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ANTM.N - Q2 2020 Anthem Inc Earnings Call

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OVERVIEW:

Co. reported 2Q20 operating revenue of $29.2b and adjusted EPS of $9.20. Expects full-year 2020 adjusted EPS to be greater than $22.30.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Anthem's Second 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, IR*

Good morning, and welcome to Anthem's Second Quarter 2020 Earnings Call. This is Chris Rigg, Vice President of Investor Relations. And with us this morning 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 Second Quarter 2020 Earnings Call. Since our last earnings review, our business has continued to evolve in response to the ongoing health crisis and social justice issues facing society. The impacts of these events are profound for our associates, local communities and all those we serve.

Over the past several months, Anthem has continued to take bold steps to directly support those who need our help. Last quarter, we took action to commit $2.5 billion in financial assistance to ease the burden of COVID-19 among our members, employer customers, care providers and nonprofit partners. The needs are ongoing, and I'm proud of the way Anthem has responded quickly to provide needed support.

We remain committed to creating a more affordable health care experience for our valued members and customers. To that end, we remove barriers to care by waiving cost-sharing for treatment of COVID-19, including coverage for testing, treatment and inpatient hospital stays. We also waived prior authorizations for COVID-19 diagnostic tests and related coverage services. To date, we paid approximately $500 million associated with COVID-19-related diagnoses.

In addition, we provided our associates, individual and employer group customers with a 1-month premium credit, ranging from 10% to 15%, while individuals on our stand-alone and group dental plans received a 50% credit. We continue to deliver value to our customers by providing them with flexible payment terms as well as affordable buy-down options as they navigate the crisis.

Our unwavering commitment to our local communities is an integral part of our strategy and legacy at Anthem. For more than 75 years, we have understood the privilege and responsibility we have to make positive change in the communities where we live and work. This commitment reflects our mission and all that we stand for.

And it was at the heart of our recent $50 million pledge over the next 5 years, to focus directly on health disparities, racial equities, and the key drivers of health such as food and security, mental health, housing and economic recovery. We know that food security is one of the most profound needs in the wake of the pandemic. A recent study showed that nearly 40% of households today report moderate to high levels of food and security, with children being impacted the most.

To combat this trend, we are increasing our support as a leading national partner with Feeding America. Here in our home state of Indiana, we were pleased to recently announce a partnership with Gleaners Food Bank to provide more than 10 million meals as part of our $1 million matching grant to expand access to nutritious food. Our associates are doing their part to give back as well, and it's inspiring. They're deeply committed to fulfilling our purpose and have donated more than 27,000 hours of virtual volunteering with online mentoring, teaching, community outreach, along with donating much-needed resources to local organizations. And today, our social responsibility efforts take a bold new step, as I am pleased to announce we are signing on to the UN Global Compact. Now more than ever, we recognize the important societal role we play to help shape a stronger, more inclusive and more sustainable world.

As we reflect on our performance, the quarter clearly demonstrates the strength of our diverse portfolio, and trust in the Anthem brand. Despite declines in our commercial business, losses were less than expected, particularly in our local group risk-based business, where in-group attrition was partially offset by new sales exceeding lapses. Medical enrollment increased by 1.6 million lives or nearly 4% compared to the prior year quarter, reflecting growth in our Commercial, Medicare and Medicaid businesses.

Putting that growth in perspective. Medicaid enrollment grew sequentially by nearly 10x the decline in our risk-based employer group enrollment. The pandemic has impacted our Medicaid and Medicare populations particularly hard, and we have moved quickly to deliver true full person care.

Our customer care associates have been doing one-on-one outreach to our vulnerable members, ensuring access to food, safe housing as well as guiding new members through onboarding and helping them enroll in support programs, such as the supplemental nutrition assistance program. To date, we've reached out to 80% of our high-risk Medicaid and Medicare members, and this work continues. I remain grateful to our care provider partners for their ongoing work on the front lines of care delivery.

As part of our support to those partners, we've simplified policies and procedures, including temporarily suspending prior authorization requirements for patient transfers, oxygen supplies, respiratory devices and multifunction ventilators, enabling them to focus on delivering exceptional care. In addition, we are extending financial support to targeted primary care physicians, who are facing undue pressures during this period, as utilization slowly returns to normal levels. Our compassionate and committed care providers in CareMore, Aspire and HealthSun, are beginning to return to direct care for our most vulnerable members. These touch points include the use of remote patient monitoring for a variety of chronic conditions, such as congestive heart failure and COPD, along with in-home and online care and support.

As we think about innovation, Anthem is helping shape our industry for the digital future. We are pioneering technologies to deliver personalized care designed to improve total health and help consumers manage their health and wellness every stage of life. Digital first is the cornerstone of the future of health care and our experiences with COVID-19 have only accelerated our efforts in this space.

For our employer customers and government partners, we recently launched the C19 Navigator and C19 Explorer tools to aggregate real-time COVID-19 data to help inform and guide return to workplace decisions and resource planning. And for consumers, our Sydney Care solution is using data and AI to help individuals triage their own symptoms and seek care directly from their phone.

To date, we facilitated more than 475,000 telehealth visits and 82,000 COVID-19 assessments. As one of the first managed care companies to partner with Amazon Alexa, Anthem members can now use our new Anthem Skill personal voice assistant to check their health plan details, schedule calls with customer representatives and renew prescriptions directly through their Alexa-enabled devices. At its recent peak, virtual health visits by our members were up 300% relative to pre-COVID levels.

LiveHealth Online, our on-demand telehealth solution, surpassed 1 million visits in early April, and demand continues. Demand for telemedicine in the behavioral health space is also increasing with usage of 56x pre-COVID levels. Our Beacon behavioral health team has responded to this growing need and pivoted quickly to help transition care providers to a digital interface, enhance online supports and services for consumers, and conduct outreach for our most at risk members to address special care needs.

Collaborative partnerships continued to be a strategic focus in Anthem. We were pleased to join the Fight Is In Us campaign, a results-driven public-private partnership focused on the promising use of COVID-19 convalescent plasma to help improve outcomes and treatments for those with active infection.

We're also pleased to serve as a founding partner of the X Prize Pandemic Alliance, working to help develop scalable tests that are rapid, accurate and low cost. The Alliance is a global coalition leveraging the power of collaboration, competition and shared innovation to accelerate solutions that can be applied to COVID-19 and future pandemics.

Looking ahead, we recognized there is much unknown regarding the magnitude and duration of this pandemic, given the recent resurgence in COVID-19 cases across the country. Despite this uncertainty, Anthem is well-positioned to achieve our 2020 EPS guidance and deliver on our longer-term financial goals.

And with that, I will now turn the call over to John to discuss our financial results. John?

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

Thank you, Gail, and good morning. Since the inception of the COVID-19 pandemic, we have worked diligently to serve as a trusted partner for our members and care providers. We proactively committed $2.5 billion in financial support, including extended cost share waivers, premium credits, provider grants and community support. And this is all while rolling out new and innovative solutions to maximize the health and well-being of our members. While much remains uncertain, we are guided by our values and are firmly committed to rectifying further imbalances for the benefit of our consumers.

COVID-19 significantly impacted the normal seasonality inherent in our business as a result of the broad-based deferral of health care utilization in the second quarter. We achieved adjusted earnings per share of $9.20 in the second quarter, bringing year-to-date adjusted earnings per share to $15.68. The seasonality of our earnings will differ from our historic patterns. And as we have previously announced, we expect to earn approximately 70% of our annual total in the first 6 months of the year.

Relative to our baseline financial expectations, aggregate utilization was 40% below expectations in April and 20% in May, as people nationwide adhered to shelter-in-place orders. Our June experience, while still early, suggest that utilization recovered to roughly 90% of baseline. Looking ahead, our guidance assumes the recent recovery and utilization persist, and second half utilization comes in slightly ahead of our pre-COVID-19 baseline expectations. All in, we expect this dynamic to increase our second half medical loss ratio by a couple hundred basis points, relative to what normal seasonality would have suggested.

Medical membership totaled 42.5 million members at the end of the second quarter, reflecting an increase of 1.6 million members, representing nearly 4% growth over the prior year quarter. Even more impressive is that we grew during the second quarter, organically adding 309,000 net new members during these uncertain times.

Government business enrollment grew by nearly 600,000 lives in the quarter, more than double the decline in commercial enrollment. Attrition in our Commercial business has been less than expected to date. However, we believe attrition is likely to accelerate when federal assistance expires. Nonetheless, we expect to mitigate declines in commercial enrollment through growth in our Medicaid and individual ACA businesses.

We believe we have the most balanced and resilient membership mix in the sector. In periods of strong economic success, such as the company enjoyed in 2019, we grew our membership. In 2020, during more economically challenging times, we again, have been able to grow our membership. Our strategy and business mix allows us to perform well in both positive and negative economic conditions.

Overall, we are pleased with how our membership is trending. Results through the second quarter reflect our deliberate efforts to build a more diversified Anthem over the last decade, maintaining our strong commercial franchise while establishing an industry-leading Medicaid platform in a rapidly growing Medicare business.

Operating revenue was $29.2 billion in the quarter, growth of nearly 16% over the prior year and 14% on a HIF-adjusted basis. Growth in operating revenue was driven by the launch of IngenioRx and the related increase in product revenue, membership gains in Medicaid and Medicare as well as the return of the health insurer fee in 2020.

Days in claims payable was 46 days, an increase of 4.1 days from the first quarter and a 6.9-day increase from the second quarter of 2019. Given the uncertainty, we have taken a conservative posture related to our claims reserves. We expect DCP to decline to levels more in line with historical norms as utilization rebounds in the second half of the year.

Operating cash flow was very strong at 2.4x net income. Cash flow in the quarter benefited from several timing-related items, including the delay of certain federal and payroll tax payments in accordance with the CARES Act.

In the third quarter, we'll be making 3 federal tax payments and the $1.6 billion health insurer fee payment. As a reminder, we took a number of immediate actions in the first quarter to enhance our financial flexibility. We ended the second quarter with approximately $4.1 billion of cash and investments at the parent company. Our debt-to-cap ratio was 39.5%, a decrease of 220 basis points compared to the 41.7% in the first quarter, reflecting our enhanced liquidity position.

With liquidity concerns not as prevalent as they were earlier in the year, we have resumed our share repurchase program and continue to expect to repurchase greater than $1.5 billion of shares for the year.

To conclude, our performance in the quarter clearly demonstrates that the value of our diversified model is real. As we look ahead, we expect additional commercial enrollment attrition and strong growth in our Medicaid business. Thus far, COVID-19 is not significantly impacting our individual Medicare Advantage growth, which continues to enjoy a mid-double-digit growth trajectory. Although much remains uncertain about the impact and ramifications of the pandemic, our rigorous scenario analyses continue to support our original full-year adjusted earnings per share guidance of greater than $22.30. While we have reconfirmed our earnings per share guidance, we continue to withhold guidance on all other metrics.

And with that, we will now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) For our first question, we'll go to the line of Ricky Goldwasser with Morgan Stanley.

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

So you've maintained guidance, as you assume, some return to more normalization in the back half of the year. Can you give us some more color on what you're seeing in specific regions, where COVID cases are coming back? Obviously, there've been some reports that some of the places are deferring electives again. How should we think about the net of what's coming back from being deferred in 2Q versus second half?

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

Thank you, Ricky, appreciate the question. And it's certainly an understatement to say that there's a lot of uncertainty associated with the situation. We still have a lot of pent-up demand from the second quarter, and we have extended payment of covering copays and deductibles for COVID-19 treatment. And in addition, we're providing reimbursement for PPE, for dental providers as well as other benefits we're providing our -- to the provider community.

And while an increase in the COVID and the recent spike we have, certainly, may cause more deferred procedures, right now, we're not expecting a full shutdown of the system similar to what we experienced in April.

And so given all the variables, we still do believe that a reasonable estimate will be that our second half medical loss ratio will be about 200 basis points higher in the last part of the year versus what would be expected under normal circumstances.

And I guess the only other comment is to note that we did provide the $2.5 billion of value to the system as a result of what's going on. And if non-emergent utilization drops significantly again, we'll certainly take appropriate actions to help address whatever imbalance exists associated with that. So I appreciate the question, but we really do think that the $22.30 EPS guidance is really the best guess right now.

Operator

Next, we'll go to the line of Justin Lake with Wolfe Research.

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

Just a couple of questions on Medicaid. Can you talk about your -- what you saw in membership in the second quarter in terms of lack of churn versus new membership? How you think about that's going to progress into the back half of the year? And then any comments on rate pressure? And what you've built in for an assumption there into the 2020 guide would be helpful as well.

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

Thanks for the question, Justin. I'm going to have Felicia comment. But I think, as you noted, we feel very strongly about the membership gains we saw. And specific to your question, the vast majority were due to the stopping of reverification versus unemployment and other things that would have occurred during that time.

But as we look at our overall membership growth, again, we feel we also gained share during this time, a strong brand resonated. But I'll have Felicia maybe give you a little bit more color in terms of the discussions with the states. Felicia?

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

Thank you, Gail, and thank you for the question. Our Medicaid enrollment in the second quarter ended at approximately 8.2 million members. This was up 566,000 compared to the first quarter. And as Gail mentioned, that was primarily due to the temporary suspension of reverifications. Our early indications for July as well indicates continued growth in the Medicaid program. We feel very good about our brand, and we continue to grow share in the Medicaid space.

Looking ahead, we believe we're well-positioned to be able to navigate whatever happens in this emerging environment. And the expectation is that we will continue to see Medicaid growth during this time. Roughly 13% to 15% of our members reside in states where Medicaid has been expanded. So while it's too early to quantify the potential impact, certainly, if the unemployment rate increases, we would expect growth in our government business to certainly continue to offset any membership declines that might happen on the commercial side.

In terms of your question, with respect to rates. We certainly won't disclose the amount of any of the experience rated refunds or rate actions. But as John mentioned earlier, our guidance reflects a reasonable view of both our known and expected rate actions and the experience rated refunds. As you know, rates are required to be actuarially sound, and we work with our state partners on a daily basis on developing rates that are going to be appropriate.

The performance across our 24 markets varies even under normal circumstances. But as you know, some states are reopening, and other states are seeing a resurgence in COVID cases. Roughly 15 of our states today have risk quarters or collars in place that effectively already limit managed care profitability within certain defined ranges, and we are in discussions with other states that are also considering these kind of mechanisms, which really provides some predictability for both the states and our own business, and really tries to ensure that risk is really properly balanced.

We have a long history with our state partners, and we're going to continue to work through this with them and make sure we are able to provide access to care to our members, and that really remains our foremost concerned during this time.

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

Thanks for the question, Justin. And just sort of reiterating, I think, what Felicia said, we feel that it's been very constructive dialogue with the states, and it's part of our model that it's a continuous conversation that we're in with them. But overall, from a growth perspective and kind of where we are from a share, we feel quite good about our Medicaid performance.

Operator

The next question comes from Stephen Tanal with SVB Leerink.

Stephen Vartan Tanal - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

I just wanted to ask on the segments. It looks like the government business profit dollars, margin rate, kind of maybe benefited more from COVID in the quarter anyway than the commercial side. I don't know if I'm reading too much into that, but just wanted to understand how the pandemic affected the 2 lines of business.

And really separately, just following up on Felicia's comment just now. I think she said that you guys expect government enrollment to offset any changes on the commercial side going forward. So I wanted to clarify that, maybe get a little bit of context on just the mix shift between Commercial and Medicaid. And how you guys think about the profit dollars and the revenue associated with those 2 businesses? So what is one commercial life worth on the Medicaid side, for example, that would be helpful.

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

Yes. Thank you for the question, Steve. First of all, on the segment reporting and the benefit of the deferred utilization, the deferred utilization actually was a little bit more significant in the commercial market than it was in Medicaid, and then it was the least amount in Medicare in terms of the impact of the non-emergent procedures and the decreased cost structure.

However, in the Commercial segment, we provided the premium credits through the membership to all of our customers, 10% to 15% on the local business and up to 50% on the Specialty business. And the entirety of that was recorded in the second quarter, for that entire premium credit. And so that's what is probably the reconciling item in your analysis when you're looking at the quarter-over-quarter, is that the premium credits are in the commercial market.

And then the commercial market also has the premium cost share waivers for COVID testing and treatment that are part of their commercial results. Associated with the ongoing business and the profitability, we certainly have target margins on all of our businesses. And in the commercial marketplace, target margins on fully insured business, it could easily be 5%, even high single digits, and that could easily work out based on an average premium, $25 to $30 PMPM operating gain.

However, on the ASO side, the fee revenue is obviously much, much less and a target profit on the fee side could be just $5 PMPM. And then you look over at the Medicaid. Well, Medicaid, you have TANF and you have the higher acuity. There's a lot of variations there.

But even at a 2% to 4% op margin, which is our stated op margin for Medicaid, if you utilize the midpoint being 3%, based on the various premium volumes, you have maybe a $12 to an $18 target margin on a PMPM basis.

So as you can see, when we lose a commercial member, depending on if it's fully insured or ASO and it goes over to government, it could actually balance out quite nicely. That's one of the reasons that we continue to talk about how diversified our business mix is and how resilient our membership is, is because the profit margins on the various lines of business really help offset each other when there's a shift between the various areas. So thank you for that question.

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

Steve, as a little clarification on the membership comment you said about the offset. I just want to clarify a couple of things. One, as we look at our overall commercial enrollment, as we shared in our prepared remarks, we were down 290,000 lives. But as you think about unemployment, that was fairly muted and particularly so our risk-based lives.

So that was -- we do expect -- we think that furloughs have dampened that impact over the course of the year date, but we feel are very resilient, quite frankly, in our commercial business. And we're really pleased that our sales offset our lapses actually in the quarter as we look at our risk group business. So another sign that I think our teams have really put out some affordable products, and are doing a nice job of managing through this.

But on an overall basis, we've often talked about having this large catcher's mitt of opportunity. I think clarifying what Felicia was saying a little more specifically, as you look at the quarter, and I shared in my remarks, our Medicaid outpaced our risk lives by 10x, so clearly offset much of that.

And also, it's quite compelling when you're trading risk lives for fee-based lives. So a lot of our losses came in, our self-funded ASO customers, and we were able to generate much more in our risk life. So overall, we do expect, as unemployment continues, to lose more commercial lives. So I don't want to leave you with the impression that we won't. But overall, we feel we had a very resilient catcher's mitt across our book of business, so thanks for the question.

Operator

And for our next question, we'll go to A.J. Rice with Crédit Suisse.

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

Yes. I guess, the first name is a tough one there. But anyway, good to hear from everyone. Maybe I will just ask about Ingenio. Obviously the ramp-up in profitability was a big part of the story this year. How are you doing relative to your expectations there? How is the COVID situation impacting trends that you would have otherwise expected to see in a normal year? And any comment on the selling season for the PBM as we get towards the end of that for 2021?

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

Yes. A.J., and thank you for the question. IngenioRx is actually doing quite well, and has really done a nice job of meeting our expectations. As you know, we really are in the Ingenio swing of things, a full year earlier than we had expected to, based on the original time line of the ESI contract and being able to get out of that a year ahead. And so 2020 is actually a run rate year as opposed to an implementation year.

And in terms of the profitability itself, we made about $350 million in the first quarter, $304 million here this quarter, and there's really a few key things going into that. The $4 billion in savings that we got from the -- better contract with CVS. And we've always talked about returning 20% of that to the shareholders and -- which would be $800 million. Well, as we've gone through the first half of the year, and really tried to optimize and maximize the situation, we believe that we're going to actually return closer to $900 million of that value throughout the course of 2020, and be part of our run rate on a go-forward basis.

Also, Ingenio includes the shift of 7,500 -- or $75 million to $100 million of operating gain related to existing self-funded pharmacy customers that was previously recorded in the Commercial segment and is now being recorded in the Ingenio segment. And so that's all part of the situation.

And then certainly, any revenues or profits from third-party business are included in Ingenio as well that's helping with the overall profitability of the segment. And the first quarter was benefited by the refill-too-soon relaxation of that edit. And we had an impact there that helped first quarter to be maybe higher than a run rate-type basis. But we really do believe that the second quarter is a good indication of what the run rate could be, maybe even a little bit better because if scripts -- while maintenance scripts were consistent in the second quarter versus historical patterns, new scripts were down 10% to 15% in April. And so actually, the second quarter is probably the low end of a sustainable level for Ingenio for the future but thank you for the question.

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

Yes. In terms of the selling season, A.J., it's been an interesting operating environment, given all the change. And I think we shared this in the last quarter, things are, I would say, at least slightly delayed, as customers try to work through their own stability across their business.

And while I think it's still early, I would say that our pipeline is still quite good. We are seeing some delays in overall decisions to move from 2021 to 2022. But overall, the sales cycle has been pretty active. We've seen an increase year-over-year in that pipeline. We feel that one of our best opportunities is to embed IngenioRx in our own fee-based business, and that's been going well.

We're also pleased that we'll be adding Blue Cross of Idaho as part of our Medicare base in 1/1/21. So that's a nice add as well, as you know, we brought on their Commercial business this year as part of the transition. So overall, I think we're probably going to expect some delays in the overall decision-making for our largest customers, but we still feel very compelling sales proposition, particularly as we add it to our self-funded business this year.

Operator

Next question comes from Sarah James with Piper Sandler.

Sarah Elizabeth James - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Could you talk a little bit more about the change in assumptions impacting DCP? Did the completion factor assumption move? Are you getting builds a little bit slower? And was there any impact on MLR from that assumption change?

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

Yes. Thank you, Sarah. Great question on days and claims payable. And as we said, the days and claims payable is up 4.1 days sequentially as well as 6.9 days year-over-year. And the days in claims payable is a function of many things. And at times, some of those changes can impact DCP without impacting the income statement. And we certainly have part of that going on with the way the math works.

But we have seen a elongation of the amount of time that has taken providers from the point of service to actually submitting the claims to us. So the cycle time of date of service to claims submission has gone up a couple of days across our entire book of business during this pandemic, and a lot of reasons for that. But clearly, that would impact the days and claims calculation, all else being equal.

Then also, given the fact that, that occurred, I mentioned the conservatism in the prepared comments. We have then further made the completion factors a bit slower, given the uncertainty associated with the billing patterns that we wanted to ensure that we were totally covered. And so that would have caused our medical loss ratio to be a bit higher and our DCP to be a bit higher. And if it turns out that we need that, we are fully covered. And if it turns out that there's a bit of conservatism, then that would be great, and we'll have some releases later in the year or into next year when we have more transparency into the situation. So all those things taken, then we also were able to have very, very solid cash flow as a percent of earnings results. So I think they all point to very high-quality of earnings. Thank you for the question.

Operator

Next question comes from Joshua Raskin with Nephron Research.

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

A question around the commercial membership. I don't know if it's easy to answer. But do you have a sense of how many of your members at June quarter end were unemployed or furloughed, but still receiving benefits? And I'm curious if there's any difference in your view, the ASO book versus the risk book? And then my real question is more around in that commercial book and the current environment, is it impacting your ability to -- that strategic initiative to sell more services to existing members?

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

Thanks, Josh. I'm going to ask Pete Haytaian to answer. Please, Pete.

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

Yes. Thanks, Josh, for the question. And as Gail said, the membership in the quarter ended up a lot better than we had originally expected with the broad unemployment. And as you referred to, a big cause of that was furloughs.

In terms of having deep insights, with respect to the exact amount of folks that are furloughed, I don't have that information at a precised level, so I don't want to sort of make an assumption associated with that. But it definitely has been a big factor.

The other thing that I'd mention that's noteworthy is the makeup of our commercial book, which is really disproportionately in less risky segments. So we have, as you know, a lot of staying government business accounts as well as providing services for a lot of folks in essential services. So we feel really good about that.

In terms of upselling and selling more value into our ASO accounts. We have seen a bit of a slowdown. We talk about, on the ASO side, improving our margins and going from 5 to 1 to 3 to 1, and hear us talk a lot about us upselling those services. And prior to COVID occurring, we were on a very strong path. I could say with great confidence that we would have likely been at around the 4 to 1 level, so slightly ahead of where we want it to be.

But as Gail noted, when you think about things like pharmacy and you think about other value-added services that we provide and that we're upselling, there has been a bit of a slowdown because of COVID and a hesitation and folks deferring some of those decisions into 2021 and 2022. So we have seen a little bit of a bump in the road. But as it relates to moving forward, we are very confident as we -- on our path to the 3 to 1. And the value proposition is really selling. And as we are in COVID, we continue to innovate and deploy new programs.

For example, when we acquire a new asset like Beacon, it creates a lot of additional opportunity for us to sell, for example, behavioral health services. So we feel very good about long term.

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

And Josh, the only other thing I'd add is, we've seen really strong retention of our accounts. So the in-group petition is obviously driving and that gets to your question around furloughs versus downsizing. And then the second thing, and I'll just reiterate it, and I think the commercial team has really done an incredible job coming out of '19, but also into this year, that our sales are outpacing lapses.

So despite the environment, particularly in our risk-based business, we're continuing to see traction of the new product offerings and the segment focus that we put in under Pete's leadership. So I think those are all contributing as well as I think, just the makeup of our book is helpful there, too.

Operator

Our next question will go to Steven Valiquette of Barclays.

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

So as we think ahead to the upcoming Medicare Advantage annual enrollment period starting in October of this year for 2021, which is now really not that far away. Just curious if you have any preliminary thoughts on whether you expect the overall MA market to see any disruption in enrollment growth due to COVID?

Or do you think with greater technology and other factors, the industry can still overcome the risk of fewer face-to-face meetings with brokers, salespeople, et cetera and still see MA growth in line with historical averages? And can you talk about what Anthem is changing to combat this risk for your own Medicare growth outlook for next year?

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

Yes. Thanks for the question, Steve. Let me offer a few comments, and I'll ask Felicia, who leads that business, to provide more detail. We did -- when the pandemic originally hit, we did see a slowdown in sales just because historically, it has been face-to-face. But we've actually recovered very nicely since over the last few months. And I think working with our brokers and others, we've been able to really put in much more direct selling in channels where there isn't as much face-to-face. So we've been working very diligently.

And as you look at our growth, we've had very strong growth last year, over 20%. And this year, quarter-over-quarter, up 17% over prior year and 13% year-to-date, and expect to continue to see the alternative methodologies we put in place.

But I'll ask Felicia to comment, particularly about how we're ensuring the safety as well as how we're engaging with our Medicare Advantage members in particular. Felicia?

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

Thank you, Gail. And Steve, thank you for the question. As Gail referenced, we've seen strong performance in our business. We certainly had to pivot in light of COVID, and we saw a brief slowdown in our sales soon after COVID. But sales have actually picked up since that time. And our early read on July membership indicates that performance is certainly improving as well. The safety of our associates is certainly a paramount concern. And so it's the safety of the seniors that we serve. So we are fully prepared to adjust our sales processes accordingly in light of this pandemic.

In fact, we are expecting that more than 50% of our sales activity will probably be virtual for this year's AEP. Similarly, I would think that more of our agent engagement and training activities are going to be held virtually as well. So much of the AEP activity is going to depend on CMS guidance as the future of COVID remains uncertain for all of us, and that guidance is changing every day, and we're closely monitoring that guidance as well.

So we are fully prepared and proactively investing so that we can make sure we are prepared to support agent engagement and our sales activity through any channel that the member wants to buy, being very mindful of the changes that are ahead of us. But feel very prepared to be able to continue to deliver the strong sales performance in this new environment, including the virtual environment, which will be in our AEP as we head into 1/1/2021.

Operator

Next, we'll go to Ralph Giacobbe with Citi.

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

You talked about DCP up and reserves building, but the expectation that costs essentially come back in the second half and obviously, lots of uncertainty out there. Unfortunately, you can't really take a wait-and-see approach to pricing for 2021. So I guess, at this point, what can you tell us about your approach to pricing for the commercial book next year? And maybe assumption of pent-up demand and perhaps acuity that timing-wise may push into 2021? And then along those lines, how have conversations gone with employers? And do you expect movement or switching next year?

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

Sure. Pete?

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

Yes. Thanks, Ralph. Thanks for the question. I appreciate it. I think you know the majority -- we talked about this the last quarter, but a majority of our book renews in January. So we certainly do have the luxury of some additional time before we finalize rates.

That said, we are obviously closely monitoring the situation. We're considering all factors, many of which you mentioned from our expectation on deferred utilization, to electives, to the cost of treatment, and the cost of testing. And we're really using the best information we have before us at this time.

I think another important factor, we all know that the HIF will be going away in 2021. So that is certainly a factor that serves as a buffer. Overall, we're going to remain really balanced. And most importantly, we are not going to be shortsighted. We're going to remain disciplined with respect to pricing, and we're going to price to our view of normalized forward trend.

As it relates to our conversations with commercial clients and growth, it's going really well. Our value proposition is selling through.

Obviously as Gail alluded to when she was talking about Ingenio and other parts of our business, as it relates to growth in the back half of 2020, as it relates to some decisions for 2021, as you'd expect, there were some deferrals. So for national accounts, for example, we had some expectations of some pretty big accounts that we thought would come through in 2021 that were deferred to the 2022 cycle.

But importantly, as it relates to just our sales cycle currently, and that which we feel good about into 2021, we do feel good about growing groups. I think the most significant factor and unknown right now is the impacts of in-group change. That has been the biggest driver of our membership attrition. And so obviously there's a lot of factors associated with this, and we can't be precise about it. But we do feel good about growing groups going into 2021.

And then importantly, believe it or not, even though we're in the last 30 or so days of our selling cycle for national, we're already having conversations about 2022. And the pipeline for 2022 looks very good as well.

Operator

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

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

Just wanted to ask a question about the exchanges. Can you talk a little bit about what you're seeing there as far as membership trends now? And if there's any doubt on the acuity of those pet members? And then how you're thinking about next year, it does seem like more competitors are getting on to the exchanges. Any view on preliminary rates? And whether pricing looks rational for next year?

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

Yes. Thanks for the question, Kevin. I think as we look at the individual market today and the overall individual exchange, it's been pretty consistent. And as we shared, most of our membership growth has come from the reverification, and we haven't seen -- we've seen some small pick up in individual around the ACA-compliant plans. But overall, we have not seen dramatic increases across the book of business. And we think a lot of that is because there's sort of a delay between when people -- either they're on furloughs or then they go off employer coverage and there's a delay in the timing.

In terms of our strategy, we've stayed really consistent. We expanded in certain geographies where we felt it made sense. We've stayed in our footprint. Overall, I think it's too early to opine on acuity because, again, the book hasn't really significantly changed very much. We haven't seen significant growth because of unemployment. So I think those factors are important. As we think about the future, we've been really disciplined in our individual exchange strategy, and we feel good about that. We're going to continue it. And we'll look to expand in areas where it makes sense, where our footprint is strong. And where we think that we obviously have a strong blue advantage given our brand and the network configuration that we have. So overall, I think we'll look for modest expansion. Our strategy has played out very well over the last few years, and we'll continue with it. We've got teams focused on that business and deep analytics, so thanks for the question.

Operator

Next question comes from Gary Taylor of JPMorgan.

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

I just want to ask a little bit more about scale. Your thoughts on commercial market. I heard and appreciate all the comments about how well the catcher's mitt is performing. So far, it definitely is and the fact that your book of business is a bit differentiated, better positioned. But we still sit here in an environment where national unemployment is up 750 basis points. There are expectations that moves higher. And I don't think any of us would have guessed that you'd only have local group enrollment down 1.5% sequentially and another large payer down 1% and changed sequentially.

So I know you're contemplating that, that logically will deteriorate further. But I guess, big picture, is this all just federal stimulus dollars supporting these temporary furloughs? Do you see a quarter where there's an inflection point where the stimulus dollars fall off and this really accelerates? And could you just give us a little more color on how the last few months have developed? Has the commercial risk enrollment just slowly deteriorated? And July was down even a little more than June? Or has there been relative stability in those declines in June and July?

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

Yes. Well, thanks for the question, Gary. There's a lot in there. And I think let me start with as it relates to the remainder of the year. We do -- and I want to be clear, we do expect further declines, assuming the economy continues to operate at less than full capacity.

In terms of the dynamics, this is a very unusual set of circumstances, and it's hard to really predict. So as we think about 2008 and the deep recession that we face then, we've obviously done a lot of modeling and trying to understand where unemployment rate is. And at this stage, part of the reason we don't have full year guidance on enrollment is because of that very factor. There are so many things that are puts and takes in it.

But as I think more broadly about our business and what's different, and I'll go back to a couple of key things. One, is the mix of our business is different, that we are much more resilient in terms of the type of groups that we have.

Two, I do think that our focus on affordable product offerings. And what we've done to really work with our local sales teams to reach out to our brokers to provide solutions, whether it's the premium credits or some of the opportunities to help them make sure that they can find the right products that meet their price point. Our retention is really strong.

You asked about sort of are we seeing acceleration or changes into July, again, early, but early signals are really strong. We're not seeing any real changes at this stage. So I think that resilience is showing up. But again, people are still under furloughs. We can't predict exactly what's going to happen when they come off, it will depend on the strengthening of the economy and what happens there and what employers decide to do.

So again, while we are predicting further declines in the commercial business, I do think, overall, that our team has -- I give our team a lot of credit. They've done a really nice job of finding solutions to keep employers with their employees insured under our programs and give them options. And I think we didn't have that years ago. And that's really one of the big differences of real broad portfolio of offerings.

So hopefully, that answers your question, but it gives you a little sense that we feel that we have provided solutions to employers, and that's been one of the reasons -- and we also expect retention has stayed very strong, and that's going to help. But again, in-group attrition is the one thing that's very hard to predict through the rest of this year.

Operator

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

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

I'm just curious if you're seeing any changes in the stop-loss market for 2021. Not sure how employers are approaching any coverage changes, what the reinsurance market looks like, whether or not employers are looking for more or less protection? Just not sure I have a really good grasp on what this means through the renewal cycle.

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

Yes. Thanks for the question. In terms of trends and things that we're seeing, we really haven't seen a whole lot of difference in that marketplace. It's been pretty consistent. We have a dedicated team that works on stop-loss and focus on that, both across our business and also offering to our self-funded clients. So at this stage, no, no real significant changes or trends.

Operator

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

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

And John, I guess, first, I have kind of a clarification. Did you say that you guys took the entire $2.5 billion in premium credits and other subsidies during the quarter? And I guess, should we effectively -- should we think of seeing that as kind of a contra revenue account from how the revenue was reported? And then kind of my follow-up question to that is that when you think about the utilization growth expectations you outlined for the back half, I was thinking that you guys were going to spread the $2.5 billion out over the year.

If that's not the case, I guess, you guys have been expecting a couple of hundred basis points of what I would call net utilization growth as opposed to kind of gross utilization growth? Trying to net it out -- trying to understand the interplay between the numerator and the denominator, if you can see where I'm going here.

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

George, thank you for the question. I appreciate the opportunity to clarify anything that maybe could have been stated a little bit more clearly earlier.

So the $2.5 billion is comprised of many different aspects. There's certainly things that we're providing to our customers, certainly things we're providing the members, things we're providing to providers and support we're providing to the community.

And they all are different timing, associated with when they're being incurred, not all of which will hit the income statement. As some of them are various grants and loans to providers in terms of providing liquidity and value to the system.

My comment earlier was related specifically to the premium credits in the commercial marketplace that the entirety of the premium credits were recorded in the second quarter. However, part of the $2.5 billion also encompasses paying for all of the waivers and deductibles and various other out-of-pocket costs that would have been incurred, associated with COVID testing and COVID treatment. And obviously, that will be incurred throughout the rest of 2020.

Obviously, anyone that has COVID diagnosis in the last 6 months of the year, there's an incremental cost to us associated with that, that is in the $2.5 billion. And then, also we're providing, for example, a $10 PPE credit to every dental provider for every dental visit that occurs for the next few months. So obviously that will be recorded in the third quarter as well when that's incurred.

So the -- a lot of the things that we've done for the community, including the $50 million foundation funding associated with the social issues, that was all recorded in the second quarter. So a lot of moving parts there, but there is a significant amount that's going to be incurred in the latter half of the year. It's just that the premium credits on commercial were all recorded in the second quarter. And hopefully, that clarifies your question.

Operator

Our next question comes from Robert Jones with Goldman Sachs.

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

Great. Great. Just 2 quick clarifications at this point. One back on Ingenio. I know scripts you guys noted in your quarter were down pretty meaningfully. I think people understand the dynamic there. But revenue in Ingenio was actually up sequentially. So just want to make sure I understand the dynamic at play there. And how we should think about that through the balance of the year?

And then I guess just in a similar vein, net investment income took a decent step down in the quarter. Just was curious if there was anything onetime in nature there.

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

Yes. Thank you for the question. And yes, there are some onetime issues going on. Related to IngenioRx, and I had made comments earlier about the profitability and just how well it's performing. I just want to make sure that everyone has some context to this question and the answer. That within the PBM industry, that PBMs are able to recognize as product revenue as well as cost of goods sold, the cost of drugs that are incurred by nonrisk business. So that would be all of our ASO customers and the script volume that those customers are incurring. We are grossing up our income statement in accordance with appropriate PBM accounting or the cost of goods sold in the product revenue.

And one of our overall strategies in our 5:1 to 3:1 is to increase the penetration rate of ASO for how many of them utilize PBM services. And we certainly expect to see continued growth in product revenue as a result of increasing penetration and even in these uncertain times.

So that's really a key factor, a key element of that line item, not much -- no income statement effect in terms of bottom line as those items offset each other, but we should continue to see growth in revenue.

Associated with investment income, very clearly, there's some onetime issues that have occurred in the marketplace. But first of all, I just want to make sure everybody is clear that about 90% of our portfolio is invested in high-quality fixed maturities.

And back in March and April, we made the decision as part of trying to enhance our liquidity position to not reinvest our positive cash flow and to build that up so that we could have access to the liquidity immediately. And so that actually put a drag on the investment income we would have earned otherwise.

And then the Fed dropped rates a couple of times early in the year, 150 basis points in total. And so obviously, that impacted the new money rate associated with investments. But the most significant difference is really the third one, and that's the fact that we're also invested in alternative investments. It's a nice diversified strategy. That includes investments in private equity, core real estate, diversified credit and energy. And any changes in market value in that or market-to-market, can run through the income statement immediately.

And the alternatives did fairly well versus the broader markets, but energy was the worst performer. And what you're seeing on the income statement, in terms of net investment income, is the market-to-market impact of the alternative investments changing our second quarter trajectory.

I think you should expect that for the rest of the year that our investment income will exceed a couple of hundred million dollars per quarter, more in line with historical results. But thanks for the opportunity to clarify that.

Operator

Your next question comes from Lance Wilkes with Bernstein.

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

Yes. I was wondering if you could talk a little bit about the Medicaid pricing outlook as you're looking out into 2021 or kind of the rating involvement there? And if you could talk a little bit about discussions you've had to date with states? And maybe just help us to kind of scale and understand the magnitude of rate cut proposals at a state level? And maybe the process there?

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

Felicia?

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

Sure. So when you think about our Medicare pricing outlook for 2021...

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

Oh, Medicaid, please.

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

Oh, Medicaid?

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

Yes.

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

Lance, we are certainly in the middle of our rate discussions with our states. About 50% of our states have great discussions for January. So half of our states or January state. In light of everything that's going on right now, you can imagine there's quite a lot of fluidity in the conversations we're having with our state partners.

Now when you take a look at where we are, the bottom line and foundationally, rates are always required to be actuarially sound. And as you think about our portfolio, which is 24 states across the country, we are engaged in ongoing discussions with many of our state partners. Many of those partners, Lance, have asked us to provide regular updates with respect to what's going on, on a month-to-month basis. And some of those states have essentially said they want to continue to see what's going on with respect to our populations as we head between now and the end of the year.

So we will continue to engage in dialogue, which really is almost on a weekly basis with our state partners around what's going on with respect to performance. And we certainly would expect that utilization will pick up in the back half of the year.

When it's all said and done, this is a long game. And certainly, performance in any one quarter won't reflect what we expect to see in our population over the course of the year. And our state partners right now as we are, are very focused on what's going on with respect to access to care with our members, and trying to make sure that members are taken care of during this time, with respect to all kinds of needs, but particularly behavioral health.

So as we continue these discussions between now and the back half of the year, we are engaged in our ongoing processes with our state partners. We are regularly exchanging information from our perspective with respect to performance, what we are seeing with respect to those new 566,000 members that I referenced, what the performance and acuity of that membership looks like, and what expectations should be between now and the back half of the year.

So this is going to be an iterative process with our state partners. And as we continue to learn more about the virus and the impacts on our business, we will make updates with our state partners, and they will do likewise with us. So thank you very much.

Operator

The next question comes from Matthew Borsch of BMO Capital Markets.

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

I was hoping you could just talk about, as you have said that, I think the health care spending that you're seeing was at about 90% of normal during the month of June. Can you give us a sense? I imagine Medicare is lower -- as a lower percentage, offset by Commercial and Medicaid. But within that, is it more Commercial? More Medicaid? Just any additional detail there would be really interesting.

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

Yes. Thanks, Matt, for the question. And just to reiterate a comment that I made a little earlier is that the most significant impact of deferral of procedures occurred in the commercial marketplace. And then Medicaid was in the middle, and then Medicare had much, much less impact on the deferral.

And we -- as we said, that there is another spike in COVID here in July. We're actually monitoring it very closely, trying to understand what the impact of the deferrals are and how the pent-up demand is impacting as well. And so -- but like we have seen an increase in procedures, such as joint replacement surgeries and other procedures, some things can only be delayed so long until the pain or the severity is so significant that the person is going to go in and actually get the procedure.

So a lot of moving parts there, but Commercial has the most significant impact, and Medicare actually has minimal impact here as we head into the third quarter.

Operator

Next question comes from Dave Windley of Jefferies.

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

I was wondering if the COVID crisis has brought to light any cost structure changes that might be of a more permanent nature. So for example, things like real estate in the SG&A line? Or perhaps co-pay structures or payment of virtual visits at parity, things like that in the medical cost structure? Just looking for things that endure beyond the crisis.

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

Dave, those are great questions. And certainly, it's probably premature to declare specifically what things are going to look like, but I do agree with you that we are looking very closely at our real estate footprint in the virtual environment that our associates are in. And just how proud we are of our associates that we've been able to maintain productive and efficient workforce during this time frame, and really take a closer look at that for the future.

Telehealth clearly is here to stay. And it's really helping us find the right setting. And it's really all about getting the right care, at the right time, in the right place for our members, and how we're utilizing the various virtual engagements and the digital type capabilities that we've been creating as well. It's very clear that those are here to stay. And so it's going to be a lot about optimizing those things.

ER volume is down. I think we've seen about 50% of commercial ER utilization is actually non-emergent, and so that can actually be a positive to the health care trends in the future as we really get that rate and find the sweet spot of that. So great questions and things that we're talking about on a daily basis here.

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

Yes. Thanks, Dave. And just to reiterate what John said, we're obviously looking at our entire enterprise, and we always take a look at our admin expenses and where we are. But importantly, digital health is here to stay, and we've seen a real acceleration in that. It's an area we've put quite a bit of investment in, and so we feel very well-positioned.

Operator

Our next question comes from Steve Willoughby with Cleveland Research.

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

Two questions for you. First, John, I was just wondering if you could follow up briefly on Ingenio. You made a comment about an additional $100 million of flow through to shareholders. Just wanted to confirm that approximately means a roughly $500 million of earnings upside from Ingenio savings from Ingenio relative to your initial expectation?

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

I'm not -- so I didn't quite followed the 500. Just let me clarify the Ingenio numbers. Back 90 days ago when we gave guidance at the beginning of the year, we talked about the $4 billion savings on the contract, and at least 20% of that would inure to shareholders. So that would be your $800 million. We've raised that today to approximately $900 million.

In addition, the Ingenio reporting segment includes business that has been Anthem business historically that has been recorded in the Commercial Business division. And that's where we had the PBM services for our ASO customers that actually we had contracted with historically to provide PBM services. And that's $75 million to $100 million per quarter of op gain that had previously been in the commercial segment that starting in 2020 -- starting in January of 2020, has been reclassified. Those members have been reclassified and are now reflected in the IngenioRx segment.

And so those 2 things are the vast, vast majority of the earnings in the Ingenio segment. I mean, other things in the Ingenio segment would include a third-party business, where the PBM for another company or other business that we have with third-parties, but that is very small in the overall profitability of the segment. So hopefully, that clarifies your question.

Operator

The next question comes from Charles Rhyee from Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I wanted to follow up from early on, talking about the membership. And I think you guys had mentioned that about the attrition and commercial being less than expected because of sort of the enhanced benefits, which I think you're referring to, but -- that you expect it to pick up in the back half of the year. Related to that, are you seeing this membership shifting around into areas like the exchanges or an uptick in COBRA? And what would you expect to see if enhanced benefits are extended? Because it seems like your guidance assumes that they end here in July. So -- and if those aren't extended, do you see the membership shifting more into Medicaid?

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

Yes. Thanks for the question. There's a lot in there. And just given that we're not giving guidance, part of this is there's so many moving parts, but I'll give you a little bit of color.

First, on COBRA, we really haven't seen any increase in COBRA, it's very, very low, just given the cost structure of COBRA. So that hasn't changed at all very different from 2018 -- or 2008, rather.

In terms of your other questions, as I mentioned earlier on a response, the exchanges have not seen a significant impact because of unemployment. So it's been sort of the normal growth pattern that we expected in the exchanges. And again, we do think there's just some delays.

I really can't comment on furloughing and what employers are going to do relative to unemployment. Clearly, we've made some commentary that we do think that we'll see attrition increases, in-group increases over the course of the back half of the year. And our expectation is that the unemployment rate improves at the end of the year to roughly a little over 10%, but that makes it challenging to reasonably project the impact of enrollment at this time.

But again, I think really what we're seeing in our current results is the result of our existing business segments, executing strategies to keep retention high and give employers options to keep people enrolled. So our group retention numbers are high. And where we're seeing the attrition is inside of groups, and those are based on the employment decisions that are occurring. Thanks for the question.

Operator

Next question comes from Frank Morgan of RBC Capital.

Frank George Morgan - *RBC Capital Markets, Research Division - MD of Healthcare Services Equity Research & Analyst*

Yes. A real quick one. I was curious if you could give an update on the grace periods granted in your Commercial segment. I think last quarter, you mentioned it was about between 0.5% to 1% in the quarter and maybe ended at around 3%. Any updates on the second quarter? Or maybe how you're doing in June or July?

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

Sure. I'll have Pete answer.

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

Yes. Thanks for the question, Frank. We obviously recognize, these are unprecedented times. And ever since COVID started, we've been focused on partnering with our employer and broker partners to really see this through together.

And as you alluded to, we instituted a variety of approaches, including grace periods, but also other payment options. All that said, what we're very encouraged with where we are with collections. You mentioned that last call, I mentioned that about 1% of premium as representative of groups that typically utilize grace periods.

And at that time, our expectation was with COVID, we could see that creep to 3%. But our collection rates actually look a lot more like a normalized environment pre-COVID. And in fact, in the last couple of months, we've seen an improvement.

When you look at, for example, the small group segment, which is indicative of a lot, it's really, really held up well with premium payments really following normal patterns. And then with the overall makeup of our book being skewed to essential services, we're also seeing good payment patterns there. So overall, that's been a real positive development.

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

Great. Thank you. I think we have time for one last question.

Operator

And our final question comes from Mike Newshel of Evercore ISI.

Michael Anthony Newshel - *Evercore ISI Institutional Equities, Research Division - Associate*

Since the Medicaid enrollment growth you're seeing is being driven primarily by the suspended reverification, I was just wondering if you can confirm whether that, that would be a margin tailwind as well since those enrollees, who would otherwise turn -- tend to be relatively healthier?

So essentially, is there a reversal of the margin pressure when reverification push enrollment down? And when reverification does assume at some point, would you expect to see that margin pressure again? Or now that there's some data in the track record, is there potential to work with states to mitigate the effect in rates faster the next time?

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

Yes. Thank you for the question. And one of the things that we've always said about the Medicaid business is that it is typically that the acuity and the risks that we have in a particular quarter, and the revenue that's recognized, associated with that risk, almost never match. Just having out-of-period adjustment and true-ups and retroactive rate increases and decreases, et cetera, is just a way of business within Medicaid, especially when you have such a large and vast portfolio of states that we have.

But your point is very well made that the overall acuity -- you would perceive the overall acuity of those members to be a little bit better because when we lost them a year ago, it did change the remaining acuity. So clearly, we will continue to work with the states to ensure that we have actuarially sound rates.

We are in a risk corridor position with the majority of our rates -- or majority of our states, I'm sorry. That will help provide downside risk protection as well as limit the upside associated with that. It really does balance it very well for both sides of the equation. But your point is well made that it should change the acuity a bit. But I really do think that the risk corridors that we've been advocating for, for quite some time really help address the issue pretty significantly. So appreciate the question.

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

Thank you. And I'd like to thank everyone for joining us for the call today. As we shared, Anthem has shown resiliency and agility in times of great change in our industry. Despite these societal headwinds, I remain confident in our dedicated associates, our strong Anthem brand and our ability to serve as the trusted health care partner of choice, for those who need us now more than ever.

As we move forward in 2020, we'll continue to lend our voice and our leadership, to shaping a safer, more affordable and more effective health care experience for all we serve. Thank you.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 a.m. Central today through August 29. You may access the replay by dialing (800) 568-6411. International participants can dial +1 (203) 369-3291. Those numbers again are (800) 568-6411, and +1 (203)-369-3291.

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