Q3 2020 Earnings Call

Company Participants

- David Wichmann, Chief Executive Officer
- Dirk McMahon, President and Chief Operating Officer, Optum
- John Prince, Chief Executive Officer, OptumRx
- John Rex, Executive Vice President, Chief Financial Officer
- Tim Noel, Chief Executive Officer,UnitedHealthcare Medicare and Retirement
- Tim Spilker, Chief Executive Officer, United Healthcare Community & State
- Wyatt Decker, Chief Executive Officer, OptumHealth

Other Participants

- A.J. Rice, Analyst
- Charles Rhyee, Analyst
- David Windley, Analyst
- Frank Morgan, Analyst
- Gary Taylor, Analyst
- Josh Raskin, Analyst
- Justin Lake, Analyst
- Lance Wilkes, Analyst
- Ricky Goldwasser, Analyst
- Robert Jones, Analyst
- Sarah James, Analyst
- Scott Fidel, Analyst

Presentation

Operator

Good morning, and welcome to the UnitedHealth Group Third Quarter 2020 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 contain 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 and earnings reports 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 in our Form 8-K dated October 14, 2020, 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, Mr. David Wichmann. Please go ahead, sir.

David Wichmann {BIO 3853550 <GO>}

Good morning, and thank you for joining us today. The past nine months have hopefully provided you a window into both the values and capabilities of this organization and how they enable us to serve our customers, patients, care providers, team members, and their families, and you, our investors, in a period of unprecedented challenge.

I am fortunate to witness up close the exceptional work of our team every day, an innovative growing and highly adaptable enterprise, driven by the compassion expertise and that's the spirit of our 325,000 people, over 120,000 of them providing care on the frontlines. Our collective experiences over this year have made us an even more deeply committed and energized organization about our potential to help advance the next generation health system, one which is fair, affordable, simpler and effective.

Our team combined the vision with sharp focus on day-to-day execution, delivering strong, well-balanced results across the enterprise. Third quarter adjusted earnings were $3.51 per share with the decline from the year ago quarter, reflecting the swift customer and consumer support actions we committed to from the very beginning of the COVID-19 pandemic. Based upon this performance and forward estimate of pandemic impacts, we are updating our full-year 2020 adjusted earnings outlook to a range of $16.50 to $16.75 per share. In this, we remain committed to ensuring any financial imbalances arising from the pandemic are addressed proactively and fairly for those we serve.

We have done that consistently over this period even as the ultimate outcomes remain unclear, as the timeliness of relief to our stakeholders is critical. Service, fairness and performance with a long-term view, this is what you can continue to expect from us. You should also expect this enterprise will apply its innovative spirit to contribute in new and different ways as our capabilities expand and circumstances require.

We have partnered on and led clinical trials, helping resolve the nation's critical PPE and PCR supply chain issues and enabling more rapid testing at considerable scale, while keeping the health workforce safe. We are supporting state testing operations in California, New Jersey, North Carolina, and Indiana and contact tracing in New York City.

We are supporting the Mayo Clinic's development of convalescent plasma and some of the most promising vaccine and antibody trials. We have helped enabled workforce safety through the development of ProtectWell, a protocol processing technology to enable the safety of the health workforce as well as the safe opening of businesses, schools, and nursing homes.

We are working to assist with employees' health coverage transitions through our Get Covered campaign, now being offered by employers to assist people who have lost their job. We provided $2 billion in liquidity relief for the health system, and our customers and consumers will realize over $3 billion in premium and cost sharing relief, including $1 billion in estimated rebates. We have contributed more than $100 million of financial support and 6 million pounds[ph] of meals for communities suffering from food and security, homelessness, and health disparities. These efforts are possible because we operate a capable set of businesses and capacities that are leading the development of the next generation health system and expanding our opportunities to serve.

Today, I'd like to give you a brief sense of this work. Early in the pandemic, we quickly enabled up in position and the positions of UnitedHealthcare's most vulnerable patients to adapt and expand rapidly to meet the needs of millions of patients for care of chronic and emerging conditions. This included advancing telehealth by creating direct connections between patients and their own physicians, a critical element to highly effective digital health, ensuring adoption will extend well beyond this crisis.

So far this year, OptumCare physicians have facilitated 1 million digital clinical visits directly with their patients and we are rapidly developing a proprietary set of distinctive tools and aligning our clinical practices to further develop and amplify this capability. I'm sure you can see how advancing modern telehealth fits into our overall strategy to build high performing systems of care. Our drawing[ph] therapeutics capacities are positively impacting the management of chronic diseases.

With the introduction of Level2, a digital therapy developed to improve the lives of the 30 million people with type 2 diabetes, we are helping patients move toward remission of the disease. Level2 uniquely measures signals and applies artificial intelligence, engaging people and producing better health outcomes. You can expect more digital therapeutics from us in the coming months and years.

Our growing capacities are especially apparent within our OptumCare platform, where 53,000 physicians across 1,500 local patient-centered facilities serve nearly 20 million patients, over 3.5 million of these in some form of risk arrangements with 1.3 million Medicare Advantage or duly-eligible members under global capitation.

OptumCare creates substantial value by building a deeper clinician-patient relationship and by leveraging data and artificial intelligence to enable our clinical model to intercept and treat disease early and proactively, leading to better health outcomes, value, and industry-leading patient experiences. Our patients have experienced safer, healthier, more fulfilling lifestyles, spending one-third fewer days per year on average in a hospital bed and 40% fewer days in the skilled nursing facility than patients supported by traditional Medicare fee-for-service.

Moreover, our most advanced care delivery practices delivered this high quality care at upwards of 40% lower cost than the equivalent traditional Medicare benefit, with the value fully reflected in improved benefits and lower costs for seniors, all that world-class NPS scores in the mid 70s. The proven clinical success of Optum senior care offerings supports our considerable growth goals for OptumCare and also demonstrates the longer term potential to greatly benefit consumers in commercial offerings. We have been building this platform for over a decade now and expected to continue to grow at strong double-digit rates for years to come.

Another aspect of a modern next generation health system is managing the specialized and costly medications of the future in a way, which works for patients, clinicians, employers, and payers. Our OptumRx integrated specialty solution brings the total approach to managing complex conditions across both the medical and pharmacy benefit, where we are able to generate up to 37,000 in annual savings per patient, by employing clinically appropriate care at more convenient, lower cost sites. This approach is enabled by Optum's growing footprint of integrated community pharmacies, which will grow by over 60 centers in 2020. And the number of patients served with our infusion services will grow at double-digit rate. We expect this to be another durable growth trend, given the much safer and clinically equivalent patient experience.

We see OptumRx as continuing to transform to be a leader in pharmacy care services, but differently, we believe the value for people and the system from pharmacy care services resides in managing personal engagement in health, not just supply chain management. This plays to our strengths and will increasingly contribute to the growth of OptumRx in the years ahead. UnitedHealthcare continues to focus on the very needs of healthcare consumers. In the next generation health system, we expect consumer benefits to become increasingly customized to meet these needs, as people search for solutions which are simple, affordable, and help enable quality outcomes.

UnitedHealthcare has seen strong reception to our expanding suite of highly tailored and affordable individual coverages. This year alone, the number of people we serve with individual health coverage has grown by 15%. Likewise, in employer-sponsored coverage, our growing set of consumer-centered innovative and flexible offerings such as find all flavors and physician aligned plans such as Harmony in Southern California are gaining traction, with membership in these offerings having grown over 50% this year.

We know many of you are interested in the annual Medicare Advantage enrollment period, which opens tomorrow. The 2021 benefit year will be UnitedHealthcare's largest Medicare Advantage footprint expansion in five years, reaching an additional 3.2 million people and nearly 300 additional accountings. We are emphasizing what we know seniors are looking for this year even more than ever, stability and value. Premiums for most people we serve will be flat or reduced and nearly 2.5 million people will have no premium at all.

We continue to innovate our product offerings with all Medicare Advantage plans featuring zero co-pay primary care digital health visits and the expansion of our personal support services such as an annual clinical health assessment delivered in a senior's home, and for many, the assignment of a dedicated UnitedHealthcare navigator.

We expect strong growth in individual MA, and when combined with our group Medicare gains, 2021 is shaping up to be another year of market-leading growth. We also expect continued growth in Medicaid through the transitions in coverage and net new market gains and are looking forward to a record RFP season, as we seek to serve more people in more geographies.

What I've described for you this morning is a sampling of the initiatives we are pursuing today to help lead in the development of the next generation health system, a health system network is better for everyone; those who experience care, those who provide care, and those who pay for care.

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

John Rex {BIO 19797007 <GO>}

Thank you, Dave. Broadly speaking, third quarter results continue to be impacted by disrupted care patterns, albeit to a much lesser extent than the second quarter, as many regions of the country stabilized near to more normalized levels. Within the quarter, care deferral impacts were more than offset by the proactive consumer and customer assistance measures we voluntarily undertook earlier this year, as well as COVID-19 care and testing costs and broader economic effects. These factors resulted in a 10% year-over-year decline in adjusted earnings per share.

As we discussed last quarter, the deepest period of care deferral, which occurred in the second quarter and the timing of DAP recognition of our assistance actions were entirely lying[ph] up, which makes for a more pronounced adverse impact to earnings in the second half of 2020. The measures we voluntarily undertook mostly impact our benefits businesses and contributed to UnitedHealthcare's third quarter operating earnings decline from a year ago.

In the quarter, we saw total care activity now exceeding 95% of seasonal baselines with certain categories even more closely approaching normal. This compares to an overall measure of about two-thirds at the lowest point in the second quarter. Each of the three Optum businesses continue to perform well, while affected in different ways by still recovering care patterns and economic effects.

OptumHealth's third quarter earnings increased 12% year-over-year, as speaker service practices and ambulatory surgery activity began to recover, while risk bearing practices still experienced some modest continued effect from deferral of care. Our SCA Ambulatory Surgery Center operated about 95% of seasonal baseline in the third quarter, compared to 55% in the second quarter. Year-to-date, over 1,000 new surgeons have performed procedures at FDA, as if you could safe, convenient, and efficient clinical partner.

New surgeon affiliations for the nine-month period rose nearly 25% over last year, and we continue to expand the complexity of procedures performed in these settings, having added over 40 new service lines, nearly double last year. Patients increasingly prefer three family centers, with NPS measured at 92. These durable, long-term trends will benefit our growth even more strongly in the future as elective care activity fully normalize/

OptumInsight's third quarter earnings increased 24% year-over-year, while the revenue backlog grew by $0.5 billion in the quarter to nearly $20 billion. Care services and state government businesses performed strongly while we continue to see lower activity in the provider facing businesses due to procedural volumes. While it's still not fully normalized, business development activity has increased from the second quarter's much lower pacing.

OptumRx earnings declined 2% year-over-year in the third quarter, as script volumes were impacted by lower care activity and economic factors. First build[ph] scripts, which are correlated to the physician business activity, greatly improved from the second quarter, which was down about 25%, while not yet fully back to prior year levels. Revenues in our expanding pharmacy services businesses have grown nearly 30% year-to-date.

Turning to UnitedHealthcare, third quarter operating results reflect a considerable moderation of the care deferral impact experienced in the second quarter, while it's still not at baseline levels. This was more than offset by our assistance measures, direct COVID-19 care costs, and economic factors. The number of people served and commercial products declined primarily due to employer actions. Within this, for us, about 40% of the fee-based decline came from very large employers primarily in the hospitality, transportation, and energy sectors.

During the third quarter, growth in Medicaid membership accelerated, benefiting from the continued easing of state redetermination required. We have not yet seen material Medicaid enrollment activity due to job losses, and historically, these transitions lag loss of healthcare coverage by about six months. Our Medicaid business has seen strong year-to-date organic growth of over 500,000 people. Sales activity in Medicare Advantage has continued to move toward more normalized patterns after seeing some slowing in the second quarter due to the pandemic.

Within this, we have seen considerably less plan switching than typical for existing Medicare Advantage enrollee, while selection of MA over fee-for-service for people new to Medicare is tracking well. We continue to deepen our engagement with those seniors most in need, increasing the distribution of remote digital sensor kits to collect and monitor vital health data and address gaps in care generated by the pandemic. Seniors continue to highly value our house call programs with the number of home visits in the third quarter growing by nearly 30% over the last year.

Our liquidity and financial position remain strong. Third quarter cash flow is at $3.1 billion or 1 times net income, reflects the extra federal tax payment in the quarter due to the deferral of payments typically paid in the second quarter. Year-to-date cash flows from operations are $16.1 billion or 1.2 times net earnings, and our debt to total capital ratio of 39.1%, compares to 43.7% in the year ago quarter.

As noted earlier, we have updated our full-year adjusted earnings outlook to a range of $16.50 to $16.75 per share. This reflects third quarter performance while anticipating the fourth quarter will reflect continued customer assistance measures, normalization in care patterns, and rising acuity as a result of missed and deferred treatments. We will continue to work proactively to help people obtain the care they need.

Now, I will turn it back to Dave.

David Wichmann {BIO 3853550 <GO>}

Thank you, John. With the third quarter earnings report, we have at times provided some early soundings on our growth outlook. Even as the current environment is anything, but routine, I'll still try to offer some useful perspective. We approach the future with continued conviction on our long-term 13% to 16% earnings growth objective. Some of the factors giving us confidence include our rapidly expanding care delivery services now benefiting from over a decade of building and investing in local value-based care systems and extension into market leading post-acute home and modern behavioral health intervention services.

Our ability to support seniors across multiple channels and markets was increasingly innovative, high-value offerings. The way we meet the growing needs of people with highly complex conditions with comprehensive personalized care, including people across commercial, federal, and state-based programs. The innovative and consumer response of products is now being offered through the Employer & Individual market channel.

Our unmatched ability to support a more interoperable and intelligent health system has a result of significant investments over many years to improve performance, integrating data analytics and clinical information to provide essential insights to evidence based next best care actions and our restless drive to allocate capital in line with other innovative companies, as we lead in the development of the next generation health system in a socially conscious way. These are just a few of the accelerating capabilities which will enable our enterprise to serve more people much more deeply as we look to the years ahead.

As to early thoughts on 2021, we expect our underlying business performance to be strong and well supportive of our long-term growth objectives, including the tailwinds we have highlighted throughout this morning. The pandemic and related economic impacts of course remain difficult to predict and this distance likely represents a significant potential headwind. As a result, we envision stepping out initially with a more conservative all in 2021 starting point to accommodate these still developing and unknown COVID-related impacts, in particular the pacing of a return to more normal levels of care services and the condition of the economy.

As the environment continues to evolve, we will also continue to evolve our thinking in perspective. And it is our custom, we look forward to providing you further perspective on all aspects of our business at our Investor Conference on Tuesday, December 1, which will be held virtually this year.

Thank you for your time today. Operator, can you please open the line for questions.

Questions And Answers

Operator

(Operator instructions) We'll take our first question from A.J. Rice with Credit Suisse. Please go ahead.

Q - A.J. Rice

Hi, everybody. Maybe just to pursue a little bit further, the comments Dave just made about thinking about next year, I guess predicting a medical cost trend, you've got a lot of moving parts there, potential further deferrals, potential pent-up demand that could come back, cost of vaccines and therapies that could be there, a number of things and thinking about the cost trend for next year, how are you approaching that? How do you see a competitive environment that is changing as a result of that? Just maybe flush that old comment about how uncertain the ability to predict the medical cost trend is for next year?

A - David Wichmann {BIO 3853550 <GO>}

Thank you, AJ. A very thoughtful question. Hopefully took away from the prepared remarks that we're optimistic about the performance of our business and that's pretty much universal across the Optum and UnitedHealthcare. We didn't get into some of the smaller size businesses, but we're optimistic and particular about our relative competitive position and the growth prospects for 2021. But as also indicated, we remain deeply respectful of the environment both the pandemic and related economic consequences.

And one thing I'd underscore, AJ, is what you had very well, there are a number of moving parts, which are very difficult to predict. And you should also know that we're extending our efforts to ensure that our chronic members and patients are getting the care that they need during this unprecedented time, and we also still have a strong commitment towards correcting any imbalances that could occur. So, at this distance, we do see our business -- underlying business performing strongly and aligned to our long-term growth objectives, which are 13% to 16% up per year after offset in part by these pandemic-related effects. So the starting point, as we indicated in December, will likely represent a wider range given the possible outcomes and more conservative all-in expectation than normal that you would normally see from us, given all the elements that you just described.

So we're taking that into consideration as we develop our point of view about where our MLR might land, how -- what was the variability of that might be, we see it generally speaking that whole pandemic related impacts is being an area -- a headwind for the organization. But don't misread it we are very bullish on the strong underlying growth performance of our business.

Thank you. Next question, please.

Q - A.J. Rice

Okay, fine.

Operator

And the next question is from Josh Raskin with Nephron Research. Please go ahead.

Q - Josh Raskin {BIO 3814867 <GO>}

Hi, thanks, good morning. Just a question on OptumCare, I guess, and you're seeing big growth in the PMPMs there on the consumer served and I just want to better understand the relative performance sort of 3Q year-over-year versus 2Q, kind of what's driving that increase in revenue per member? And then if you could also talk about sort of physician recruiting and how that's going over the last six months.

A - David Wichmann {BIO 3853550 <GO>}

Sure, Josh. Great question, and I think you're hitting on one of the strengths of the enterprise and one of the reasons why we're so assurance growth for next year. I simply said it would be more market, more deeply penetrated into those markets and a higher percentage of them having a risk-bearing arrangement.

But Wyatt, do you want to talk more fully?

A - Wyatt Decker {BIO 17276367 <GO>}

Yeah, sure. Thanks, Josh, and thank you, Dave. I think, Dave, you captured it well. What we're seeing is as we grow, we not only have increased the number of members we serve to 98 million, but we've increased by 25%, the revenue per member and that's being driven in part by the more extensive services that we would offer somebody through a risk-based arrangement in OptumCare versus the lighter type you might see through some of the other businesses within OptumHealth. We expect that trend to continue, and frankly, are very excited about double-digit growth in our MA risk lives and related fully capitated lives that we serve. The other piece, I'd say, Josh, around your question about physician recruitment is we have seen continued robust interest in both small tuck-in acquisitions as well as medium and large physician groups who are attracted to both stability, the physician leadership, and the evidence-based approach that we've embraced in OptumCare. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Good question, Josh. Thank you. Next question, please.

Operator

We'll go next to Justin Lake with Wolfe Research. Please go ahead.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks. Good morning. I wanted to circle back to intolerance around 2021, first when the consensus is around 11% range with growth year-over-year, (Technical Difficulty) wondering if you think and this will fall within that range at any point, making the importance[ph] in the breadth of the business (Technical Difficulty).

A - David Wichmann {BIO 3853550 <GO>}

Justin, we're having a hard time hearing you. If you're on the headset, can you pick up the handset?

Q - Justin Lake {BIO 6460288 <GO>}

Sure. Is that better?

A - David Wichmann {BIO 3853550 <GO>}

No.

Q - Justin Lake {BIO 6460288 <GO>}

No. Okay. Hold on a second.

A - David Wichmann {BIO 3853550 <GO>}

Okay.

Q - Justin Lake {BIO 6460288 <GO>}

Okay. Is that better?

A - David Wichmann {BIO 3853550 <GO>}

It is. Thank you.

Q - Justin Lake {BIO 6460288 <GO>}

Got it. Sorry about that.

So, what I wanted to do was circle back to the comments you made on 2021. First, it circles earnings growth, I think, here is to look like it's targeting around 11% year-over-year, so below your 13% and 16%. Wondering if you think that might -- you're (Technical Difficulty) guidance, so might include that consensus estimate within the range. And then can you point us to the specific businesses? What you're seeing in the potential impact of the COVID and recession concerns (Technical Difficulty) difficult commercial membership? Thanks.

A - David Wichmann {BIO 3853550 <GO>}

Okay. John?

A - John Rex {BIO 19797007 <GO>}

Good morning, Jeff. I'm John Rex here. As Dave pointed out, I think we are quite confident in terms of the underlying growth of the organization as we look towards 2021 and kind of in a normal year, I would think kind of things like even kind of where that consensus range, that the point would be kind of a normal zone that one could expect of an area that we would think about stepping out with. We are very respectable with the fact, however, if anything but a normal year-end. We've learned so much every month, I can tell you, during this period over the last six months. And in terms of how we operate, how our businesses perform, how we need to respond for the people we serve. And so, we continue to be in a respectful mode in terms of learning more, understanding the situation better, and realizing there could be significant impacts in certain businesses as we think about performance.

So we look at it in a world, excluding kind of this world we operate in today with kind of COVID-related impacts, a good zone but you should expect that -- we think that there are potential headwinds within that, whether those are economic headwinds, whether those are factors in terms of what we need to do from a customer assistance perspective, and really kind of really the pacing of direct COVID care and treatment costs, so perhaps a long-winded way of getting at. We are in a mode, still really trying to be responsive to what we're seeing in the environment and evolve our thinking as that environment evolve.

And Justin, I don't think I've heard -- picked up your second question. If you could repeat that, I want to, it's just hard to hear.

Q - Justin Lake {BIO 6460288 <GO>}

Yeah, what I was asking is specifically around the segments that could be impacted in. Most of all, I know, COVID is a potential uncertainty. What I heard in the market is a lot of companies are trying to price for that, adding a little bit to trend. Is that something that you felt like you did for last year and you're just still being conservative? Or do you feel like that's something that's tough to do in this environment? Thanks.

A - Dirk McMahon {BIO 18950833 <GO>}

(inaudible) Justin, this is Dirk McMahon, how are you doing? What I would say is, we're of course going to price to our best estimates of forward trend that's going to include COVID, but you asked about the economic impact. So, as we set back and we looked at the third quarter, actually our membership was a little less impacted than we thought it was going to be because of things like the Payroll Protection Program as well as some furloughs that large employers did.

So, yes, there will be a little bit of a running problem, but less than what we expected. So from a membership standpoint, we're actually fairly optimistic about how we priced. We continue to look at how our block is priced for 1.1, and as we look at that, we were more than competitive than we monitor that every day.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, Justin. Great questions. Next question, please.

Operator

Next to Frank Morgan with RBC Capital Markets.

Q - Frank Morgan {BIO 1498100 <GO>}

Okay. Good morning. John mentioned a expectation for a decline in plan switching this year in the MA market. Just curious you need any color on why you expect that to be the case. Thanks.

A - John Rex {BIO 19797007 <GO>}

And to follow up, I think what we -- one of the things I commented on was actually you're seeing less plan switching the normal actually, and what we're seeing is strong adoption that people new to Medicare coming into Medicare Advantage.

Tim Noel, is there anything to note?

A - Tim Noel {BIO 17867531 <GO>}

Yes, Frank. Thanks. I'm Tim Noel and Good morning. Yeah, what John alluded to is that what we've seen in the marketplace is the decline in people that are switching from one MA carrier to the NAV; however, a lot of strength and what we call that choose our market which are folks that are newly opted for Medicare or people that are choosing Medicare Advantage plans compared to other coverage types throughout the course of the year.

So, it's been a really good strong demand in those categories, but the plan switching activity was lighter, and in particular, in March and April, it's come back a little bit throughout the course of the year, and actually, we've seen some better activity recently. So, the dynamic in the marketplace as we head into annual enrolment period is one where we're trending back to an environment that's more normal compared to selling season in the path.

Q - Frank Morgan {BIO 1498100 <GO>}

Okay, thank you.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, Frank. Next question, please.

Operator

Next to Ricky Goldwasser with Morgan Stanley. Please go ahead.

Q - Ricky Goldwasser {BIO 1977392 <GO>}

Yeah, hi, good morning. Question on the Medicaid side of the enrollment impact from higher unemployment is coming in lower than you expect. When do you expect the impact to peak? How do you think about the balance of going to Medicaid versus exchanges? And then on the Medicaid side, has the pandemic changed how states think about transitioning the higher acuity populations to manage care company for service? And what type of visibility do you have for Medicaid rates for next year at this point of time?

A - David Wichmann {BIO 3853550 <GO>}

Pretty much covered the entire landscape, Ricky. Well done. We will try to be as responsive as possible on all of that. Tim Spilker is our Chief Executive for Community & State.

A - Tim Spilker

Yeah, hey, thanks for the question. And you are definitely heading on a lot of the factors that we've been tracking. So first off, just in terms of enrollment, and I mentioned this as the John in his opening comments, so far what we've seen just in terms of enrollment is really the result of the suspension of redeterminations as a result of the CARES Act. We really have not yet seen unemployment pull-through, and I think that's reflective of some of the dynamics that we're seeing in the commercial market. And that's been supported, I think, by a lot of external studies as well. So we continue to watch this. I think we would expect that unemployment would pull through at some point, especially as the time frame between losses coverage increases.

As for your second question, just around complex populations, yeah, we are actively monitoring states as they explore transitions to managed care. We believe there is a very strong value proposition, especially for complex populations, including those that receive long-term care services and HCBI services. We know based on our experience that managed care can deliver significant value, not just in terms of cost savings, but also in terms of helping individuals remain in their homes, helping people access social services and support. And so we've been working with states and monitoring states activity as they transition. I think we are seeing a very robust RFP pipeline, as Dave mentioned, and we're hopeful that many states include long-term care services in complex populations in those.

And then finally, I think your last question is on funding and (inaudible). And so just on that, and yes, this is something that we've also been working closely with our state customers really to ensure that funding is sustainable, both now and into 2021, especially considering all the dynamics in place. States are really taking a rational approach to funding. They're leveraging the appropriate risk management mechanisms depending on their experience, so that could include risk corridors and MLR structures. They are also benefiting from some of the additional federal funding through the CARES Act, and then of course, just as a reminder, Medicaid funding must be actuarially sound, which our states really do continue to use as a guiding principle, so this is certainly an area of focus for us.

We have strong relationships with our customers and and we feel good about those conversations thus far. And then maybe just the last thing I'd say is sustainable funding and all of this work is really critical as it enabled us to invest in programs that really do drive substantial social and health outcomes for our customers as well as for the people to be sure.

A - David Wichmann {BIO 3853550 <GO>}

So, Ricky, I hope that was responsive -- at least responsive enough. Thank you for the thorough question. Next question, please.

Operator

And next question is from Gary Taylor with JPMorgan. Please go ahead.

Q - Gary Taylor {BIO 3571633 <GO>}

Hey, good morning. Two-part question, just in case I strike out on the first one. Was wondering if you could quantify the consumer and customer assistance, how that impacted the MLR this quarter? The second part of the question, just thinking about cost trend heading into 2021, I think by the time this year is all said and done, you might end up being on your core commercial group cost trend down a couple hundred basis points at least. So when you're thinking about your guidance for '21, are you thinking it could be a normal cost trend on top of that? Are you thinking deferrals would accelerate? It could be 100 basis points or more higher than normal. Just interested in your thought process on how you're going to comp, was it easier than expected all-in trend for 2020?

A - David Wichmann {BIO 3853550 <GO>}

I'll give you the strike on the first one, because I don't think we're going to quantify customer and consumer assistance in the quarter. The one thing I will tell you is it's just extensive. In particular, this is one of the primary quarters where the Medicare business was offering full co-pay waivers on both primary care and specialist visits and the reason for that, Gary, is we are deeply concerned and remain deeply concerned that Medicare consumers access their position just as quickly as possible, because they're obviously managing chronic disease and we saw a very nice response to that program and so much so that we're extending elements of it into the fourth quarter. So that's where customer assistance will continue.

In addition to that, we extended some other programs. You probably saw that our $1.5 billion initial estimate went to $2 billion and in part that was because of additional premium waivers and adjustments that we have made, that will extend through the balance of this year and modestly into next as well. So that gives you a color for the kind of the volume and the quantity of things that were going on during that time frame.

With respect to cost trends in 2021, Dirk, do you want to take that?

A - Dirk McMahon {BIO 18950833 <GO>}

Yeah, I would say, Gary, this goes back to what Dave said originally. We do consider all those factors that you described. We consider what we expect COVID to do with respect to testing, with respect to treatment, all things that are associated with abatement as well. We will make an estimate of that. We will try to make a forecast of when the vaccines will become available. So all those things are considered as we price our business for next year. I'm not going to get into the exact number of basis points associated with each one those that's competitive, but I mentioned earlier, we do monitor what's going out in the market, what we see with ongoing trends in all three of those buckets, as well as all the underlying costs, and we make our best estimate as to where we should land to be competitive from a membership growth standpoint as well as an earning standpoint, that's what we do and we have actuaries and we have our management teams that are pretty experienced with that.

Q - Gary Taylor {BIO 3571633 <GO>}

Thank you.

A - David Wichmann {BIO 3853550 <GO>}

So, thank you for your question, Gary. Next question, please.

Operator

We'll go next to Scott Fidel with Stephens. Please go ahead.

Q - Scott Fidel {BIO 5322875 <GO>}

Hi, thanks, good morning. Just wanted to follow up on Medicare Advantage for 2021 and the comments that David made around industry-leading growth expectations. And I guess really just a two-part question to this just as one. So we do have CNS projecting the at least 10% enrollment growth for individual MA for 2021. So just interested in terms of your commentary in industry-leading growth, how you take that into context and whether that would support double-digit enrollment growth in individual MA for 2021.

And then just secondly, it sounded like the comments around group MA, it sounded pretty bullish in terms of sales. Just interested if you could maybe quantify for us the expected group MA lives that so far you think you've added for 2021. Thanks.

A - David Wichmann {BIO 3853550 <GO>}

Just to clarify, Scott, from at least my standpoint, what I really look at is number of people served and what our performance will be relative to the market overall, and as it has been pretty consistent over time, UnitedHealthcare Medicare & Retirement has outperformed on that metric in particular.

What I like about this year particular is not only the group MA component really coming off of what would be a disappointing year in 2020, meaning the 2021 actual policy year, but also the kind of setup for individual MA and continuation with our duly-eligible members in their growth. So that's the essence of the backdrop of the comment that I made.

Tim, do you want to add anything further?

A - Tim Noel {BIO 17867531 <GO>}

Yeah, yeah. Thanks, Scott. So, selling obviously starts tomorrow for individual Medicare Advantage. We've been marketing our products since the beginning of October, receiving really positive feedback from the broker community about how we're positioned, and once again, as you know, our top priority is providing stability and benefits for the members that we serve. I mean as we go to market, we are happy to have succeeded in providing that for our members, and in fact, about 75% of our members will be having[ph] some improving benefits in 2021 compared to 2020, and then we also made some additional investments in capabilities to support seniors. So given that backdrop, we do feel really good about our positioning to be in share and individual, if I may, as well as the dual special needs plans in the market. We're not going to comment specifically on any point estimate for industry growth, but we really like our positioning from inside of the growth, whatever that might be.

And to Dave's comments, we're really excited about our group MA growth in 2021.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, Scott. Next question, please.

Operator

Next, we'll go to Robert Jones with Goldman Sachs. Please go ahead.

Q - Robert Jones {BIO 17006630 <GO>}

Great, thanks for the question. I guess maybe just wanted to get your latest thinking on participating in direct contracting next year obviously to OptumCare. Was wondering if this would contribute at all to your projections around global capitalized growth? Or would that be incremental? And then, maybe just relatedly, how are you thinking about direct contracting relative to the opportunity obviously around MA on the UHC side? Thanks.

A - John Rex {BIO 19797007 <GO>}

You want to start with UHC?

Q - David Windley {BIO 2411309 <GO>}

Sure. Brian Thompson here. As it relates to Medicare Advantage, as you've known from us for a long time, we've had the enterprise perspective of modernizing fee for service, but we're certainly encouraged by any activities like that, we participate in things like bundled payment programs, et cetera. And I see direct contracting as a positive to try to modernize the overall fee-for-service system in total and why it obviously is looking at contracting to go into the OptumCare.

A - John Rex {BIO 19797007 <GO>}

Yeah, thanks, BT. And Robert, thanks for the question. We are very encouraged by every effort to move from fee-for-service to value-based contracting. So, I view this as a positive trend. The direct contracting proposals are primarily geared towards smaller groups that are in fee-for-service, and we have been in risk-based arrangements for over 10 years. And so, while we will embrace this where it's appropriate, we have relationships with over 80 payers and we'll expect to see continued double-digit growth of our MA and dual risk lives that we care for, and I don't anticipate that the direct contracting will be a major factor for us. But again, I don't mean to say that in any kind of a negative way. It's a good program, but we will embrace all vehicles to grow. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Thanks for the question, Robert. Next question, please.

Operator

We'll go next to Sarah James with Piper. Please go ahead. Your line is open.

Q - Sarah James {BIO 16692995 <GO>}

Thank you. I was hoping you could give us some context around corporate tax reform. Looking back to 2018, you size the benefit around $2 billion. Wondering where that sits now, and if there is a difference between product lines and how we should think about, which line benefited on the margin side versus what's passed through for pricing changes or other items?

A - John Rex {BIO 19797007 <GO>}

Sarah, good morning. John Rex here. So I think it will go back to the former period that you're discussing in corporate tax, but I think there are a number of things that we commented during that period and in terms of impact, and if you recall, during that period, we also commented about investments that we're making as a result to build for future growth and how we were investing in the businesses for longer term. Certainly, that was an element there. Clearly since that period, a number of years ago now, the company is much, much larger. So you would expect the kind of that impact much smaller from a effective tax rate impact than we would have had back in that time. Among the other elements that you're talking to like corporate tax reform and impacts, I think it's tough really to kind of get out ahead of anything in terms of potential impact, even how those impact on specific businesses just because there isn't some -- we just don't -- really don't want to get ahead of any kind of policies that might be out there, so probably I would just leave it at that. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, Sarah. Next question, please.

Operator

Next is David Windley with Jefferies. Please go ahead.

Q - David Windley {BIO 2411309 <GO>}

Hi, good morning. Thanks for taking my question. I'm interested in -- I appreciate the comments, several kind of percentage of baseline utilization numbers offered in the prepared remarks, I'm curious how that has progressed perhaps through the quarter, for example, by the end of the quarter where some of those at or above 100%, are you expecting that to get to above baseline in the fourth quarter, and based on your assessments of kind of pent-up under-utilization and system capacity, how long might you expect that to last? And then just to tag on, the DCP for the first couple of quarters of the year had been pretty consistent year-over-year, but at the third quarter, is down a couple days, two to three days. I'm wondering how that folds into that view of where utilization is going? Thank you.

A - John Rex {BIO 19797007 <GO>}

Good morning, David. John Rex. Let me answer to get at those. So first of all, let me give you a little more color in terms of what we saw in utilization over the course of the quarter and how it's that what we were seeing last quarter and such. So I spoke to kind of baseline exceeding 95% across our businesses as we look at the utilization at this point here. Maybe to give a little color kind of context within that and different categories and how those would trend. I point out, if I look at physician services that would be below that baseline. I'd put kind of outpatient surgery, that kind of the right kind of in that zone at baseline and I put inpatient above that baseline zone.

As we look down at kind of various populations and such, maybe a little color commentary in terms of how that trends. So commercial, certainly kind of higher in terms of where we're seeing utilization and where we're seeing against baseline. And government program services lower. And within that, I would say, kind of within the government programs, let's say, the community state business being the lower element of those and that the way it's trending.

One important element here, so what -- you referred to, from the commentary we had for our expectations for the fourth quarter. And so among those were that care that has been deferred that we are able to help facilitate that care in curves. And that's kind of where we're making investments and what we want to see happen here. The other element that we anticipate as we look towards the end of the year is, we have been anticipating the rising acuity because of deferred in this treatment and we see a higher acuity population. I would tell you we really haven't seen that yet. Where we see rising acuity on the overall book is it's because of the COVID-19 cases that come in at a higher acuity level, and so you see a higher acuity on that component. But if you take that component out, we don't really see it across the full scope of the book of our business at this point.

As to your comment over in terms of -- over the course of the quarter what we saw -- it was an interesting quarter from that perspective because you saw a different incidence rates in different parts of the country over the course of the quarter. So we really monitor that quite closely and you would see as a particular part of the country, you saw infection rates begin to rise, you would see deferral come into that mix. Given our platform across the entire country, we have a viewpoint into that, but as you see deferral and then you see it come back in, I think the last thing that I would place, I would just point out is, within kind of that baseline that we're talking about, and so I said exceeding 95%, I put kind of in the zone of 5 points or so or probably COVID-19 driven and in terms of within that mix and that's inclusive in the baseline we're talking about.

A - David Wichmann {BIO 3853550 <GO>}

And then DCP?

A - John Rex {BIO 19797007 <GO>}

And DCP, thanks for reminding. So DCP the decline year-over-year, so that is due to the -- really could be acceleration in provider payments that we took on earlier in the year. So as we really were trying to get liquidity injected into the healthcare system and we accelerated our payment cycles very, very significantly and that continues. The reason you wouldn't have seen that in the second quarter is because of the very significant deferral of medical care in the second and third quarter. So just kind of getting into the math of it right, you get a denominator here where medical cost per day was declining very, very significantly in the second quarter, so that more than offset the impact of payments. As we saw care kind of being restored much closer to normal levels this quarter, then that comes up and so now you're seeing the impact of that accelerated payment cycle show up in our DCP, but that wasn't impacted.

A - David Wichmann {BIO 3853550 <GO>}

So just to remind you -- to give you a sense of that as we indicated in prepared remarks as well as around $2 billion advance to the market, our acceleration in payments. Thank you, David. Next question please.

Operator

And next is Charles Rhyee with Cowen. Please go ahead.

Q - Charles Rhyee {BIO 6968091 <GO>}

Yes. Hey, thanks for taking the question. Maybe if I could follow-up on that about utilization and then tie it back to sort of your comments around the outlook for '21. If it sounds like in-patient volume is a little bit above normal, others -- are there areas that are little bit below and overall, let's say, we're kind of getting back to a normal baseline utilization. Given the kind of pace that we're on this year and then we think about next year, what is it in your thinking that makes you think that we're going to see a little bit uptick in utilization because it sounds like when we go back to the earlier part of the Q&A when you're -- in your comments Dave and John at the end was, next year you're thinking about a more conservative starting point to think about the '21 outlook. And I understand that we'd want to back out some of the one-time items that were positive for this year. But maybe help us understand a little bit what is your underlying assumptions for utilization because it seems to me the pace that we're going at, it doesn't segue that we're going to really have really over utilization per se next year. Maybe help us understand what maybe you are seeing here as we're now into part of the fourth quarter of that kind of gives you that sense?

A - David Wichmann {BIO 3853550 <GO>}

Yeah. So my comments are really grounded in the unprecedented uncertainty as we look forward and the deep respect for the pandemic and its impact on the economic climate. And that's why as you think about, being at this distance stepping out, recognizing that as you are -- as the kind of the future expectation or you normally widen your range and you would probably take a more conservative posture, and that's essentially what we were trying to communicate. John do you have anything further to add.

A - John Rex {BIO 19797007 <GO>}

No, I -- sort of the one thing I'd comment and I think you said kind of we've seen in-patient kind of above normal. I wouldn't say that's where we are, I said on that exceeding 95% baseline, I was orienting those categories around how they orient around that exceeding 95%, that in-patient rise a little above that, position below that and outpatient surgery is kind of right in that zone. So that's more of the commentary that I was driving there, not that in-patient is running above baselines yet, but certainly categories are progressing to that.

And I think it goes in terms of your broader commentary into what to expect for utilization. So we want to make sure people get the care they need, that's why we're here ultimately. And so we're going to do everything in our power to make sure that care occurs. But you heard some of the commentary offered earlier in the year event in terms of what was going on in different categories, in terms of cancer diagnoses, different areas that were off significantly. Hopefully that's not kind of good for people, that's not good for the system, we want to make sure that care is getting delivered and there are areas of care that we are going to be very proactive in making sure that people are able to access that. In our business, we have both direct access and the opt-in care businesses, United Healthcare is being very proactive in its outreach to vulnerable populations and making sure that they're getting the treatments that they need. So our ambition is to make sure that that care is delivered, there is much -- there's a lot of necessary care that's not happening also.

But I come back to Dave commentary, as we look out to 2021 and some of the earlier things up, we've been learning stuff all along the way over this past many months and we continue to evolve that thinking, we continue to feel like we get better perspectives and while deeply respectful in terms of -- we don't really know how this moves over the next several months also. So I think that's what you hear in terms of our commentary, in terms of how we think, why we think and how we think about stepping out and why. We want to be respectful of the environment frankly that no one has navigated before. And I think that's just what you would expect us to -- the way you'd expect us to approach it. Thank you.

A - David Wichmann {BIO 3853550 <GO>}

And we'll take these next 30, 45 days or so to accumulate more facts, understand even better and then lay all this out for you in more detail to the best of our ability, when we get together on December 1st. We have time for one more question with quick question and answer and then I'll close. Next question.

Operator

We'll take next question from Lance Wilkes with Bernstein. Please go ahead.

Q - Lance Wilkes {BIO 4820557 <GO>}

Yeah. Just wanted to ask for employer enrollment, how's that progressing in October and what's your outlook for 4Q and beyond? And if you can give any clarification on OptumRx on kind of the real sharp increase in revenue per script and some of the compression in margin? That would be helpful, too. Thanks.

A - David Wichmann {BIO 3853550 <GO>}

Hey, Lance. I don't think we'll be able to give you insights into October and the quarter specifically, but what we can give you insights into is what's the progresses we're making across the board and the commercial market going forward. I'll give you some sense of that without quantifying it. Dirk?

A - Dirk McMahon {BIO 18950833 <GO>}

Yeah, I would say that and as you think about the fourth quarter, the sense should be is there is a good amount of stickiness with respect to the end of this year in terms of persistency that we're seeing with our groups. And further, I think as we look at next year, I think we talked about in the script, we'll have a lot of good products coming up the assembly line that we're very enthused about, all flavors our level funded product, buying a good product which basically is a scenario where you have a base level of coverage and you buy up for carriers needing in certain categories. Then we have, what I would say, a bunch provider-centric products where we're looking at really efficient high quality networks and having low consumer out-of-pockets associated with those. So what I would say is, we're optimistic about our product portfolio for next year. As you look at the third quarter -- at the fourth quarter specifically, we've had good stickiness in terms of our persistency.

A - David Wichmann {BIO 3853550 <GO>}

Yeah, I think the commercial business is doing a nice job. Obviously we're very dissatisfied with the start of this year, but I think they've come on stronger as the year progressed with a wider array of product choices and offerings, but also getting the cost structures in line and being able to reflect that in more competitive price positions in the market overall. Again appropriately indexed for forward view of cost plus margin which reflects the variability of the future marketplace. John, do you want to touch on.

A - John Prince {BIO 20142902 <GO>}

Sure. Lance, John Prince. Talking about the revenue growth, we've had really strong growth in our specialty business as well as infusion, our community pharmacies and (inaudible). That has been a big driver as well as our external client wins we had on the beginning of the year. If you look at our services businesses which is both services as I mentioned, they're going on 30% inside that so really strong growth in that. In terms of our margin and why it's declined year-over-year, it's really two factors, one on earnings side of the impact of COVID-19. As you know with the pandemic, we've had less first fills in Q2 that continued in Q3 as well as you've seen in Q3 less utilization per member as well at some loss and unemployment, so that's impacted our earnings. And then on the denominator side, the retail co-payment which was added to revenue in 2020, it was added to denominator which actually impacted the margin in Q3.

Overall, we're quite pleased with our margin performance as you see in Q2 and Q3. Our earnings grew sequentially by 16% as well as improve our margins. So overall we're seeing we're executing very well.

A - David Wichmann {BIO 3853550 <GO>}

Thank you, John. Thank you, Lance. And thank all of you for your interest and the very thoughtful and insightful questions that you offered today. As you know this is an unprecedented time in our company's history and as you have come to expect we will continue to respond and lead with full strength, compassion and fortitude, restlessness for serving the unique needs of every one of the 140 million people we serve around the world.

Despite the challenging times, 325,000 people of UnitedHealth Group are deeply committed and are energized about our work to advance the next generation health system in a socially conscious way. It's a health system that'll be universal, affordable, simple and effective. And we look forward to engaging you in several weeks at our upcoming Annual Investor Conference on Tuesday, December 1. We see that virtual format has an opportunity to provide you an even deeper view of our company, its strategic plans, its people and our future. Thank you very much.

Operator

And this will conclude today's program. Thanks for your participation. You may now disconnect. Have a great day.