Seeking Alpha α

Transcripts | **Healthcare**

Centene's (CNC) CEO Michael Neidorff on Q3 2019 Results - Earnings Call Transcript

Oct. 22, 2019 5:47 PM ET | 3 Likes
by: SA Transcripts

Q3: 10-22-19 Earnings Summary

Press Release

EPS of $0.96 beats by $0.01 | Revenue of $18.98B (17.27% Y/Y) beats by $589.65M

Earning Call Audio

Subscribers Only

0:00:00 -1:16:56

Centene Corporation. (NYSE:CNC) Q3 2019 Results Earnings Conference Call October 22, 2019 8:30 AM ET

Company Participants

Ed Kroll - Investor Relations

Michael Neidorff - Chairman, President and Chief Executive Officer

Jeff Schwaneke - Executive Vice President and Chief Financial Officer

Brandy Burkhalter - Executive Vice President-Operations

Kevin Counihan - Senior Vice President-Products

David Thomas - Executive Vice President of Markets

Conference Call Participants

Matt Borsch - BMO Capital Market

Josh Raskin - Nephron

George Hill - Deutsche Bank

Scott Fidel - Stephens

Sarah James - Piper Jaffray

Lance Wilkes - Bernstein

Kevin Fischbeck - Bank of America

Charles Rhyee - Cowen

Dave Windley - Jefferies

Peter Costa - Wells Fargo

Stephen Tanal - Goldman Sachs

A.J. Rice - Credit Suisse

Justin Lake - Wolfe Research

Ricky Goldwasser - Morgan Stanley

Gary Taylor - JPMorgan

Ralph Giacobbe - Citi

Operator

Good day, and welcome to the Centene Corporation Third Quarter Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Ed Kroll, Senior Vice-President of Finance and Investor Relations. Please go ahead.

Ed Kroll

Thank you, Elisa, and good morning, everyone. Thank you for joining us on our third quarter 2019 earnings results conference call. Michael Neidorff, Chairman, President and Chief Executive Officer of Centene; and Jeff Schwaneke, Executive Vice President and Chief Financial Officer of Centene will host this morning’s call, which can also be accessed through our website at centene.com.

A replay will be available shortly after the call’s completion, also available at centene.com, or by dialing (877) 344-7529 in the U.S. and Canada or in other countries by dialing (412) 317-0088. The playback number for both dial-ins is 10135235.

Any remarks that Centene may make about future expectations, plans and prospects constitute forward-looking statements for purposes of the Safe Harbor provision under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in Centene’s most recent Form 10-Q filed October 22, 2019 today and the Form 10-K dated February 19, 2019 and other public SEC filings.

Centene anticipates that subsequent events and developments will cause its estimates to change. While the company may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so. The call will also refer to certain non-GAAP that’s Generally Accepted Accounting Principles measures.

A reconciliation of these measures with the most directly comparable GAAP measures can be found in our third quarter 2019 press release, which is also available on our website at centene.com under the Investors section.

Finally, a reminder that Centene will hold its next Investor Day on Friday, December 13, 2019 in New York City, and host its fourth quarter year-end 2019 earnings call on Tuesday, February 4, 2020.

With that, I’d like to turn the call over to our Chairman, President and CEO, Michael Neidorff. Michael?

Michael Neidorff

Thank you, Ed. Good morning, everyone, and thank you for joining Centene's third quarter 2019 earnings call. During the course of this morning's call, we will discuss our third quarter results and provide updates on Centene's markets and products. We'll also provide commentary around the healthcare legislative and regulatory environment, as well as an update on the acquisition of WellCare.

Let me begin with the third quarter 2019 financials. We are pleased with our third quarter results, which delivered strong top and bottom line growth. These results reflect the growth in our marketplace business, new Medicaid contracts and programs, and demonstrate the benefits of our diversified healthcare enterprise.

Membership at quarter end was 15.3 million recipients. This represents an increase of 884,000 beneficiaries or 6% over the third quarter of 2018. Third quarter revenues increased 17% year-over-year to $19 billion.

Adjusted third quarter diluted earnings per share were $0.96. This compares to $0.89 reported in the same period last year, representing 8% year-over-year growth. The $0.96 excludes a 271 million or $0.57 per diluted share non-cash impairment charge. Virtually all related to the write down of goodwill and intangible assets of our U.S. medical management subsidiary.

The third quarter HBR was 88.2% representing an increase of 190 basis points year-over-year. The HBR was impacted by a number of non-operational items, which accounted for 180 of the 190 basis point increase year-over-year. 100 basis points of the increase was attributable to the California In-Home Support Services reconciliation in the third quarter of 2018. This benefited last year the third quarter of 2018 HBR by 100 basis points. The health insurance, the moratorium increased HBR by 50 basis points quarter-over-quarter. The impact from the at-risk, state directed payments in California, was 30 basis points this quarter. I also remind you the third quarter of 2019 HBR reflects new contracts in Pennsylvania, Iowa and New Mexico, which carry higher HBRs in their first year of operation.

On a sequential basis, the HBR increased 150 basis points, which is primarily attributable to the normal seasonality of the marketplace business. Consistent with prior years, our marketplace business has higher medical expenses as the year progresses, as more members reach the out-of-pocket maximums.

The previous mentioned at-risk, state directed payments also contributed to this sequential increase of HBR. Moving into markets and product updates. First, Medicaid, our Medicaid business continues to grow benefiting from new contracts such as Iowa, New Mexico and Pennsylvania.

In aggregate, membership grew approximately 3% sequentially and approximately 1% year-over-year to 8.7 million recipients. Our new business more than offset the enrollment and revenue headwinds caused by ongoing eligibility, redeterminations in certain states. The redetermination process can cause an adverse impact on acuity levels as these enrollment members tend to have a lower HBR. We view this as a temporary issue as we continue to work with our state partners to appropriately adjust our rates.

Next, state updates North Carolina. We are pleased to announce Centene was successful in its appeal of the North Carolina Medicaid managed care RFP, resulting in an expansion of our North Carolina Medicaid contract.

Our provider led North Carolina subsidiary was awarded an additional region, which includes the Raleigh/Durham area. With the addition of this region, we will now be providing managed care services in three regions; Region three Charlotte area, region four Raleigh/Durham area, and region five Wilmington and Fayetteville areas.

According to stated data, these regions represent approximately 60% of total Medicaid beneficiaries covered under the program. This new three year contract is expected to commence February 1st of 2020, and includes the option to renew up to two additional years.

Texas, Texas has rescheduled its STAR+PLUS reprocurement asset until sometime later this month. The STAR and CHIP reprocurement announcement is expected in December. We remain confident that our performance and value are recognized by the state.

Louisiana, we were disappointed to not have been selected for the Medicaid contract in Louisiana, and it’s recent reprocurement. We performed an extensive review of the scoring and evaluation process, and as a result, filed a protest with the state. We anticipate a decision on our appeal from the procurement officer later this month, and remain cautiously optimistic. The state is considering using emergency contracts with the incumbents to eliminate member disruption until the appeal is resolved.

New Hampshire, on September 1, we commenced operations under our new Medicaid Managed Care contract in the state. This was a successful reprocurement of an existing contract. We are now serving just under 80,000 beneficiaries in New Hampshire, which is marginally higher year-over-year.

Now Medicare. At September 30, we served approximately 405,000 Medicare and MMP beneficiaries across 20 states. This represents a year-over-year decline of approximately 30,000 recipients, which is the result of planned actions taken by Fidelis to re-establish a four star rating.

On a sequential basis, membership increased by 6000 recipients. Next year, we plan on expanding into 1000 counties and existing states in any one new state Nevada. Further Centene will return to a four star MA parent rating in 2020.

We will begin our joint venture with Ascension in four locations next year, and look forward to developing this as another potential growth engine. On the health insurance marketplaces, the marketplace business continues to perform well in the third quarter consistent with our expectations.

At September 30, we served approximately 1.9 million exchange members across 20 states. This represents a sequential decline of approximately 51,000 recipients. This is consistent with the higher member retention we are experiencing this year. Our marketplace margins continue to be within a range of 5 % to 10%.

We anticipate another strong year of operations as a national leader of exchange products. We aim to grow the business in 2020 as we expand our footprint in 10 of our existing states. I’ll now provide an update on the healthcare legislative and regulatory environment.

We continue to expect most of the activity will be at the state level and in the courts. Earlier this month, a federal judge in New York blocked the implementation of the administration's public [Indiscernible]. This rule will make it more difficult for legal immigrants to obtain green cards, if they have utilized certain benefits including Medicaid and housing assistance.

In addition, we are actively monitoring the pending decision from the Fifth Circuit related to the Affordable Care Act, and the Individual Mandate. Even considering these potential issues, we remain focused on delivering against our vision which is to be the leading provider of government sponsored healthcare. We believe the demand for affordable high quality healthcare coverage will remain at constant and durable driver of long term growth for us.

Over the last 30 plus years, we have remained focused on adding value to communities under various regulatory environments. Many states are seeking to improve access and affordability. We view this as an opportunity for Centene to be an innovative partner with these states.

We continue to work to ensure issues such as pharmaceutical costs, surprise billing, and the health insurer fee are recognized and are a focus for policy makers and regulators. A couple of quick comments.

High medical costs; they remain stable and in line with our expectations in the low-single digits. On our rate outlook, we expect a composite Medicaid rate increase of approximately 1.75% to 2.25% for 2019. This is slightly higher than our previous expectations, due to increases that mitigate the higher acuity levels associated with the eligibility redetermination I previously mentioned.

I will now provide an update on the acquisition of WellCare. The approval process continues to go well and is ahead of schedule. Conditional approvals have been obtained in all, but two states; Illinois and New Jersey.

WellCare and Centene continue to work expeditiously and cooperatively with the Department of Justice. The divestiture process reached an important milestone in September, when WellCare signed a definitive agreement to sell its Missouri and

Nebraska Medicaid health plans to Anthem.

The comprehensive integration planning process is well underway. Both of these are fully engaged and are doing extensive work to ensure a smooth and seamless combination. We remain comfortable with our previously communicated synergy and accretion targets. We continue to believe, we will receive all necessary approvals to close the transaction by the first half of 2020.

Given the progress of activities to date, there may be an opportunity to close earlier in 2020. Next, I'd like to make some preliminary comments on 2020 guidance. Note that my comments exclude the WellCare acquisition, and include the Louisiana contract, which is currently being protested. They also assume a higher tax rate due to the return of the health insurance fee.

We are still finalizing our annual planning process, but based on our reviews to date, we expect revenue and adjusted diluted earnings per share for 2020 to be consistent with the forecast included in the Form S-4 filed in conjunction with WellCare acquisition.

As is our custom, we will provide full details on 2020 guidance at our Investor Day on December 13 in New York City. In summary, we continue to deliver against the strategy and vision for Centene to be the leading government-sponsored healthcare provider. The scale and diversity of our enterprise allows us to absorb the ups and downs of rate cycles, markets and subsidiary performance.

This, is while simultaneously driving profitable growth both organically into M&A. Our targeted pipeline remains robust with more than ample opportunities. The WellCare acquisition will enhance our ability to provide recipients with access to affordable high quality services and blocks as well as deliver fair compensation for providers, increase shadings for states.

In addition, technology and innovation remain key differentiators across our enterprise, and we remain highly focused on furthering our capabilities and maximizing the impact of our investments in this area.

Fortune increasingly recognized Centene as number seven in their "Change the World" List through our Provider Accessibility Initiative. I recently announced strategic partnership with Walgreens and RxAdvance addresses a growing need for new approaches to pharmacy benefits management, particularly in Medicaid.

This innovative model aims to increase transparency, enhance customer experience and ultimately result in better health outcomes at lower cost. We remain focused on executing on our strategic priorities and are enthusiastic about the growth opportunities ahead.

We thank you for your continued interest Centene, and I will now turn the call over to Jeff.

Jeff Schwaneke

Thank you Michael and good morning. Let me reiterate some highlights of our third quarter results. Third quarter 2019 revenues were $19 billion, an increase of 17% over the third quarter of 2018 and adjusted diluted earnings per share was $0.96 this quarter compared to $0.89 last year.

Total revenues grew approximately $2.8 billion over the third quarter of 2018, primarily as a result of growth in the Health Insurance Marketplace business, expansions and new programs in many of our states in 2018 and 2019 particularly, Arkansas, Illinois, Iowa, New Mexico and Pennsylvania. The Ribera Salud acquisition in Spain and approximately $440 million in at risk, state directed payments in California recorded in premium revenue. This growth was partially offset by the health insurer fee moratorium in 2019.

Moving on to HBR, our health benefits ratio was 88.2% in the third quarter this year compared to 86.3% in last year's third quarter, and 86.7% in the second quarter of 2019. There are a lot of moving parts in the HBR for last year and this year that are non-operational in nature and affect the year-over-year comparison.

In order to understand the changes more clearly for this quarter, we have included reconciliation in our press release. We don't expect to provide an HBR reconciliation in future releases, but felt it was important in this quarter.

Let me explain the line items one by one. First, in the third quarter 2018, the HBR benefited by 100 basis points due to the IHSS reconciliation in California that we disclosed last year. Second, the third quarter 2019 HBR was adversely affected by the health insurance fee moratorium, which accounts for 50 basis points.

And finally, the third quarter 2019 HBR was adversely affected by approximately 440 million of state directed payments in California, which accounted for 30 basis points. State directed payments or payments that had minimal risk, but are administered as a premium adjustment. These payments are recorded as premium revenue and medical expenses close to 100% HBR.

In aggregate, these items account for 180 basis points of the change from the third quarter of last year to this year. Sequentially, the 150 basis point increase in HBR from the second quarter of 2019 is primarily due to the normal seasonality in the Health Insurance Marketplace business and the state directed payments I previously mentioned.

Let me provide a quick update on the Medicaid performance and eligibility redeterminations. The Medicaid HBR was flat year-over-year. Improvements in the Medicaid HBR which were driven by network and medical management initiatives were offset by the effective membership reductions due to the eligibility redeterminations.

We have experienced continued membership declines as a result of redeterminations resulting in an overall increase in the acuity of our remaining membership. While states have responded with premium rate adjustments recognizing the change in acuity, there could be a timing difference from an HBR perspective.

Long term, we expect the eligibility reductions to subside and premium rates to align with the relative acuity of our membership. Next, marketplace. The marketplace business continues to perform well, and membership remains strong, as we ended the quarter with approximately 1.9 million members. We continue to expect pre-tax margins for the year to be within our stated 5% to 10% range.

Now onto SG&A. Our selling, general and administrative expense ratio was 8.8% in the third quarter of this year compared to 10% last year and 9% in the second quarter of 2019. Year-over-year decrease was primarily driven by 70 basis point reduction related to the

"Veterans Affairs" contract expiration and our commitment to our charitable foundation recognized in the third quarter of last year.

The third quarter 2019 ratio was also affected by the state directed payments and benefited from lower variable compensation costs for programs indexed to our stock performance. Additionally, we spent $0.02 per diluted share on business expansion costs during the third quarter.

During the third quarter, we recorded $271 million or $0.57 per diluted share of non-cash goodwill and intangible assets impairment, virtually all associated with our U.S. medical management business. The impairment was identified as part of our quarterly review procedures, which included an analysis of new information related to our shared savings demonstration programs, slower than expected penetration of the home help business model into our Medicaid population, and the related impact to the revised forecasts. The business continues to be cash flow positive and remains an important part of our care management programs, but has fallen short of our profitability expectations at the time of the acquisition.

Investment income was $98 million during the third quarter, compared to $80 million last year and $120 million last quarter. The increase year-over-year reflects increased investment balances and higher interest rates. The sequential decrease is primarily related to our second quarter Ribera Salud acquisition gain.

Interest expense was $99 million for the third quarter of 2019 compared to $97 million last year, and $101 million last quarter. In October, we completed the refinancing of our 2021 senior debt securities to a floating rate Term Loan A that has a three year maturity. This lowers our interest costs, creates demand for our WellCare transaction financing, and aligns our short term interest rate risk with our investments.

One time refinancing costs associated with the transaction including the call premium were $30 million and were incurred in the fourth quarter. These are excluded from our adjusted earnings per share guidance, which I will discuss in a few minutes.

Our effective tax rate for the third quarter was 45.1% compared to 33.3% in the third quarter of 2018. The increase year-over-year is driven by the non-deductibility associated with the goodwill and intangibles impairment, offset by the impact of the health insurer fee moratorium.

We have a strong balance sheet. Our debt-to-capital ratio was 35.6% excluding our non-recourse debt, improving 180 basis points from year end, and 70 basis points from last quarter. We had 415 million borrowed on our revolving credit facility, and our days and claims payable was up one day from last quarter to 48 days.

We continue to expect the DCP to be in the mid-40 range on a run rate basis. Our cash flow from the nine months ended was $2.1 billion representing 1.9 times net earnings. Cash flow used in operations was $99 million in the third quarter, driven by the payment of approximately $1 billion related to the 2018 risk adjustment to CMS and minimum MLR programs, partially offset by net earnings.

Before I get into our updated guidance, let me make a few comments on the WellCare acquisition. We are pleased with the progress and the regulatory approval and have made significant progress on the integration planning. Based on the work performed to date, we continue to be comfortable with the synergy and accretion targets that we have previously communicated.

As we continue through the integration planning and get closer to the closing date, we will provide a complete update on the acquisition. Additionally, as disclosed yesterday, our board of directors approved a $500 million increase to the company's stock repurchase program. This, together with the new Term loan A provides flexibility to the company, to either repay debt or repurchase equity with the net proceeds related to the WellCare transaction divestitures.

Now on to 2019 guidance. We are updating our GAAP diluted earnings per share and our tax rate to reflect the impairment charge, and the refinancing costs that would be incurred in the fourth quarter. For an adjusted tax rate, the previous guidance range can still be used. The remaining guidance metrics are unchanged and are included in this morning's earnings release.

One quick note, we expect our fourth quarter total revenues to be lower than the third quarter 2019 revenues, as a result of the state directed payments previously mentioned. Our headline numbers for the full year remain unchanged.

Let me take a few minutes and discuss 2020. As Michael mentioned in his comments, we expect total revenues and adjusted earnings per diluted share for 2020 to be in line with what was filed in the S4 registration statement, associated with the WellCare acquisition. This includes total revenues in excess of $79 billion and an adjusted earnings guidance range that will encompass $4.79 per diluted share which was in the filing. This of course includes Louisiana and excludes the WellCare acquisition.

Overall, we were pleased with the performance during the quarter, and the continued progress on the regulatory approval, and integration planning associated with the WellCare transaction.

We are entering the fourth quarter with positive momentum. Looking ahead at next year, we remain focused on executing against our growth and diversification strategy, delivering both top and bottom line growth, and on successfully completing the integration of WellCare.

That concludes my remarks. And operator, you may now open the line for questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question today comes from Matt Borsch with BMO Capital Market. Please go ahead.

Matt Borsch

Yes. If I could just ask you about the -- with you reference to the S-4 forecast for 2020. So it looks like that is of course on a stand-alone basis before the impact of WellCare. The Street estimate is $492 million, where you guys are pointing to $479 million. I know you're not answerable to the Street estimates, and I don't know which ones include WellCare and which ones don't. But can you give us any more color on the moving parts that influence your view on 2020 at this point?

Michael Neidorff

Yes. I mean, I think a couple of things. We've obviously mentioned a little bit today about the redetermination and the reductions in membership. Obviously that would have a carryover effect into 2020. We're not going to go through I would say all the headwinds and tailwinds. We typically save that for our Investor Day in December. And I think also Michael highlighted in his prepared remarks, the tax rate, just as so everybody has a baseline here. We've historically commented that when the return of the health insurer fee comes back, it's usually 10% on the tax rate.

So I guess, what I would say is you know we're still in the early stages of our planning process. And we're comfortable with the numbers that we communicated today for 2020, and we'll give an update, a broader update on I would say the puts and takes when we get to our December Investor Day.

Jeff Schwaneke

I think, Matt -- I just, I might just add that we look at that as the baseline. And then it was thoughtful when we put it together, and it's a really good beginning point, and we want to be very careful not to get ahead of ourselves, because we always go into great detail on the December 13th in this case meeting. And so, look at that as a baseline, which from which we can we can build.

Matt Borsch

Got it. Got it. Makes sense. Thank you.

Operator

The next question today comes from Josh Raskin with Nephron. Please go ahead.

Josh Raskin

Hi. Thanks. Good morning. First and foremost, congrats to Ed, and good luck. And in terms of my question, I guess the first one would be the catalyst for the buyback, there seems to be a relatively new idea for Centene. You guys have been reticent in the past just being sort of so grossy. What was the catalyst? What was the decision now to decide, okay, we could, especially in light of some of the commentary that WellCare may be coming -- the closing may be coming sooner than expected?

Jeff Schwaneke

Well I think, there's a couple of factors; one, we'll be with WellCare deal, we treat that as a as a separate issue from the ongoing operations, and buyback of stock, which as you correctly pointed out, we have lots of applications for our cash in our capital. So that's -- it's -- we're treating it very separately because saying as part of this deal, what we receive on this really, and the buyback will start peaking to some minimal degree help on the accretion, things of that nature, and treat the case as just isolated and very separate from the ongoing day-to-day business, just seen the appropriate opportunity.

And we may use some of it to reduce debt. So I might also add that using it to buy back the stock at the levels the -- is trading at now also seems to make a lot of good financial sense. I think it was you or somebody said, I always hope, I have and we will. So it just makes sense, Josh.

Josh Raskin

I knew, I knew someone read one of our notes. All right.

Michael Neidorff

Okay.

Josh Raskin

It was the -- just the MLR guidance, you guys are running up about 120-ish basis points year-to-date or so of the fourth quarter, even at the high end would imply an MLR that's only up 90 basis points, and I say that because you've got some headwinds and things like that, that impacted on a year-over-year basis. So what's -- but improves in 4Q relative to what we've seen year-to-date, and should we be thinking more about sort of that higher end to the MLR guidance, the range that you guys have provided?

Jeff Schwaneke

Yes. Yes. Just a couple. I'm, I'm following you there, Josh. I think a couple of things. We obviously did have some new programs that started in Iowa. I would mention would be one in some other new programs that started this year. And so those, you know those usually start out at higher HBR at the beginning of the year. And you know by the time we get to the end of the year for example, the Pennsylvania LTSS we've had for almost a full year by that time. So there are things like that, that have, I would say improvements in the fourth quarter from a seasonality and a new business perspective.

So I think those are the things that, that I would point to. And you know the problem I think with looking at this year compared to last year is we've -- last year we had some unique items. This year, we have some unique items. So it's kind of difficult to get the earnings progression. But, again we didn't change our guidance range, and I think we're comfortable where it is right now.

Michael Neidorff

I'd like to just add one fact. As you recall, in my comments -- prepared comments, I went through the 180 basis points of change in what I could. And I just want to reemphasize that we -- within those numbers absorbed the incremental costs associated with the new state study. And some of you will remember going way back when we always assumed a very -- a much higher medical loss ratio 90% so I think put the first, though two, three quarters, our new business is things like the long-term care you start looking even longer while you're putting it under control.

And I also remind you that some states when you take on a new business, they have continuity and care; you can't implement new programs out the way. So there's things like that Josh that impacted. All that was absorbed within the stated MLR.

Josh Raskin

Perfect. All right. Thanks.

Operator

The next question today comes from George Hill with Deutsche Bank. Please go ahead.

GeorgeHill

Good morning, guys. Thanks for taking the question. I guess on a different angle, I wanted to dig into a little bit on their recent Walgreens announcement in the pharmacy. I guess, can you talk about how much you've increased your stake in our RxAdvance and kind of what's different about the new relationship with Walgreens?

Michael Neidorff

Jeff, you want to talk about that?

Jeff Schwaneke

Sure, George. I think, we really made the RxAdvance investment initially. We had contemplated a few different steps along the way. And so, I think this is really kind of the one year step and so we are getting into a lot of the specifics. We increased the nominal amount, but I think its representative momentum, and the trajectory of the work that we're doing together.

And I think, in terms of the Walgreens relationship, we have -- some of you may recall when we had our Investor Day in June, we talked about the work that we're doing on the Enterprise Partnership front to identifying a few different categories, retail was one. And so, we see meaningful opportunities to engage on some of things that Michael referenced in his comments principally transparency as it relates to pharmacy for the Medicaid population, and then ongoing opportunities for consumer engagement and enhanced experience at the retail level.

Michael Neidorff

And I want to emphasize, that there are various outlets with pharmacy and Walgreens has done a particularly good job in urban areas, and is recognized for it in the inner cities where we have a large population. And so, are working closely with them is an added plus, while still maintaining relationships with the other large retail outlets.

GeorgeHill

So maybe if I can get a quick follow up then, is this really just a tighter alignment around the kind of networks and direction, or is there any actual change to how we should think about the reimbursement process in pharmacy?

Michael Neidorff

I think, I've stated our goal is to try and to move towards net price. I have said that historically, we're still working on it. We'll be working with them and other partners but, they have a lot of capabilities in that area, but I'm not prepared to get ahead of myself, because these things are a process and it takes a certain amount of time as you get there and such. It's not always a straight line, but it's moving in the right direction.

GeorgeHill

Thank you.

Operator

The next question today comes from Scott Fidel with Stephens. Please go ahead.

Scott Fidel

Thanks. And first of all just want to add my best wishes to Mr. Kroll as well. And first question is, just on the 2020 sort of the initial insights. Can you just clarify, would that include the impact of the new buyback program that you just announced this morning or should we consider that being more sort of related to some of the WellCare deal dynamics, which are not included in the guidance?

Jeff Schwaneke

That's real. That would be related to the WellCare deal dynamics, which are not in the guidance.

Scott Fidel

Okay. Then just also saw that you are reiterating your synergy views on WellCare. Also just wanted to clarify, would that be inclusive of the lower stars that WellCare will now see in 2021, and you feel that you can offset that in terms of the synergy views, and then maybe just more generally if you can talk about sort of your assessment on the star's results for Centene and for WellCare if you can, and in terms of you know maybe some of the mitigation actions that you think that you can take and how that influences your views on you know 2021 and a growth prospects for the combined company?

Michael Neidorff

I'll ask Brandy and Kevin to comment on it.

Brandy Burkhalter

So to start out with the -- from a star sort of perspective, our current star, we made significant progress in our quality programs this year. We've had two plans achieved, a four and a half star rating, and one of our largest plans is a four star rating. Although we made the progress, one state has impacted our overall parent rating, which we'll finalize in November. We estimate a miss by less than 0.2 points when it comes to this, but with all that said, we remain committed to our quality initiatives, and believe that we can make up any differences we might see from a premium sort of perspective overtime. So look forward to seeing the results in the future. And Kevin, anything you want to add related to…

Kevin Counihan

We just said, I think we did it as Brandy said, we actually did expect four. We were less than 2 basis points away from getting it. Well, we know what we need to do to fix it, and we'll be on track to correct it.

Scott Fidel

Got it. And Jeff, Jeff just to clarify the on just the reiteration of the synergy view that, that would be inclusive or that exclusive of WellCare star's impact for 2021?

Jeff Schwaneke

Yes. I mean, I'm not specifically going to comment on WellCare stars at this point, but I would say, the synergy comments would still hold given what I know about that.

Scott Fidel

Okay. Thank you.

Operator

The next question today comes from Sarah James with Piper Jaffray. Please go ahead.

Sarah James

Thank you, and congratulations to Ed. You'll certainly be missed. So when you guys announced the deal, you talked about assuming a certain amount of divestitures that went into that 700 million of synergies, and the divestiture package certainly came out better than our expectations. I'm just wondering, how it compare to years. The fact that there aren't divestitures in Georgia and Ford I was not initially contemplated in your synergy guidance.

Michael Neidorff

Well I think, you're never let me see a very bright light. I'm -- will be careful not to get into a lot of details here on that, but I think some of you made some assumptions that we may not have, but, let's say that the divestitures to this point have been consistent with expectations, seem reasonable and appropriate, and there still may be in a couple of states, some issues we're working through with justice and others; we're staying flexible on that you have to. But it's -- I can't say whole -- I don't think we just say whole lot more because I'm not going to negotiate that type of thing in the press, so to speak. I hope you understand what I'm trying to say.

Sarah James

Yes, absolutely. Fair enough. And then just wanted to follow up, last quarter we talked a little bit about the TRICARE potential conversion, and you guys left that thought of where you thought maybe there'd be some certainty in three months or so, and so just wanted to follow back up is there any update on the potential TRICARE conversion to risk, and how meaningful that could be?

Kevin Counihan

Hi Sarah, it's Kevin. So our relationships with TRICARE continue to deepen. We're in the midst right now of consulting with them on a variety of access and quality, and actually technology types of enhancements to the program. You're probably aware that there's a new director of BHA there and Lieutenant General Ron place, who we’ve established a relationship with already. And so we're enthusiastic about the future of the program.

Sarah James

Thank you.

Operator

The next question today comes from Lance Wilkes of Bernstein. Please go ahead.

Lance Wilkes

Yes. Good morning. And congratulations, Ed.

Kevin Counihan

Good morning.

Lance Wilkes

So my question is really on the PBM business, and trying to understand some of the state activities as they're looking at changing relationships with PBMs and you know how that impacts kind of existing book of business, and how RxAdvance might play into that?

Kevin Counihan

Well, I think I'll start and Jeff will add something. But the states want transparency, and we agree with that. We have moved more and more into action. I mean, so many states will have already met and exceeded maybe their expectations of transparency. I think, RxAdvance will only enhance that opportunity, and some of the systems they have and some of that information moves us in that direction and so it's great. So, now they have a unique platform. I think we're very helpful. So the same will of the transparency, That'll be administrative rates and fees and when you have multiple peers they're worried about how many people are so to speak, involved in really that pile-around. So we're clarifying that, and I think it's a fair request and we're doing with it very openly.

Lance Wilkes

Got you. And just one more follow-up on re-verification, re-determination, could you talk just a little bit about in the third quarter maybe contrasting that with the second quarter, the magnitude of impact, was third quarter sort of a larger impact that you were able to overcome in the MLR? Or was it in line with second quarter?

Michael Neidorff

Well, I'll start with, and then Jeff can speak about in details, but it's really – it has been a certain consistency. And I think what's important here is the states are realized and there's a couple of states that are more of an interpretation of this, but the states realized the impact it has on the acuity, and they're working with us on the rate adjustment. There is a lag there. And that's something we've worked to it overtime, so it's a pace itself. Jeff?

Jeff Schwaneke

Yes. I guess, Lance, what I would say is it's different by state, right? So is just depends, so – and aggregating that I would say off-the-cuff that it's consistent. And then we've seen this, but it it's just different by state. And the other thing to note is, if you look at the third quarter, if you be back out the new award in Iowa, our Medicaid membership in total is essentially flat from Q2.

Michael Neidorff

I also want to emphasize here, states are looking to expand coverage. So we're looking increasing the Medicaid coverage. We're looking at long-term care. So, I think -- we think we're delivering on their expectations in most cases and we see it sort of the very viable strong growing business.

Lance Wilkes

Okay. Thanks Jeff.

Operator

The next question today comes from Kevin Fischbeck of Bank of America. Please go ahead.

Kevin Fischbeck

Great. Thanks. Maybe I guess, just following up on the state rates around redeterminations. What would you think you're in the process of the state’s kind of adjusting the rates? Are we still kind of early in that process, or we kind of well along in that way?

Michael Neidorff

I think, Jeff, you want to…

Jeff Schwaneke

Yes. No, I would say the states have been quick to act, but they're really – they're acting on data from months ago, right? And so, I guess what I would say is, we're not done. And they're taking quick action, but if this continues then we have to continue to see more rate adjustments and I think that's the plan obviously, but there is a timing difference. There is a timing difference from when the data comes in to when the rate adjustment happens and that's really what we're seeing in the HBR.

Michael Neidorff

If that sound more competitive then I wish, we have real time data. Whoever gives a real-time data and that's helping us, but they need to get the collective data from all the plans, and so that take some time too. So it’s a process and it's not a point in time, its some things moving and I think the states recognize it and just trying to accelerate it as fast necessary information to do so.

Kevin Fischbeck

Okay. And then, going back to the divestitures and that you can process some of these proceed for share repurchase. You guys mentioned that you're to kind of assume some divestitures in your guidance. I assumed you would have assumed due to guidance proceeds from those divestitures, trying to understand whether this signals that may be you're willing to have a little bit higher pro forma leverage after the transaction if you're going to use these divestiture proceeds for share repo or how we should be thinking about that?

Jeff Schwaneke

Yes. I think the way to think up about it now as we positioned ourselves to have optionality, right. So obviously when the transaction closes and if there are divestitures which there's already two that we've announced then we would look at all the factors including economic at the time of that and just make a decision. But the key here is I think we've now between the term loan A that we know we can prepay without penalty and the share repurchase that we just increase today, we put the company in a position to have optionality and what to do with the proceeds.

Kevin Fischbeck

In those proceeds you're going to have to wait for those proceeds to come in before you'd be able to exercise, because to your point earlier, I mean, the evaluation today is pretty compelling. My guess is when the deal closes, the market will start change the evaluation to the better, so if there's any thought about using it.

Michael Neidorff

I hope, you're right.

Kevin Fischbeck

Obviously yes. Typically the way these work is it the divestitures happen simultaneously with the transaction closing. Again, we'll just have to look at -- look at the economic factors and everything at that time and we'll make a decision.

Kevin Fischbeck

Okay great. And then just maybe a last question. The impairment charge for U.S. and I'm -- I mean, pretty big impairment charge obviously implies that the run rate earnings from that business are going to be lower than what you thought. You know, I guess you're reaffirming your guidance for 2020 as far as the S-4 goes. So try to understand kind of what the impact is there may be what is coming in better to offset that.

Michael Neidorff

Kevin, let me start, then Jeff can pick up. It is large when you recognize over the -- all the years we've been in business, we haven't had many so many impairment charges. It's I -- we don't see it as overly dramatic in that when you're an enterprise of our scale and size at this point in time. Things can happen, and we have been committed that at the point in time, we recognized something as necessary that investors and you, the analyst can expect us to come forward with it immediately as quickly as it can be confirmed.

So this was just -- it it's a lot of money. It's a large number, it's non-cash and it's these are the kinds of things I probably personally expect could happen when you consider how creatively our acquisitive we are, and the total size of the company.

Jeff Schwaneke

Yes Kevin, the other thing I'd highlight, it’s really a magnitude issue. If you look at the size of the USMM business, it's roughly 300 million in revenue let's say. And the piece that we were missing this quarter, we mentioned this is the shared savings. And so if you look at the Shared Savings Program, it was half of what we expected, which is we expected roughly $20 million in shared savings this quarter, we got 10. And so it's a magnitude issue as you look to 2020, as all I would say.

Michael Neidorff

In the shared savings, the CMS will redeterminant every year that beside what amount and what not.

Jeffrey Schwaneke

They adjust the baselines every year.

Kevin Fischbeck

Okay. Thank you.

Operator

The next question today comes from Charles Rhyee with Cowen. Please go ahead.

Charles Rhyee

Yes. Thanks. And congrats to Ed, as well. Maybe just a follow-up on that, Michael. What does that say about these -- the shift to value-based care here? If the shared savings that you were kind of expecting came in half and you kind of talked about sort of baseline is moving around. Is that -- does that speak more to a fundamental problem with the structured programs, sells [ph] or what can be done to actually kind of move maybe sort of this pace for the long?

I mean you talk about kind of moving net pricing of the drug side. Overall, we're trying to -- it seems like we're overall trying to make a shift toward this more value-based type of reimbursement model across healthcare. But these kind of examples kind of point to some of the challenges here. Maybe you can give us a sense on what's your views and what changed?

Michael Neidorff

Sure. Yes. I'm glad you raised your question. One, the value-based we're doing with provider groups, doctors hospitals, pharmacies and others, that's something of that's in our control. We set baselines. We set the program. We determine how it's going to work.

We have a model one that is our program. We have the reporting that can show the doctors real time virtually how they're doing against how they should be before than their peers and a lot of different things.

The -- in the case of USMM, this is something that was determined by CMS. Now in the grand scheme of things, I think it's, still worthwhile. It's a program that I think has legs and has helped save some other costs in Medicare and as our Medicare business grows will be even more important.

But we can -- I can say that with a great deal of comfort because it's such a small portion of this total enterprise we've become. And so it's absorbable and it's not that major thing. But it's very distinct, I can't emphasize that enough from the value-based contracting that we determine set up and report against.

Charles Rhyee

Thanks. That's helpful. And maybe Jeff, I can follow up on one question, you guys talked about in the adjusted SG&A. It was partly lower due to sort of lower stock compensation expense. Maybe you can give a sense sort of magnitude here if -- maybe what you would have expected relative if let's say, the share price was sort of flat year-over-year? Just trying to get a sense for sort of a baseline as we think about modeling either for next year or the rest of this year? Thanks.

Jeffrey Schwaneke

Yes. I'd say it's probably less than a $0.01 a share is what I would say, because you have to remember these are long-term -- mostly long-term plans that are built over a three-year period, and it's obviously just one quarter effect. So I would make it.

If you're looking at the G&A ratio, you really have to look at the stepping off point from Q2 of this year. And then if you factor in the $440 million of additional revenue, that's roughly 20 basis points on the G&A ratio. So that kind of bridges you from Q2 to the 8.8%, which is where we are in Q3.

Charles Rhyee

Okay, great. Thank you.

Operator

The next question today comes from Dave Windley with Jefferies. Please go ahead.

Dave Windley

Hi. Thanks for taking the question. I wondered, if I can get you to size a couple of things. In the MLR bridge, you didn't call out the -- what I think it was an extra business day and maybe an extra important business day in the third quarter of this year. I'm wondering is that in the 10 basis points of other? Or is it a bigger call out than that?

And then following up on earlier question on kind of redeterminations in state rates. Is it possible that you said the states have been pretty expeditious in responding, but are working on stale data? Is the 25 basis points that you're kind of lifting your composite rate reflective of all the states giving you some or half the stage giving you some like, just hoping to understand essentially kind of what inning are we, and how much have you gotten, and how much do you still have left to get?

Michael Neidorff

I'll take the first one, and Jeff, you pick up the -- I'll take the second part, you pick up the question. The rate adjustments, it's staggered, and it's not every state has, some are larger than others, so I can't point to a specific pattern for you. I mean it's not that -- it's not that -- did it doesn't have that kind of rhythm to it. It's really episodic and there is a state that has a larger redetermination, and they may be very quick getting back to us. So it's -- there is no set pattern to it.

Jeffrey Schwaneke

Yes. That's correct. And then the other thing, Dave, just on your first question with respect to --

Dave Windley

Extra business day.

Jeffrey Schwaneke

Yes, the extra business day. I mean, we would -- we have that. We would account for that in our forecasting process so at the beginning of the year. I guess what I would say is, yes, there was an extra business day in the quarter. And so if that weren't the case, then our results probably would have been better than they were. But nonetheless, these are actual results, so it included the business day.

Michael Neidorff

Yes.

Dave Windley

If I could just sneak in one more. Michael, are the state or the lawsuits related to Medicaid work requirements in a couple of states, are those important to your views around Medicaid program structure and longer term views on Medicaid waiver programs and things like that?

Michael Neidorff

No. I think it's something that we adapt to work with and deal with-in. There is various programs, some we support. I mean -- so it's a -- the most states we're trying to do in a responsible way. And -- I mean, so -- no we find it does not have a significant impact on us. We've learned how to work with the states and in a supportive manner.

Dave Windley

Great. Thank you.

Operator

The next question today comes from Peter Costa of Wells Fargo. Please go ahead.

Peter Costa

Thanks, and good luck, Ed. Your adjusted EPS guidance for this year is still quite broad at $4.29 to $4.49. If I take the midpoint of that, you're still $0.18 above where you're S-4 guidance would be for 2019. So you're running well ahead this year, and yet for next year, you talked about the $4.79 is being sort of the right number. Why are you not talking about being ahead 4% in next year as well?

Michael Neidorff

I want Jeff to comment. But I just want to open up by saying that we come, and we established that as a baseline. I think we will recognize we like an abundance of conservatism going into it. There are various issues we're dealing with and we will give you the full guidance at all the reasons and bridges up down otherwise on the 13th.

Jeff?

Jeffrey Schwaneke

Yes. The thing I would point to Peter, if you go back and look at the S-4 and look at the revenue number, it was roughly $70 billion, and we're almost at $74 billion. Now remember, it was the open enrollment that kind of concluded in the first part of this year on marketplace and the marketplace member staying longer and all those phenomenons that are I would say causing additional top line growth this year, which is good.

And right now as we look to next year, we're still projecting to be around that $79 plus billion range. So I think that's the difference that you're looking for. If you recall, we've increased the guidance earlier this year, actually on our year-end 2018 earnings call, we increased the guidance because of the additional marketplace membership.

Peter Costa

So you've talked about the exchange business hopefully growing next year. So what is the headwind to your top line that we should be thinking about, so is it Louisiana or?

Jeffrey Schwaneke

No. Because, we remember we said Louisiana is in, and part of it is the eligibility redeterminations that we talked about today. So obviously you guys have seen the effect of that and a lot of you have commented on it, as far as percentage wise. But that is certainly a headwind from a run rate perspective exiting this year.

Michael Neidorff

I think, we're trying to get head results. Now we've not served a lot of purpose. I mean, we have a cadence to where we will give you an indication, we'll try to give you a baseline to think about. But on the 13th, we'll be at a position, we'll have a better sense on marketplace, better sense on redetermination, better sense of what's safe to do with rates, a whole series of things. And so why, I'm not sure. It's still very, very well to try and get ahead of ourselves, and run it through on our own December 13, meeting, which is a couple of months away.

Peter Costa

Okay. Just last on that. Is the USMM issue bigger next year than it is this year because of the rate cuts and home health, or is there anything else impacting that?

Jeffrey Schwaneke

No. I would expect it to be flat year-over-year.

Peter Costa

Thank you.

Operator

The next question comes from Steve Tanal with Goldman Sachs. Please go ahead.

Stephen Tanal

Good morning, guys.

Michael Neidorff

Good morning.

Stephen Tanal

Two questions from me. And congrats, Ed, as well. Just on the -- one more on the 2020 outlook in the S-4, but more of a simple question. Had that factored in Centene forward? I know you filed that in May, but you told us about Centene forward in June, but presumably had that in the works earlier. So I just want to understand if that was kind of contemplated in the number that's there.

Jeffrey Schwaneke

I think as we contemplated and talked about before is that we're continuing to use Centene forward to kind of reinvest in the business. And so there is -- that's the plan, and as we continue to get to the $0.5 billion of savings just to reinvest, and some of these things that we're working on are process automation and digitization, they're heavier lifts and they take a longer time to realize the efficiencies. So I would say right now that includes Centene forward, but the benefit is minimal.

Stephen Tanal

Okay, fair enough.

Jeffrey Schwaneke

But more to come on our December Investor Day.

Stephen Tanal

Yes, point taken on that. And just on HBR, the at-risk payments in catalogue, could you give us a little more on kind of the nature of that? It sounds like it was Medicaid. And then maybe just very specifically, would you expect to get back to 30 bps in 3Q 2020? I wasn't perfectly clear on what that is.

Jeffrey Schwaneke

Yes, a couple of things. What I would say is the process is changing where states used to have these payments where they would give us the cash and we turn around and pay providers, and that was a one-for-one and we recorded those in premium tax revenue and premium tax expense. The process is changing to where these have to have some form of risk and so they show up is retroactive premium changes.

And so what I would say is, you'll probably see less on the pass through lines and more in premium revenue. But we would anticipate that the level of these payments would probably continue, but as you've seen they're very lumpy, right. Especially -- I mean this happen in other of our states, they're just -- they're not as large as California.

Stephen Tanal

And so I suppose that it's like a new baseline like you wouldn't just go in your model and assume you get 30 bps back in 3Q, 2020?

Jeffrey Schwaneke

That's right. We would anticipate a similar level of these types of payments in next year.

Stephen Tanal

Got it. Okay. All right. Thank you.

Operator

Your next question today comes from A.J. Rice with Credit Suisse. Please go ahead.

A.J. Rice

Hello, everybody. Best wishes to Ed too. A couple of quick things if I could get in here. When you gave the outlook for rate increases next year and said it would be a little better, you mainly pointed to premium rate adjustments. I was wondering obviously the HIF is coming back and the states -- last time it came in and out they obviously covered it. You didn't really mention that as part of the reason why the rates might be a little higher. Are you just excluding that? Is there any movement on the part of states not to include that?

And then also I just on the exchange just sort of an interesting beast. Are you feeling comfortable that you can get compensated for the HIF coming back on your exchange business next year as well?

Michael Neidorff

Jeff?

Jeffrey Schwaneke

Yes. A couple of things. On the Medicaid side, just to be clear, and I think we've commented about this before, the composite rate adjustment that we quote is net of what we would call fee skilled -- fee schedule changes and pass-throughs. So as the health insurer fee is predominantly a pass-through than Medicaid business, it's a specific add to the rate, and then this grossed up for the tax effect, then that's excluded from the composite rate that Michael commented on today and has always been.

The second thing on the marketplace, we actually price for the health insurer fee, so that's included in the pricing.

A.J. Rice

Okay. And then on another quick one on Fidelis. You anniversary that this quarter. I know when that came online; the thought was their MLR was quite high; you get some benefit over time from bringing that down. Obviously, their G&A was quite low that might creep up, but there was the synergies. Can you just -- with all the moving parts, especially on the MLR today, is that expectation on Fidelis playing out, and have you pretty much normalized their MLR at this point, or is there still more room to go?

Jeffrey Schwaneke

Yes. I'll handle the first part, which is really around the transaction and then Dave Thomas is here, he could talk about the future. I would say yes, it has played out. So we have seen meaningful improvement in I would say the revenue and medical cost line, and we did add

SG&A dollars. So we have seen a slight increase in G&A, which is what we anticipated making investments to bring down the medical cost and improve the revenue performance, and that has happened.

And as far as what's remaining to go, I'll turn it over to Dave.

David Thomas

Yes. This is Dave Thomas. As Jeff said, I think we've been successful to this point. We've done very, very well with our synergies. That being said, I do think there is more real estate for us there. There is more that we can do and are doing from a medical management front. We also are continuing to grow the plan, albeit not as quickly as we had been growing historically. So we look very good in terms of both continuing to tamped down from a medical management perspective and continuing to grow the plan and continue to grow revenue as well.

Michael Neidorff

I think, I'll remind you, I said it was time in Investor Day that if we define more Fidelis, I'd like to do one in the morning and one in the afternoon.

A.J. Rice

I remember that comment. Since it's late in the call, I'm going to slip one more in, If I could. Obviously there has been so much focus on Texas and what's happening with that RFP. I wonder if you could give us any update on what the RFP pipeline looks like right now over the next six months to 12 months. I haven't heard a lot other than Kentucky, which I guess you have a history with them. I mean, I'm not sure you're bidding on that one. But is there -- are there other near term to intermediate term RFPs that are of focus right now?

Michael Neidorff

I mean there's one in Pennsylvania just came out; we wanted to do a couple of times of redoing it. So we have that one. And there is Oklahoma is looking at to subsidiary one. So I mean -- we are in conversations with states and they may not have announced it yet, so

I'm going to. It's -- they haven't said they're going to do it, but it's -- I think it's appropriate for them to. But we still see, as I said a robust pipeline and opportunities.

I gave you two just -- I mentioned those two just to give you a sense it's real, not just latitudes.

A.J. Rice

Right.

Michael Neidorff

Next, anymore?

Operator

The next question today comes from Justin Lake with Wolfe Research. Please go ahead.

Justin Lake

Thanks. Good morning.

Michael Neidorff

Good morning.

Justin Lake

I appreciate your -- and congrats again to Ed. So first question, I think Josh asked this earlier, and I didn't really get into it. But just given how the year has shaped up and some of the questions around the MLR, do you -- it might be helpful just to give us an idea of where you're expected to be within that range of the guidance that you give 86.6% to 87.1%, just to help us understand how you're thinking about the fourth quarter on a large? Should it be toward the higher end of the range or toward the midpoint?

Jeffrey Schwaneke

Yes. I mean -- I guess that would -- I mean, that's why we give a range, Justin, on the HBR. So you know that we've kind of -- if I pick the number that would defeat the purpose of the range. So again, I think we're comfortable with the range where it is. And I guess that's my only comment on that.

Michael Neidorff

Yes, and I just want to – I think it really is important, because there is nobody said yet there is -- what the flu season is going to look like. There are so many things that come into place with an effective range, Justin. It's -- let's -- I'm going to support what Jeff said, that's a range.

Justin Lake

Got it. And then just CMS, it looks like they finally put out the individual market kind of landscape file today. I haven't had a chance to go through it yet, but I was wondering, if there is anything you would point to in terms of how you feel about your competitive positioning for 2020 and -- in that business in terms of membership and margin kind of thinking -- going into next year?

Michael Neidorff

I don't know that we've looked at it closely ourselves at this point. But I would tell you that we've talked, when you have competition this phase, we really like it, because it grows categories. When you – [Indiscernible] growing in and if you get something. And in a -- in that type of situation, the larger player, the number one player usually does better. So I see it is we like competition. That just makes us better and it -- I think it will help grow the market.

Justin Lake

Got it. Thank you.

Operator

The next question today comes from Ricky Goldwasser of Morgan Stanley. Please go ahead.

Ricky Goldwasser

Yes. Hi. Good morning.

Michael Neidorff

Good morning.

Ricky Goldwasser

A couple of follow-up questions here. So one, what -- just could you give us the update on the status of the WellCare, PBM, RFP process? How should we think about it in light of your partnership.

Michael Neidorff

Yes. I -- we can't -- we cannot comment on WellCare business at this point in time. It's still a very independent company publicly traded, so I -- we just can't get involved in that.

Ricky Goldwasser

Okay. Will you give any -- will you provide additional color under PBM, RFP process on the Analyst Day? I know in the past you said you would.

Michael Neidorff

So I understand.

Jeffrey Schwaneke

No. We can't really comment on the WellCare business until the transaction closes. There are a separate company, stand-alone.

Ricky Goldwasser

Okay. And then another question regarding 2020. When we think about the $4.79 in the S-4, I know you said that you're assuming Louisiana is unchanged, but also a higher tax rate. So as we think about the embedded assumptions that you had back when you provided the original EPS, was the higher tax rate included in it?

Jeffrey Schwaneke

Yes. Yes, it was. It's a direct result of the health insurer fee.

Ricky Goldwasser

Okay, great. Thank you.

Michael Neidorff

Thank you.

Operator

The next question today comes from Gary Taylor with JPMorgan. Please go ahead.

Gary Taylor

Hi. Good morning. Just a few quick ones. The first would be Michael, you alluded to the Fifth Circuit briefly, but just wondering, do you have any sense of timing on that there?

Michael Neidorff

No. Yes. I mean it's -- I would like to say it's imminent, but not today. So I'm not sure. I have to get somebody define imminent to say that in Texas RFP to. But I think it's going to come down. But I we’re not [Indiscernible] if they reverse it so much the better. If they don't, we believe it will go to Supreme Court quickly. And we have not changed our point of view. It won't be [Indiscernible] that the presidents will hold and will get reversed. So it's not something we spend any time worrying about. It's an overhang and in terms people's mind. So as soon as we get resolved and reverse, the happy we all will be.

Gary Taylor

Got you. I don't mean to pre-empt the Investor Day, but you have talked about 2020 a little bit, and you have talked about exchanges a little bit. Probably one of the most common investor questions is, whether this increased competition and lower premiums on the exchanges, how much impact that might have on your margins? Is there anything you are willing to say about 2020 exchange margin outlook at this point?

Michael Neidorff

I think it's premature to say anything at this point in time what we have. I think Jeff's comment where we're comfortable with our 5% to 10% margin range in that business. And as I've commented in the past at various meetings that doesn't mean it's going to be 7.5% it nearly moves up and down depending on the time of the year and various issues. But we're still comfortable with that kind of a range and we still see it as a growing -- very viable business for us. So we know how to manage and manage well.

Gary Taylor

Last question if I could. On the public charge rule obviously, an injunction was issued. But to the extent that rule does have drive any adverse selection in 2020 or even the fear of that rule has an impact? Is there any reason why the same ability, you had to get these rate adjustments from states for the redetermination, adverse selection would not apply to the similar dynamic that might arise from the public charge rule? Do you believe you will be able to go back and demonstrate that the states, and largely that what risk there might be?

Michael Neidorff

I think that particular thing will be little more difficult, and finally has I bigger impact on the exchange business than on the pure Medicaid to some degree. But Jeff, you want to?

Jeffrey Schwaneke

Yes. It would follow the same. It would follow the same process. I mean the way the states view it is these are eligibility redeterminations on our members leaving the program, either way there is a shift in acuity that you would have to go back and recalculate the rates.

Gary Taylor

Got you. Thank you.

Operator

The next question today comes from Ralph Giacobbe with Citi. Please go ahead.

Ralph Giacobbe

Thanks, good morning.

Michael Neidorff

Good morning.

Ralph Giacobbe

I hop on a little bit late, so apologies if you did -- if you went through already. But did you actually quantify what the impact on the MLR was from the determinations?

And then the second part of the question, just want to kind of revisit the MLR guidance, hit to harp on it, but I understand the ramp and improvement in the new business as sort of you move through the year. But you also have a new business like Iowa that started midyear coming on, and what I assume is sort of higher MLR. At the same time you have sort of the sub-timing differences that you talked about related to redetermination.

And then the exchange business that seasonally works against you as well. So I guess I'm still having trouble reconciling the 4Q MLR. Is there anything else in terms of other payments or considerations for the fourth quarter that just gives comfort to mid or high point of the range? Thanks.

Jeffrey Schwaneke

Yes. So I guess what I would say is, you have to remember like in Iowa, we were building margin in the first quarter, right. You build margin in the first quarter after the plan goes live in that margin build and the fourth quarter is lower that be another thing that I would point to. And as far as the eligibility redeterminations impact on MLR, we did not quote a number on that.

I guess, that's the only other commentary I give you.

Ralph Giacobbe

Okay, fair enough. Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Chairman, President and CEO, Michael Neidorff for any closing remarks.

Michael Neidorff

All right. I just want to thank everybody for your participation and with being with us along the call. And now we're really looking forward to the December 13th, meeting where we can give -- answer even more of your questions. And -- but we're feeling good about where the business is and we thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.