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ANTM.N - Q4 2020 Anthem Inc Earnings Call

EVENT DATE/TIME: JANUARY 27, 2021 / 1:30PM GMT

OVERVIEW:

Co. reported 4Q20 total operating revenue of $31.5b and GAAP EPS of $2.19. Expects 2021 operating revenue to be approx. $135.1b and adjusted EPS to be greater than $24.50.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Anthem's Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the conference over to the company's management. Please go ahead.

Chris Rigg - *Anthem, Inc. - VP of IR*

Good morning. This is Chris Rigg, and welcome to Anthem's Fourth Quarter 2020 Earnings Call. As many of you know, I have transitioned out of Investor Relations to be the Chief Financial Officer of our Commercial & Specialty Business Division. Steve Tanal will be joining Anthem as the new Vice President of Investor Relations. And we look forward to welcoming him next week.

With us this morning on the earnings call are Gail Boudreaux, President and CEO; John Gallina, our CFO; Pete Haytaian, President of our Commercial & Specialty Business Division; and Felicia Norwood, President of our Government Business Division.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, antheminc.com. We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Good morning, and thank you for joining us for Anthem's Fourth Quarter 2020 Earnings Call. Despite a year challenge by COVID-19 and significant economic uncertainty, we delivered strong growth across all of our businesses. This morning, Anthem reported fourth quarter 2020 GAAP earnings per share of $2.19 and adjusted earnings per share of $2.54. For the full year, Anthem reported GAAP earnings per share of $17.98 and adjusted earnings per share of $22.48.

Our full year results reflect the ongoing impact of COVID-19 treatment costs and more normal utilization patterns in the second half of the year. Consistent with our expectations, fourth quarter utilization was above baseline, reflecting higher costs attributable to the recent surge of COVID-19 cases, coupled with the return of non-COVID-19 care utilization.

I'm incredibly proud of what we've accomplished in 2020 and the strength and resiliency shown by our enterprise amidst the global pandemic. We met our financial commitments, delivered strong growth. And we stepped up as a business and through the commitment and compassion of our associates to support our members, partners and communities when they needed us most to address the new increasing and urgent needs. Our growth in 2020 was powered by strategic investments we've made in recent years to streamline and simplify our business and enhance the member and customer experience.

Membership trends during the year exceeded expectations on all fronts. Medical enrollment finished the year strong at 42.9 million members, representing growth of 1.9 million members over the prior year. We're pleased that our commercial business has continued to grow even in this challenging economic environment.

In addition to the AmeriBen acquisition, growth has been fueled by strong customer retention and a steady pipeline of new account sales. In fact, sales in our large group risk business have outpaced lapses in 14 of the last 16 months, reflecting the market-leading performance of our new virtual strategies and tools as well as the benefit of our innovative products such as Total Health, Total You and further integration of our pharmacy offerings from IngenioRx.

Total commercial membership was flat sequentially in the fourth quarter, reflecting growth in our risk-based group business offset by in-group change in our fee-based business as a result of the economic environment. Our risk-based business has been incredibly resilient as we've deepened talent, enhanced our products and improved sales execution across our markets. In addition, sales of our large group specialty dental and vision products outperformed 2019 results, demonstrating that employers value the affordability and simplicity of Anthem's integrated medical and specialty offerings. It's clear the actions we've taken to focus on the consumer and their unique needs are garnering a strong market response.

Medicaid membership grew by roughly 1.6 million consumers during the year and nearly 300,000 lives in the fourth quarter, marked by strong organic growth aided by the pause on reverifications and 2 strategic acquisitions in Nebraska and Missouri.

Medicare Advantage membership ended the year up nearly 18% compared to 2019, continuing our meaningful growth in senior business. Our essential extra suite of benefit options are resonating with seniors as we saw a greater than 300% increase in the selection of benefits such as personal home helper services, transportation benefits and access to personal home safety devices. We're pleased with our continued growth in this important segment for Anthem and the demonstrated resilience of our diversified portfolio.

Our AEP performance is in line with expectations. And we expect another year of double-digit growth, once again outperforming the industry average growth rate.

Over the past year, Anthem stepped up as a trusted health partner to support our stakeholders as they navigated the pandemic. We adapted and accelerated our digital innovations, enhanced our focus on community health, transformed many of our products and solutions and simplified our processes in the context of COVID-19. We recognize our critical role in ensuring safe access to care and COVID-19 vaccinations and have launched a nationwide partnership with Lyft to support universal access to vaccines. We are leveraging Anthem's local market strength, provider relationships and data assets in combination with this on-demand transportation network to serve at-risk communities disproportionately affected by COVID-19. Our goal is to provide 60 million free rides to and from vaccination sites for low-income, uninsured and at-risk communities.

Further, we recently launched a new online C19 vaccine tracker to provide personalized vaccination insights for Anthem members. This web-based dashboard aggregates vaccine-related data from public and private sources to give consumers a real-time view of vaccine distribution progress and help to inform our members when they might be eligible to receive the vaccine.

We recognize the increased social and health needs of our members and communities during this pandemic. With each of our Medicaid states, we're performing detailed community needs assessments to create localized solutions with our partners to support issues with housing, job training and free Internet for underserved children. And our Medicare members are provided access to phone-based social workers to help coordinate local resources and services to support their needs around food and security, transportation and more.

For members with complex conditions such as cancer, receiving care has become even more difficult during this pandemic. In response, we've launched Anthem's Concierge Cancer Care program. From diagnosis to recovery, members receive personalized 24/7 guidance and support through LiveHealth Online and remote monitoring technology with access to top-tier cancer facilities across the country. The resuming program has more than tripled since its launch in 2020 and is now available to nearly 900,000 members.

Throughout the course of this past year, our deeply committed associates have stepped up and shown great compassion and care to those we serve and to one another. With more than 100,000 volunteer hours logged in our local communities through in-person and virtual giving, our associates have embodied our values and culture, reflecting the fabric of who we are.

As we move into 2021, we will continue to modernize our business to drive growth. Efforts to transform our business are not new. And in fact, our focus was sharpened and investments accelerated in light of the pandemic. Today, we are continuing to consolidate our systems, automate and streamline processes and embed digital and AI across the enterprise to simplify and improve the customer experience and deepen engagement with all those we serve.

We recognize the power of digital technologies to reach more of our stakeholders particularly as part of our community health efforts. Sydney Health is personalizing care for consumers, helping to bridge gaps in care and improve outcomes for underserved populations. In fact, Sydney Health recently received several awards, including Corporate Insight's gold medal for virtual care, recognizing our ability to give members more options in how they engage with care providers, whether it be via chat, e-mail, phone or video.

We're excited to be introducing the first-of-its-kind digital nutrition assistant. Through the use of AI, our Sydney nutrition app will be able to automatically recognize food and log meals in real time, providing users with personalized information and progress on nutrition goals. This integrated tool is currently available to Anthem associates and will be available more broadly later this year to provide our members with a fully connected health and wellness experience.

We know consumers are experiencing health care more digitally. So we focused on creating greater access to care via telehealth particularly in the behavioral health space, where usage has gone up from single-digit, pre-pandemic percentage levels to as much as 60% of all visits. And that level has stayed consistent over the past 4 months.

Our AI-based care finder is now live for all segments of our business and differentiates Anthem with a fully integrated approach using predictive tools and AI to help guide members to the right care at the right time and place for them, which can mean via text, phone, video, in person or chat. Additionally, through our AI-based predictive service and chat functionality, we were able to redirect 5 million member calls last year to on-demand digital channels to provide members with information they needed quickly and efficiently.

Today, we're delivering on consumer demands for simplicity and affordability. And we're helping to restore hope while making positive and sustainable change for our local communities. Grounded by our mission and driven by our purpose to improve the health of humanity, we move into 2021 with a bold agenda as we continue to grow and transform our business and fundamentally improve the health care experience for those we serve.

Our 2021 adjusted EPS guidance of greater than $24.50 reflects challenges unforeseen when we reported third quarter results. Specifically, adjusted net income guidance reflects the passage of the Consolidated Appropriations Act, which includes a 1-year increase in Medicare physician rates as well as other COVID-19-related impacts on the Medicare business. All in, we estimate these items equate to a $0.50 to $0.70 net negative headwind. Importantly, these factors are transient and should diminish as we move into 2022.

Looking ahead, we are poised to deliver membership growth of nearly 1.5 million members at the midpoint driven predominantly by our risk-based businesses. Our outlook reflects our ability to deliver solid enrollment growth despite the uncertainties in 2021. We remain confident in our ability to achieve long-term 12% to 15% earnings growth and look forward to our March 3 Virtual Investor Day. We will provide a more detailed look into our strategy, including the transformative digital and community health initiatives that are driving real growth across our business.

And now I'll turn it over to John Gallina for a detailed look at our performance numbers. John?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Gail, and good morning. As Gail stated, we are pleased to report strong fourth quarter and full year financial results. Fourth quarter adjusted earnings per share was $2.54, down 35% year-over-year driven primarily by costs related to the COVID-19 pandemic, including actions taken to support our members. For the full year, adjusted earnings per share was $22.48, representing growth of 16% over 2019. Total operating revenue for the fourth quarter was $31.5 billion, an increase of more than 16% over the prior year quarter, reflecting solid growth in Medicaid and Medicare. For the full year, we ended 2020 serving 42.9 million members, including growth of 300,000 lives during the fourth quarter. Medicaid membership was up more than 11x the decline in our commercial risk-based business. This is the tenth consecutive quarter of membership growth, further demonstrating the strength and resiliency of our business. For the full year, operating revenue grew over 17%.

The fourth quarter medical loss ratio was 88.9%, a decrease of 10 basis points over the prior year quarter. COVID-related costs accelerated during the quarter above expectations. However, this was offset by non-COVID utilization coming in lower than expectations. Taken together, overall utilization was above baseline albeit slightly better than expected.

The SG&A expense ratio in the fourth quarter was 13.7%, an increase of 80 basis points over the prior year quarter due primarily to increased spending to support growth, including efforts taken to modernize our business and become a more agile organization as well as the return of the health insurer fee in 2020. On a HIF-adjusted basis, our SG&A ratio decreased 30 basis points compared to the prior year quarter primarily driven by double-digit growth in operating revenue.

Full year 2020 operating cash flow was $10.7 billion or 2.3x net income. Fourth quarter operating cash flow was $3.8 billion compared to $1.3 billion in the prior year quarter. The increase is primarily attributable to changes in our net working capital and enrollment growth in our Government businesses. Our operating cash flow in the fourth quarter benefited by a number of payments that were originally expected to be received in 2021. These early receipts along with other items that benefited 2020 cash flow, including payment deferrals allowed under the CARES Act, will reverse in 2021 and negatively impact our 2021 operating cash flow metrics.

We ended 2020 with a strong balance sheet as the debt-to-cap ratio was at 38.7%, consistent with our target range. Days in claims payable was 43.4 days, an increase of 2.3 days sequentially and 5.4 days versus the prior year along with the growth in medical claims payable of 28% compared to an increase in premium revenue of approximately 11%.

During the fourth quarter, we repurchased 4.4 million shares at a weighted average price of $305.66. In total, we repurchased $2.7 billion of stock in 2020 or 9.4 million shares. As a reminder, our original guidance contemplated share repurchase of $1.5 billion. After reinstating share repurchases in the second quarter, we accelerated the pace of share buyback in the second half of the year in response to market conditions.

Turning to our 2021 outlook. Our current guidance reflects our latest assumptions related to the COVID-19 pandemic. Importantly, our guidance includes new items that were unknown at the time of our third quarter call, including the passing of the Consolidated Appropriations Act in late December and the corresponding 1-year increase in Medicare physician payment rates and other COVID-related impacts on our Medicare business. In addition, the significant decline in non-COVID utilization in our Medicare business during the fourth quarter will have an impact on our risk revenue by more than we had anticipated. All in, these items resulted in a net negative headwind of $0.50 to $0.70 per share relative to the outlook we shared on our third quarter call.

Like 2020, 2021 presents its own set of unique challenges that we believe to be transient. Our core business and underlying fundamentals remain strong. Absent these new and unique circumstances, we remain confident that our long-term earnings growth target of 12% to 15% is both credible and sustainable.

Turning to our 2021 guidance metrics. Total medical membership is expected to reach 44.4 million members at the midpoint, which reflects growth across our key business segments. In the Commercial business, we project our risk-based enrollment will end the year between 4.5 million to 4.6 million members. And our fee-based business will end the year between 25.5 million and 25.7 million members.

In our Medicaid business, we expect to end the year with approximately 10 million to 10.2 million lives, reflecting organic growth in our existing markets and the expectation that the reverification process may remain on hold through the end of the year. In addition, our guidance also includes growth for North Carolina, which is expected to go live later this year.

In Medicare Advantage, we're projecting double-digit growth at the midpoint as we expect continued measured growth over the balance of 2021. Medicare supplement is expected to end the year between 950,000 and 1 million members. And our FEP business is expected to be flat to slightly down at 1.6 million members.

With IngenioRx now firmly embedded in our baseline, we expect 2021 operating revenue to be approximately $135.1 billion, representing growth of 13.5% on a HIF-adjusted basis. The consolidated medical loss ratio is expected to be 88%, plus or minus 50 basis points, an increase of 120 basis points at the midpoint from 2019, which is the most recent year in which the health insurer fee did not apply. The increase is largely driven by a mix of business more heavily skewed to Medicaid and Medicare and the impact of COVID, including the recently announced increase in Medicare physician rates.

The SG&A expense ratio is expected to be 10.8%, plus or minus 50 basis points primarily due to growth in operating revenue, in addition to the permanent repeal of the health insurer fee and the benefit of modernization efforts, including systems consolidation and broader process automation.

Looking below the line, we expect investment income to be $940 million and interest expense of $785 million. The tax rate is expected to be in the range of 20% to 22%, with the decrease primarily driven by the permanent repeal of the health insurer fee.

Full year operating cash flow is expected to be greater than $5.7 billion. As a reminder, operating cash flow in 2020 was heavily impacted by COVID-19 pandemic as well as certain other receipts that were accelerated into 2020. Absent the pull-through of those cash receipts, our 2021 operating cash flow would be roughly 1.1 to 1.2x net income. Our long-term capital deployment targets are unchanged as we progress down this path of becoming the most innovative, valuable and inclusive partner in the health care ecosystem with the continued focus of delivering sustainable long-term shareholder returns.

In terms of capital deployment, I am pleased to announce that we are increasing our quarterly dividend by nearly 19% to $1.13 per share, bringing our dividend yield to roughly 1.4% and continuing our trend of annual dividend increases. We expect full year share repurchase of at least $1.6 billion and our weighted average share count to end the year in the range of 246 million to 248 million shares outstanding.

As Gail mentioned, this past year presented its own unique set of challenges. And while much has changed, it is clear that we are still in the depths of a global pandemic. We remain committed to our mission of improving the lives and communities which we serve. And we will continue to do our part in 2021 to meet the needs of our associates, members, customers and health care providers as we persevere through this pandemic together.

Operator, we will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) For our first question, we go to the line of Justin Lake from Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

I wanted to see if you can walk through the $0.50 to $0.70 in as much detail as possible. You mentioned the stimulus with the higher physician fee schedule and the quarterly sequestration. So I estimated that at about $0.20. So I was hoping you could break out -- confirm that and then break out the other $0.40 in terms of reverifications and how that benefits Medicaid, the higher COVID costs and the 20% add on, the Medicaid rebate, et cetera. And then lastly, can we assume that when you think about the correct 2021 jump-off point for the 12% to 15% EPS growth next year, would you grow off the $25.10, getting back the $0.60?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Justin, and good morning. I appreciate the question and the opportunity to clarify the $0.50 to $0.70 change in our expectations. As you mentioned, with the appropriations bill and the extension of the federal health emergency, we now have a disconnect between some of the costs and reimbursements.

We completely agree with your approach to the Medicare 3.75% fee schedule rate increase as well as your sequestration. The Medicare rate increase is for 12 months. The sequestration is only for 3 months as an offset. But there's a third component as well and that's the 20% bump in the inpatient DRG is going to be extended for the full year as well as part of the federal health emergency. So when you take the 3 of those combined, that actually accounts for about 2/3 of the $0.50 to $0.70 differential that you're asking about.

The other 1/3 really relates to the fact that the non-COVID utilization in the fourth quarter was lower than we had anticipated. And with the non-COVID utilization being lower than anticipated, we are unable to accurately capture all of the HCC codes to reflect our appropriate risk scores in our Medicare business. And so once you factor that in, that's about the other 1/3. So you take those out and you'd -- you'll come down to the, say, the $25.10 that you had been modeling to the $24.50 at the midpoint.

And then in terms of your question associated with the 2022 jump-off point, while it is premature to give 2022 guidance, we do believe that many of these issues are transient. And we are very comfortable affirming the 12% to 15% long-term sustainable growth rate on a $25.10 starting point. We always have the issue with COVID and risk revenues and things could linger. And we will clearly be on top of that throughout the year. But as an outset, we're very comfortable with the $25.10 jump-off point. Thank you for the question.

Operator

Next, we'll go to the line of A.J. Rice with Crédit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

I know there are a lot of puts and takes around this question. But right now, people are trying to make an assumption as to when there'd be mass distribution of the vaccine and when things might start to get back to normal. Conceptually, when you think about your '21 guidance, how have you pegged that thinking? And if we were to find out -- for example, if you say you pegged it for the middle of the year or later in the year, if it happens, if there's variance, say, it's in March or it's in October, would that -- how would that change the financial outlook that the company is presenting?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thank you, Jeff -- A.J., I'm sorry. Great question. And as you indicated, there is a lot of variability and assumptions. The most vulnerable populations, which include Medicare Advantage members, et cetera, our expectation is by the end of the first quarter that they will achieve a vaccination level appropriate. We're really looking at having somewhere in the neighborhood of about 60% of Americans vaccinated for the year. Medicare, we expect to be a bit higher. The commercial population and the Medicaid population, we wouldn't expect the vaccines to be rolled out and completed until the end of the summer, maybe even a little bit longer with the commercial population being close to the average for America for the year and then Medicaid being a little bit less.

So to the extent of the rollout and the efficacy of the vaccine very clearly could have an impact on the financial results for the year. As COVID cost go down, then we do expect non-COVID utilization to increase. So it's certainly not a one-for-one but there's clearly a lot of dynamics associated with that modeling. And if the vaccine is either faster or slower, it will have an impact in one direction or another. Hopefully, that helps.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And A.J., this is Gail Boudreaux. I think in addition to John's question, as we've shared, it is an incredibly dynamic environment relative to what's happening with COVID and the vaccine. As I shared in my opening comments, we are working very closely, though, to try to ensure access for our members. We've added a number of new tools in terms of the -- our trackers and our online tools to ensure that people know where vaccines are available.

We're going to work with our states closely. We entered a partnership with Lyft to provide 60 million free rides. Our sense is that the senior population obviously in the rollout is going to have first access to that. And then as each of the states make their determinations and supply becomes available, we'll be side by side with our partners to ensure that, that we can be as efficient in helping as possible.

So again, everything John said, I think we are trying to model in this incredibly dynamic environment but remain optimistic and supportive of what's happening and want to be a good partner to our states and our customers. So thank you for the question.

Operator

Next, we'll go to the line of Steven Valiquette with Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

So just in relation to those higher Medicare physician rates for '21, I guess I was curious to hear more about the mechanics of this and just whether or not any of your capitated or at-risk payment arrangements with physicians would provide any sort of protection for Anthem against impact, and therefore, this might have greater impact on your fee-for-service arrangements with physicians. Or is everything just indexed to the rate updates and that doesn't really matter? Just curious to hear more about the mechanics on that.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thanks, Steve. I appreciate the question. The amount that we've disclosed in terms of the impact on our guidance is really the net amount regardless of the risk methodology we have with the provider network.

So certainly, in the complicated arrangement, there is an impact. As I have stated in the -- to A.J.'s question, we also have the 20% bump in inpatient DRG that's impacting all this as well and then the sequestration offset. So we really got to take them all into consideration, look at how they play through the reimbursement methodologies. And what we've provided is the net impact of all those.

Operator

Next we'll go to the line of Ricky Goldwasser with Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Question focused on the business. It appears to continue to -- I mean it's always been competitive that we're hearing some anecdotes and increased competition. How do you think about the dynamics? And specifically, how do you think about sort of kind of like the margin goals that you've articulated in the past?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, Ricky. I'm going to ask Pete Haytaian, who leads our commercial business to respond. Pete?

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thanks a lot for the question, Ricky. In terms of the individual business and sort of as we see Q1 play out, we feel good about our strategy. We continue our thoughtful targeted approach and targeted growth approach in the individual business. We've expanded into a about 115 counties in 2021. Our approach continues to be based upon a focus on best-in-class economics through value-based relationships, differentiated medical management. We really try to partner with key providers to enable excellence in quality and risk adjustment. And so that's been our grounding and we continue with that strategy.

Overall, this year, while we experience growth environmentally, and I think you're alluding to this, there is more competition. Also, there does appear to be less overall new sales across the federal facilitated marketplace and state-based exchanges. It seems to be down a bit year-over-year. We believe this is due to a variety of different factors. We all know that in several states, there were special election periods throughout 2020, which certainly could have been a factor. Also, less overall government engagement, in fact, could change with the Biden administration just in terms of overall marketing. And then less prospect engagement, we saw that just in light of the political environment and the economic climate.

But all that said, as we look forward, we do remain optimistic regarding this business. The new administration certainly looks like they're going to promote and pop up -- and prop up, excuse me, the ACA business. We just heard this week that we'll likely see an extension to open enrollment or special enrollment periods throughout the year and then a possibility of more marketing and facilitated enrollment expenditures.

So overall, I think we'll continue with our thoughtful approach. But with the new administration, I think there's an opportunity for further growth there.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And I would just add to Pete's comments that we've had a very consistent strategy around the individual marketplace that really hasn't changed year-over-year. We've done some expansion in states where we obviously have a very deep footprint. And we will continue to be opportunistic and very optimistic about what we think the opportunities are there. So again, very consistent with what we've shared with you in the last couple of years.

Operator

Next, we'll go the line of Ralph Giacobbe with Citi.

Ralph Giacobbe - *Citigroup Inc., Research Division - Director and Co-Head of Americas Healthcare Research*

I was hoping to get into the MLR guidance a little bit more, John, the 88%. Maybe if you can give us some underlying assumptions? It does imply a step-up. And I know you mentioned mix. But even outside of that, it seems a little bit higher. So hoping maybe a sense of expectation of what you assumed in guidance around maybe local group medical cost for 2021 and how we should consider that maybe off of either 2020 or maybe 2019.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thank you, Ralph, for that question. And when you look at our MLR guidance, we certainly believe it's appropriate given the uncertainty around the timing and the efficacy of the vaccine rollout and the full year impact of COVID as well as those unexpected changes in Medicare physician rates and sequestration timing mismatch that I talked about earlier have obviously all been incorporated in the 88%.

But really looking at 2019 is the point of comparison since that was the last period that there was not a HIF. It's really -- it's a fairly simple roll forward from that perspective. You look at the mix of the business that we have today with far more Medicaid members. We actually have had exceedingly strong growth in our Medicare Advantage in the last few years being in the upper-teens on a couple of year basis and exceeding the rest of the industry. All of that obviously changes our business mix. And just on an apples-to-apples basis, mix is driving about 60 basis points of the increase in the 2021 MLR versus the 2019 MLR.

And then when we look at the impacts of COVID -- and there's a lot of things that go into COVID, where there's certainly the cost of COVID, which is in the billions of dollars. There is non-COVID utilization impacts. And in terms of we believe that non-COVID utilization will be less than what a normal year would be in vacuum, then of course, you have the pricing actions that we've taken into account for that as well as reimbursements from regulatory entities that we believe are appropriate in the COVID environment.

When you take the net of all those, the impact of COVID is another 40 to 50 basis points on our MLR for 2021. And there's a multitude of other small items going in both directions that maybe comprise the last 10 basis points. But it's really -- it's those 2 items. It's mix and COVID. Thank you for the question.

Operator

Next, we'll go to the line of George Hill with Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

John, you actually just covered everything that I was going to ask about the MLR and the COVID impact. I guess I would just say one of your peers called out the COVID impact in Q4. I'm wondering if you guys would be willing to do that.

And then Gail, my follow-up is now that Ingenio was kind of fully stood up, where do you see the white space in Anthem's offering going forward?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Sure. I'll start with your question, George, and then turn it over to Gail.

Yes, in terms of the COVID cost, I think really probably your question is what type of COVID costs are included in our guidance. And as I said, there's many factors and variables. And so we've spent considerable time analyzing and modeling potential impacts. A few of the peers, A.J. in particular, has asked me what happens if the vaccine rollout is different than soon. Well, I'll tell you of all the modeling assumptions we have, the timing and efficacy of the vaccine is one of the assumptions that has the greatest amount of variability associated with it.

But anyway, all in, we're estimating that we have about a $600 million COVID headwind inherent in our 2021 guidance. And as I said, COVID cost when you include testing treatment, vaccine administration, all the other things such as the Medicare fee schedules, the sequestration, the various waves, it's several billions of dollars. But offsetting that is non-COVID utilization less than a normal year, the pricing actions that we've taken and regulatory reimbursements. And we've been modeling all that. It's coming out to about -- well, about $600 million. And you really think about that. Think about our $24.50 and then you add $600 million to that, that puts us really at the high end or slightly above the high end of our 12% to 15% growth rate range that we've talked about on a sustainable basis.

So again, we do believe that a lot of these issues are transient. And there'll probably be some lingering effects into 2022. But we feel very good about the underlying core business fundamentals that we have as a company.

With that, I'll turn it over to Gail.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks, John. And I want to reiterate what John said in terms of just -- we feel very good about these issues in our long-term EPS trajectory. And as you think about your question on IngenioRx, first of all, we're really pleased with the performance of IngenioRx. It's come in on our expectations. And I think that we're past the transition and now we're into full integration of that business with our other opportunities.

If you think about it, IngenioRx, one of the areas this year, we had some nice sales and some really good throughput and integration with our commercial business. But it was impacted somewhat by the jumbo accounts really not going out to market this past year. So we would expect as we sell through '21 that there's continuing and ongoing opportunities to integrate IngenioRx with our commercial footprint. And that's one of our biggest opportunities still. We still see a lot of runway for us to increase the penetration particularly in our middle-sized and large accounts with integrated pharmacy benefit offerings.

We did see some nice wins in 2021 on stand-alone business, which we're really, really happy with. And we think that that's a big opportunity that's to continue. The impact on large accounts this year for just what's happening in the economy, I think, is sort of depressed sales activity and movement. But we had very strong retention across both our commercial and our Ingenio book.

So overall, we feel Ingenio is tracking very much in line to our expectations and really pleased with the performance of the business to date.

Operator

Next, we'll go to the line of Kevin Fischbeck with Bank of America.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

I wanted to see what your guidance was including for 2 of the, I guess, things that might still be a little bit in flux as far as Biden policies. I guess first on the view about redeterminations or -- do you assume that they're going to come back this year or, in fact, not coming back until next year?

And then second, how you're thinking about testing costs. It sounds like you're including some testing costs in there. But I guess Biden has been talking about having insurers cover potentially back-to-work and back-to-school-type testing, which it's not clear that companies were necessarily pricing to.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks for the question. In terms of the sort of understanding inside of our guidance on the 2 issues, reverification and testing. First on reverification, we originally, I think, shared with you our thoughts on where this year would come out. Our assumption was that the public health emergency would end in the first quarter. That's what we knew at the time. But we also felt that Medicaid reverifications would probably really begin in the summer. So that was embedded in our thinking.

The other thing, I think, is important to know is right now, we're assuming based on the letter to governors that recently came out that reverifications will be on hold for all of 2021. But in our -- even in our original assumptions, we never assumed that there would be cliff events. And I think that's also an important assumption as you think about the progression of enrollment over the course of the year, that while states were trying to understand their data and managing this, that given just the challenging conditions within each of these states that, that would happen over time in the back half of the year. So again, as we think about this year, we're expecting no reverification -- really, reverification to be on pause for the full year given sort of the initial guidance that's been given to governors.

In terms of your second question, the policy issue on testing, we agree that testing is probably one of the most critical parts of controlling the spread of COVID. And we've been strongly supportive of wide availability of testing offerings. And then it is unprecedented in terms of the situation, trying to understand the additional support for all types of testing and expanding that capacity and also finding it quite frankly, new reliable, rapid and inexpensive ways to do this.

If you think about our industry, health plan benefits have always traditionally covered medical tests as appropriate to diagnose and treat individuals that were ordered by a physician. This is consistent with the long-held insurance practices or contracts and quite frankly, federal guidance. And so as we think about workplace testing, examples of that, that have happened over certainly drug testing or other traditional ways, employers have paid for that outside of the health benefit. And then similarly, public health surveillance testing has traditionally been paid for by states and local health departments. So those are -- I mean as we think about that, we follow that consistent approach to testing and also give you a sense of what we did on reverifications. So thank you for that question.

Operator

Next we'll go to the line of Gary Taylor with JPMorgan.

Gary Paul Taylor - *JPMorgan Chase & Co, Research Division - Analyst*

We've kind of hit on this from various different quantifiable angles around MLR, et cetera. But just maybe going back conceptually, I think one of the biggest concerns investors have is the risk that as COVID subsides, there's a bolus of deferred utilization and/or that utilization might be at higher acuity as if health conditions have progressed and worsened because of deferred care.

So when we think -- and the line of business where that impact seems to be -- the deferred impact seems to be most significant throughout 2020, it seems to be the Medicare business where seniors have stayed away as much as they are able to.

So as we think about your sort of house view in 2021, how are you thinking about non-COVID utilization, whether there is really pent-up demand, not just getting back to normal and whether that acuity is higher? And is that view particularly any different for commercial, Medicare or Medicaid?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you for the question, Gary. And as you can imagine, when I discussed earlier the extensive modeling that we've done, there's a lot of different thought processes around that. But conceptually, yes, we do believe that there is pent-up demand in the system. And we do believe that there is a chance that there could be higher acuity associated with when folks get care and that's probably most pronounced in the Medicare line of business. So really, the question is not if those will happen because we do believe those will happen. The question is to what extent and how significant.

And then you also have things like emergency room volume, we believe, will remain low in that the way that people access care will continue to change a bit in the future as it has in the past. To the extent that COVID stays high and then we expect non-COVID utilization, whether it's normal utilization, pent-up demand or anything else to actually be below normal. To the extent that COVID subsides and the vaccine is extremely successful, we do expect that to go up. There's really clearly a natural hedge in there. I have talked in response to other questions about what the net impact is. And we really don't want to talk about specifically how much we have for each of those buckets because they're so fungible and interchangeable and they do hedge and offset each other.

But the premise of your question, we completely agree with. What we believe is that based on our various modeling sensitivities and understanding of our membership that we believe that the guidance we provided is very solid and very appropriate and prudent and that we'll be able to manage through changes in either direction. Thank you for the question.

Operator

Next, we'll go to the line of Whit Mayo with UBS.

Benjamin Whitman Mayo - *UBS Investment Bank, Research Division - MD of Equity Research and Equity Research Analyst of Healthcare Facilities & Managed Care*

I'm just curious what you guys are sort of assuming and thinking about COVID cost sharing this year. Is there any change in how you approach that? Should we anticipate continuing to waive co-pays for the entirety of the year?

And one other question I had is just around the sequester that if it does get delayed for the balance of 2021, how -- is there any way to maybe size the impact there?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, Whit. As we think about -- as you've heard actually on this call, it's an incredibly dynamic environment. In terms of cost shares, part of the public health emergency, we are waiving right now cost shares for testing. And obviously, when the vaccine deployment comes in, those will all be included.

As part of this environment, I think the biggest impact of cost shares is going to be in the first quarter, which we've shared with you. We're assessing access to care and how all of that is happening across each of our businesses. So from that perspective, again, what I would say is first quarter is really how you should be thinking about the biggest impact of cost share waivers. And again, because of all the impacts that are happening, it's pretty dynamic. And so we're reacting and making sure that we assess that on a real-time basis.

In terms of the sequester, maybe I'll ask John to comment on the sequester.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Well, the -- thank you. So there's clearly a disconnect right now associated with the sequestration versus the DRG bump in the Medicare rate increase of 3.75%. The issue really is that with the extension of federal health emergency, that the DRG bump is going to be for a full year. We know that based on the appropriations act that the Medicare rate schedule is going to be for a full year and sequestration is only for the first 90 days. And unfortunately, that will require a legislative action in order to extend the sequestration. So we have not included an extension of that in our guidance at this point in time. Hopefully, that helps. Thanks for the question, Whit.

Operator

Next, we'll go to the line of Dave Windley with Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

You -- management had sized a $500 million number from Medicaid risk corridor or clawback. I wondered if that turned out to be -- the $100 million that was going to fall in the fourth quarter, if that turned out to be an accurate assessment or if it was different than that. And to what extent are you viewing those clawbacks continuing into '21? And then if I could slip in the flu season is just extraordinarily low apart from COVID and wondered if that has any impact on your thoughts or guidance for '21.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thanks, Dave. Appreciate the question. And just to give all the listeners a little bit of frame of reference in terms of when I answer it. In terms of some of the Medicaid clawbacks, et cetera, we had experienced about $100 million in the first 6 months of the year, had about $300 million worth in the third quarter. And during the third quarter call, I was asked what do you think the full year is going to be? And I said, probably we expect it to be a little bit more than $0.5 billion, meaning just over $100 million in the fourth quarter.

Well, it turned out that it was more than that in the fourth quarter. It was almost $250 million in the fourth quarter and to make almost $650 million for the year. I think it's very important to note that even with that $650 million clawbacks, with all the various corridor and collar and other rate protections that existed within that block of business, that Medicaid's still into 2020 within target margin ranges.

In terms of the impacts for the future, we have about half of our Medicaid states are repriced on January 1. We are very comfortable with the actuarial credibility of those rates thus far and believe that we will continue to work with our state partners in terms of the challenges that they're facing and respectful of their budget issues but to still receive rates that are actuarially sound and actuarially solid for 2021.

And then there are rate protections, as I said, between collars, corridors, rebates, whatever you want to call them. They all have the same aspect to try to better align cost and revenue within the same time frame in the same period. So we're actually very bullish about our ability here in Medicaid.

And then in terms of the flu season, yes, the "typical" flu season or influenza season is much less than anticipated. We've factored that in. I've talked about non-COVID utilization being less than normal in total for the year. That is part of the calculus. So we're actually thrilled with a lot of things that we did even. We took steps to ensure that our members had access to the flu vaccine, to our fall-through campaign.

You may not know this but Anthem partnered with over 100 community-based organizations across our markets. And we stood up 500 pop-up and drive-through clinics in underserved neighborhoods to promote and support higher immunization rates. And we believe some of our efforts helped contribute to the lower-than-normal flu incidents. And as I said, that's all factored into the non-COVID utilization comments that I made earlier. I appreciate the question, Dave.

Operator

Next, we'll go to the line of Joshua Raskin with Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

Question is with Anthem's strategy around working with physicians and health systems and risk-based arrangements. And if you could size the overall spend that you see going through risk-based contracts and specifically through global capitation.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks for the question, Josh. We've shared this publicly a few times. We're north of 60% in some type of, I will call, upside/downside risk. So what does that mean? It's a variety of relationships that we have. And we are moving to increase to much more capitated full risk arrangements particularly in our government business. At this stage, a lot of them are gain shares, although we do have a component of that 60% in full risk.

Our strategy is to continue to build upon that. And we believe that having 1 in 8 patients in our markets that are Anthem patients across our book of business provides us a real foothold in those marketplaces. And we've been working with our care providers to improve that. We started with a program. It was really based on primary care capitation and working with them on their share to get them more involved.

So our strategy does revolve around primary care. And we're going to continue to build on that. We have 180 accountable care organizations. 23% of those are roughly operating under shared risk arrangements as well. And then if you think about other innovation programs, we've got about 69% of our medical spend tied to performance-based contracts as well.

So as you can see, this for us is evolving. It's something that we've been working on for a number of years. We've had the infrastructure in place to do it. And now we're increasing and enhancing the amount of full risk that our care providers are taking with us. And we actually expect that to accelerate because of the pandemic. We see increased interest across our businesses and physicians working with us. And we find plenty of access in our markets. I mean I think that's a question that's been asked before. Is there enough capacity in our markets? And we've seen many of our physicians very willing to move along the continuum with us. It's a journey probably a few years still until we get to where we want to be. But ultimately, we've made progress every year and it's a core part of our strategy.

The other area that I just want to touch on is telehealth, which is another part of our strategy not tied necessarily to behavioral health -- or not tied necessarily to risk-based payments. But we also see telehealth, behavioral health in particular, a growing part of our strategy. I shared, more than 60% of our visits in behavioral are done via telehealth. We think that's a great access. And we also think bringing in quite frankly, not just physical health on the medical side but behavioral health into these arrangements. And our pharmacy actually completes the circle for us. And then some of the capabilities within our diversified business group around palliative care and the work that they're doing to make sure that we are better positioned with data to help manage these relationships is another area that we've been investing very heavily in.

So thanks for the question. It's a core part of our strategy. We're on a journey. We still have some work to do but I think we've made really good progress and are going continue to move down the risk corridors. Thank you.

Operator

Next, we'll go to the line of Lance Wilkes with Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. Could you talk a little bit about your strategy in partnering and cross-selling into other Blue Cross organizations? And in particular, could you hit 3 areas that -- it'd just be interesting to understand the progress and the outlook for Ingenio, for Diversified and in particular the Beacon asset name and then also your Medicaid partnerships.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you very much. I'll begin and then I'm going to ask Felicia to share some comments around our Medicaid partnerships. You hit really on the 3 key areas that we're partnering with our Blue -- other Blue plans on and even there's a couple of others.

First, in terms of Ingenio. As you know, Blue Cross of Idaho was one of our first commercial partners in that space. And we just added their Medicare Advantage business on January 1. We continue to work across Ingenio in addition to several other relationships that we've had with other Blues.

It's a longer-term sales process because, as you know, most of those contracts are 3- to 5-year contracts so it takes some time. And we really, until this year, we're not in a position, I think, with the transition and other things we're doing to take on most of those kind of arrangements. So we've actually been very balanced in pacing the relationships that we've had there. But we actually do think there's a really good opportunity for us to continue to build and expand.

An area that you didn't talk about specifically was the relationship we have in the group Medicare business. We've got some partnership there also with other groups that we think will help us to expand our combined footprint. And we've been working with our Blue partners on that because we think we offer obviously some capabilities in that space. And we can work with them on their commercial business to convert that to Group Medicare. And we've had some wins this year in that area as well.

The last area is the Diversified Business Group and Beacon's a great example. I mean that asset that we've purchased and brought on to the Anthem family last year, we see as a very big opportunity. They obviously have been a large footprint even before integrating with Anthem. They work with a number of Blue partners. We consider that an opportunity to integrate our whole health strategy and we see our Blue peer is also very interested in expanding there.

In addition, on the Diversified Business Group, we've seen meaningful opportunities to expand CareMore and Aspire. Those are 2 other companies that have worked with Blue partners. And then we're in a joint venture on our integrated health consumer capabilities, which we've talked about in terms of Total Health, Total You and some of the other work that we're doing because those also offer opportunities.

So as you can see, a lot of different things are happening. These are generally several year sales. So I won't say that it's going to happen overnight. But we've seen a real increase in the external business that we've had in working with our Blue partners.

Medicaid is the space that we started our partnerships with and have expanded that into Medicare and the duals. I'm going to ask Felicia maybe to comment on that because that's probably been our longest-standing relationships with our Blue partners.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Thank you for the question. We're very pleased with our Blue partnerships. We started the year with 5 partnerships on the Blue side. We've now added Nebraska and Missouri, both branded as healthy Blue. The opportunity that we have is that we're really a natural partner to our Blue plans and see this as an opportunity for us to continue to leverage the breadth and scope of Anthem's deep knowledge around Medicaid execution and being able to continue to grow that membership as we go forward.

When you take a look at where we are today, the great opportunity extends not from Medicaid but also to Medicare. We were able to leverage our partnerships, for example, that we had in Louisiana to move forward with the D-SNP offering. And we're doing the same thing with our partnership in North Carolina as well.

So the future of our alliances and partnerships is strong. I think this is an opportunity for us to demonstrate the value that we bring across the board to our Blue partners. And we'll continue to enhance that as we go forward.

Gail also mentioned GRS and our opportunities there. And we were able to actually partner with Independence Blue Cross for [1/1/21] in terms of our partnership with them going forward. So between Medicaid and Medicaid, the opportunity continues to be robust. And we will continue to grow this business as we move forward.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. I think the summary of all that is we're making some good progress. We're in early days and we do think that there's significant opportunity. But again, these pipelines take some time and we expect over the next several years to continue to advance this. But it's an important part of our overall growth strategy. So thank you for the question.

Operator

Next, we'll go to the line of Robert Jones with Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group, Inc., Research Division - VP*

I guess maybe just one on the SG&A expense ratio. The expectation for 10.8%, plus or minus at the midpoint. I know there's some moving pieces this year. I was hoping, John, maybe you could give us a little context on the drivers of this. Obviously, we'd have the SG&A ratio lower than what we saw this year. And I know we're thinking about the HIF and mix and then just other cost initiatives. So just any breakdown of that would be helpful and then as it relates to the cadence of how we should be thinking about SG&A throughout the year would be helpful.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, sure. Thank you for the question. Our SG&A levels are decreasing. And they really, again, have been more consistent with the plans that we discussed at our Investor Day a couple of years ago. We continue to have systems migration strategies, looking very hard to eliminate nonvalue-added workflows and really enhancing our digital capabilities.

Also, at the end of the third quarter of last year, we had some business optimization charges. And you're starting to see some of the benefits of that already come through the P&L. So all in, we feel very good about that. We clearly have seen significant revenue growth as well. And our revenue growth has far exceeded our growth in SG&A expenses, which serves to lower the SG&A ratio.

So as you know, we're anticipating a lot of growth in Medicaid. Medicaid carries a lower SG&A ratio than the company does in general in terms of mix and weighted average. So a lot of moving parts and a lot of factors. But we're very confident with our 10.8% and believe that it's very much delivering on the promises that we laid out a couple of years at that Investor Day. So thank you for the question.

Operator

Next, we'll go to the line of Scott Fidel with Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

I actually wanted to just ask about Diversified Business Group just more broadly in terms of thinking about the 2021 outlook. And interested if you can maybe talk about how you're thinking about revenue growth and margin profile for the business. I know there's a bunch of businesses within that but generally more broadly. And then call out any key COVID headwinds or tailwinds to consider around that segment.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Sure, Scott. Thank you for the question. Diversified Business Group is an extremely important part of our long-term strategy and our long-term growth aspirations. It is not yet large enough to be considered a separate reporting segment under SEC reporting guidelines. So there's only so much information that we can provide on a detailed basis.

But in 2021, we do expect to see some nice growth on a -- specifically on a percentage basis out of Diversified Business Group. The aim is proactively managing capacity as volume returns. And we continue to monitor volumes as utilization demand normalizes. Beacon has initially experienced a reduction in utilization and then rebounded significantly throughout the year. Once Beacon and once the vaccine stabilizes the COVID issue, we expect Beacon to really be a meaningful growth driver in that area here for the future. And our program integrity area is also -- I mean the SIU is also within DBG. And that's been impacted a little bit here in 2020 with lower claims volume and we expect that to kick back up in 2021.

So there are both opportunities for DBG to further penetrate Anthem membership and do things appropriate to help bend the cost curve within Anthem and then sell that externally. Gail just talked a minute ago about some of the opportunities that we have in DBG and penetrating more and more of the Blues. So we're very bullish about DBG's long-term aspirations and helping drive the overall growth of Anthem for the future.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And I'd add to John. As I said in my prior comments, the Diversified Business Group is -- it's in the early stages. We're really pleased with the growth that we've seen from it. We're very happy with Aspire and Beacon especially because of the opportunities to integrate as part of our whole health strategy. We see big opportunities. We shared this at our last Investor Day about the impact that the Diversified Business Group can have on Anthem's business to help accelerate our own growth. And we're starting to see some of that already inside of the Anthem numbers, where both CareMore and Beacon particularly this year have really supported Anthem's growth.

But as John said, similar to other health services business, COVID did have an impact on our ability to doe in-house assessments. And some of the utilization certainly was up in the Beacon behavioral health business. But overall, we're still very positive about the long-term growth projections of our Diversified Business Group. And we're going to share a lot more about where we see that going in our Investor Day in March. Thank you for the question.

Operator

Next, we'll go to the line of Matthew Borsch with BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

Yes. I was just wondering if you could talk about the enrollment outlook for the beginning of the year, particularly what you're seeing in terms of large accounts. I think you referenced less movement there this year, which isn't surprising. And then Medicare Advantage also, how you see that coming into the new year.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Sure. I'm going to ask both Pete to answer the commercial question and then Felicia about Medicare Advantage. But just a couple of overarching comments on that. Overall, we are really pleased with what -- how our commercial business performed in 2020 just given the economic headwinds. And as you saw, incredibly resilient business with most of our impact having a result of just the downsize in inside of accounts but our sales have been robust and our retention good.

But without stealing all of Pete's thunder, let me turn it over to him to give a bit of a perspective on how we're seeing '21. And then Felicia.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thanks a lot for the question. I appreciate it. Just to reiterate what Gail said, we're really pleased with how we landed in 2020 and how the team performed. Overall, with all the headwinds we talked about in 2020, we actually saw the commercial book grow sequentially year-over-year. So that was great. And while we did see furloughs in our book of business in less risky segments being a factor, as Gail just alluded to, the execution was outstanding from the team. Our sales exceeded our lapses for this quarter again and for 9 of the last 12 months. So that was great to see.

And on the local group business side, we actually grew our fully insured and self-funded business in the quarter. So that really played out well.

What you alluded to is what our headwind has been throughout the year. And that's really the in-group change dynamics that occurred in the larger size accounts. And that's really going to be the story for 2021.

As it relates to our execution and how we're starting off the year in 2021, we still feel very good. We feel very good about our portfolio. But again, depending on the economy and how in-group change plays out especially upmarket as you alluded to, will be a big factor as we head into 2021. If that changes and the economy improves quicker than we think, then that would be a positive obviously. But overall, we're taking a more conservative view of that in light of where the economy is today. And I'd say that, that would overall lend itself to about flattish overall membership growth in the commercial business.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

And in terms of our Medicare business, Medicare Advantage particularly, the results of the past AEP are in line with our expectations. And as we referenced earlier in the call, we certainly expect another year of double-digit growth outperforming the industry average growth rate. As a reminder, our growth in Medicare Advantage has historically been more balanced throughout the year rather than just limited to [1/1].

We're also pleased to be expanding our footprint into 109 new counties. And for the first time, we will be offering Medicare Advantage plans in Iowa and statewide across Kentucky and Tennessee as well. Know our virtual sales comprised more than 60% of our total sales volume this past AEP. And the results from our care guide is very promising. Care guide provides our members with a new simplified orientation journey that begins at the point of sale and reduces member touch points to ensure that they have consistency throughout the overall onboarding process.

And finally, with respect to Group Retiree, while there was a bit of a delay in the GRS pipeline, we still think that opportunity is intact. And we expect to see more of these opportunities as we move into 2022 and beyond.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. I'd like to just really give a shout-out to our teams in both the commercial and Medicare business because this was a really unusual year. We had a pivot. And the investments that we made in our tools and our digital engagement with brokers, et cetera, really pay dividends across all of our businesses this year. And I think that's a -- that really speaks to the kind of investments that we're making -- that we can engage even when we're not able to be in person with our clients from a sales and account management perspective.

So again, overall, 2020, I felt our teams really responded well. And we're looking forward to '21. We've learned a lot. And I think the investments we've made have really helped us support our clients in this environment.

Operator

Next, we'll go to the line of Steve Willoughby with Cleveland Research.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Most of mine have been asked but 2 things for you. One, just a follow-up on the last question. I was wondering if maybe Felicia could comment at all as it relates to Medicare Advantage between individual and group.

And then Gail, just was wondering if you have any thoughts or have seen any impact on the national accounts market as a result of the Blue Cross Blue Shield lawsuits and subsequent resolution? And any rule changes with Blue Cross Blue Shield Association?

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Thank you, Steve. As I referenced earlier, our individual sales for AEP were in line with our expectations. And the team certainly had to pivot in light of what we were seeing in the pandemic. That led to more virtual sales. This AEP and results there were strong as well. So certainly, when we take a look at where we are, we are very pleased with what we saw and expect to deliver the double-digit growth that we referenced.

From a group perspective, group membership came in well. I would say that as we mentioned before, there were some delayed decisions from employers with respect to Group Retiree business for 2021. We expect that pipeline though remains intact. As we've said before, when we take a look at our group business, we really have an inherent captive pipeline between the commercial business that we have and our ability to be able to penetrate that business and grow as we go forward.

So while there was a real deferral, I think in some respects with respect to growth in group this year, we expect those opportunities to remain intact and just were delayed and pushed out to 2022 and beyond.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

And in terms of the last question about the MDL and the subscriber settlement. I commented on that on the third quarter call and really, it remains the same. I don't really see that changing. Our strategy, we talked a lot about the partnerships we have in terms of national accounts, we're going to continue to be an active participant in that market as are our peers. So other -- in terms of the Blue Cross Blue Shield litigation and MDL, I really don't see anything different than what I shared on the third quarter call.

Well, thank you very much. That will be our last question. I want to thank everyone for joining our call this morning. As you've heard here today, Anthem delivered strong results in 2020. And we're well positioned moving into 2021 despite the ongoing uncertainties.

We're a very different company than we were even 1 year ago. And I'm optimistic about the opportunities for our more than 78,000 associates to further improve the overall health of our members and communities during these challenging times.

I look forward to speaking with you at our Investor Day event in March. Thank you again for joining us.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 a.m. today through November 27, 2021. You may access the replay system at any time by dialing (888) 566-0406 and entering the access code 8850. International participants can dial (402) 998-0591.

This concludes our conference for today. Thank you for your participation and for using Verizon conferencing. You may now disconnect.
