Q4 2020 Earnings Call

Company Participants

- Bill Golden, Chief Executive Officer, Employer & Individual
- Dan Schumacher, Chief Executive for UnitedHealth Group
- David Wichmann, Chief Executive Officer
- Dirk McMahon, Chief Executive Officer, UnitedHealthcare
- John Prince, Chief Executive Officer, OptumRx
- John Rex, Chief Financial Officer
- Tim Noel, Chief Executive Officer, UnitedHealthcare Medicare & Retirement
- Tim Spilker, Chief Executive Officer, Community & State
- Wyatt Decker, Chief Executive Officer, OptumHealth

Other Participants

- A.J. Rice, Analyst
- Josh Raskin, Analyst
- Justin Lake, Analyst
- Kevin Fischbeck, Analyst
- Lance Wilkes, Analyst
- Ralph Giacobbe, Analyst
- Ricky Goldwasser, Analyst
- Robert Jones, Analyst
- Scott Fidel, Analyst
- Steve Willoughby, Analyst
- Steven Valiquette, Analyst
- Whit Mayo, Analyst

Presentation

Operator

Good morning, and welcome to the UnitedHealth Group Fourth Quarter and Full Year 2020 Earnings Conference Call. A question-and-answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded. There are some important introductory information. This call contains forward-looking statements under US Federal Securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially from historical experience or present expectations. A description of some of the risks and uncertainties can be found in a report that we file with the Securities and Exchange Commission including the cautionary statements included in our current and periodic filings.

This call will also reference non-GAAP amounts. A reconciliation of the non-GAAP to GAAP amounts is available on the financial and earnings report section of the company's Investor Relations page at www.unitedhealthgroup.com. Information presented on this call is contained in the earnings release we issued this morning and in our form 8-K dated January 20, 2021, which may be accessed from the Investor Relations page of the company's website.

I will now turn the conference over to the Chief Executive Officer of UnitedHealth Group, David Wichmann.

David Wichmann {BIO 3853550 <GO>}

Good morning and thank you for joining us today. We remain in a time of unprecedented challenges for individuals, employers, and the health system broadly, particularly frontline clinicians including our own. Health systems across the world have been and continue to be stressed. Amidst these challenges, we are grateful for the daily displays of human spirit to serve others and the resolve to make things better. We remain optimistic because we are also living in a time of unprecedented collaboration, knowledge sharing, and innovation. The health system has come together in ways previously not seen, a powerful, multi-dimensional response to support patients, physicians, and communities. I couldn't be prouder of, or more grateful to, the more than 325,000 women and men of this enterprise.

They work each day under difficult conditions, with clinicians comprising well more than a third of the total, to advance a high-performing health care system, one built on personal human connections, enabled through information and technology, and supported by strong alignment of physician-led, value-based delivery of care. They are another profound reason for our optimism. With all that's transpired in 2020, we finished the year responsibly and strongly. We delivered meaningful advances in NPS and employee engagement and financial results well above the upper end of our expectations, all while navigating the uncertain environment and achieving our commitment to address financial imbalances resulting from the COVID-19 pandemic.

As we move into 2021, we believe we are well-positioned to continue to serve more people even more deeply and more effectively while continuing to build this enterprise and grow strongly in the decades to come. Just seven weeks ago, we were privileged to spend a full day with you at our investor conference. Over the course of that day, we tried to convey how we seek to lead in the development of the next generation healthcare system. We shared the distinctive capabilities we apply to make healthcare more connected, more informed, more human, and more deeply personal. We finished 2020 encouraged by the performance across the businesses of Optum and UnitedHealthcare. Let me provide just a few broad highlights. The UnitedHealthcare Medicare Advantage offerings are off to an excellent start.

2021 will be one of our strongest years of growth, now expected to approach 900,000 more people served across individual and Group Medicare Advantage and Dual Special Needs Plans. UnitedHealthcare will have grown to serve 3.5 million more seniors over five years. Seniors choose our offerings because of the value they receive: better health outcomes and experiences at lower costs. We've also been enhancing our offerings to better meet expectations about how people want to live their lives, focusing on more digital and physical care resources in the home, expanding our one-on-one concierge navigation services, and enabling the home as the safest and more effective setting of care. UnitedHealthcare's Medicaid offerings continue to grow strongly as well, including entry into three new states in 2021.

New business opportunities are substantial, with momentum towards Managed Care adoption by states and RFP activity accelerating this year and next. And while the economic effects of COVID-19 impacted UnitedHealthcare's employer-sponsored growth in 2020, we're encouraged by the positive market response to the new, highly consumer-centric offerings we've been discussing with you in recent months. Among there are digital-first, on-demand, and physician-led products each provide deeply aligned modern, personal, and coordinated care experiences and take people up to 20% compared to traditional offerings. These innovative products are generating significant responses because they are designed to better meet the unique needs and financial means of more people.

All in, we expect UnitedHealthcare will grow in 2021 to serve upwards of 1.5 million more people across its senior, community, employer-sponsored, and individual offerings. We continue to make important advancements and strategic investments to lay the foundation for the next generation health system. Over the last many years, you've heard us discuss our ambition to build high-performing systems of care including an aim to reinvent healthcare delivery, which is the first of our five strategic growth platforms. The foundations for those efforts are in our primary and multispecialty care practices. OptumCare entered 2021 with over 50,000 physicians and 1,400 clinics. Over the course of this year, we expect to grow our employed and affiliated physicians by at least 10,000.

This work of building local physician-led systems of care continues to be central to our mission and is accelerating with notable progress in the Northeast, Pacific Northwest, and Southern California in 2020. Two weeks ago, we announced the combination of Change Healthcare and OptumInsight. We expect this combination will greatly advance the foundational connectivity and collaboration needed for the next generation health system, establishing a new, more modern information and technology-enabled healthcare platform. It will help accelerate the development and use of digital and advanced technologies, another of our five key growth platforms and critical to connecting the -- all elements of our business strategy. This advanced platform will help clinicians make the most informed and clinically advanced patient care decisions more quickly and easily.

Change Healthcare brings widely adopted technology for integrating evidence-based clinical criteria directly into the clinician's workflow, while Optum's clinical analytics expertise and individual health record can strengthen the evidence base needed to deliver effective clinical decision support at the point of care. This can ensure appropriate clinical pathways are offered in the most appropriate sites of care, leading to consistent achievement of the best possible outcomes, experiences, and value for the patients we serve. Another key opportunity will be to enhance administrative processes by combining Optum's advanced data analytics with Change Healthcare's intelligent healthcare network to support simpler, more informed and accurate services and processing at considerably lower costs.

Finally, combining Change Healthcare's payment capacities with Optum's highly automated payment networks will simplify financial interactions among care providers, payers, and consumers and accelerate the movement to a more modern, real-time and transparent payment system. This will help physicians get paid more quickly, accurately, and reliably and provide consumers with more options and convenience in managing their healthcare finances. The Change Healthcare team has been doing outstanding work, and we're looking forward to working alongside them. We continue to execute on the core initiatives we laid out for you in December. One example, as the pandemic disrupted care patterns, we all saw the increased need to enhance in-home and alternative settings of care, offering patients to receive safe, effective and efficient care outside of traditional venues.

However, the need for in-home care will continue to grow well beyond the current environment. We know that more than 80% of what impacts a person's health happens outside of traditional healthcare settings. There's a significant opportunity in offering consistent, cost-effective care for seniors, people with complex medical conditions, and geographically isolated individuals through in-home and alternative settings. Offering a foundational ability to care for people in their homes is essential to developing a health system that is more consumer-centric, higher quality and lower cost. We already have well-established, trusted capacities to bring skilled care resources into the home, including through Optum's HouseCall program.

We expect our advanced practice clinicians will conduct over 2 million in-home visits this year, and we are building upon this established home capacity in many ways. We have introduced Vivify remote patient monitoring capabilities to improve connectivity and information sharing with physicians. This has been received positively by patients with a Net Promoter Score over 80. Optum At-Home provides in-person and telephonic touch points across an interdisciplinary team including physical, social, and behavioral aspects. The program increases preventative care, achieved exceptional NPS in the mid-80s, lowers medical expense, and demonstrates high quality with over 90% of our members in a four star or higher plan.

Similarly, Optum's pharmacy care services enables patients to receive the care and medications they need with capacities to deliver outside of traditional settings. OptumRx Infusion insert -- services now addresses the needs of about 25,000 patients per month and is growing double digits, which means more patients can obtain

The care they need outside of the acute settings. That makes it safer, simpler, and more affordable for people. We remain encouraged, as well, by the traditional pharmacy services provided by OptumRx with an over 98% customer retention rate entering 2021. We are off to a good start for the 2022 selling season, as we were recently awarded the honor to serve more than 2.5 million members of Blue Cross Blue Shield of Michigan. In sum, we entered 2021 with momentum, confident in our capacities to navigate through and begin to emerge from these challenging times as an even more capable, diverse, and growing enterprise.

Now, I'll turn it over to Chief Financial Officer, John Rex.

John Rex {BIO 19797007 <GO>}

Thank you, Dave. The full year 2020 and fourth-quarter results were favorable to the outlook we provided at our December 1st investor conference while continuing to be impacted by the unprecedented environment which has existed most of the year. To begin, as we know it is of great interest to you, I'd like to share what we're seeing in current care patterns. Starting at the highest level, within the broad member categories we serve, people with commercial benefits continue to exhibit overall higher levels of care activity with less deferral than those served in public sector programs such as Medicare and Medicaid. Our top priority remains getting people the care they need. During the fourth quarter, we saw overall average care activity returned to seasonal baselines compared to the just over 95% we cited for the third quarter.

The pacing over the course of the quarter, perhaps not too surprisingly, moved from just below baseline as we began to modestly exceeding baseline in the latter half. This measure includes increased direct COVID-19-related care, which in total comprised about 11% of all care activity during the fourth quarter compared to about 6% in the third quarter. Looking deeper, within specific care categories, outpatient activity began the quarter at baseline, and we were gratified people were able to obtain needed care previously deferred. By the latter part of the quarter, however, some outpatient activity moderated as COVID-19 incidents elevated. Total inpatient activity increased modestly over the course of the quarter as the direct COVID-19-related care components rose as a percentage of the total in the latter half.

For example, of the 65,000 COVID-19-related inpatient admissions during the quarter, about 20% occurred in October and about 50% in December. Moving to our specific businesses, OptumHealth's fourth quarter earnings increased 16% year-over-year as care activity at our fee-for-service practices and ambulatory surgery centers continued to recover. With these businesses now operating near baseline, revenue per consumer served grew 29% over the year-ago quarter. The growth in this measure reflects continued development of the value-based care arrangements, the depth of our offerings, and the increasing acuity of the types of care we can deliver to the people we serve. You should expect this measure to continue to grow at a strong double-digit pace for many years to come.

One example which highlights this potential, of the 20 million patients OptumCare serves today under 20% are currently in value-based arrangements. We expect both the number of patients served and the depth and number of value-based arrangements to continue to accelerate. OptumInsight's earnings were ahead of the outlook we offered at the beginning of December with overall 2020 performance impacted by lower levels of care with revenues dependent upon care activity volumes for many of these businesses and the generally-subdued overall business environment. We continue to expect 10% to 15% growth in 2021 as care activity returns to normalized levels, and we continue to advance strategic relationships and broaden services with existing customers.

This outlook excludes any impact from OptumInsight's combination with Change Healthcare, which we expect will close in the second half of the year. OptumRx earnings were also ahead of this outlook. During 2020, revenues in our pharmacy care services and specialty businesses continued to grow at double digits and now comprise nearly half of total OptumRx revenue. Turning to UnitedHealthcare, fourth quarter operating results were above our December view. They reflect continued customer and provider assistance measures to help people obtain the care they need and comparatively lower levels of care deferral and higher COVID-19 care costs versus the third quarter. Results in the fourth quarter were further impacted by additional reserves for rebate and related activity as plans with such arrangements moved into these positions as a result of the cumulative care deferral impacts throughout 2020 and calendar year-end assessments were concluded.

As Dave noted, sales activity in the Medicare Advantage open enrollment period was robust. Within the 900,000 new members -- members we expect to serve for full year 2021, about 775,000 will be in individual and Group Medicare Advantage and the remainder in Dual Special Needs plans, which are included in the Community & State Medicaid membership tables. Strong growth in Medicaid membership continued in the fourth quarter. Recall our full year 2021 outlook to serve an additional 200,000 to 300,000 people assumes state redetermination activities are reinitiated during the year. We concluded 2020 with commercial membership about 100,000 people ahead of the outlook we provided at our investor conference. Early January results are well supportive of positive commercial growth in 2021. This even considering the challenging economic environment. Our liquidity, capital positions, and capacities remain strong.

Full year 2020 cash flows from operations were $22.2 billion or 1.4 times net income with the fourth quarter result exceeding the outlook we provided due in part to early customer receipts. Our debt-to-total capital ratio of 38.9% compares to 40.2% last year. As we look enthusiastically toward the combination with Change Healthcare, we intend to maintain our long-standing capital policy, including our approach to returning capital to shareholders via share repurchase and an advancing dividend, with ample capacities to continue building upon our strategic growth platforms and ongoing priority on expanding our local care delivery capabilities. Our full year 2021 outlook remains consistent with the early December commentary with total revenue approaching $280 billion and adjusted earnings per share in the range of $17.75 to $18.25, inclusive of the negative COVID-19-related effects we described. Given the still highly dynamic circumstances, we will likely hold this broader-than-typical range of expectations as we, much like everyone else, continue to learn more about the environment.

Now I'll turn it back to Dave.

David Wichmann {BIO 3853550 <GO>}

Thank you, John. As you can tell, the businesses of this diversified and growing enterprise remain strong and well-positioned for sustained, balanced growth as we continue to add new capabilities and market positions. We remain committed to our mission and an intense focus on serving one person at a time at increasing levels of value, more affordable, better outcomes, and improved experiences while generating strong returns for you, our shareholders.

Operator, let's open it up for questions. One per caller, please.

Questions And Answers

Operator

Thank you. (Operator Instructions) We ask you to limit yourself to one question, if you ask multiple questions, we will only be answering the first question. So we can respond to everyone in the queue this morning.

And our first question comes from Ralph Giacobbe from Citi. Your line is open.

Q - Ralph Giacobbe {BIO 6968095 <GO>}

Great. Thanks. Good morning. I just wanted to go back to some of the commentary. You said trends are near baseline. Just want to be clear. Are you talking about just utilization or spending there? And then the commentary that COVID was 11% of activity I guess in the fourth quarter. Just want to clarify that.

A - David Wichmann {BIO 3853550 <GO>}

Great. Thanks, Ralph. John, you want to start?

A - John Rex {BIO 19797007 <GO>}

Ralph, yes. So we're talking about spending. When we -- when we talk about near-baseline levels anticipated and again inclusive of the COVID-19 care costs. So that's why I was trying to give you some sense of kind of what component those, what those comprise in there, overall. And your -- your second question, Ralph, I lost just the last part of it. I just want to make sure I heard that.

A - David Wichmann {BIO 3853550 <GO>}

I'm afraid he may have cut out.

A - John Rex {BIO 19797007 <GO>}

Yeah, I just -- I didn't hear quite that -- quite the very end of it. But when we're talking about kind of the 11% zone, I think maybe what you were looking for is probably how that relates. Think of that 11% zone in terms of medical costs. If you're looking at our medical costs on our income statement, use about maybe three quarters of that level as a measure. What I would exclude from that, because we're thinking about really kind of components, fee-for-service medical costs that we incur on that. So it would include UnitedHealthcare's payments to capitated providers -- it would exclude, sorry. It would also exclude things like pharmacy costs and such. So I probably use about three quarters of that, and I think that's where you're going with that question. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Okay, Ralph. If we didn't get that, just circle back with Brett and the team, and we'll be happy to answer your question on the side. Next question, please?

Operator

Thank you. Our next question comes from Ricky Goldwasser from Morgan Stanley.

Q - Ricky Goldwasser {BIO 1977392 <GO>}

Yeah. Hi. Good morning. You recently updated your telehealth policies. Wanted to dig a little bit deeper into this. What do you think is sort of the right balance between in-person medical care versus telehealth when activity normalizes? And when do you think -- where do you reimbursement will settle? It seems that you are continuing sort of with the imperative reimbursement, but as you think about --

A - David Wichmann {BIO 3853550 <GO>}

Ricky, you cut out about the same time Ralph did, so we'll take a shot at answering your question around telehealth policies and what -- how we think this will normalize out. Actually, I'll ask Dirk to do that and maybe ask Doctor Decker to talk about the pluses and minuses -- not pluses and minuses but just maybe when more inpatient care should be administered versus digital.

A - Dirk McMahon {BIO 18950833 <GO>}

Yeah. So thanks, Dave. What I would say is the good news is that telehealth is a great vehicle for people to access care. So number one, let's just start with that as a premise. We at UnitedHealthcare, from a policy standpoint, we work with Optum, we work with a lot of telehealth providers on different products and capabilities, and I would say how it's ultimately going to shake out is going to be related to who provides the best outcomes using telehealth, the lowest costs, and ultimately the best patient experience. Those are sort of truisms which are going to exist no matter what. We saw a huge spike at the beginning of real high telehealth access back in April. It sort of metered out throughout the course of the year. I'm not sure where it's going to ultimately end, but clearly it's here to stay. And it's going to be an important part of healthcare going forward.

A - David Wichmann {BIO 3853550 <GO>}

Doctor Decker?

A - Wyatt Decker {BIO 17276367 <GO>}

Yeah, thanks, Dave and Dirk. Ricky, thanks for the question. What's fascinating is not all telehealth offerings are created equal, and we have found that not surprisingly patients really appreciate being connected to their own personal providers. And providers very much need the real-time clinical data to provide good advice and care for that patient in a virtual setting. So that's key point one. Point two is certain services like ambulatory or outpatient behavioral health care lend themselves to a telehealth solution, and so we have seen approximately 50% of our tele -- of our healthcare being delivered in a telehealth setting. And that has been sustained throughout the year even as the pandemic had subsided, and as it returns, it empowers those populations to get excellent care virtually.

Finally, I'll just add that it's critical and we're very excited about the ability at OptumHealth to connect physical care, virtual care, and home-based care in a comprehensive model that really differentiates itself by providing personal, real-time care in the right setting. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Great. Thank you, Doctor Decker and Dirk. Thank you for your question, Ricky. Next question, please?

Operator

Thank you. Our next question comes from Steven Valiquette from Barclays. Your line is open.

Q - Steven Valiquette {BIO 1928887 <GO>}

Great. Thanks. Good morning, everyone. So I guess as you now assess the commercial membership trends exiting 2020 and the early trends so far in 2021, is there any further color just on your conviction around the commercial enrollment projections for 2021, as you would now need a small increase in commercial risk membership to hit the target this year? And then whereas fee-based rates that would remain essentially flat, just looking for more color around that. Thanks.

A - David Wichmann {BIO 3853550 <GO>}

Great. Steven, a good question and I -- I just -- I just like to throw in a plug for our commercial team that worked very hard to get cost structures in line and to be very innovative around new product offerings, bring greater value to people. And I think it's starting to show through in terms of our overall growth performance. Bill, do you want to comment, respond to Steven directly?

A - Bill Golden {BIO 16672037 <GO>}

Yeah. Thanks for the question. I'll start with we're really pleased with how our fourth quarter and January 2021 enrollment performance played out. Our enrollment for 1-1 is better than we projected at our investor conference, supported by really strong persistency across really all lines of coverage and then less than anticipated attrition. Obviously in the current economic environment, it's created some challenges. However, we're really well-positioned to deliver on our commercial growth strategy that we highlighted at our Investor Day. I think we've also benefited from a broad portfolio of products that all of our customers are accessing to renew their business with us. So we feel really nice -- we feel really strong about our growth prospects for the rest of 2021. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Can I just say we have a ways to go. We're kind of turning the corner to growth, and obviously maintaining that consistently and continuing to accelerate it will be our emphasis as we move forward. Thank you for the question, Steven. Next question, please?

Operator

Thank you. Our next question comes from Lance Wilkes from Bernstein. Your line is open.

Q - Lance Wilkes {BIO 4820557 <GO>}

Yeah. Good morning. Could you just talk a little bit in OptumRx about the pace and status for you guys in online pharmacy and in-home delivery? And maybe what your long term strategy and scope is for that?

A - David Wichmann {BIO 3853550 <GO>}

Great. Happy to. John Prince?

A - John Prince {BIO 20142902 <GO>}

Thanks for the question, Lance. Obviously we've been very focused on building our pharmacy care services model for the last several years. So not only have we been getting into online pharmacy and home delivery but we've been creating various programs to meet the needs of populations especially in infusion and pharmacies. And why we frame that is because we're trying to meet the needs of the population in unique ways and different --and create a very differentiated solution. So I think as you look at online pharmacy and home delivery, it's been a big grower for us.

We've continued to grow share, expand our penetration, but we've also expanded our services within pharmacy care services to serve all consumers so that they don't have to be a member of the PBM where we've been launching over-the-counter Optum Store, and so we see a significant growth of selling more products. We also will see in those stores unique ones like Optum Perks, which is our discount card of bringing them all together in a virtual environment. So we see good -- good prospects, and we see as a big grower in the long term.

A - David Wichmann {BIO 3853550 <GO>}

Great. Thank you, Lance. Next question, please?

Operator

Thank you. Our next question comes from Steve Willoughby from Cleveland Research. Your line is open.

Q - Steve Willoughby {BIO 17322492 <GO>}

Hi. Good morning. Just a question regarding one of the lines in the press release this morning related to additional reserves for rebates related to activity as calendar year assessments were concluded. Just wondering if you could provide anymore color on that in any way quantify that as compared to the larger, favorable reserve development you experienced during the quarter? Anything else interesting on reserves and movements one way or another? Thank you.

A - John Rex {BIO 19797007 <GO>}

Sure, Steve. John Rex here. I would say the color -- additional color I could provide on that is kind of those actions will more than offset the magnitude of favorable reserve development in the quarter and just as those moved into those positions. Not too surprisingly, as you can tell, because we were able to -- as we -- provide an outlook in December -- in December for the full year and how things would turn out, given the greater level of volatility in specific pieces of business over this course of this year as utilization moved around over the quarter, so thereby putting more plans into those kind of positions than one would of course normally have. Part of what one would have to anticipate in this kind of environment but certainly kind of that move. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, Steve. Next question, please?

Operator

Thank you. Our next question comes from Scott Fidel from Stephens. Your line is open.

Q - Scott Fidel {BIO 5322875 <GO>}

Hi. Thanks. Good morning. Had a question just on your latest thinking and expectations just around Medicaid risk corridors and the impact that you're expecting there. Just interested if the impact of corridors completed in the fourth quarter in line with the expectations that you've provided at Investor Day, and whether there's been any incremental changes there since then in terms of expansion of corridor programs and how you think about that on Medicaid margins. One of your competitors had recently cited a larger than expected impact in 4Q, so wanted to get your feedback on that. Thanks.

A - David Wichmann {BIO 3853550 <GO>}

Sure. We'll send that to Tim Spilker. Tim?

A - Tim Spilker

Yeah. Hey, thank you for the question. Yeah. States have continued to leverage risk corridors and MLR structures, and many of these were implemented in the back half of '20. We anticipated those based on discussions with our customers. That one thing that should be noted is that looking ahead, CMS has implemented rules requiring corridors to be implemented proactively versus retro -- retrospectively so that will approves -- improve some predictability and visibility. And then overall, just in terms of what we're seeing at this point, while most of our 1-1 base rate renewals are in line with expectations, we're really respectful of the financial pressure that many of our states are under as well as the uncertainty surrounding the pandemic. So we'll continue to work with our customers and advocate for sustainable funding in that regard. So thanks for the question.

A - David Wichmann {BIO 3853550 <GO>}

Great. Thank you, Scott. Next question, please?

Operator

Thank you. Our next question comes from Justin Lake from Wolfe Research. Your line is open.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks. Good morning. Just a couple quickies on post the, you know, post the Investor Day. It sounds like you're saying that cost trend ticked up through the quarter a bit. Can you talk about it relative to what you're expecting for the full year 2021 that are you just -- or is? it ahead of where you're expecting or in line? And then Medicare physician rates went up a bit post the Stimulus Bill. I've estimated it about $0.15 of a headwind for the company. Just curious on your estimate there. And are there any offsets that you see as you are going through the year? Thanks.

A - David Wichmann {BIO 3853550 <GO>}

We'll let you have the first part, John Rex, and then Tim will handle the second.

A - John Rex {BIO 19797007 <GO>}

Justin, I'd say the outlook for 2021 in terms of COVID impact, though even with what you've cited there in terms of as things were trending in the quarter still consistent with where we were at Investor Conference. And our expectation is that total direct COVID-19 care costs in 2021 will be similar to what we experienced for full year 2020. So there isn't anything that would take us off that view right now. I think the other element we cited though, total COVID-19 care costs higher, and then the headwind being that care deferral likely being meaningfully lower than we saw in 2020.

A - David Wichmann {BIO 3853550 <GO>}

And, Tim, second part?

A - Tim Spilker

Yeah. Thanks, Justin, for the question. So the fee schedule increase that you talked about was of course part of the relief deal that was passed on December 20. And the physician fee schedule increase that was included there was partially offset by removing sequester for the first quarter of 2021. As we look at this environment, it's obviously still quite fluid. The PHE has been extended again and obviously also another relief package that's being worked on. At this time, the sequester relief has only been extended a quarter and does not match the PHE as it has throughout the pandemic, and if sequester was extended one more quarter, that would offset the small headwind that we're seeing as a result of all of this. So it's something we're still watching, but that's where it stands.

A - David Wichmann {BIO 3853550 <GO>}

Good observation on puts and takes. That's going to probably happen as we navigate our way through 2021. That's why we have a wider range, and we have a $2 billion estimate on net COVID impacts as well. Thanks for the question. Next question, please?

Operator

Thank you. Our next question comes from Robert Jones from Goldman Sachs. Your line is open.

Q - Robert Jones {BIO 17006630 <GO>}

Great. Thanks for the question. Maybe just to shift over to OptumHealth, I noticed you announced a fairly sizable physician group acquisition in Massachusetts. And if I heard you correctly, I believe you said you expect employed and affiliated physicians to increase around 10,000 this year. I just wanted to get your latest thoughts on the acquisition environment for doc groups. Are you finding a greater willingness in this kind of COVID, post-COVID world for a willingness to consider acquisitions for some of these larger groups?

A - David Wichmann {BIO 3853550 <GO>}

Yeah. Just before we get started, we have not announced any acquisition, as you described. So that's -- that's -- that's a market rumor and speculation. As it relates to M&A broadly in this space, Doctor Decker and the team has done a terrific job continuing to build in the Northeast. I'd say in the fourth quarter the care amount transaction was completed, and that is a strong addition to our I-95 corridor Tri-State expectation. We also finished an acquisition in the Southwest in Southern California, in particular, with the Inland Empire region, and we've also done some work up in the Pacific Northwest this past year as well and some in the center part of the United States.

I'd say, generally speaking, the market seems to continue to gravitate towards an OptumCare-type model where there's a great sense of stability as well as a very strong quadruple aim model, which seems to resonate very well with physicians but also with our patients where they get better experiences, outcomes, and overall lower costs as demonstrated by the value that's being brought every day and the growth of that overall in that area. So I think as we turn into 2021 this will be an area of continued focus for us, and I think you'll continue to see that occur over the next half to full decade or so as we continue to build out this broad health systems -- health system that's much more effective across the four aims that I just described. Thank you for your question. Next question, please?

Operator

Thank you. Our next question comes from Whit Mayo from UBS. Your line is open.

Q - Whit Mayo {BIO 15110780 <GO>}

Hey. Thanks. You guys have really emphasized some of the new innovative solutions in commercial, the consumer-centric focus, et cetera. Can you talk maybe more about the on-demand solutions that you've been referencing and the partnership with buying just the receptivity among plan sponsors? Just curious if there's been any sort of surprises in the market as you've kind of brought that capability to your -- customer base.

A - David Wichmann {BIO 3853550 <GO>}

Bill, do you want to -- do you want to take that one?

A - Bill Golden {BIO 16672037 <GO>}

Yeah, sure. I'll start with we benefit from a broad portfolio of products and plan designs across our business, and depending on the type of buyer we've seen great interest in all different types of products for us. So we have seen a big uptick in our motion product, people looking for digital solutions, looking for activity trackers. There's been a huge amount of emphasis and discussion with employers regarding access to better wellness obviously because of the pandemic, and so we've seen a lot of receptivity to that. We've seen a lot of receptivity to our All Savers product. As far as Bind, yeah. For a particular type of buyer it's really been a very interesting, innovative solution. We continue to bring that to market, and we're excited about the opportunities that we'll deliver in our fully-insured market as well as in our ASO business for Bind. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

And if I can, I'm just going to have Dan Schumacher on the Bind board also comment on what he's seeing with the overall progression there.

A - Dan Schumacher {BIO 18299394 <GO>}

Sure. Thank you, Whit. Appreciate the interest. We have seen broad market interest in brought - in Bind. I'd say that as you look at what happened over the course of 2020, more people were inclined to stay, so there was less switching going on. You saw that in the broader UnitedHealthcare performance in terms of retention. So on the new sales side, we saw probably lower interest than we would have hoped just given the tendency towards incumbency. But where we had an existing footprint we continued to see employees choose Bind inside those offerings. So we're excited about the prospects forward and expect to build on it especially as we return to more normal buying patterns in the future.

A - David Wichmann {BIO 3853550 <GO>}

The progressive model, that will continue to evolve and adapt over time like the initial price-points and the impact. I also like the receptivity broadly by consumers, which I would say has probably been the greatest surprise for me, personally, is that consumers get it as well as they do. So I think that's part of the reason why you're seen strong receptivity in the market overall. Thanks for the question, next question, please?

Operator

Thank you. Our next question comes from Josh Raskin from Nephron Research. Your line is open.

Q - Josh Raskin {BIO 3814867 <GO>}

Hi. Thanks. Good morning, I'm here with Eric as well. Our question relates to OptumHealth, and you show the 98 million consumers served in 2020 and the average revenue per consumer at $34. I think, John, you mentioned that was up close to 30%, but that's still a fraction of the opportunity of how we think about a traditional risk-bearing capitation rate. So the question really is, what percentage of the OptumHealth revenues are sort of pure fee-for-service? What about what's the percentage on the other end of the spectrum sort of global capitation? And how do we think about what's in the middle? Really just trying to see where that number can get to over time.

A - David Wichmann {BIO 3853550 <GO>}

John Rex will answer, and then I want Dr. Decker to maybe talk a little bit about the evolution from fee-for-service to risk.

A - John Rex {BIO 19797007 <GO>}

Good morning, Josh and Eric. John Rex here. So looking at that, looking at that membership, so you're right in terms of where it is at risk base. Let me frame it from a very top level first. Up to two-thirds of overall OptumHealth revenue is in a risk -- is risk-bearing revenue, and we've sized before you think of that as two-thirds of OptumCare also in risk-bearing relationships. If you want to get down to kind of the levels within OptumCare, there are 20 million members that are served by OptumCare of that 94 million that you're referring to. And then within that 20 million, 3.4 million are in some kind of risk-bearing relationship, and then a smaller percentage of that in a true global capped relationship, I'd put well below half of that 3.4 million in a global cap relationship. So you're right, and one of the reasons we were, I was speaking to that in my prepared comments, is because of that opportunity.

There's a comparatively small amount of the total membership potential that is currently in a global cap relationship. That's really what's driving the growth of OptumHealth and OptumCare. It comes down to its primarily an organic revenue growth story because when we affiliate with physician groups, typically those come in, many of them come in largely fee-for-service arrangements, and then we seek to convert those to risk arrangements or with more accountability, more value-based care over several years. And so when you look at kind of the overall revenue growth story of that company, it is predominantly organic revenue growth story just because of that. And that's really what I was talking about kind of why do we think there's double-digit revenue growth potential there for years to come. It's because of the still very, I'd say, kind of early stage of where that stands.

A - David Wichmann {BIO 3853550 <GO>}

Dr. Decker?

A - Wyatt Decker {BIO 17276367 <GO>}

Thank you. Thanks, Josh. So, I think Rex covered it nicely, so I would just underscore a couple of points. One is this is a major growth engine for Optum as we go forward, as we convert fee-for-service practices to value-based care models. Second is, as we touched on earlier, this is very compelling for our physician colleagues. It's quite attractive. It actually allows us to decrease the administrative burden and allow our doctors to practice medicine, which is what they want to do. And the third is that we have a deep expertise in this space because we've been practicing fully captive, fully delegated risk models for over 12 years, and we're able to bring that expertise to our new practices throughout the country. Dave, you touched on the Pacific Northwest and the Northeast. Those are areas where you can expect to see significant growth in our risk-bearing capacities in care delivery. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Yeah. So this is a critical anchor strategy both for Optum as well as for UnitedHealth Group. It's a very important part of how we will continue to advance outsized growth for this enterprise going forward with an aim towards serving, obviously, more people and doing so with better experiences comes in lower cost. This was designed by the Optum team through their strategic process led by Andrew Witty, and they've done a really nice job deploying this capability not only on behalf of Optum but on behalf of all UnitedHealth Group. Thank you for the question. Next question, please?

Operator

Thank you. Our next question comes from A.J. Rice from Credit Suisse. Your line is open.

Q - A.J. Rice

Hi, everybody. Just wanted to ask about M&A a little more. You got obviously nice step-up in growth expected this year. Any thoughts about what you're assuming relative to your ability to do normal risk assessments and get appropriately reimbursed for the patient population? Have you taken a more conservative view given the COVID backdrop or do you think you can get back to normal there? And just any quick comment on the 2022 rate? At notice --, the final rate notice that they've just released and how you view that?

A - David Wichmann {BIO 3853550 <GO>}

Sure, Tim Noel, Head of M&R?

A - Tim Noel {BIO 17867531 <GO>}

Yeah. Thanks, A.J., for the questions. So first on the 2022 revenue that you're getting at there with diagnosis capture for 2021, a little bit early to talk about that at depth. But a couple things I'll offer is, one, we're really focused in M&R about getting our members vaccinated as soon possible. And across the enterprise, there's also a focus on doing the same for the frontline health care workers. And as both of these things happen, I think seniors will become increasingly more comfortable accessing care, and that will have obviously an impact on diagnosis capture in 2021 that impacts revenue for 2022. Remains to be seen exactly how that timing plays out, and we obviously have a bit of time remaining as we think about the 2022 bid to inform what does play out at the time of the bid and when that's submitted.

With respect to the final notice that was published by CMS on January 15, as you know, number one, earlier than that's normally published. And the all-in rates that were included in that final notice of just north of 4% was a little bit of an increase over the advance notice. Beyond that, nothing really surprising with respect to rules or policy changes contained in the final notice this year. Really too early to comment on what that means for rates and benefits. A lot of moving parts that remain as we think about the 2022 bid filing. Certainly COVID is one of those things that we're watching as well with respect to that.

A - David Wichmann {BIO 3853550 <GO>}

Thanks for the question. Just if I can add on a little bit. First, one of the key things for us and the reason why Tim started with vaccine is because it's important for us to get our substantial health workforce vaccinated and in part our nurse HouseCalls workforce, so that they can safely pass into the home more broadly than maybe what we've seen including in more volatile circumstances. And then, the other thing, just to recognize, is the extent that there was impacts on risk adjustment for 2021. We did take those into consideration in providing you with our estimates back in December. Thanks for the question. Next question, please?

Operator

Thank you. Our next question comes from Kevin Fischbeck from Bank of America. Your line is open.

Q - Kevin Fischbeck {BIO 6157376 <GO>}

Hi. All right. Great. Thanks. Just wanted to maybe dig back into the $1.80 COVID headwind. Is there any way for you to kind of give us more dimensioning around kind of how that at least from a relative size perspective flows across the three Optum businesses and the three health plan businesses? And it sounds like commercial is coming in better than you thought. Is there anything that maybe is different than what you thought a couple of months ago when you first provided that? Anything better? Anything worse?

A - David Wichmann {BIO 3853550 <GO>}

John Rex?

A - John Rex {BIO 19797007 <GO>}

Yeah. Good morning, Kevin. John Rex. So, the broad view on that is about two-thirds of that relates to the UnitedHealthcare businesses when we think about just over $2 billion in impact, of negative impact from COVID-19 in 2021, and about a third relates to the Optum businesses. That's kind of the general view. It doesn't -- as we break down to different businesses and think about impacts on those, some of the commentary I'd offer. So within OptumInsight, it is most sensitive to just kind of broadly claims volumes and business activity, general business activity. Those are kind of the factors that have been a component within that. The risk-bearing businesses of OptumHealth are impacted similarly to the UnitedHealthcare businesses, as you would expect also, in terms of activity there.

Within the different categories across OptumHealth, across UnitedHealthcare in general, I would just tell you kind of as we -- as we look at that, so Dave had just cited that as it relates to how we anticipated and incorporated thoughts about the ability for seniors to access care and get proper risk adjustment done. So that's an impact that's mostly felt within Medicare & Retirement in terms of that component of it, as you'd expect also, and to some extent, to a lesser extent, in the Community & State where you'd have some of the Dual Special Needs plans membership also. Within OptumRx, that is mostly also a volume-driven component. Has to do largely just with physician visit activity often in terms of scripts being written and as those flow-through the system. So those are kind of the broad overall impacts I'd offer. And, Dirk, any other comments?

A - Dirk McMahon {BIO 18950833 <GO>}

Yeah. I think one of the other things you mentioned was on commercial, I think what's -- what's resulted in sort of a little stronger outlook than what we expected from a membership standpoint is persistency was better. There was a lot of groups that decided to stick. I would also say the various government stimulus packages helped. And I would also say one product stood out for us is our All Savers level-funded product which has done extremely well which is kind of you give back, if the group performs better than expected they get a refund, if it's worse than they expected, then you ultimately get a -- if better than expected, then they have -- they get the refund if it's better than expected. So that's a good thing. If it's worse, then the Stop Loss Policy kicks in. But long story short, I think some good products, as we talked about, plus I would say good persistency was a big benefit to commercial.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, Kevin. That's all we have time for today. So apologies to Ralph and Ricky, both whose questions got cut off somehow. So, please, I'm glad we were able to fix that, but please give our team a call and we'll be happy to answer any other questions that you have. I'd like to thank you, all, for joining us again today. I hope this morning's call provided you with useful context and importantly clarity and helped to better understand our ambitions for the year ahead. As I said in my opening remarks, we are starting 2021 with an optimistic view.

Despite these extraordinary circumstances, our team continues to manage the challenges at hand with unprecedented resiliency and ingenuity. At the same time, we continue to pursue our long term growth strategy with an even greater sense of urgency and intensity, building upon the agility, insights, and considerable new capabilities developed this past year to deliver a high-performing health care system built on personal human connections, enabled through information and technology, and supported by strong alignment of physician-led, value-based delivery of care serving millions of people one person at a time while delivering distinguished returns for our shareholders. Thanks again for joining us. We'll see you soon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation and you may now disconnect. Everyone have a wonderful day.