continue to reaffirm that at least 20% is going to hit the bottom line, and the rest will be returned to the customers.

Yes, we always do aspire to do more, aspire to do better. But right now, our guidance is pretty solid.

Operator

We will go to Stephen Valiquette with Barclays.

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

So even though the $50 million risk-adjuster reduction only impacted MLR by 20 bps in the quarter, just curious if you're able to provide just a little more color around the decision tree on when it makes sense for you guys to alter that position? Really just trying to understand if this is something that could occur really at any given time in any quarter going forward. How should we think about the volatility around this in future periods?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, sure. No, great question, Steve. And in terms of our risk-adjuster position, obviously, we evaluate it and monitor it on a regular basis. Many of the things in the individual marketplace are a zero-sum game, we don't have the appropriate transparency into everyone else's risk pools and everyone else's risk adjuster scores. We utilize a third-party service called Wakely that many of the companies in our industry utilize to do estimates. We take that along with our own competitive intelligence and our own knowledge and analysis, and we make adjustments as appropriate. There was a Wakely report that was provided to the entire industry in mid-December that was utilized by us as part of our overall assessment. Wakely does a report multiple times a year. So -- but we've been very accurate over the past several years. And our estimates have been very, very good. So we feel good about the estimate. And quite honestly, it occurred for a really good reason. And that's because we were over performing on that block of business.

Operator

And we'll go to Gary Taylor with JPMorgan.

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

I just have one question, but I thought maybe I'd ask 15 since that's going to be the trend. The one question I have, I just want to ask about Ingenio, and if there's any possibility we're going to have any increased segment disclosure for 2020? The PBM revenue and fees are all rolled up in that single line. So even though you've given us a cost of goods dollar amount, we can't really see the gross margin. And to some degree, I think that's a bit of a bridge in some of your guidance versus our model. So I guess the question is, would we consider any additional disclosure? And are you willing to give us a little help just on the gross margin as opposed to just the dollar COGS for 2020?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Sure. No, thank you, Gary, and I appreciate you asking one question. But the answer to the segment reporting question is, we will follow the rules and requirements as promulgated by the SEC and certainly adhere to their guidelines for segment reporting. There is a very good chance that at some point here in 2020, if Ingenio has the growth that we expected to have, that it will require us to break out and have a third segment. And at that point in time, we will provide that information as well as comparative information. But until we're required by the SEC to provide that additional segment, we're going to maintain our current segment reporting structure.

Just maybe a little bit of help to give you. As you can see in the press release, our cost of products sold is $7.1 billion at the midpoint. In order to get Ingenio revenue, you really have to add the $2.30 or approximately $800 million back to that because that's the area where it's going to be reported. And then there's a G&A load associated with the administrative staffing of Ingenio. And you have to have both of those to get to what the impact of the Ingenio revenue is, which is a little bit more than $8 billion. So hopefully, that's helpful to your modeling.

Operator

And we'll go to Ricky Goldwasser with Morgan Stanley.

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

So I know it's too early to talk about 2021. But just a couple of questions on how you think about that. So first of all, when we think about Ingenio, any early thoughts about the 2021 selling season, what you are seeing? And do you think that you are ready to start actively competing for external PBM business?

And then secondly, when we think about the HIF gone for 2021, any preliminary thoughts on how you're going to apply the tailwind between reinvesting in the business to improve benefit design versus savings that are flowing through to the bottom line?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you for the question, Ricky. A couple of things. One, you're right. We're not going to be giving guidance yet on 2021. But in terms of a little color on IngenioRx, a couple of big opportunities. First, we're really pleased with the way that the migration of the 15 million members went. And I think it really demonstrated the operational capability that we have inside of this business is quite mature, and that has been a real positive.

The big opportunity we have in 2020, and I mentioned this in some of my prepared remarks and in '21, is to increase the penetration in our own self-funded book of business. Right now, we're in the range of only about 20% well below all of our competitors and others in the space. That's really been driven heavily by the noncompetitiveness of our prior arrangement, and we're seeing real big opportunities for us as we -- both in 2020 as well as in 2021. So that, first and foremost, is our primary.

In terms of external operations, as you know, those are long-term procurements. We do feel that we're ready to compete in that. We were really pleased to bring on Blue Cross of Idaho this year for January, and that has gone well. But again, in terms of the exact timing, these are 3-year cycles generally. We will be competing for them. In terms of when those procurements come through will be a little bit more lumpy than exactly in '21, but we feel really well prepared. And again, our big opportunities are within our own existing book of business.

And then, again, we're really pleased with what we saw in the Part D growth this year. It's really the first year that we've been competitive in the Medicare Part D. Ingenio gives us an opportunity to also be more competitive in Medicare Advantage, our individual and group membership. So across the board, we see it as a nice growth accelerator for both commercial and government. Thanks very much for the question. Next question, please.

Operator

And that will be Peter Costa with Wells Fargo.

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

The other side of the mix issue, relative to MLR is SG&A. And it seems like your SG&A has come in better than expected all this year. You'd originally, at your Investor Day, you had a target for 2023 of 11% to 12%, and then for '19 of 13.5% for SG&A, and you came in below 13%. Can you talk about whether the target for 2023 is now further improved? And then also just in terms of as we think about the progression to that, have we -- are we still linearly progressing to that? Or is it something that we should be thinking about, we just got an acceleration this year because of the mix?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

No, thank you, Pete. Great question. And in terms of the improvement, we are very, very happy with some of the operational efficiencies and just some of the better processes that we now have, things that really make the experience better and easier for the customer. And at the end of the day, that's the most important part. The systems migration is going to be 80% complete by the end of this year. And then we can continue on from there. Gail talked about a 6 to 2.

So I would say that just given some of those issues, the improvement is not going to be linear through 2023. It will be a little bit better here in the first few years as we get through the systems migration as we're investing heavily in digital right now and as we get those capabilities up and running, for instance, that maybe there's a bit of a heavier load.

2019 was negatively impacted by the early acceleration and implementation of Ingenio, and so that's not part of our 2020. And quite honestly, we do have the best organic growth in the entire sector over the last several years, and that organic growth is helping our SG&A ratio maybe a little bit faster than we had anticipated. So a lot of positives there, really.

I think the short answer to your question is, the improvement is going to be a little bit faster in the first couple of years of the 5-year period versus the last couple of years.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And I would just add, sort of to reiterate what John has said, we have been intensely focused on operational execution across Anthem. And you're starting to see that. Clearly, system migrations have been successful, being 80% by the end of this year. And our destination platforms allows us a few things. One, leverage on our SG&A, but more importantly, improving our business process, making it easier to do business with Anthem. The investments that we are making in digital, our investment levels have been very consistent. And so as you think about our SG&A ratio, we're getting leverage from our growth, but we're really getting leverage from reengineering our business processes from an end-to-end, simplifying our technology infrastructure. And I think that's a huge opportunity for us as we continue to make it easier to do business with Anthem as well as for consumers to have the tools at their fingertips. And that's really where we're heading on this. Thank you very much. Next question.

Operator

We will go to Kevin Fischbeck with Bank of America Merrill Lynch.

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

I want to go back to the MLR commentary because -- I mean, I guess, I appreciate the concept of growing the Government Business faster and then creating a mix issue, but you are coming in at the higher end of your MLR this year. And usually, we think about the business being repriced. And if you're coming at the higher end of MLR this year, there's an opportunity to improve that going into the following year. So just trying to understand why we're not seeing more of that?

And I guess, maybe 2 questions related to that. First, talk about margin normalization in the individual business. Are we going to be at that normal margin in 2020? Or is this something that's also going to be a headwind in future years?

And second, just to understand how Ingenio works with MLR. It sounds like you're saying Ingenio lowered cost trend, but you priced to that cost trend so it's not impacting, one way or the other, the MLR in the quarter. And if you could just break out how much Ingenio did lower trend -- what would trend have been without Ingenio?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

No, thank you, Kevin, again, for that question. In terms of the MLR for 2020 in your commentary, mix is extremely important. And yes, we do reprice our business each year. The -- we do reprice our business each year. We do price very disciplined. Our pricing includes overall cost trend, and we feel very good about the target margins that we have associated with the various lines of business. And Medicaid is going to improve in 2020, as we have talked about. So that's going to be a tailwind. But there are several headwinds to that metric. And again, mix being -- and this is on an after HIF basis because HIF really makes all of the metrics confusing on a reported basis, and mix is the single biggest issue.

I had referenced in a different question about the individual normalization. That is going to impact our MLR as that comes through. And to answer your side question on individual normalization, given the way the MLR rebate rules work in the 3-year averaging associated with the profitability of that, we do expect that 2020, we'll have individual margins that are within our range, our sustainable range here for the future.

Another data point just on the MLR that -- I don't know that people have really considered, again, is the elimination of the HIF in 2021. And the fact that our 2020 renewal pricing will not include the gross up for the HIF or the tax nondeductibility of the HIF for the period that the contract years go into 2021 reduces premium and increases MLR. All those things combined are what really drives the increase year-over-year.

Operator

We'll go to Josh Raskin with Nephron.

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

Just my question on the opportunity that you guys had potential to work with Prime and their decision to go another route. I'm just curious sort of how that unfolded and why you think they decided to sort of do something else. Was there something missing on the Ingenio side? Do you think it was just sort of financial? Or -- I'm just curious to get your feedback.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, Josh. In terms of Prime, first, let me talk a little more broadly about our partnership with the Blues. We don't -- we're not going to comment on specific decisions that are made or deals that are done. I mean that really, I think, is a broader question that we won't comment on. But I think it's -- the bigger issue you're asking is how do we partner with the Blues? And I think that's been -- it's absolutely been an important part of our strategy.

And looking at that, we feel really good about where we've been with our partnerships with the Blues. First, in our core business, which is the Medicaid partnerships and the growing Medicare Advantage partnerships that we have that we most recently launched. Those are going very well. And we continue to add more. Our diversified business group, which is a growing part of our portfolio today, works with 2/3 of the Blues. We're obviously not going to sell everyone every single product we have. But again, we see the Blues as a very strong partnership with us. And actually, most recently, Horizon Blue Cross Blue Shield of New Jersey just added 1 of our core product's health guide to their largest customer, the state of New Jersey. So we've got -- we see strong and growing opportunities in terms of that.

And we also think that Ingenio will be a very strong opportunity in the pharmacy space. So we think there's plenty of room across the Blues for us to do partnerships as well as to work with each other. So from that perspective, we're still very bullish on our opportunities across the system. Thanks very much. Next question.

Operator

We'll go to Sarah James with Piper Sandler.

Sarah Elizabeth James - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

The deceleration to the 4% Local Group trend, it's the lowest that trend has been for Anthem. Can you unpack that for us? How much is Ingenio versus any other buckets decelerating in there? And then just to clarify, you said that you're pricing to trend. So I want to confirm, does that mean there's no conservative buffer baked into spread in the event that the deceleration from 6% to 4% doesn't come to fruition?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Sarah, thank you for the question. And just to clarify, there are many, many things that go into trend. There's the -- obviously, the changing population, the acuity of the business, the mix. We have cost of care initiatives that we have implemented in prior years. We have cost of care initiatives that we will implement in 2020, all impact trend. And then we also have the impact of Ingenio.

Just for clarity, we are not going to itemize each 1 of those and what they are each worth individually. In aggregate, it takes our trend down to 4%. And that compares to the fact that we ended 2019 squarely at the midpoint of our prior trend of 6%, plus or minus 50 basis points. And now we have a 4%.

In terms of pricing methodology, the pricing methodology does have a bit of conservatism baked into it, but it's not a percent or a number that we're going to talk about here, but we feel very good about our ability to deliver on the pricing discipline that we've laid out.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And I'll just reiterate what John said. We have not changed anything around our pricing discipline. We've remained exactly consistent on that to our forward view of costs, and that's how we're pricing.

And then in terms of just a couple of factors, because I think everyone is focusing on just IngenioRx and the impact on trend. We have also been working very diligently around how do we change overall costs. And right now, 60% of our spend is in risk-based arrangements. We expect to see greater pull-through of that because more an upside, downside risk where we think there is the best alignment of cost quality and health care outcomes. We are very focused on bundled payments and incentives for site of care, working around orthopedics, cardiac, women's health services. Our site of service, where we work with our DBG counterparts around -- particularly our aim around moving to the appropriate site of service, I think, is another really important area around GI, great area that we're focused on right now. And then finally, specialty Rx, where we're targeted for redirection in that area. So those are all large dollar areas and big areas of trend in spend. And we have been intensely focused on that as part of our overall medical cost management and alignment of those services as well as what Ingenio brings to us on just a unit cost perspective. Thanks very much for the question. Next question, please.

Operator

That will be Lance Wilkes with Bernstein.

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

Yes. Could you talk a little bit about the improvements in Medicaid in 4Q and the second half? And in particular, you point to kind of specific actions you've taken? And then how much of that improvement is coming on the medical cost side versus operating expenses?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, Lance. I'm going to have Felicia Norwood respond.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Good morning, Lance, and thanks for the question. As you know, we have spent the -- a big part of 2019 focused on working with our state partners to make sure that we were getting rates that were aligned with the acuity and mix of our membership. We saw acceleration of reverifications during 2019. And as you know, that provided some headwinds for us. We are pleased to say that as we head into 2020, we have spent a lot of time with our state partners to get the rates that we believe are appropriate for the mix and acuity of the population that we're serving. At the end of the day, it's all about a combination of rates, but also the medical management programs that we have in place as well to support our members. We say all the time, and it's true, we're very focused on whole person care. We have worked very closely with complex and specialized populations and making sure that our members are getting care in the most appropriate setting. So when we think about the opportunity we have for us on the Medicaid side around improving our overall cost as we go forward, is certainly a combination of having in place the right medical management programs and being very disciplined and vigilant with our state partners around getting the rates that we need to support the changing mix of our population as we go forward.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Next question, please.

Operator

We'll go to Matthew Borsch with BMO Capital Markets.

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

Could you just talk a little bit about the outlook on the commercial side? I mean, I heard your broad comments, but how do you expect to start this year in terms of your commercial enrollment, particularly on the risk side when we think about group versus individual, given the trends that you're seeing?

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thanks, Matt. As we talked about -- we talked about a large client transitioning from fully insured to ASO. So at the beginning of the year, you will see that play through. But as we talked about, through the remaining portion of the year, you'll see our fully insured business continues to improve and grow for all the reasons that we stated before. And as it relates to the individual business, and I think that you know, we saw modest growth this year. We believe in our strategy around individual. We remain disciplined with respect to that business. We're targeting markets where we can achieve the appropriate economics and establish the right networks, have the right collaborative relationship with providers and partners. And we're seeing that play through, but it's a very methodical and thoughtful approach. And so I think you'll see, as it relates to 2020, our individual business play out in a very similar fashion than it did in 2019.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you. Next question, please.

Operator

We'll go to Dave Windley with Jefferies.

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

I wanted to come back to MLR, I apologize. But on MLR, looking at kind of, if I extend out maybe 1 more decimal point, it looks like MLR really was kind of outside -- barely, but outside of your range for the year. And the risk adjustment, if I take that out, would really bring you back down to still at the very high end of your MLR range for the year. So you've, I think, said that the trends were basically in line with expectations, but for flu. So I'm wondering if you could quantify flu, so we could have a better sense of the magnitude of that in the fourth quarter and for the fourth quarter of next year, understand what the year-over-year compare would be on that.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Dave, thank you for the question. And quite honestly, I'm not going to comment on decimal points that go out further and further and further. I really don't think that it's a productive conversation. However, I will say that the flu was more significant in the month of December, specifically, in November, but in the fourth quarter in total than we had anticipated, there's obviously a lot of factors that go into MLR and premium and everything else. And we're going to talk about the things that are material and significant, not the ones that change things by 100 basis points -- 100th of a basis point or something like that. So our answers stand, that we believe we have provided the information that's needed.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you. Next question, please.

Operator

That will be Charles Rhyee with Cowen.

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

Yes, just (inaudible) question. Just want to clarify a couple of things. First, going back to MLR, not so much about the guidance range itself. The 50 basis points range is a little bit wider than normal. Is that just simply as you kind of take on Missouri and Nebraska? Or is there anything else in sort of the variation that you're kind of expecting?

And then secondly, I think to an earlier question, you're obviously going to a 4% cost trend from 6%. You talked about it largely being Ingenio and a few other things. But without Ingenio, what would that 6 -- how would we compare that 6% compared to '19?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Charles. And in terms of the guidance range and expanding the MLR by 50 basis points, it's really the -- to be more consistent with how others in the industry have expressed trend over the last several years as well as the fact that we continue to be a growing company with some really good top line growth and want to provide guidance that we don't have to revise and change maybe as much as we had on the MLR basis for the future.

And then in terms of the Ingenio is, as in response to Sarah's question, we're not going to provide the specific itemization of each item and trend and how much medical management worth, how much site of care is worth, how much bundled payments are worth or how much Ingenio's for that matter, on the trend on a percentage basis.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you. Next question, please.

Operator

We'll go to Frank Morgan with RBC Capital Markets.

Frank George Morgan - *RBC Capital Markets, Research Division - MD of Healthcare Services Equity Research & Analyst*

A lot of questions of the impact of the mix shift on your overall MLR. I'm just curious, could you give us a high-level thought around what's the differential in that target market -- margin in those 2 businesses, the government, the commercial? And then in terms of your assumptions around the Nebraska, Missouri contracts, where are they relative to your government contract margins to our targeted margins? And have states been through these reverification cycles?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, Frank, this is John. I'll start out on the question and then turn it over to Felicia to provide some final thoughts. But if you look at the Government Business division in terms of how it has contributed to the revenue of Anthem for 2018 and 2019, it's been slightly more than 60% for each year. But now when you look into 2020 and you look at our Medicaid growth, including Missouri and Nebraska, you look at our sustained double-digit growth in Medicare Advantage, which, on a percentage basis, has led the industry for several years in a row, the fact that the return of the HIF is muting the fully insured commercial growth, you take it all in, we expect that government revenue to increase as a percentage of total revenue by several percentage points. And just the dynamic on that ends up being the leading factor associated with the increase in the MLR year-over-year.

Felicia, if you'd like to talk about Missouri and Nebraska?

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Yes. First of all, let me say that we're very excited for the opportunity to be able to serve Medicaid beneficiaries and working with state partners in Missouri and Nebraska. Just to level set again, reverifications and eligibility determinations are a part of a normal course of business in Medicaid programs, and states are required to verify eligibility at least annually. We have not -- certainly, we just closed last week, but we certainly haven't seen anything yet with respect to this population around accelerated reverifications, but we will work closely with our state partners there as we take on this business and bring the value of Anthem to beneficiaries in the state. Thank you.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Next question, please.

Operator

We'll go to Whit Mayo with UBS.

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

Just a quick one on Medicare Advantage. You picked up about 90,000 lives in open enrollment, and at the midpoint of your guidance range of 150,000 to 200,000 implies half of the growth coming this year from open enrollment alone. But historically, you've earned perhaps 1/3 given the year-round D-SNP growth and group wins. So what's different this year as we think about the seasonality of your expected growth since history makes us look pretty low as a starting point?

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Thank you for the question. Yes, we're very, very pleased about what we saw during the AEP season. Frankly, it was some of the strongest growth we've ever seen. And we look forward to being able to continue to grow our business over the course of the year.

As you know, we are focused very much, not just on our MA population but also duals as well, and we are consistently bringing in business with respect to that over the course of the year. The fourth year in a row of exceeding the industry growth rates with respect to MA has been very significant for us. We spent a lot of time focused with our partners and also focused on our product portfolio. And when we think about the competitive product portfolio we have and the supplemental benefit offerings, we feel that we are well positioned for growth as we go forward. So if you think about it, we are very much committed to being able to deliver on the commitment we've made, which is to deliver mid-double-digit growth again in 2020. Next question, please.

Operator

That will be George Hill with Deutsche Bank.

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

John, I just want to delve into a comment you made in the prepared commentary. It sounded like you were talking about in the -- from the risk-based business to the fee-based business, you're seeing kind of the profit ratio go from 5:1 to 3:1. I guess, can you unpack that a little bit? I'm assuming it's the growth in the profit of the fee-based business as opposed to a shrinkage in the profit of the risk-based business? And I guess, can you talk about what's driving the incremental profitability of the fee-based business and kind of allowing you to generate that margin?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Sure. This is Gail. I think that was in my commentary. I will -- I'll ask Pete to comment. That's a strategy that we've shared pretty broadly as part of Investor Day in terms of improving the profitability of our fee-based business relative to the industry. So we feel very good about the profitability of our fully insured. So it's not a decline there. It's more of an improvement. But I'll let Pete talk about the specific actions underneath that.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes, exactly. So this is a -- it's a -- as we talked about at Investor Day, it's a major component in our growth strategy in terms of expanding and -- expanding our margins and improving our ASO business overall. And to unpack how we achieve that, it's through a series of upselling in terms of capabilities and programs. So specifically, as Gail noted, our specialty business this year performed exceptionally well, growing by over 1 million members. That's a component, upselling our specialty products into our ASO business. Stop losses included as well. Clinical programs, where we're seeing very significant uptick. And Gail mentioned in the prepared comments, programs like Total Health, Total You. All these things are playing into success with respect to this.

And then longer term and into 2020, we look really forward to including IngenioRx. In that context, that will be a significant driver of taking us to the 3 to 1 as we committed to and even forward-looking, thinking about future assets like Beacon will continue to create improvements as well. So we remain really bullish with respect to this story and on a path to success to meet our commitments by 2023.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Next question, please.

Operator

We'll go to Scott Fidel of Stephens.

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

Just had a follow-up question just on the commentary around North Carolina. And you had mentioned that you expect that will now be a 2021 event in terms of implementation. Just interested because a couple of your peers have talked more to want to talk to a 3Q start, another had talked to a 4Q start. So just interested whether you've actually gotten some recent feedback from the state telling you it's going to be more like 2021 or whether you're just being -- trying to be a little conservative around that assumption. Just remind us in terms of what your pick was in terms of what you're expecting on North Carolina membership whenever that actually does get implemented.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Yes, and thank you for the question. First and foremost, let me say that we are very much looking forward to working with our state partner and Blue Cross Blue Shield of North Carolina in order to serve Medicaid beneficiaries in the state. We were here in the last quarter, we expected the business to go live on February 1.

Based on everything we know today, and I will say we have not had a definitive answer from the state, we are assuming that in order to be able to deliver on the business, it would take until possibly 2021 before you would be able to go live with respect to the contract. With that said, I will say that we have been very much working closely with our partner in the state of North Carolina, and we are ready today. Operational readiness is critical for us, and we have gone through numerous iterations with the state around testing and preparedness for the go-live. But based on where we are sitting today, it's our expectation that the business won't be going live until 2021. Next question, please.

Operator

And our final question will be from Steve Willoughby with Cleveland Research.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Gail, just wondering if you could provide a little bit more color on 2 different items. One, just as it relates to the acquisition. It sounds like it's pending of the TPA you mentioned. Just why that interests you in actually acquiring that business. And then also, if you could provide any color as it relates to something you mentioned back at the analyst meeting. As it relates to the Blue's high-performing network for 2021. And maybe just an update on how you are thinking about that for Anthem and maybe the Blues network overall.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Great. Thank you for the 2 questions. And first, in terms of the TPA acquisition. It's a capability acquisition, predominantly for us. The reason we're interested, we're the majority of the membership today, it is for a sub segment of the business that requires a different type of flexibility we've been very focused, obviously, on converting our systems to having a destination platform in our commercial business. This gives us a little more flexibility around subsegments of the market that we do business in, hospital labor, et cetera, that historically has different sort of operating requirements. So we felt that this was -- this added to our portfolio. It's an area that the Blues have always been strong in and this specific TPA, again, is the majority of ours and works closely with the other Blue partners. So we feel good about that.

In terms of the second question, the high-performing network. Sorry, I was just catching up there a little bit on it. We're actually making great progress. We're really excited about it. It's part of our overall affordability. We're working with our other Blue partners. I think it's actually a very strong statement around what we're trying to do with high-performing networks and 55 MSAs, 22 of which are in Anthem states. We believe that this will provide us with -- leverage our deep provider relationships and allow us to seamlessly and simplify how our customers get a significant cost structure advantage and much higher outcomes. Overall, it's progressing. We've had great interest from our largest clients, particularly national clients. As you know, we've always had a very strong unit cost advantage inside of the Blue Cross system. This is, I think, builds upon that also to have a very strong performance orientation and the network, again, is built based on both cost and quality. And so we have selected those care providers within our networks who are delivering truly superior outcomes. And I think it aligns very well with our value-based initiatives.

And what I also like about this as Blues across the country, we're building a very consistent set of outcome metrics for our clients. And that, again, is resonating very strongly.

So thank you very much for that question. We're obviously very excited about the partnership and the opportunity there.

Let me now thank you very much for joining our call this morning. As you can see, 2019 has been a strong year for Anthem across our enterprise. I'm pleased with our performance, but we have much more work to do as we move into the new year. We'll continue to focus on our performance execution in order to drive growth and create a better health care experience for everyone we serve. We'll also continue to evolve our culture and further build our talent and capabilities to create positive change across our organization and in the communities where we live and work. I look forward to delivering another strong performance in the year ahead and want to thank all of our associates for their very good work. Thank you.

Operator

Ladies and gentlemen, this conference will be available for replay after 1 p.m. today through February 13, 2020. You may access the AT&T replay system at any time by dialing 1-866-207-1041 and entering the access code 9477514. International participants dial 402-970-0847. That does conclude our conference for today. Thank you for your participation and for using AT&T conferencing service. You may now disconnect.
