Q1 2019 Earnings Call

Company Participants

- Andrew Witty, Executive Vice President of UnitedHealth Group and Chief Executive Officer of Optum
- Brian Thompson, Chief Executive Officer, UnitedHealthcare Medicare & Retirement
- Dan Schumacher, President and Chief Operating Officer, UnitedHealthcare
- David S. Wichmann, Chief Executive Officer
- Heather Cianfrocco, Chief Executive Officer - Community and State
- John Prince, Chief Executive Officer, OptumRx
- John Rex, Executive Vice President and Chief Financial Officer
- Steve Nelson, Executive Vice President and Chief Executive Officer, UnitedHealthcare
- Wyatt Decker, Chief Executive Officer of OptumHealth

Other Participants

- AJ Rice, Analyst
- Ana Gupte, Analyst
- Charles Wright, Analyst
- Dave Windley, Analyst
- Frank Morgan, Analyst
- Gary Taylor, Analyst
- John Ransom, Analyst
- Josh Raskin, Analyst
- Justin Lake, Analyst
- Kevin Fischbeck, Analyst
- Lance Wilkes, Analyst
- Matthew Borsch, Analyst
- Michael Newshel, Analyst
- Peter Costa, Analyst
- Sarah James, Analyst
- Scott Fidel, Analyst
- Steve Tanal, Analyst
- Steve Willoughby, Analyst
- Steven Valiquette, Analyst
- Zach Sopcak, Analyst

Presentation

Operator

Good morning and welcome to the UnitedHealth Group First Quarter 2019 Earnings Conference Call. A question-and-answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded.

Here are some important introductory information. This call contains forward-looking statements under the 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 the reports 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 reports and SEC filings section of the Company's investors 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 April 16, 2019, which may be accessed from the investors page on the Company's website.

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

David S. Wichmann {BIO 3853550 <GO>}

Good morning and thank you for joining us. Today we reported a strong start to 2019 with revenues up 9%, adjusted earnings per share growing 23% and return on equity of nearly 27%. Optum and UnitedHealthcare each contributed fully to this performance.

With confidence and continued momentum we are raising our earnings expectations for 2019. The continued growth in earnings performance of our business is a byproduct of our focus on providing exceptional returns to society by improving healthcare affordability, outcomes and the patient experience, what some refer to as the triple aim. This orientation frames our growth strategy and forms capital allocation decisions and shapes the operating plans for UnitedHealth Group's businesses, all directed towards attaining the promise of our mission. It's that same mission, strategy and approach we have pursued since 1998 when UnitedHealth Group was well less than a 10th its current size, and when our strength and aligned capabilities and capacities did not nearly match our ambitions for the health system as they do today.

Over that 20-year time period, UnitedHealth Group has applied competencies in data, technology, clinical insights and well formed innovation and adaptive traits to drive change and grow strong market positions in the large and fast-growing healthcare end market. Our outlook for growth continues today as the pace of innovation and our capacities for change advance in a market restless for achieving improved value, access and coverage in a sensible and durable way. The first quarter saw several developments illustrating some of the strongest progress yet on this journey, which we expect will build considerable shareholder value.

In pharmacy care services, OptumRx announced that point-of-sale consumer discounts on branded pharmaceuticals will be its fundamental approach to business, and UnitedHealthcare is well underway implementing point-of-sale discounts at scale for the more than 8 million consumers covered through its commercial risk business. At the counter, people are already saving about $130 per eligible script. And we are prepared to participate in the CMS Demo Project for Part D effective January 1, 2020 to drive great -- even greater pharmacy value for more people.

In digital health, our initiatives are accelerating. We completed beta testing of the Individual Health Record physician platform and have built over 5 million active consumer health records. Simultaneously, our enhanced Rally consumer digital health platform now integrates digital engagement, coaching, telemedicine and incentives with quality and advanced cost transparency and estimating capabilities. We provide access to both proprietary and third-party services in areas such as exercise, weight, sleep, employee assistance, nutrition and other value-based programs. In its initial 1 million member deployment this year, the enhanced Rally experienced a 13% increase in consumer engagement. We expect those numbers to further advance, as the IHR and other functionality are added.

As part of our strategy to reinvent health care delivery, we apply Rally and the IHR together with OptumCare's practice capacities to advance efficacy and value. We are progressing toward the close of the Davita Medical Group transaction and we look forward to adding more markets, more doctors and clinical staff serving more patients. And we continue to modernize the financing of delivery systems, whether they are owned by Optum or accessed through more modern UnitedHealthcare benefit designs across all market segments. These benefit designs will be more consumer responsive and address social determinants of care, especially for those who are most affected and who have the greatest and most complex needs.

Nearly 80% of what influences a person's health relates to nontraditional medical and behavioral issues such as food, housing, transportation and health care finances. Improving care for society is behind our partnership initiative with the American Medical Association to standardize how data regarding critical social and environmental factors is collected, processed and integrated. Nearly two dozen new ICD-10 codes will be used to trigger referrals to social and government services to better address people's unique needs, connecting them directly to local and national resources in their communities.

Finally, our Net Promoter Scores continued to advance meaningfully in the first quarter 2019 as we march towards an aggressive target of 70 by 2025. The people we serve will benefit as we advance quality and value, and in turn, provide growth and returns for shareholders. Before I ask Andrew Witty to update you on Optum, I know there has been public discussion about Medicare for All proposals. We view the discussion first through the prism of our mission and how individuals can be better served and the health system can work better for all.

From that perspective, we welcome the contrast between these proposals and the kind of real progress we're talking about on this call and discussed with you at our November conference, founded on durable and modern information, technology and clinical

capabilities. The wholesale disruption of American health care being discussed in some of these proposals would surely jeopardize the relationship people have with their doctors, destabilize the nation's health system, and limit the ability of clinicians to practice medicine at their best. And the inherent cost burden would surely have a severe impact on the economy and jobs, all without fundamentally increasing access to care.

The path forward is to achieve universal coverage and it can be substantially reached through existing public and private platforms. Meaningful progress in health care lies in national and state leaders continuing to work collaboratively with the innovative and proven private sector solutions to achieve the goals we all want, a modern, reliable, informed and aligned health care system that offers the access, choice and coverage protections people seek at a fair cost to individuals and society as a whole.

Together, we need to operationalize real changes that promote an interoperable, secure digital infrastructure allowing information to be shared securely and widely so proper clinical decisions can be made and acted upon by qualified physicians with aligned incentives for achieving better outcomes, changes that eliminate unnecessary and costly regulatory frameworks and taxes, that address under-investment in social determinants of health, and changes that encourage people to take accountability to modify lifestyle behaviors that drive a significant percentage of their lifetime health care needs. The best system is one which is informed, engaged and aligned, where people, their doctors and the private and public sectors work together to improve or sustain individual health, while improving the performance of the health system for everyone.

We are encouraged to see the United States is on an improving path. For 16 straight months, health care's relative economic burden on society has lessened. While recent year-over-year spending growth at just over 4% is still too high, it has lessened considerably due to the better management of price inflation and the earlier and more effective management of care in lower cost settings. The progress and ideas we have and will discuss further today will take health care to an entirely new level of quality, cost, choice and coverage in a proven and lasting way, ensuring the US health system better serves and supports all Americans.

Now, let me turn it to Andrew Witty, CEO of Optum, to discuss Optum's focus, strong operating and financial results and growing forward momentum. Andrew?

Andrew Witty {BIO 3471756 <GO>}

Thank you, Dave. Our next chapter involves accelerating digital, transforming pharmacy care through OptumRx and reinventing health care services through OptumCare, while aligning all of Optum's resources to better serve patients directly, and supporting the work of physicians, hospitals and health plans who also serve them.

Primary care represents well under 10% of medical cost, but has a profound influence on the other 90% of the cost and quality of care. Within OptumHealth, we offer densely arrayed local care options, built on a foundation of owned and operated primary care, alongside aligned networks, together improving how the health system is accessed and used downstream. Today, we serve millions of patients across approximately 80 health

plans and payers, and this year, virtually every local OptumCare practice will participate in advanced value-based care arrangements.

Our clinical team continues to advance performance, with our physicians delivering better quality outcomes with 99% of seniors served through advanced value-based arrangements receiving a star rating of four stars or higher; delivering lower costs with practices serving Medicare Advantage participants at as much as 30% lower cost than original Medicare and 10% to 15% lower than typical Medicare Advantage; and with higher satisfaction with an NPS of just under 80.

In addition to primary care in local communities, we own and operate surgical care centers, neighborhood urgent care centers, community pharmacy dispensaries, and in some markets, hospitalists and specialty and ancillary care capabilities such as office-based infusion of specialty pharmaceuticals and oncology services. For example, our new OptumCare Cancer Center in Nevada takes an integrated multi-disciplinary approach to providing patient-centered care in a professional and compassionate setting. This outpatient program delivers integrated medical, surgical and radiation oncology, chemotherapy and immunotherapy, imaging, palliative care and 24-hour oncology urgent care. This is one of the ways we are exploring value-based specialty models that uniquely align to our primary care and ambulatory capabilities, grounded in a physician-led culture of evidence-based medicine and enhanced by academic and community partnerships.

All of these services produce better outcomes than outdated and costly facility-based alternatives and generate high NPS because the patient experience is distinctively better. We are accelerating the process of connecting these elements to create informed, comprehensive, open market care systems, seamlessly supporting the patients we serve, all on a fiercely multi-payer basis, while supporting physicians seeking to operate practices at their fullest clinical capabilities.

Our journey of adding and enabling new locations to extend reach, while deepening our clinical offerings, will continue to improve our impact for years to come. We are architecting a more broadly informed, engaged and aligned healthcare system, one that responds better to consumer preferences, while easing the burden of healthcare on society.

This quarter's growth in revenue per consumers served, 14% over last year, indicates we're taking responsibility for more of the consumers' health and serving them more deeply and comprehensively.

On March 12th OptumRx extended our leadership on negotiated drug discounts by announcing that we will only serve new employer-sponsored pharmacy benefits businesses after January 1st, 2020 that provides consumer discounts to the point of sale. This replaces the current system which employers typically elect to flow rebates back to all plan participants to lower their premiums.

Benefits of this new approach are clear. Our data shows patients' prescription adherence improves up to 16% depending on plan design, and we know patients' health ultimately

improves when they follow physicians' orders for drug regimens. This approach has been proven to achieve medical cost savings of up to $300 per member per year, and we have received strongly positive feedback from employers, employer coalitions, industry observers, regulators and policy leaders. We're also seeing strong response to PreCheck MyScript, which offers care providers instant information on efficacy, cost and alternative drug choices directly within the physicians workflow. Nearly 150,000 physicians are using this technology now, up 77% since December.

Our near-term plans for pharmacy care services remain focused on achieving the highest quality outcomes, the lowest net cost of drugs for patients and the best patient experience. Market response continues to be outstanding. 2019 was a good sales year for us and with robust RFP activity and a couple of significant wins already 2020 should be even better.

OptumInsight, the technology and analytics engine of our enterprise continues to provide our customers strategic insights to improve health system performance. We're in the process of launching newly developed services and technology offerings with our state customers. These end-to-end approaches use advanced technologies to modernize traditional Medicaid administrative offerings, including the comprehensive integration of cutting edge Optum analytic services and capabilities, deeply enhancing the breadth, depth and effectiveness of these state administered offerings.

As Dave mentioned, in consumer digital health we have started beta testing the consumer version of the IHR and envision a staged deployment starting around mid-year. We also have studied the impact of deploying the IHR for people in the Medicare, Medicaid and commercial markets, and found better outcomes, lower costs and improved patient experience. When placed in the hands of a qualified, high-performing doctor in a value-based system, the IHR meaningfully reduces health care costs.

In a similar vein, on March 28 we launched the consumer version of the PreCheck MyScript technology, called My Script Finder. Rally now has over 24 million registered users, having grown adoption by over 2 million people in this quarter alone. Consumers earned a record $200 million in rewards in the first quarter, demonstrating their high engagement. And forward-thinking employers have made more than $1 billion in annual rewards available to people for taking actions to improve their own health.

Our software engineers are now building digital payment and physician office visit scheduling capabilities, and applying artificial intelligence and biometric data to improve post-acute patient recovery and reduce hospital re-admissions.

Rally and platforms like the IHR are just two critical elements of a more modern, information and digitally-enabled health system, particularly when coupled with rewards and support tools that enable physicians to more effectively manage their patients at scale.

Turning to Optum's financial results, first quarter revenues of $26.4 billion grew 12%, led by OptumHealth growth of 17%. We added 7 million adjusted scripts, achieved 14% growth

in backlog, and now serve 2 million more people at OptumHealth. Optum's operating margin of 7.1% expanded 10 basis points over last year's first quarter, contributing to 14% growth in operating earnings to nearly $1.9 billion in the quarter. These results illustrate our steady momentum, as customers respond to the innovation, insight and the value that Optum provides.

Now I will turn the call over to Steve Nelson, UnitedHealthcare's CEO.

Steve Nelson {BIO 21971304 <GO>}

Thank you, Andrew.

The market is responding to UnitedHealthcare's practical innovations, personalization and service performance on behalf of those we serve. Within just the past quarter, we have been awarded contracts to serve Medicaid beneficiaries in North Carolina and Arizona, and again drove strong growth in serving people in Medicare Advantage and dual special needs plans.

Our innovative Navigate4Me service addresses the personalized, holistic care needs of our senior population. Medicare Advantage seniors with complex health issues like diabetes, congestive heart failure or multiple chronic conditions receive concierge service from nearly 1,000 dedicated experts. Each serves as a single point of contact for their seniors. Our navigators provide support for clinical and administrative needs, help patients follow their personalized care plans, coordinate care and address social determinants of health. Key to delivering this flexible, personal service is a proprietary technology platform that supports navigators with integrated data, analytics and information specific to each patient and results have been impressive. We have seen a 14% reduction in hospitalizations for people with congestive heart failure, and overall a 19 point increase in NPS from patients who receive our direct support.

We are also better coordinating medical services through locally organized systems of care, highly capable of physical, digital and virtual care delivery. Our data shows that seniors in our Medicare Advantage plans see on average about one-half the number of doctors as similar seniors using Original Medicare. This means a simpler, less confusing experience and better outcomes for patients and better use of scarce health system resources overall.

It is not a coincidence that seniors are enrolling in private Medicare plans at a record pace, with one-third of the nation's seniors served today by the private market. Collectively, Medicare Advantage plans provide significant savings and invest those savings in superior benefits not available under Original Medicare. Medicare Advantage fills in the significant gaps left by Original Medicare, including coverage for pharmacy, dental, vision, hearing and personal wellness and fitness needs, again, none of them are covered by Original Medicare.

This strong trend toward greater use of private services includes the state Medicaid programs, where states are increasingly asking the private sector to take responsibility for the care of their most complex and chronically ill beneficiaries. Managed care has a track

record of reducing costs by better coordinating care for these people while helping them become healthier.

Looking at our first quarter financial performance, UnitedHealthcare's revenues grew 8% to $48.9 billion, serving three-quarters of a million [ph] more people domestically with medical benefits in the quarter, led by growth in Medicare Advantage and in serving self-funded employers. UnitedHealthcare's operating earnings grew 23% over last year to nearly $3 billion in the quarter, with operating margins expanding 70 basis points to 6%.

We are hard at work on enabling our business for future growth. In Medicare Advantage, we believe we are well positioned to advance our market share. Further, implementation work for recent Medicaid awards is in progress. Coupled with our strong activity in the commercial, group Medicare and global markets, we expect to continue to drive sustained and diversified growth.

Now I'll turn the call over to UnitedHealth Group's Chief Financial Officer John Rex.

John Rex {BIO 19797007 <GO>}

Thank you, Steve.

Our initial quarter for 2019 positions us well to deliver on our full-year financial commitments. To recap: Revenues grew 9.3% to $60.3 billion, even after considering the negative 1.4% impact related to the health insurance tax deferral for 2019. In the first quarter alone, this deferral helped improve affordability for the people we serve by more than $700 million. This tax adds billions in costs to the system and constrains access and benefits for Americans. We continue to advocate and are hopeful for its permanent repeal.

In the quarter, the more than $5 billion revenue increase was led by same-store growth, well-balanced across our benefits and services platforms. Medical cost trends continue to be well-managed and consistent. Our view of forward trends and our first quarter medical care ratio of 82% continue to support our full year outlook for an MCR of 82.5%, plus or minus 50 basis points. Favorable reserve development of $300 million was consistent with the year ago level. And medical payables at 49 days were also stable with the year ago level.

Earnings growth in the quarter was also driven by improvements in our operating cost position. While the health insurance tax deferral lowers the operating cost ratio, beyond this factor, strong improvements in productivity more than offset our ongoing investments to drive growth for the future. We will continue to pursue such investments, as our focus remains firmly on the decade ahead. Overall, operating margins expanded 70 basis points over last year to 8%, and first quarter adjusted earnings per share of $3.73 grew 23% over last year.

First quarter cash flows of $3.2 billion were consistent with our expectations, recognizing that comparison with last year is affected by the health insurance tax deferral. Recall that reported cash flows were elevated in the first three quarters of 2018 by collecting the

health insurance tax from customers over the course of the year, and then impacted in the fourth quarter by the $2.6 billion payment to the US Treasury.

Additionally, we would note certain government payments received in the second quarter of 2018 are not scheduled to be received until the third quarter of this year, simply due to calendar timing. All in, we expect second half 2019 cash flows will be meaningfully above last year's, most notably in the third quarter, with second quarter commensurately lower. We continue to expect double-digit percentage growth in cash flows from operations in 2019 to a range of $17.3 billion to $17.8 billion.

We continue to put capital to work to build the business for the benefit of both society and our shareholders with a robust organic and inorganic growth agenda. We are currently active in each of the five growth pillars we previously detailed as we looked ahead 10 years, and expect to grow and diversify our earnings streams inside this focused, dedicated health care company. We also returned $3.9 billion dollars to shareholders this quarter through dividend and share repurchase activity. And return on equity was strong at 26.8%, rising 300 basis points from one year ago.

Looking forward, we entered the second quarter with strength, flexibility and rising confidence in the positive impact we can have this year and far into the future. We continue to expect strong growth in adjusted net earnings in 2019 and have increased our outlook to a range of $14.50 to $14.75 per share. That would bring our one-year earnings growth rate to 13% to 15% and our five and 20 year compound earnings growth rates to approximately 20% per year. Dave?

David S. Wichmann {BIO 3853550 <GO>}

Thank you, John. Over the past 45 years, UnitedHealth Group has grown consistently through the full range of macroeconomic, health care, legislative and policy conditions, adapting and adjusting to deliver value for all those we serve in every changing environment. That value is rising at an accelerating pace, as we execute against our multi-dimensional growth agenda in health care delivery, pharmacy, digital, consumer-responsive benefits and global. These efforts, pursued at scale, position us uniquely as a technology-enabled health care company, delivering distinctive results to our customers and to society.

Taken together, with our commitments to service, quality and NPS, our investments in the coming wave of health care innovation, a movement we intend to lead, and our multi-year, multi-billion dollar effort to improve our medical and operating cost bases for the benefit of our customers, we expect sustained growth and performance for UnitedHealth Group, this year, in 2020 and for many years beyond.

Thank you. We will now take one question per caller, please.

Questions And Answers

Operator

The floor is now open for questions. (Operator Instructions)

Our first question is coming from Peter Costa with Wells Fargo Securities. Please go ahead, your line is open.

Q - Peter Costa {BIO 1500085 <GO>}

Good morning, and thank you for the Medicare for All discussion. Now it's your job to get the -- your members and health care workers and employees understand the same message that you gave to us. Moving onto the rebate structure, as drug rebates go away, can you tell us what that will do to margins in your PBM and to premiums in your health care plans?

A - David S. Wichmann {BIO 3853550 <GO>}

Sure. First, Peter, thank you for the acknowledgment of the Medicare for All commentary. We will definitely follow through and make sure that this is well understood because we think the options are clear between a government sponsored or government run system and the one we have to offer. So we'll make sure we keep moving in that direction. Andrew, do you want to take the pharmacy question?

A - Andrew Witty {BIO 3471756 <GO>}

Sure. Thanks, Dave. Peter, thanks for the question. I'd like to make just a couple of introductory comments then ask John Prince to, say, comment specifically on the margin element. I think in terms of this whole rebate conversation that's been going on, there are really two elements to this that we need to keep a very close eye on. The first and most important of all of this is what is going to be the ongoing mechanism to ensure pricing discipline for pharmaceutical products? As you well know, the only mechanism that exists today is essentially the volume that's aggregated by companies like OptumRX to be able to then negotiate effectively with pharmaceutical companies who otherwise would have complete independence on what they do with their list prices. That's something which must not be lost in this set of conversations and discussions which are going on at this time. There is a real risk that if there is a situation where rebates or a mechanism to replace rebates was not in place, we could see significant drug price inflation over the next years. That would set back a huge amount of the effort that's been achieved over the last 10 years or 15 years to try and bring more control to this area.

The second part is -- (inaudible) your question, and I'll ask John to really give you a little bit more detail -- is obviously the migration for a company like OptumRx. And John has led a very successful strategy in first of all, diversifying the pharmacy services offering from OptumRX, and secondly, moving into a modern physician on passing forward discounts at the point-of-sale to consumers -- you've seen a lot of progress this quarter -- and also developing the way in which we work with our customers to ensure that our mechanism of compensation for the service we delivered is less and less dependent on rebates, the vast majority of which we pass through to our customers.

John, would you like to add any specific detail?

A - John Prince {BIO 20142902 <GO>}

Sure. Great, Andrew. Thank you. Peter, thanks for the question. It's John Prince, leading OptumRx. We've been working for years around transforming our pharmacy care services in two ways. One is expanding how we deliver value to our clients through our integrated medical behavioral pharmacy experience that's focused on total cost of care and health outcomes. We've also been very focused on driving a transparent business model where more and more of our revenue is coming from administrative fees, value sharing mechanisms that align us with the consumer and the clients' needs.

So with that context, we see over time minimal impact from our margins because if you look at the rebate and discounts that we manage, overall, rebates only exist on 7% of prescriptions. 90% of what we manage is generic with no rebates, 10% is brand and a subset of that is rebatable drug. When you look at -- in the Medicare market, today, none of that value we managed from a discount and rebate is held by us. 100% is passed on to our clients and fully disclosed with CMS. 100% is passed on in Medicaid market. Within our total client base, 98% [ph] of our discounts are passed on to our clients. So when you look at an overall standpoint, we're driving that value and passing onto our client over time. That remaining 2% is a client choice and how they want to pay for our services. And so our belief is that over time, the remaining 2% we would work with our clients to look for other alternatives for them to pay for our services, which we're actively encouraging to manage how we get our -- paid for our services.

Q - Peter Costa {BIO 1500085 <GO>}

Great. Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you, Peter. Next question please.

Operator

We'll take our next question from Dave Windley with Jefferies. Please go ahead your line is open.

Q - Dave Windley {BIO 2411309 <GO>}

Thank you. Good morning. On Medicaid wondered if you could comment on the progress in fixing or improving the performances of the handful of markets that you've called out in prior calls, and in that context maybe comment on your decision to exit Iowa. Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Sure, we'll do it Dave. We're seeing nice progress in Medicaid year-over-year, we saw a nice progress in the quarter. But I think I'll have Heather Cianfrocco, our CEO of that business, overview those for you.

A - Heather Cianfrocco {BIO 18236688 <GO>}

Sure. Thank you. Thanks for the question, Dave. Heather Cianfrocco, leading Community and State. So as you mentioned, yes, we highlighted that we had pressure in a handful of markets last year. We continue to make progress, as Dave Wichmann noted. We saw this quarter some nice growth in our operating earnings year-over-year, and we also saw a couple of good wins. So you heard us talk about North Carolina as well as our Arizona intellectual and developmental disabilities contract. We also saw strong DSNP growth. I will tell you that with respect to a handful of markets we've made progress in most of them and we're working to improve our performance. Our performance still is not exactly where we expect it to be and we'll continue to work on that through the year and you can expect to see improvement there.

But Iowa was one of those markets and unfortunately even though we put the same work into Iowa. There was a funding increase last year by the administration. Due to the systemic underfunding of that program over the years, the inability to catch up with what continued to be a medical cost pressure and some really unique system design elements of that program recognized across the industry, we were unable to make that a sustainable market for us and continued to deliver the high quality services that we believe Iowans deserve from UnitedHealthcare.

So we did make the decision to exit that market. You will see us exit Iowa unfortunately by June 30th. We're proud of the services that our employees predominantly have delivered in that market and the impact we think we've made on hundreds of thousands of Medicaid members. But with respect to the rest of the market we're continuing to make progress, we think we'll see improvement in funding cycles that are -- that are upcoming over the next few months and we're on track with our performance optimization.

Q - Dave Windley {BIO 2411309 <GO>}

Great. Thanks you.

A - John Rex {BIO 19797007 <GO>}

So, Dave, in summary, nice improvement quarter-over-quarter. First quarter, a solid operating earnings growth despite negative impact of the HIF. But I think it also should be said that we are still underperforming in this business and it will probably take us until 2020 to get to our full performance expectation, which would be performing at a margin somewhere in the 3% to 5% zone.

Q - Dave Windley {BIO 2411309 <GO>}

All right. Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

Thanks [ph] David. Next question please.

Operator

Our next question comes from Justin Lake with Wolfe Research. Please go ahead. Your line is open.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks. Good morning. Can you give us an update on progress with the government around the DMG acquisition? And would also appreciate any commentary around management's decision to do about two-thirds of the full year share repo in the first quarter. Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Sure. I'll take DMG and then John Rex can take share repo. So we remain very excited about this opportunity to expand geographic reach with DMG and to serve more people. It is a critical part of the strategy that we have around reinventing healthcare delivery to access more markets and at the same time then go much deeper into those markets to make them work more -- much more effectively. At this stage, we have a clear path to approval and closing of the transaction, but unfortunately we cannot comment on further details or timing at this stage. We're working through a couple of matters that remains. John, do you want to touch on repo?

A - John Rex {BIO 19797007 <GO>}

Sure. The $3 billion of share repo that we did in the quarter as against our $4 billion to $5 billion full-year outlook, it is about the same percentage that we did in the year-ago quarter also. We did $2.65 billion in the year ago 1Q. So we also did a significant portion of our full -- of our full year in that 1Q. Certainly I would say that market conditions warranted that -- if you look at this year in particular, warranted that we accelerate our timing on share repurchase. We try to maintain good flexibility in terms of how we approach that program and also maintain good flexibility in our balance sheet overall. So that was kind of -- that was really where the decision was premised on.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you. Thanks, Justin. Next question please.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks.

Operator

Our next question comes from Steven Valiquette with Barclays. Please go ahead, your line is open.

Q - Steven Valiquette {BIO 1928887 <GO>}

Great. Thanks. Good morning, everyone. So I have a high-level question on Medicare Part D related to the rebate proposal. I think when we spoke at our conference last month the view was that UNH and other Part D players could prepare multiple bids to cover all the different scenarios for 2020. Even now with the CMS guidance stating that plan sponsorship bid on the current status quo for them will provide protection with this demo program. Now the question is, I'm curious if you think this demo program is a fair

compromise for Part D plan sponsors or does this make you have to perhaps rethink your Part D bidding strategy for next year? Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Yeah, it certainly can be. But, Brian, do you want to touch on -- Brian Thompson [ph]?

A - Brian Thompson {BIO 1537785 <GO>}

Hey, Steven. Brian Thompson here. We certainly support the administration's efforts to lower drug costs for seniors. I do think that over the long term this could provide lower pricing via better transparency. But we want to balance that, as you suggested, against premium increases here in the short term. For context, if we exclude members today without any cost sharing, we suggest that perhaps a third will benefit in the near term leaving two-thirds perhaps worse off. As you had mentioned timing right now remains uncertain, but CMS clarified the bids should assume the current rules that they apply. And as you mentioned, CMS is providing some protections in the form of a risk corridor that plans that had lower premiums with rebates we'll be able to apply and we're certainly appreciative of that guidance. I will suggest it won't fully mute an increase in member premiums, but will be helpful. We certainly intend to participate in that demonstration to the extent the new rule does impact our plans.

I will say that I don't think the corridor protections are going to meaningfully change bid strategies or competitive behaviors. It's important to remember these are partial protections and they only apply if the rule passes. So plans need to be disciplined in their pricing regardless. I will just leave with a comment around its context. Important to remember, we're only talking about rebates and where they apply, they've ever been retained by plans, whether that's point of sale or in premium and when. So while there is certainly some uncertainty, we appreciate the additional clarity that we've received from CMS, and we'll be ready to bid here in early June, like we always are. (multiple speakers)

A - David S. Wichmann {BIO 3853550 <GO>}

It was a constructive step forward, one that is born in the collaboration between CMS and the Part D carriers and -- that we look forward to participating in the Part D program.

Q - Steven Valiquette {BIO 1928887 <GO>}

Okay, great. Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Next question please.

Operator

We'll take our next question from Frank Morgan with RBC Capital Markets. Your line is open. Please go ahead.

Q - Frank Morgan {BIO 1498100 <GO>}

Good morning. We'll stay on rebates. I'm just curious, with regard to the recent announcement you made, any interest so far, any color around what your current self-insured customer base how that's being received and do you think that will anyway affect new business when you go into 2020? Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

I think there is growing interest broadly, but John Prince, you want to start with OptumRx?

A - John Prince {BIO 20142902 <GO>}

Sure. Thanks, Frank. It's John Prince with OptumRx. I'd say, first of all, one we are pleased with why we did it, because there is significant bias from a consumer affordability standpoint. And so I think when you have conversations with customers and with other stakeholders, they're very interested in what is the impact of the discounts that we have negotiated on behalf of our clients and it's material. So it's $130 of value per script -- per eligible script, which is material. The value in terms of driving higher adherence is also important from a health outcome.

So when we have conversations with our clients they're very interested in our data and understand how it impacts the consumers. We've had very positive interactions and feedback on it. But Dave, when you look at the healthcare market in addition to UnitedHealthcare, we've had strong interest with our other 45 health plans [ph] where a lot of them are actually looking at how they would incorporate that. And so I think there is strong interest in other clients that aren't in health plan states to adopt it. When you look at the employer market, there is strong interest in new clients, as well as existing clients interested in how to phase that in over time. And remember, in terms of what we announced this does not affect our 01/01/20 selling season. This is required by everybody after 01/01/20, so starting January 2nd, 2020.

A - David S. Wichmann {BIO 3853550 <GO>}

So a bottom line on that, Frank, is, there is growing interest in the market. It's a little bit slower to adopt. We'd like to see faster adoption, and we are clearly taking a position to at least for certain plan designs to make sure that consumers are getting those discounts applied at the point-of-sale, which we know improves adherence and hopefully will improve their long-term health.

Thank you for the question, Frank. Next question please.

Operator

Our next question comes from Kevin Fischbeck with Bank of America. Please go ahead. Your line is open.

Q - Kevin Fischbeck {BIO 6157376 <GO>}

Great, thanks. The market seems to be concerned to some degree about margins, I guess, both maybe on the managed care side and the PBM side after either go to point-of-sale rebates or away [ph] from rebates entirely. So I just want to get maybe a little bit more

color from you about your experience so far in 2019 on the commercial risk side on the business that you moved over. I assume that the margin profile there is similar to what it was previously, but maybe just comment on that. And then as far as the PBM side, with these new contracts that you're talking about post 2020, I assume that the economics in that business is also similar to your core business that maybe just confirm those two points.

A - David S. Wichmann {BIO 3853550 <GO>}

Yeah, Kevin, I think the most compelling part of the point-of-sale rebate application in the commercial markets for UnitedHealthcare -- and I'll have Dan comment on this in a moment as well -- but is the fact that per eligible script, we're saving consumers $130 per script, and we're seeing adherence rates as high as -- improvements as much as 16%. So the impact on society and the people we serve is probably the most compelling part that I want to remain unnoticed. I think as it relates to the financial effects of that is fairly much -- pretty much in line with what our expectations were overall. But Dan, do you have any additional comments?

A - Dan Schumacher {BIO 18299394 <GO>}

That's right, Dave. Our expectations and the outcomes for -- very much in keeping with what we thought going in. And the reality is, it's very meaningful impact for the individuals that are taking high-cost specialty medications, as Dave mentioned, and there are very compelling savings for them. But when you look at it in the overall medical and pharmacy offering, it's a more modest impact.

A - David S. Wichmann {BIO 3853550 <GO>}

And overall, it was a modest impact, in part because I think there is this perception that people are deeply exposed to price inflation in pharmacy, and the reality is that most of the plan designs that exist in the market today still have significant price protections in place like a pharmacy co-pay as an example. John, you want to broaden that up for OptumRx?

A - John Prince {BIO 20142902 <GO>}

Yeah, sure. Maybe to set the overall point, which is the driving [ph] of point-of-sale rebate does not impact our bottom line, the overall economics. This is around driving solutions that drive affordability to the consumers we serve, and that's why we're doing it. This is making sure that the value that we extract from the market actually goes to the consumer. And so I think that's the core element on it. We do believe that it's important to have mechanisms like a discount that we negotiate with pharma manufacturers in order to control cost in outer years. So I think that's also less in this discussion is that there needs to be mechanisms that checked against price increases in the future years.

A - David S. Wichmann {BIO 3853550 <GO>}

Thanks for the question, Kevin. Next question please.

Operator

Next question comes from Sarah James with Piper Jaffray. Please go ahead. Your line is open.

Q - Sarah James {BIO 16692995 <GO>}

Thank you. I was hoping that you could update us on some of the growth initiatives for OptumCare. Thinking about recent comments that you made about maybe that business growing to multiples of the size that it is and sprang from 30 markets to 75. How should we think about the mix of products that you want to target during that growth and the pacing, if it would be ratable growth over time or if it's going to come in larger chunk due to a focus on M&A? Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Andrew Witty?

A - Andrew Witty {BIO 3471756 <GO>}

Yeah. Sarah. Thanks very much. Andrew Witty on. In a second, I'm just going to hand over to Dr. Wyatt Decker. It's a good opportunity for me to introduce to you. He's just joined us from the senior leadership at Mayo Clinic Network in Arizona, and he's taken over as the leader of our OptumHealth business. Andrew Hayek is also here today, who is now working alongside me directly in identifying and building some of the new growth platforms we anticipate within the OptumHealth portfolio.

And that really speaks -- let me just make a very specific set of comments to your question, Sarah. We see a wide range of growth opportunities within the OptumHealth portfolio and with the OptumCare's portfolio specifically. That really ranges from building out the depth in the major cities and conurbations where we already have presence and you will see the continued efforts to fill in those networks and to develop essentially a coordinated network of care delivery in those cities. That's something which you should expect to see on a kind of relentless ongoing basis, but of course we will also be looking at further extension of that network across the country through acquisition and elsewhere. And obviously, when the DMG deal closes, that will be a significant expansion of that in a very, very direct way.

As -- literally quarter-by-quarter, I think we see more and more potential for the ambulatory network that we're building across the OptumCare portfolio. And as I mentioned in my prepared remarks, the opening of our first cancer care center in Las Vegas this quarter, I think, is just signaling all the direction of (inaudible) want to follow. Let me ask Dr. Wyatt Decker though just to maybe add some specific thoughts from his position. Wyatt?

A - Wyatt Decker {BIO 17276367 <GO>}

Thank you, Andrew. And Sarah, thank you for the question. It's a pleasure to be here with you this morning and I can't tell you how pleased I am to have joined UnitedHealth Group. I have confident that there is no organization that is better positioned to create the future of healthcare than this one. I would just add that OptumCare's vision for care is to create leading value-based patient-centric, physician-led healthcare system in the United States. And we will do this through local markets, where we can weave together the assets that

Andrew has already touched on. And we will do this through organic growth. We're already in 36 markets and if you include our MedExpress and ambulatory surgical centers, it would be 60 markets. We have 38,000 employed and affiliate physicians, and this will continue to grow organically, as well as inorganically.

But most exciting is what happens when you bring together a value-based reimbursement system with a culture of commitment to patients and providers and layer on technology, and that's what we're committed to doing at OptumCare. Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you. Thank you, Sarah. Next question please.

Operator

Our next question comes from Josh Raskin with Nephron Research. Please go ahead. Your line is open.

Q - Josh Raskin {BIO 3814867 <GO>}

Thanks. Good morning, guys. A question really around just the broad risk membership segment, so commercial Medicare, Medicaid. And I know you don't typically update revenues or membership with the quarters. But I guess, other than the obvious Iowa exit, it is broadly that the risk membership numbers came in a little bit lower than we were expecting. Any changes to the outlook there by any of the segments or any color you can give in the individual areas?

A - David S. Wichmann {BIO 3853550 <GO>}

Josh, we typically don't update those, particularly at this early in the year. I'll let Steve Nelson, do you want to comment on growth overall and then engage your team accordingly?

A - Steve Nelson {BIO 21971304 <GO>}

Sure. Good morning, Josh. Thanks for the question. Maybe just a few some broad comments about UnitedHealthcare overall and how we think about growth. As you know, we start with really strong market positions across all the businesses that you mentioned and have a history of growth in those positions. And as I mentioned earlier in my comments that we're going to add over 1 million medical members this year. And so -- so great growth track record. But as we look forward, we -- our intention and our ambition is to continue to grow, grow those positions. Particularly as we think about some of that really strategic segments such as, Medicare Advantage and Dual Special Needs plans where we have invested in capabilities and really strengthened our product offerings and some really innovative collaborations with Optum as well, to really position ourselves to grow there, not only this year, but continue to grow share as we look forward.

Having said that, as you look across all the risks of different businesses, we are looking for long-term sustainable growth. And so, we do remain disciplined in our pricing and we're very intentional about where we grow and how we grow. And then that really just -- I'll just

end by saying that the path for growth for us is continued -- is a continued focus on value and the products that we offer need to be innovative, they need to be directed towards where the consumer needs are helped. We are very adamant about driving a better experience while we lower the cost and improve the outcomes. So we continue to be really bullish and optimistic about our growth opportunities, but we're going to be really thoughtful about it. And maybe I'll ask Dan to talk a little bit more about -- on the commercial fully insured and some of the progress we are seeing there.

A - Dan Schumacher {BIO 18299394 <GO>}

Sure. Good morning, Josh, as it relates to the commercial risk-based enrollment, we had expected declines in the first quarter and that was largely driven by two public sector clients. So similar to the enrollment pattern we experienced last year, we do expect to grow over the remaining quarters of the year. And inside the results, I'll tell you, we are growing in some markets and segments that are very important to us. And as Steve mentioned, we are very focused on increasing the value of our offerings and we do that through a combination of some of the innovations you've heard of earlier, deeper collaborations with high-performing care providers, OptumCare as well as others and also contributions from our multi-year multi-billion dollar cost effort. So we feel well-positioned. And then I'd also be remiss if I didn't mention that we're pleased with the results that we've driven on the self-funded side. We've had a very focused effort to return to growth and we did that nicely in the first quarter. We grew strongly on an organic basis and we also supplemented that with some nice M&A as well. So overall well-positioned and feel good about it.

A - David S. Wichmann {BIO 3853550 <GO>}

Okay, thank you. Thanks, Josh. Next question please.

Operator

Our next question is from Gary Taylor with J.P. Morgan. Please go ahead.

Q - Gary Taylor {BIO 3571633 <GO>}

Hi. Good morning, gentlemen. I wanted to delve into the MLR just a little bit and see if I could maybe roughly just tie out some numbers. So MLR up about 60 basis points year-over-year. I think given the comments you made last -- a year ago quarter about flu contributing about 50 bps, it looks like MLR is maybe up 110 bps very in line with your guidance for the full year. But it still looks better than what we would estimate health insurance fee might push that number up roughly 140 bps, and then government growing faster than commercial might be another 25 bps or so. So still looks like, if I'm right kind of an adjusted up 110 bps is still improving the real underlying trend primarily excluding the HIF. And I just wanted to see if those numbers sort of ballpark and if so where are you seeing sort of the true underlying improvement.

A - David S. Wichmann {BIO 3853550 <GO>}

All right. Thanks, Gary. John Rex?

A - John Rex {BIO 19797007 <GO>}

Yeah. Thanks, Gary. Good morning. So I'd start with the medical care ratio in the quarter. It was in line with our expectations for the 1Q where I think you're correct in terms of the things you're seeing across that in terms of some of your observations that would create movement and such. I would point out in the 1Q, one of the comments we made last quarter was around the workday content of 1Q '19 versus 1Q '18 having some impact, which was one of the reasons we wanted to create some -- create some awareness around that. And that's just the -- the calendar is fairly stable over the course of the year, but there are differences in quarters. And so when you have that content sometimes we would point that out. So we had one fewer week day in the 1Q '19 than 1Q '18. The opposite effect occurs in 3Q this year. Actually we have one more day in the 3Q '19 than 3Q '18. So, no annual impact. It's just the quarterly -- it's just the quarterly timing how it flows across the year. So 1Q benefits, 3Q gets that offsetting weekday content, that's where we expect it to fall. That's really a --

Q - Gary Taylor {BIO 3571633 <GO>}

One clarification if I could. Since there is not much Medicaid growth this year, with this usually much higher MLR, is the MA enrollment growth, is that really any material mix effect on MLR in the guidance for the year?

A - John Rex {BIO 19797007 <GO>}

No, I wouldn't call it material.

Q - Gary Taylor {BIO 3571633 <GO>}

Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

All right. Thank you, Gary. Next question please.

Operator

We'll take our next question from Scott Fidel with Stephens. Please go ahead, your line is open.

Q - Scott Fidel {BIO 5322875 <GO>}

Hi. Thanks. Good morning. Just interested in your early thoughts on the Medicare outlook now for 2020 in terms of sustaining sort of the MA growth profile. Now that we have the final rates visibility and sort of assuming that it [ph] comes back next year, so maybe sort of thinking about, sort of, how you view the rate outlook at this point on a net basis for 2020 and individual MA. And then maybe an update on how the group MA pipeline is shaping up to 2020 as well.

A - David S. Wichmann {BIO 3853550 <GO>}

Brian Thompson?

A - Brian Thompson {BIO 1537785 <GO>}

Sure. Thanks for the question, Scott. First off, we're pleased with our growth here for the first quarter in 2019 and our positioning as we have said before, we looked at 2019, with lens of long-term view expecting for the potential headwind of return of the tax in 2020. As we've seen the rates now we're encouraged by the rate improvement that we've seen since the advance notice up about a point, but still not enough to cover the expected return of the health insurance tax and I think that'll be pressure point industry-wide. But what I can say to UnitedHealthcare in particular is that like I said, we went to market in '19 with a long-term view and expectant of this headwind. And we're thoughtful and disciplined and intend to approach 2020 with the goal of keeping our benefits and our margins as stable as possible, despite these headwinds while at the same time driving continued growth like we have demonstrated now over the course of the last five to six years, and improving our operating earnings overall. That's been the formula that we've executed against successfully and intend to do so again here in 2020. So optimistic about the outlook and our positioning here ending the first quarter '19.

A - David S. Wichmann {BIO 3853550 <GO>}

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

Operator

Our next question comes from Steve Tanal with Goldman Sachs. Your line is open. Please go ahead.

Q - Steve Tanal {BIO 17633334 <GO>}

Good morning, guys. Thanks for the question. You covered a lot of ground. Maybe just one on the business combination announced today, if you could give us any color on that, maybe the revenue and earnings impact for the quarter and the year and whether that was contemplated in the prior '19 guidance that would be helpful? Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

It's a very small acquisition, Steve. It's of an ASO-based business, our self-funded business about 630,000 lives, if I recall correctly, relatively small purchase price, nice tuck-in acquisition, brings us a few new capabilities and technologies. But quite pleased to align with this company, but relatively small and not really influencing our earnings expectations for the year.

Q - Steve Tanal {BIO 17633334 <GO>}

Perfect. Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Next question please.

Operator

Next question comes from AJ Rice with Credit Suisse. Please go ahead. Your line is open.

Q - AJ Rice

Hi, everybody. I just thought I'd ask about the PBM selling season for 2020. I assume we're well into that now. I think Andrew's comments about some early successes maybe flesh that out. I guess there's two aspects to it I'd ask you about. You got more people that seem to be trying to pitch the synchronization strategies you guys have been doing for a while. Is that changing the dynamics of the selling season in anyway? And then I know a few years ago the Health Transformation Alliance was a big discussion point. Those contracts sound like some of them may now be coming up for renewal. Does that present any challenges or opportunities for you?

A - David S. Wichmann {BIO 3853550 <GO>}

Andrew?

A - Andrew Witty {BIO 3471756 <GO>}

AJ, thanks for the questions. Before I ask John to comment more specifically about 2020, I think what we are seeing is some of the benefits of a very substantial amount of innovation around our offering design that John and his team have been developing, partly in anticipation of changes in the policy environment that obviously have been touched on already in this -- this cool [ph] conversation, but also taking advantage of technology and other levers that have been brought alongside the traditional core PBM of OptumRx. I think it's that combination of all of those things, really leaning into exploring value-based propositions and really being extremely dynamic in the way in which we start to bring to bear some of these different tools has created a very competitive set of offerings.

Let me ask John just to describe to you how that's landing for us this year and projected for next year?

A - John Prince {BIO 20142902 <GO>}

Great. Thanks, Andrew. AJ it's John Prince. In terms of our 2020 selling season, it is still early, but we have a very healthy pipeline of opportunities. We've already had some really good wins for 2020. We've sold several large health plans a state [ph] and a variety of large employers. Two good examples that -- of large wins already was the Harvard Pilgrim announcement and -- of our partnership in early January. They've selected us because of our partnership around total cost of care, clinical outcomes, consumer experience sort of resonating what Andrew already just mentioned around our innovation around the consumer and clinical outcomes. Another example of a good win for 2020 is with HealthTrust and their division in CoreTrust. They selected OptumRx as their exclusive pharmacy care services provider to improve the performance of healthcare. We'll be their key strategic channel partner for health systems in Fortune 2000 companies.

And the overall market, you asked around our value story. I think our value proposition is as seen in the market. Others might be now using the same vocabulary as we have, but we've been working at this for five years. We continue to modernize our offering, continue to innovate around clinical outcomes and also we've continued to expand the services

that we have to support unique communities and partnerships and I think that's also a differentiation for us in the market. Thank you.

A - John Rex {BIO 19797007 <GO>}

It's a great question. What you're seeing there is a innovation in play starting with synchronization, but really the development of a modern -- much more modern pharmacy care services business that continues to stay ahead of the marketplace and is really responding to the needs of employers, health plans and others out there and seeing the growth as a result.

A - David S. Wichmann {BIO 3853550 <GO>}

Next question please.

Operator

Our next question comes from Ana Gupte with SVB Leerink. Please go ahead. Your line is open.

Q - Ana Gupte {BIO 16233997 <GO>}

Hi. Thanks. Good morning. My question was about telehealth. I think I saw sort of national TV ads on virtual health from UnitedHealthcare. I was wondering if you could comment on what's your strategy, is this mostly for urgent care or is it also for longitudinal top health front-care [ph] management? Does that differ by payer mix and how are you preparing for the CMS including the telehealth and the bundle? And then can you talk about how these dovetails with your OptumCare strategy, MedExpress and employed physicians and if you are thinking any single vendor or multi-tenant contracts for 2020?

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you, Ana. Andrew?

A - Andrew Witty {BIO 3471756 <GO>}

Yeah, Ana, thanks so much for the question. So I think telehealth is an interesting potential ingredient for how we think about delivering improved outcome and value for patients and customers within our OptumCare's environment. But I think really the central -- so I think the really central part is to ensure that we have a really, really strong integrated physical engagement with patients as a core platform that needs to be very much empowered by information, clinical insights and needs to be real time. So that's very much where we're building.

I think then wrapped around that, we envision substantial portfolios of digital engagement and also platforms such as telehealth. But I think on their own, they have relatively limited runway, frankly. I think as a component or as an ingredient of a much more comprehensive care delivery platform which is what we envision, clearly a role, but a very much alongside what you're seeing us develop within the OptumCare's environment, very much patient-centric, very much focused on the best possible clinical outcome, focused on the best possible patient experience at the lowest possible cost. We think that is the strategy, which

will require modern technologies, innovative technologies like telehealth, but it fundamentally will be built around a physician-led physical engagement with the patient.

Q - Ana Gupte {BIO 16233997 <GO>}

Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

I think you got it. So, next question please.

Operator

Our next question comes from Lance Wilkes with Sanford Bernstein. Please go ahead. Your line is open.

Q - Lance Wilkes {BIO 4820557 <GO>}

Yeah. I just had a question on medical cost trend and just general kind of medical cost performance for the first quarter. Can you just talk a little bit about how it's tracking to the guidance you guys have given? And in particular, are you seeing better than expected results on the pharmacy side? And if so, is there anything else offsetting that?

A - David S. Wichmann {BIO 3853550 <GO>}

I think are you referring to commercial, Lance?

Q - Lance Wilkes {BIO 4820557 <GO>}

Yeah. I was thinking about your commercial medical cost and target of 6%.

A - David S. Wichmann {BIO 3853550 <GO>}

Dan?

A - Dan Schumacher {BIO 18299394 <GO>}

Sure. Good morning, Lance. I would tell you that our medical cost in the quarter were very much in line with our expectations and on track as we look to the full year, that 6% plus or minus 50 basis points. Frankly, I wouldn't call out anything as being different than what we had expected coming in.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you, Lance. Next question please.

Operator

Our next question comes from John Ransom with Raymond James. Please go ahead. Your line is open.

Q - John Ransom {BIO 1535724 <GO>}

Hi. Good morning. We attempted to (inaudible) some of the organic growth numbers from the acquired growth. The number that was kind of astounding to me at least was we calculated a mid-teens organic growth at OptumHealth, which is would be 3x the organic growth of any kind of stand-alone services provider that's tracked publicly. So I was wondering if you could just give us some help as to how you get to those numbers that are frankly 3x anything else we see out there in the standalone market. Thanks.

A - David S. Wichmann {BIO 3853550 <GO>}

Thanks for the question. It's a compelling growth platform and it's doing exactly what we had hoped and designed it to do. Andrew?

A - Andrew Witty {BIO 3471756 <GO>}

Yeah, I mean, listen, John, thanks so much for the question. I think what you'll see within OptumHealth is really a whole series or self reinforcing, very complementary growth drivers all beginning to kick in together. And I think the leadership team -- Andrew Hayek, leadership team now led by Dr. Wyatt Decker I think deserve a lot of credit for bringing on stream all of these various activities. As you look across you are seeing geographic growth, we're seeing a greater shift of physician groups to value. We are seeing those physician groups deliver great quality of clinical care at better costs. That's making that -- those practices more attractive for membership clearly. And as you think through, you can layer on level after level and each of them kind of amplifies the growth velocity of the business. So we feel very good about the track record that this business is delivering. Honestly, I think we're still in the very early days of the evolution of the OptumHealth and OptumCare's business. You'll see substantial degrees of innovation over the next year or two. We've got significant ambitions to layer in on and developed in the Rally platform, for example, alongside the OptumCare platform.

And as you heard in the prepared remarks, things like the OptumCare Cancer Center begins to open up yet another dimension and the work Andrew Hayek is now leading alongside me directly to look at further expansion points for the OptumHealth, OptumCare's agenda. So early days, we feel good about where we are so far, very clearly a function of many streams of work beginning to gear together very positively.

A - David S. Wichmann {BIO 3853550 <GO>}

Yeah, just expect us to continue to invest in this category and we're talking five years to 10 years out to build this health system that has the capacity to make a real difference on outcomes quality and patient experience and costs (multiple speakers).

Q - John Ransom {BIO 1535724 <GO>}

If you can permit me -- if you can permit a follow-up, how much of it is the move where a primary care doctor goes from getting (inaudible) to getting the full capitation dollar? Is that bigger than a mousetrap in terms of the overall growth? Or is that just a small piece of it?

A - Andrew Witty {BIO 3471756 <GO>}

So, a key part -- I mean, as you know, a key part of the philosophy of how we're developing OptumCare is exactly that journey and we believe that's very important. We see repeatedly that that helps facilitate free up physicians to make great decisions on behalf of that patients to ensure the best care delivered at the best possible cost. So, yeah, that's the key part of the journey and it's certainly the philosophy of how we run that set of the clinics. Yeah.

Q - John Ransom {BIO 1535724 <GO>}

Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you, John. Next question please.

Operator

We'll take our next question from Charles Wright with Cowen. Please go ahead. Your line is open.

Q - Charles Wright {BIO 22089921 <GO>}

Yeah, thanks. I just wanted to get a clarification, Dave, because there is some headlines that came across regarding your comments earlier about the Medicaid business. I recall hearing earlier you saying that you expect to get your target margins by 2020, but headlines are coming across saying probably say to 2022 [ph]. Can you just clarify what you had said earlier?

A - David S. Wichmann {BIO 3853550 <GO>}

Yeah, our expectation is that we'll be in the zone of our target margins, probably closer to the bottom end of that in 2020.

Q - Charles Wright {BIO 22089921 <GO>}

Okay. Thanks. My question is actually -- if I could ask my question around point-of-sale rebate. You guys had mentioned, not just you but all PBMs in general that point-of-sale rebate hasn't available to the employer market for some time. Just want to mirror in [ph] appetite for it. You guys are now making decision to move ahead in the commercial market with this kind of strategy. Does this put you at risk here that employers aren't going to be still that attractive type of model as you move forward?

A - David S. Wichmann {BIO 3853550 <GO>}

Yeah, it's possible that that would be the case. But for situations where consumers are exposed to high inflation on list prices of drugs, we think it's important that discounts are applied at the point of service. And so we believe that that's a proper plan design again where there's a high deductible health plan or there is other benefit designs that leave patients exposed. So again, we are seeing as much as a 16% improvement and adherence,

and we believe the long-term health effects for the people we serve will be substantial as a result. So we think we're doing the right thing for people and that means we have to offer designs that are more restrictive we will. Next question please.

Operator

Next question comes from Zach Sopcak with Morgan Stanley. Please go ahead, your line is open.

Q - Zach Sopcak {BIO 19195509 <GO>}

Thanks. To that last point, do you think the adherence benefit and improvement in cost that you're seeing in your commercial book is translatable to Medicare, or do you think you get more leverage just given the general sicker population?

A - Steve Nelson {BIO 21971304 <GO>}

Theoretically, yes, we believe so. We'd like to see it prove out over time. But we'd probably expect the benefits in the Medicare population to be more immediate than you might see in a commercial population.

A - David S. Wichmann {BIO 3853550 <GO>}

Thanks for the question. Next question please.

Operator

Our next question comes from Steve Willoughby with Cleveland Research. Please go ahead. Your line is open.

Q - Steve Willoughby {BIO 17322492 <GO>}

Good morning. Just one point of clarification and a question. The point of clarification, just on the 2020 selling season comment, is there any way to quantify where you're thinking your positioning might be in terms of a net basis going in for next year on the PBM business?

And then my question was just on duals, and if you could just provide a little bit more color on the importance of duals to your growth. What you're seeing so far this year and where you expect that to go over the rest of this year and next year? Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

Yeah, Steve, we're not going to comment on 2020 at this stage, but we can answer the duals question. Heather?

A - Heather Cianfrocco {BIO 18236688 <GO>}

Sure. The duals -- you mean the duals special needs programs, as you know, UnitedHealthcare has been in this space and growing and growing strong, we are about

over 30% of the markets today. Why we really invest in the dual special needs program is because we see that it's really the best for our consumers, aligning benefits, care coordination that our members cannot get from Medicaid or Medicare alone and often they get supplemental benefits on top of it. So as we continue to see alignment with states and the federal government to make this program even better, it's a place we're going to continue to invest. We had another strong year in 2018, as you know, the quarter, first quarter, we saw strong growth in this again and we think that's really our experience, our Medicaid footprint, our unique programs through Optum like our HouseCalls program and our strong brand and service (inaudible) special needs. So this would be an area you'll see us continue to invest and we expect strong growth again this year in 2019.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you, Steve. Good questions. Next question please.

Operator

We'll take our next question from Michael Newshel with Evercore ISI. Please go ahead, your line is open.

Q - Michael Newshel {BIO 19788719 <GO>}

Thanks. Also been a quick one on the tax rate. It was close to the full-year guidance during the past, the first quarter has been lower due to stock comp expense timing. So is there any change in seasonality this year or any change to expectations for the full-year tax rate?

A - David S. Wichmann {BIO 3853550 <GO>}

John?

A - John Rex {BIO 19797007 <GO>}

Hey, Michael. John Rex. No change in our full-year outlook. I would say in terms of the 1Q, there was a little reduced impact from share-based exercise benefit. As you realized that has impacted, that's typically why the 1Q trends lower than other quarters because there is more activity there. And there was just the volume of exercise was just a little bit lighter and that's probably likely due to share price fluctuations, but that was it.

A - David S. Wichmann {BIO 3853550 <GO>}

Thank you, Michael. Are there any questions remaining?

Operator

We have one question remaining on the line.

A - David S. Wichmann {BIO 3853550 <GO>}

Okay.

Operator

From Matthew Borsch with BMO. Please go ahead, your line is open.

A - David S. Wichmann {BIO 3853550 <GO>}

Matt? Matt you may be on mute.

Q - Matthew Borsch {BIO 5186998 <GO>}

Yes, yes. Thank you, Dave. I'm sorry, I was on mute. And I'll make this quick. You've been very, very patient going through all the questions. Just curious to ask, at this stage of the game are you concerned that you'll be loading a lot on price going into 2020 and clearly the industry fee, assuming that comes back, is going to be something that was out of pricing that's going to come back into pricing for 2020. But you've also got maybe something to add on the pricing with the PBM change or maybe not to your pricing, but the employers do effectively if they're not using the rebate to reduce employee side premiums. Is that going to be a factor as you're going into next year?

A - David S. Wichmann {BIO 3853550 <GO>}

Good question. I think as you know, we are already have converted or we're in process of converting the $8 million fully-insured commercialize to move to point-of-sale rebates. So that consideration has already played out for the most part overall I think Brian talked earlier about how he has positioned a multi-year strategy and very important commentary from him about maintaining benefit stability and maintaining margins through the 2020 time period here recognizing that there is some friction on rising cost structures overall. And I don't really see a meaningful impact on our self-funded market, either from the modification that we made on point-of-sale and announced earlier this year. The thing I am concerned about is the return of the health insurance tax in 2020. That will increase the cost to healthcare by at least $20 billion for 142 million people. And if you do the math on that, that increased MA premiums for a senior couple by $500 and for families with small business coverage by about the same amount and that outcome from our standpoint is entirely unacceptable. The healthcare already costs too much and these unnecessary taxes layered on top of what is already a high-cost health system is just untenable.

So where we continue to pursue a deferral, if not an outright repeal, on behalf of those we serve, we can't comment on or speculate on the outcome at this stage. We're operating as if the law is law and that there is no deferral, but we certainly hope and will continue to advocate aggressively on behalf of the consumers we serve to keep these healthcare costs in check.

Q - Matthew Borsch {BIO 5186998 <GO>}

Great. Thank you.

A - David S. Wichmann {BIO 3853550 <GO>}

Thanks for the Matt. Is that it in the queue?

Operator

There are no further questions in the queue.

A - David S. Wichmann {BIO 3853550 <GO>}

Okay, great. Well thank you. To sum up our discussion today UnitedHealth Group began 2019 with strong operational and financial performance fromboth the Optum and UnitedHealthcare. We achieved this robust performance by increasing the healthcare value we deliver to people every day, providing more affordable, higher-quality healthcare while improving patient and care provider satisfaction. As an innovative technology enabled healthcare company the value we offer society is rising at an accelerating pace. In turn we expect to continue to grow, serving more people in more ways across the US and worldwide. Thank you for joining us, this concludes our call.

Operator

This does conclude today's program. Thank you for your participation and you may now disconnect.