Q4 2019 Earnings Call

Company Participants

- Andrew Witty, Office of the Chief Executive President, UnitedHealth Group Chief Executive Officer, Optum
- Brian Thompson, Chief Executive Officer, UnitedHealthcare Government Programs of UnitedHealthcare
- David S. Wichmann, Chief Executive Officer
- Dirk McMahon, Office of the Chief Executive Chief Executive Officer
- Heather Cianfrocco, Chief Executive Officer, UnitedHealthcare Community & State
- Jeff Putnam, Chief Financial Officer, UnitedHealthcare
- John Prince, Chief Executive Officer, OptumRx
- John Rex, Office of the Chief Executive Executive Vice President and Chief Financial Officer, UnitedHealth Gro
- Tim Wicks, Executive Vice President and Chief Financial Officer of Optum
- Unidentified Speaker
- Wyatt W. Decker, Chief Executive Officer, OptumHealth

Other Participants

- AJ Rice, Analyst
- Gary Taylor, Analyst
- Josh Raskin, Analyst
- Justin Lake, Analyst
- Kevin Fischbeck, Analyst
- Lance Wilkes, Analyst
- Michael Newshel, Analyst
- Peter Costa, Analyst
- Ralph Giacobbe, Analyst
- Ricky Goldwasser, Analyst
- Sarah James, Analyst
- Scott Fidel, Analyst
- Stephen Tanal, Analyst
- Steven Valiquette, Analyst

Presentation

Operator

Good morning and welcome to the UnitedHealth Group Fourth Quarter and Full Year 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 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 January 15, 2020 which may be accessed from the Investors page of the Company's website.

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

David S. Wichmann {BIO 3853550 <GO>}

Good morning, and thank you for joining us. Six weeks ago, we had the privilege of spending the day with many of you at our Annual Investor Conference, providing an in-depth look at the accelerating opportunities we see to serve more people more deeply and to grow strongly into 2020 and well beyond.

As we conclude 2019 and step into the new year, the performance of our business strengthens our confidence in the themes, opportunities and outlooks of that day, as evidenced by today's results. We remain highly focused on driving affordability, innovating with consumer and customer responsive products and services, improving operating performance and advancing NPS.

Full year 2019 adjusted earnings per share were stronger than our Investor Conference outlook, growing 17% for the year to $15.11 per share. Full year revenues exceeded $242 billion, growing $16 billion over 2018, with notable gains in our Medicare, care delivery and pharmacy care services businesses. Full-year cash flows were $18.5 billion, or 1.3 times net income.

We finished the year encouraged by continued performance improvement in Medicaid, early market interest in our new innovative line of employer-sponsored benefit offerings and 2020 individual Medicare Advantage annual enrollment results, which were our strongest ever. Within our Medicare Advantage offerings, including dual eligible growth, we expect to serve nearly 700,000 more people in 2020, the upper end of the range of performance offered at our Investor Conference.

Our fourth quarter medical and operating cost positions continued to improve meaningfully enterprise-wide, with ample opportunity for further progress on both of these fronts. And our NPS improved nicely in 2019 across our businesses, particularly within network care providers, enrollees in Medicare Advantage and Dual Special Needs plans, as well as patients served by our OptumCare and pharmacy care services businesses.

Improved costs and higher satisfaction propelled by meaningful innovation allow us to contribute more comprehensively to the development and deployment of the kind of next-generation health system needed in the US and globally, a more forward looking modern health system built around the people we serve, seamlessly woven into their lives, simple, convenient, transparent and compassionate. A health system that is more affordable creates a better experience for both patients and physicians and improves health outcomes.

The health system we are helping to build will better meet the personalized needs of people. It leverages the next-generation data analytics, such as the individual health record to empower patients and their doctors with actionable intelligence that drive next best actions to improve decision-making in real time.

We are committed to a future where every person has access to high quality affordable healthcare that meets their unique health care needs and financial means. We are employing specific actions to help achieve this, driving better health outcomes and aiming ultimately to reduce the health care cost trend to general inflation levels, even with an ageing, more chronically ill population.

Notably, the bipartisan repeal of the ACA taxes in December was a strong step towards improving affordability for Americans. It will greatly assist those who have been most affected by the cost of those taxes, especially seniors, small employers, and those who are individually insured.

As we continue to do better for those we serve, we will grow, helping improve the health system one person at a time, intensely focused on driving improved consumer and physician experiences. Looking to the years ahead, our strengthening capabilities and diversified complementary businesses operating in the large growing health care market, position us well to achieve our long-term adjusted earnings per share growth rate objective of 13% to 16%, while we continue as always to invest in the future for sustainable market-leading performance and advancing shareholder returns.

With that, let me turn it to UnitedHealth Group President and Optum Chief Executive Officer, Andrew Witty to discuss the Optum's results and momentum heading into the New Year.

Andrew Witty {BIO 3471756 <GO>}

Thank you, Dave. At Optum, we're encouraged and humbled by the expanding opportunities to grow and serve more people more deeply. There is a distinct energy and eagerness across all businesses as we enter 2020. In 2019, Optum revenues reached $113 billion, growing 12% year-over-year. Total operating earnings grew 14% to $9.4 billion. OptumHealth revenues reached $30.3 billion in 2019, up 26%, led by OptumCare, our care delivery business.

We are steadily expanding into new geographies and expanding the depth and breadth of services in existing regions to better provide patients with the highest quality, convenient and affordable health services. One measure that help to illustrate how we are serving people more comprehensively is revenue per consumer served, which grew 26% in the quarter. This measure will continue strongly advancing as we further build out our integrated care delivery network.

Turning to OptumRx, revenues of $74.3 billion, grew 7%, even with the previously discussed impact of a single large customer transition. The 2020 selling season for co-pharmacy benefit services has now mostly concluded and it was our strongest ever. Through our other pharmacy care and specialty drug businesses given our current positions, we see significant opportunity to more fully serve patients' pharmacy needs in their communities and drive better adherence and clinical outcome.

At OptumInsight, revenues of $10 billion grew 11% and the revenue backlog was up 14% to $19.3 billion. OptumInsight perhaps more than any of our other businesses has a dual role. It has both unmatched capabilities to help distinguish our other businesses and serves as a profitable growing and externally facing business on its own.

I'd like to spend a few extra minutes this morning on how we view OptumInsight and why we are encouraged by its potential. I'll start with the foundations. First, deep data and advanced analytics are at the core, supporting modern technologies and platforms to make the health system more inter-operable, transparent and efficient. Second, research, consulting and large scale managed services enabled by data analytics and digital and operational innovations made the consumer experience simpler, smarter and more compassionate. And third, clinical expertise, combined with rich data and analytics drive measurably better patient care and outcomes, reduce its friction while lowering the total cost of care.

We are connecting the health system to deliver better outcomes, lower costs and an improved experience for patients and their clinicians. This includes, developing the connective infrastructure that integrates clinical systems, revenue management platforms and administrative claims transactions to enable critical bidirectional data exchange.

Our solutions are harmonizing and organizing billions of transactions, while applying considerable intelligence through our Advanced Technologies, clinical ontology and data analytics capabilities. We want to ensure critical decision support information gets to the right people at the right time with rigorous protocols to protect patient privacy, all while offering full transparency of health system performance on both quality and cost.

Our Optum360 business helps health systems and hospitals improve revenue performance and patient experience. We deploy natural language processing for computer assisted coding and documentation, and provide data interchange and Information exchange solutions, as well as patient access services. Optum360 now manages about $70 billion in annual billings for unaffiliated customers.

More than 5 billion pages of clinical documents are processed annually by our natural language processing engines. These are used in a variety of other applications and customer bases to help inform clinical actions and create administrative efficiencies from the more than 80% of the clinical record that is essentially free text such as physician notes and discharge summaries.

Payment integrity is among OptumInsight's strongest growing businesses. We provide compliance and cost containment solutions, both prior to and following the payment of the claim. We offer a comprehensive portfolio of services through data mining and predictive modeling to help over 250 national, state and local health plans and others ensure appropriate payments for services saving billions annually.

Within the OptumInsight technology businesses, we apply advanced analytics and deep learning models to healthcare data covering nearly 240 million people to help optimize clinical outcomes and reduce the cost of care. Key offerings include population health, risk analytics and technology support.

And our research and consulting businesses provide thought leadership and expertise that reaches more than 200,000 leaders across the sector. Importantly, this business keeps us at the forefront of how health systems and providers are thinking about and approaching the future and drives deeper, more integrated customer relationships across the broader Optum businesses.

As we turn into the new decade, we stand at potentially transformative moment, where the application of leading 21st Century technologies and machine-powered analytical protocols will open up for the first time the opportunity to create ever more precise predictions of individual and system health status and risk. This will accelerate a much more focused set of interventions to improve outcomes. I have no doubt this will be an increasingly critical element of our Optum-wide goal of improving clinical outcomes, quality and affordability.

Now, I'll turn the call over to Dirk McMahon, UnitedHealthcare, Chief Executive Officer.

Dirk McMahon {BIO 18950833 <GO>}

Thank you, Andrew. UnitedHealthcare is deeply embedded in every aspect of the health system, from how to finance and pay for healthcare to engaging people and aligning incentives to promote healthier behaviors and better medicine to improve overall health at lower costs. UnitedHealthcare revenues grew by more than $10 billion to $194 billion in 2019. Operating earnings increased by 13%, or $1.2 billion, to $10.3 billion, led by the strength in our Medicare and Dual Special Needs businesses.

As Dave noted, we're off to a strong start in Medicare Advantage this year. I'd like to quickly share how we are helping to build a better health system: first, improving affordability; second, engaging and serving people; third, advancing product innovation; and fourth, sorting through hands-on data-driven clinical care.

Let's start with affordability, because that is the gating factor for greater access to care and improving the consumer experience. One of our goals is to engage more deeply with the highest performing physicians and other clinicians to advance, both quality and affordability. We know these high performing providers achieve considerably better health outcomes while lowering the total cost of care.

Our medical cost trend over the last five years has strongly outperformed the financial average. We are committed to driving significantly lower rates of healthcare spending growth than the industry. We see billions of additional dollars in potential savings for consumers and customers from areas such as our site of service initiatives and more deeply embedding digital tools to reduce the administrative burden for physicians.

We are also using digital and physical strategies to engage consumers in new ways to simplify their experience, reduce their financial burden and lower the total cost of care. For example, for the nearly 1.5 million people enrolled in our Motion program, we offer incentives for increased individual mobility. People can earn more than $1,000 a year when they achieve defined walking frequency and intensity targets. People enrolled in Motion are achieving better health at a meaningfully lower costs that is why we're expanding this program and extending product designs that reward stronger consumer engagement and align incentives with their doctor.

A third area is product innovation. We are seeing early signs of customer interest in our innovative new offerings and consumer-centric products that better align to the unique needs and financial means of people, while engaging them in managing their health. Some examples are Harmony, a new collaboration with OptumCare providers, unites high quality care and coverage, creating a more integrative and effective consumer experience with as much as 20% savings for our fully insured customers.

All Savers offers small employers with highly flexible affordable health plans and reduces employee out-of-pocket costs with low or no preventative and primary care coverage. NexusACO enables large employers to offer a single ACO-based plan nationwide, incentivizing employees to choose high performing providers and driving better outcomes through care coordination.

Bind provides first dollar coverage and allows people to add coverage on-demand for planned procedures offered by high value providers following the rigorous care pathways based on best known science, while costing approximately 15% less than comparable plans. And finally, our Virtual First product is attractive to the digital first generation. This new product offers $0 co-pay, 24x7 virtual care support at a lower price than traditional products.

These are some examples of our innovation focus and health benefits and you should expect more as we redouble our efforts to engage consumers in more impactful ways and accelerate our growth in this category.

Lastly, we are deploying relevant information at the point-of-care to improve the way care is received and managed. Point of Care Assist is a tool that puts real-time patient information at the fingertips of doctors and their EMRs, providing a seamless clinical workflow experience. This improves adherence to clinical protocols, facilitates real-time authorization approvals and helps refer the patient to premium designated specialists. Utility of this tool is significant for all as doctors save time and money, consumers avoid cost surprises, and most importantly, health outcomes are improved.

As we look to 2020 and beyond, there is a $900 billion untapped managed care market opportunity in health benefits, much of it in government programs, where we have grown strongly, and we look to serve more people more deeply across the system.

Now, I'll turn it over to John Rex, CFO of UnitedHealth Group.

John Rex {BIO 19797007 <GO>}

Thank you. Derek. This morning, we reported full-year revenues of $242 billion, up $15.9 billion, or 7% year-over-year, driven by double-digit revenue growth in Medicare and across Optum. Fourth quarter adjusted net earnings of $3.90 per share grew 19% and brought full year earnings to $15.11, growth of 17%. Cash flows from operations of $18.5 billion grew 18% over 2018 to 1.3 times net income, better than anticipated, partly due to timing factors.

Our balance sheet and return metrics remain strong with return on equity of almost 26%. We ended the year with a debt-to-capital ratio of around 40%, even with over $10 billion of deployment for business combinations and CapEx, $5.5 billion in share repurchases and a 20% dividend increase. Medical reserves developed favorably in the fourth quarter by $270 million, including $150 million from 2019. Overall, medical costs were well managed, resulting in an 82.5% medical care ratio for full year 2019.

We continue to be highly attentive to operating costs as part of our overall affordability agenda. In 2019, our operating cost ratio of 14.5% improved 50 basis points, reflecting 50 basis points of operating cost productivity and the deferral of the health insurance tax, partially offset by the effect of business mix changes and continued investments in innovation, service and growth. We enter 2020 with diversified growth momentum, balance sheet strength and financial flexibility.

On earnings progression, we continue to expect 47% to 48% of full year earnings per share to be realized in the first half of the year. A point to keep in mind on the quarterly progression, 2019's first quarter has one fewer workday than 2018's, resulting in a higher earnings level. This year, the first quarter has a more normal mix, but then adds an extra day due to leap year. Taken together, the day count shifting has a year-over-year impact on the medical care ratio of about 80 basis points. This will result in the first quarter 2020

MCR running higher than the second quarter and earnings per share progressing accordingly, with just under 55% of the first-half earnings expected to be realized in the second quarter. These impacts, of course, were fully contemplated in that 2020 outlook we provided at the beginning of December.

For full year 2020, we continue to expect revenues to approach $262 billion and adjusted net earnings per share in a range of $16.25 to $16.55. Consistent with our prior practices, we will more formally address these and other expectations after the first quarter.

With that, I'll turn it back to Dave.

David S. Wichmann {BIO 3853550 <GO>}

Thank you, John. As you can tell, we are confident in the outlook for our diversified and growing enterprise for 2020 and beyond. Our businesses remain strong and well positioned for continued balanced growth by delivering even higher levels of societal value. We remain committed to our mission and an intense focus on serving one person at a time at increasing levels of value, more affordable, better outcomes and improved experiences while generating strong returns for you, our shareholders.

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

Questions And Answers

Operator

(Operator Instructions) Thank you. We'll take our first question from Justin Lake with Wolfe Research. Please go ahead.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks. Good morning. Wanted to ask about the quarter in terms of medical costs. Looks like they came in better than you expected versus the update at the Investor Day. Any color there? Specifically, if you can expand on how you're seeing Medicaid progress from a cost and risk pool rate perspective as you come into 2020, that would be really helpful as well? Thanks.

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

John Rex?

A - John Rex {BIO 19797007 <GO>}

Hey, Justin. Good morning. Yes. I think I'd point out a few things. You're correct, it did come in just a little bit better than our guidance at the investor conference. And few things I would note, first, I'd call it broadly across the businesses as we continue to see the impact of the affordability initiatives that we've been very focused on having traction and having impact. So broadly across that, I think, it's fair to say also that we certainly did see some continued improvement in our Medicaid businesses, as that's a place that we've been focused on for a while here and that was also contributor, but broadly, I would say, across our businesses as we saw those affordability initiatives having traction.

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

Thank you, Justin. Next question, please.

Operator

Our next question from AJ Rice with Credit Suisse. Please go ahead.

Q - AJ Rice

Yes. Just, it sounds like on the call today you reaffirming your expectations around Medicare Advantage enrollment. Obviously, CMS has come out with their January numbers. It looks like in terms of the percentage enrolled in January, you're a little bit lighter than you were a year ago. I don't know events a fair comparison, but I wondered, is there anything in the data that -- I don't know if have you looked at what they put out that is missing from your perspective? I know it shows you down in group MA and maybe you're going to pick up in group MA. But just flesh out a little further what group MA over the course of the year would -- anything to reassure us about your expectations around MA for this year?

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

Thank, AJ. We're very pleased with our AEP results and I'd say by far it's our strongest year ever in individual Medicare. We did reaffirm the guidance, but nearer to the upper end of that guidance today. So we feel pretty strongly on with respect to our overall performance. Tim Wicks, can you add some color on some of the other questions.

A - Tim Wicks {BIO 7451713 <GO>}

Yes. Good morning, AJ. Thanks for the question. And first off, some of that CMS partial AEP reporting can be a little bit misleading. And Dave said, first and foremost, we want to reiterate the confidence in our full year enrollment growth that we shared at Investor Conference for MA. And just to revisit that briefly, we said 500,000 to 550,000 Medicare Advantage growth in the M&R business, which includes both group and individual MA and we also said that we'd be up to 700,000 in MA growth including dual (inaudible) in our Community & State business. So when that AEP completes, we will have grown by 370,000 in individual MA, including the duals that are in C&S and that's up 140% over the last year's AEP and is our strongest performance ever in the annual enrollment period. We expect this to drive full year results about 700,000 member growth in individual MA and that split in January net growth versus the rest of the year is roughly 50-50 and that's consistent with the historical pacing and also full year supported by the momentum that we've seen in AEP.

With respect to group, I mean you're right, group MA contracted modestly in the CMS reporting. When January all settles out, we expect that to be down about 65, but that will strengthen to flat to down 25 as the year closes out. And finally, all told, really great start to the year, strong signal of confidence for the full year and our growth guidance shared at Investor Conference.

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

Thank you. AJ. Next question. Next question please.

Operator

We'll go next to Scott Fidel with Stephens. Please go ahead, your line is open.

Q - Scott Fidel {BIO 5322875 <GO>}

Thanks. Maybe just sticking on the membership updates for 2020, and obviously, you just gave some good detail on Medicare, just interested if there's anything to call out in terms of on either the commercial business or the Medicaid business in terms of expectations on membership relative to the ranges that you had provided at Investor Day? Then also just specifically within that just interested in how you're approaching the North Carolina Medicaid situation, just given the budget situation there in terms of what you're assuming for timing implementation of that and how many lives you have factored in around North Carolina? Thanks.

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

Good question, Scott. Thank you, Dirk McMahon will start, and then Heather Cianfrocco can discuss Medicaid.

A - Dirk McMahon {BIO 18950833 <GO>}

Yes. Thanks. Thanks for the question, Scott. So we'll be down a little bit in enrollment for 1/1/20, in both the fully insured and ASO areas. But throughout the course of the year, we expect to gain membership in both areas as we previously guided in December. As we look at 2020, we're going to continue with the pricing discipline that I previously talked about as we balance enrollment growth with our margin expectations. We remain focused on delivering a unique value proposition for our customers and the consumer. Hard to tell you where I'm optimistic for next year. In fully insured, expect strength in individual products and the middle market, as I look at our ASO block, I look at our All Savers and as I look at our middle market as well. With that, turn it over to Heather Cianfrocco.

A - Heather Cianfrocco {BIO 18236688 <GO>}

Thanks. Yes. So good question with respect to -- we'll start with membership and then talk a little bit about North Carolina. So in our membership for this year, we do expect growth in Medicaid this year and that's coming from a couple of places. North Carolina is in our 2020 guidance right now. We've got some other things in there. We've got some increases from some markets, like our Washington win last year, Texas win -- recent Texas win, we are going to see some Nebraska expansion, and then, we see another strong year of business [ph] as Tim just talked about for 2020. We are really well positioned there with a new county expansion, service area expansion and our AEP is off to a really, really strong start. So really excited about that.

Pressure is obviously North Carolina. So it's in our 2020 membership outlook and our revenue outlook and we assume it right now to come in about mid-year. We're really honored we were selected. We're ready for implementation and we're eager to start serving North Carolinians. Despite the budget situation there, there is strong support for the program and for managed care there. So we're continuing to monitor the implementation date. We'll keep you posted on that and you will watch that as well. In the meantime, we've got -- we're excited about the opportunity, it's in our outlook, and we look forward to hopefully getting that on track here as close to mid year as possible.

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

And just said on to that a little bit, Scott. We won also in Kentucky. We were pleased to win. Obviously, that's being rebid now, but we will hopefully prevail in the end there as well. And it's a strong RFP season for Medicaid broadly and I see the business having come around to being positioned with its turnaround just in time to compete ferociously for that business. So we're pretty bullish about the opportunity that exists in Medicaid, and I think we're well positioned to grow. Thanks for the question, Scott. Next question please.

Operator

And we'll go next to Peter Costa with Wells Fargo Securities. Please go ahead.

Q - Peter Costa {BIO 1500085 <GO>}

Good morning, everyone. Nice quarter. I'd like to take it up a little bit in terms of looking at the longer-term picture for Medicare. There is couple of changes in the Medicare program and I'm curious what you think of as being the biggest risks to you in terms of your business? And those are paying for social determinants of health, which is something new for this year, allowing ESRD patients to join next year and Medicare fee-for-service, direct contracting by providers is starting. Can you talk about those three items and if they are risks to you?

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

Sure. Be happy to discuss all three of those. Tim?

A - Tim Wicks {BIO 7451713 <GO>}

Yes. Thanks, Peter. So I think I'll take ESRD first, but I also want to caution the long-term outlook, especially with respect to 2021, and really any year. It's a little bit premature to get into some of nuts and bolts of how we see the landscape shaping out. But on ESRD, we're very supportive of the change that goes into effect on 2021 and encouraged by the opportunity to serve more people. We're not concerned with some of the unknown elements around the reimbursement and payment models. We will learn those details very soon. We remain confident and expecting that those models will be fair adequate and importantly, we believe that these people will be better served in Medicare Advantage.

Also, important to keep in mind, we serve 40,000 Medicare Advantage enrollees with ESRD today that developed the disease post-enrollment and our focus with these members is both on prevention and then also on treatment. So we're pleased to have the opportunity to expand our reach and impact with patients that have the disease at the time of enrollment.

With respect to social determinants, we continue to have that to be a key focus of our business, consistently referring folks inside of programs where appropriate. And some of the additional flexibility to apply social determinants in plan design are elements that we're leveraging in some of our demonstration projects in 2020. We're excited to learn a little bit more about this as the year progresses and look for more opportunities to do things in this area in 2021.

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

What was last question?

A - Tim Wicks {BIO 7451713 <GO>}

Pardon me.

Q - Peter Costa {BIO 1500085 <GO>}

The last one was physician direct contracting for fee-for-service Medicare?

A - Brian Thompson {BIO 1537785 <GO>}

Hey, Peter. Brian Thompson here. Yeah. We're encouraged by that as well. I think similar to what we've done with the bundled payment program, it's a good opportunity to work on advancing traditional Medicare and we're encouraged by that thinking and creativity and look forward to participating.

A - Dirk McMahon {BIO 18950833 <GO>}

And I might add overall Peter that we're bullish obviously overall on the outlook for both Medicare Advantage, but also the Dual Special Needs marketplace as well. They're both very large today and growing end markets. MA is clearly outperforming fee-for-service in terms of overall benefit coverages and the quality of outcomes and the returns of people are getting in terms of their overall satisfaction. And so it's no surprise that it is performing as well and seems to be gaining some momentum. So we look forward to continuing to compete, hopefully, growing at these levels, if not higher, going forward.

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

Next question, please.

Q - Peter Costa {BIO 1500085 <GO>}

Thank you.

Operator

And we'll take our next question from Josh Raskin with Nephron Research. Please go ahead.

Q - Josh Raskin {BIO 3814867 <GO>}

Thanks. Good morning. Question around the broad space that's growing around physician enablement. And I'm curious, it seems like there's been a lot of interest, a lot of new competitors that are focused on that. I know Optum has been very early. Do you think of Optum as the market leader? And is this broad movement of physicians taking more risk, is this positive for UnitedHealth Group?

A - Andrew Witty {BIO 3471756 <GO>}

Josh, thanks so much for the questions. It's Andrew. Yeah. We absolutely see physicians very much as a central element of improving care delivery, quality and cost. It's what's really driving OptumCare which is clearly the central part of OptumHealth. As we see physicians move toward taking more risk, we see improvements across the board in terms of resource allocation, prevention focus, ensuring clinical outcome is maximized. We're very encouraged by that trend. This year alone, we'd expect about 150,000 more patients to go into our physician-risk managed programs across OptumCare. We continue to see that trend accelerate. It's very much something that we then anchor the build out of the rest of our OptumHealth portfolio around.

So in a sense, it's that thoughtfulness around how can we then create services inside data analytics, which help the physician make the best possible judgment to manage the overall risk profile of the patient. You see that then reflected in the relentless growth of the revenue per patient served across OptumHealth that's really being driven by this shift. And so you're absolutely right, very important element for us, and it essentially becomes the core around which we then envision and build our support services, our interventions and our analytics to empower the physicians to make the best possible decision on behalf of the patient. Thank you.

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

Let me just add just slightly, Josh, that UnitedHealthcare is working on physician enablement as well. This is what the core of Dirk's commentary this morning was around Point Of Care Assist. This is why we built and deployed the IHR and this is why we focused essentially in our investor conference around the way in which we engage, both the digital and physical realms, to AI-enable people to be able to operate much more effectively and serve their patients.

So thanks for the question. Next question please.

Operator

And we'll go next to Kevin Fischbeck with Bank of America. Please go ahead.

Q - Kevin Fischbeck {BIO 6157376 <GO>}

Hey. Thanks. Just want to go back to Medicaid for a minute. Can you talk a little bit about, I think, you mentioned that during Q4 maybe you saw some improvement on Medicaid. But can you talk about the expectation for the year? I guess in particular I guess two things: one is, the implication of redeterminations in the rate updates relative to that, how the rate update is going and are you modeling additional redeterminations as the year goes on? And the second just quickly going back to North Carolina. If North Carolina got delayed into 2021, would that impact your EPS guidance or is it really more just the revenue number at this point? Thanks

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

I think we're making progress across all dimensions of Medicaid right now on rate, cost and quality. Heather, do you want to take the question?

A - Heather Cianfrocco {BIO 18236688 <GO>}

Sure. So maybe I'll start with the Medicaid performance. So we're pleased with the Q4 results. And when I say that I really mean that it's marching along right within expectations. With what we've really executed on our affordability agenda, we see strong partnerships with our states to address what was for a period of time due to redeterminations or other under funding issues just acuity related under funding. So as we look into 2020, I feel good about the progress made through all of '19, and particularly in the second half of '19 with respect to rates and with respect to affordability. And so as we come into 2020, we've got a view into our Q1 rate renewals. They're right in line with our expectations. They are up above what they were at the same time in '19. We've delivered on our clinical programs. We're seeing strong NPS, customer service scores and quality. So, I feel good about that. As I say that, you still expect us to hit our target margin by the end of the year. So that just gives us renewed confidence in what we've committed to you already. So expect our Medicaid business to continue to perform along that track and we'll be hard at work on it.

With respect to North Carolina, yes, I guess, I'll just say, again, we're monitoring it every day right now, I'm going to say that we're continuing to push and it is a big component of our opportunity in 2020 from a revenue and a membership perspective. But that being said, there is a lot of other growth opportunities that we're measuring too. We didn't have Kentucky in our guidance, but we also didn't -- and that got pushed, but we also didn't have the Massachusetts One Care bid that we just won. So we're going to be monitoring all those things. And right now, we're going to work for a midyear close there too implementation and we'll keep you posted.

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

Kevin, Dave again. If I could just add. So if North Carolina were to get pushed to 2021, it would not affect our expectations for the year. Our guidance would stay the same. As it comes out of the chute, it's a relatively modest margin product market as is often the case, so we wouldn't expect any material impact on our expectations for the year.

Thank you. Next question please.

Operator

And we'll go next to Lance Wilkes with Bernstein. Please go ahead.

Q - Lance Wilkes {BIO 4820557 <GO>}

Yes. Could you talk a little bit about PBM margin for the quarter? And interested in, I mean, the improvement there. How much of that is driven by just mix shift from the transition of the large client and how much is other initiatives like cross sales or sourcing initiatives?

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

John Prince?

A - John Prince {BIO 20142902 <GO>}

Hi, Lance. John Prince, thanks for the question. As you look at the fourth quarter, the margin was elevated as expected. So when we gave our guidance at Investor Day, we were expecting the operating earnings margin around 6.3%, 6.4%, so it's exactly what we expected. Why was it elevated is exactly what you mentioned with the loss of the large client, where we lost the revenue, but we don't really impact our operating earnings. The second driver was the supply chain strength in terms of our continue to negotiate with pharma manufacturers as well as the supply chain to get value to pass on to our clients and so that was the other key driver for it. As we look to 2020 guidance, you should expect our operating earnings margin to fall back to where we had guided at Investor Day of 5.1% to 5.2%. So that should be your expectation. It was more of an anomaly what happened in Q4, as expected.

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

Thank you, Lance. Next question please.

Operator

And we will go next to Ricky Goldwasser with Morgan Stanley. Please go ahead.

Q - Ricky Goldwasser {BIO 1977392 <GO>}

Yeah. Hi. Good morning. So you reiterated guidance this morning for 2020. Just want to clarify if the guidance already includes any impact from the repeal on mid-year renewals? And also the benefit from the Diplomat acquisition? And then another follow-up on the dual growth. I mean obviously 15% to 20% is the implied growth which is strong and above market, but when we think about that, can you just like help us think through the Part D dynamics and how that would flow through the P&L, if it's going to have any impact on OptumRx throughout the year?

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

We'll have John Rex start and then shift to Tim Wicks or john Prince.

A - John Rex {BIO 19797007 <GO>}

Hey, Ricky. John Rex here. So in terms of those elements you mentioned, I'd say both are immaterial in the scope of our Company. You're correct, yes, when we guided to 2020, initially the repeal of the hit was the health insurance tax had not yet occurred, but I would call that immaterial to us. Yes, there is some impact, but not material in terms of modest headwinds in the scheme of our Company, not something that we would call out.

Also, in terms of the Diplomat -- the pending Diplomat acquisition also, I'd call that immaterial, really no impact, I mean neutral in terms of our 2020 outlook.

A - Andrew Witty {BIO 3471756 <GO>}

And John Prince?

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

Thanks, Ricky. John Prince. In terms of the other pieces on Part D and our components, that's as expected. So I think we're not changing our guidance for 2020. What we expect in terms of Part D and Diplomat is, it's built into our guidance, and so we're comfortable with our expectations.

Great. Thank you, Ricky. Next question please.

Operator

We'll go next to Stephen Tanal with Goldman Sachs. Please go ahead.

Q - Stephen Tanal {BIO 17633334 <GO>}

Good morning, guys. Thanks for the question. I guess, at this stage, I was just wondering if you could kindly give us a sense of the hit for PO, how we should be thinking about modeling that in, whether you'd commit to at least the non-tax deductibility of it going away, flowing to the bottom line or if it's still too early? And then maybe just to your comment on OptumHealth, just given the risk taking nature of what you guys are doing, I thought it'd be interesting to hear from you all how the flu impacted the economics of that business in Q4, thinking revenue, earnings, margin? Thanks.

A - Tim Wicks {BIO 7451713 <GO>}

Great. I'll touch on the hit and then Wyatt Decker will comment on OptumHealth. So overall, the hit, as I said in the prepared remarks, we are pleased. I would just put this way, obviously, it's great for seniors, families that have -- of small businesses and individual insurance as well. On average for couple -- senior couple it's $500 to $600, it pretty much carries out the same for a family of four that's funded by a small business. And so obviously this has a strong economic impact on these families and individuals. So it's terrific to see it get repealed. The other thing about it is, it removes the excessive volatility. I'm sure you're as fatigued with it as we are. It's in, it's out and -- but more important than all that is that it affects the volatility of pricing in the marketplace as well. So hopefully you will see that stabilize as we get through 2020 and into 2021 as well.

At this instance we're not going to discuss 2021 and what our strategies may be with respect to how we handle this. Obviously, it's important that the tax value gets back into the hands of people, that's what it was intended to do and that's what we intend to accomplish overall. And as John already indicated, while it has a drag on earnings for 2020, we're not changing our outlook as a result of that. That is a small item in the broad scheme of schemes. And I think Wyatt to discuss flu at OptumHealth --

A - Wyatt W. Decker {BIO 17276367 <GO>}

Yes. Steven, thank you for the question. At OptumHealth and OptumCare, we follow the usual flu modeling and we have not seen a material impact deviating from that in Q4, and we do not anticipate a significant impact in Q1. As you may know, it's been a reasonably robust flu season, but it's mostly the B strain, which is not as severe. So we also have a fee-for-service MedExpress practice, which tends to offset any hit we might take on the risk side. Thank you.

A - John Rex {BIO 19797007 <GO>}

Thank you, Wyatt. I just I want to clarify one thing that Ricky asked and I'm not so sure we answered it correctly, it's really about whether or not Diplomat, the proposed transaction is in our numbers for 2021 and 2020, and the answer to that is, no. It would not be in there. We don't include transactions in our forecasts until they close. So that is not included in there and as soon as it does close, a quarter following, we will update our forecasts accordingly. This is one of the reasons why we talked about the impact of capital deployment on our growth rate and how it can advance during the year because of transactions. In this case, it will be very, very modest, but nonetheless, I just wanted to make sure we had that clarification.

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

Thank you. Next question please.

Operator

We'll go next to Steven Valiquette with Barclays. Please go ahead.

Q - Steven Valiquette {BIO 1928887 <GO>}

Thanks. Good morning, everybody. So actually not to beat the Diplomat Pharmacy acquisition topic to death, but I know it's not a huge acquisition for you financially, but despite that, I do have to believe that it would just almost immediately be a ton of operational synergies when folding that book of business into your existing PBM and specialty pharmacy operations, probably in reimbursement and also in pharmacy network contracts. So I guess I was hoping to hear more color around what you see is the biggest area of synergy at this stage? And then just conceptually, could this deal move the needle for UNH overall in 2021? Obviously, it maybe sounds like probably in 2020 not much, but could it move the needle for the Company overall in 2021? Thanks.

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

It'll be nicely accretive to us. Unfortunately, it also comes with a great deal of integration costs, most of which will hit 2020 as well. And can you touch on that, John?

A - John Prince {BIO 20142902 <GO>}

Sure. Steven, it's John Prince. Just maybe talk a bit more why we're doing the deal. So thing that's really at the core of it, which is to better serve individuals that have complex diseases like oncology, immunology and specialized infusion therapy. When you look at the capabilities of Diplomat around specialty pharmacy and infusion, it fits well with the strategy of OptumRx, focused on these unique populations that need better value, and helping improve their drug cost, improving their health outcomes and overall value of care in a compassionate way.

So we think there is a good bit of our two businesses that come together to better serve the key needs in the market. And so as we've talked about before, strategically, specialty drug cost is a key focus for the future as well as probably chronic [ph] . And I think that strategically fits very well. We're obviously still little ways away from closing the transaction. We are actively doing our planning for that and we'll be ready to start that as we conclude the transaction in the first quarter.

Q - Steven Valiquette {BIO 1928887 <GO>}

Okay. I appreciate the color. Thanks.

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

Yeah. No problem. Next question please.

Operator

And we'll go next to Michael Newshel with Evercore ISI. Please go ahead.

Q - Michael Newshel {BIO 19788719 <GO>}

Thanks. Maybe just going back to the flu. I just wanted to confirm that those earlier comments also apply to the UnitedHealthcare side as well, are you seeing high outpatient activity but severity in hospitalizations just don't appear to be that high, at least to published yet?

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

Jeff Putnam?

A - Jeff Putnam {BIO 20479434 <GO>}

Yes. Thanks for the question. Yes. On the UnitedHealthcare side similar dynamics. The flu season, as you see in the CDC data started early and we are having elevated incident levels on the outpatient side, but overall severity, as was mentioned, is lower there and in-patient admits have been close to normal. So very modest impact in the fourth quarter.

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

Thank you, Michael. Next question please.

Operator

We'll go next to Ralph Giacobbe with Citi. Please go ahead.

Q - Ralph Giacobbe {BIO 6968095 <GO>}

Thanks. Good morning. You're rolling out certain initiatives and benefit design changes to your fully insured book around site of service initiatives and prior off along with preferred lab network et cetera. And it sounded like that actually benefited to some degree in fourth quarter. Can you give us maybe a little bit of a sense of what proportion of the ASO book has adopted these initiatives may be for 2020, and/or how we should think about the uptake over time? Thanks.

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

I don't think we'll talk about adoption rates in the large national accounts business, but Dirk, you want to talk a little bit about your overall efforts around containing medical costs?

A - Dirk McMahon {BIO 18950833 <GO>}

Yes. As we think about medical costs, you mentioned very effectively site of service. We rolled that out to a lot more codes in November, knees and procedures like that. We're also very focused on our network negotiations to try to drive unit costs lower in many areas. I'd look at our trend two-thirds of unit cost in network is at the start of that. We're doing a lot of work in terms of increasing consumer engagement, providing them with effective decision tools through rallying our other apps portal to other digital property to drive the right movements. And also got to think Optum. A lot of work with our clinical model is driving savings as well as payment integrity, as Andrew mentioned in his remarks. So we really have a full forward press on affordability. We think that is a primary driver of our ability to price effectively in the market and actually provide access for consumers and employers and everyone. So a lot of work on the affordability front.

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

And Dirk's team in UnitedHealthcare is doing a wonderful job on affordability broadly in medical costs. Obviously they're interested in getting healthcare to be much more affordable. And the collaboration between Optum and UnitedHealthcare has never been stronger on that front. Optum has really stepped in as they do with all their third-party health plans as well. It's really assist in driving this broad based agenda across the Company. We have time for two more questions. Next question please.

Operator

And we'll go next to Gary Taylor with JPMorgan. Please go ahead.

Q - Gary Taylor {BIO 3571633 <GO>}

Great. Does that mean I get to ask two questions? No.

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

Pardon me.

Q - Gary Taylor {BIO 3571633 <GO>}

I was going to stay, great, does that mean I guess to ask two questions?

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

Well, you can. We'll only answer the first one.

Q - Gary Taylor {BIO 3571633 <GO>}

That was just my question. My one question is, I do appreciate the earnings cadence commentary given leap year, but thinking in sense, reported MLR is such an outsized impact on the near-term stock volatility, wondering if you'd be willing to give us first quarter MLR range? I mean there are a few other moving parts in the quarter besides leap year, there is pretty high March seasonality with extra Monday, Tuesday and then obviously there is the dilutive impact of the HIF reinstatement?

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

John Rex, he will maybe just -- I know that was pretty complex in terms of the quarterly progression and we expected that. So, John you just want to make sure that everybody understands that well.

A - John Rex {BIO 19797007 <GO>}

Sure, Gary. Good morning. Let me give you a little more color in terms of the impact that occurs as we go into that. So I described some of the impact with workdays content and how that flows. And just in terms of thinking about that. So one values different days with different medical costs, weekend versus weekdays, even versus different days of the week. In terms of what I was describing there, it actually comes out to, it's a little -- it's not two days, it's more than one -- it's about 1.3 days of impact in terms of the workday content because of where it falls into when you flow into a leap year like that. And that pattern typically of course repeats. So that's the element that flows into that.

Then if you consider the other elements we talked about at -- when we talk to our full year MCR progression and year-over-year progression, we talk about the impact of the health insurance tax of 140 basis points and that impact. And then we talked about mix impacts also that occur over the course of the year. So those are really the cores that are -- as we consider where we'd expect the medical care ratio to be lining up here as we look at the first half of the year. I hope that gives you a little extra color.

Q - Gary Taylor {BIO 3571633 <GO>}

So you don't want to give us a 1Q range today?

A - John Rex {BIO 19797007 <GO>}

Sorry. What's that, Gary?

Q - Gary Taylor {BIO 3571633 <GO>}

You don't want to give us the first quarter .

A - John Rex {BIO 19797007 <GO>}

Our quarter pick, I think I kind of just described it actually pretty hopefully fairly clearly there in terms of the roll forward and how you would approach that. So if you take the components of the math that I just gave you, I think, that should get you to a first quarter pick.

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

So there is no change to full year guidance. John tried to lay out for you what first half, last half, would be, and then within the first half, what the proportions would be as well. So you should be able to get a pretty good sense of things from all of that, recognizing oftentimes things don't shoot quite that straight. So plus or minus would probably be a worthwhile range to put around whatever point estimate you come up with.

Thank you very much, Gary. Next question please.

Operator

And we'll go next to Sarah James with Piper Sandler. Please go ahead.

Q - Sarah James {BIO 16692995 <GO>}

Thanks for squeezing me in. Now that there is some bipartisan support for spread pricing bill, can you talk about the exposure? In '19, you said it was about 25% of the book. So did that needle mover for '20? What does the mix look like in your commercial book of spread versus pass through? And does this bill impact the value proposition that you see for OptumRx at all?

A - Unidentified Speaker

John?

A - John Prince {BIO 20142902 <GO>}

Sure. Thanks for the question. As you know, we are committed to driving to a strategy around negotiating of the clients of a transparent model where more and more of our services are coming from administrative fees and value based arrangements. Our clients decide how they want to pay for our services. So when we bid on a deal for our client, we give them an opportunity to either pay through administrative fee or with spread or traditional. So it's a client choice. So as you look at it, we don't have a preference about where we want to go from a business model. We're indifferent around how a client wants to choose it.

In terms of the commercial market, the trend in the market hasn't changed in the last couple of years. So actually the client -- there has not been a move one way or the other in terms of spread versus administrative fee. As you look at the Medicaid market, there has been a trend over the last three years, where more and more of the state organizations have been moving to administrative fees. So if you looked at our client base three years ago, majority would have been spread. If you look at it today, less than a quarter is in spread and actually we expect that to almost disappear as you look out the next two year. So from us to when they actually impact our financials, I won't speculate about what will happen in Washington, but we're well positioned from a business standpoint.

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

Great questions, Sarah. Thank you so much. I'll go ahead and close now. Thank you all for your questions. Sorry, we can't get to everyone today. As you heard this morning, we remain confident in our outlook for 2020 and beyond. Our diversified and complementary businesses are strong and well positioned for continued balanced growth by delivering even higher levels of societal value while generating strong returns for you, our shareholders. Thank you. And this concludes today's call.

Operator

And this does indeed conclude today's program. Thanks for your participation. You may now disconnect.