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ANTM.N - Q4 2021 Anthem Inc Earnings Call

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OVERVIEW:

ANTM reported 4Q21 operating revenue of $36b, GAAP EPS of $4.63 and adjusted EPS of $5.14. Reported 2021 GAAP EPS of $24.73 and adjusted EPS of $25.98. Expects 2022 operating revenue of approx. $152b and adjusted EPS to be greater than $28.25.

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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.

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Stephen Vartan Tanal - *Anthem, Inc. - VP of IR*

Good morning, and welcome to Anthem's Fourth Quarter 2021 Earnings Call. This is Steve Tanal, Vice President of Investor Relations. And with us this morning on the earnings call are Gail Boudreaux, President and CEO; John Gallina, our CFO; Peter Haytaian, President of our Diversified Business Group and IngenioRx; Felicia Norwood, President of our Government Business Division; and Morgan Kendrick, President of our Commercial business. Gail will begin the call with a brief discussion of the quarter, recent progress against our strategic initiatives and close on Anthem's commitment to its mission. John will then discuss our financial results and outlook in greater detail. After our prepared remarks, the team will be available for Q&A.

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*

Thanks, Steve, and good morning, everyone. Today, we're pleased to share Anthem once again delivered solid operating results in the fourth quarter, capping off another year of outstanding growth as we transform with focus and discipline from a health benefits company to a lifetime trusted partner in health. I'll start by sharing performance highlights for the quarter and the year and follow with some key actions and investments that drove our growth and laid the groundwork for what we expect will be another year of strong operating performance in 2022.

In the fourth quarter, Anthem delivered GAAP earnings per share of $4.63 and adjusted earnings per share of $5.14, ahead of expectations and against the backdrop of COVID-19. For the full year, Anthem reported GAAP earnings per share of $24.73 and adjusted earnings per share of $25.98, reflecting a 16% increase year-over-year.

During 2021, our investments in enhancing the customer experience, delivering innovative, customized whole health solutions and deepening digital engagement helped to deliver strong growth across our health benefits businesses, all while rapidly scaling our diversified health services solutions.

We ended the year with 45.4 million members up 2.4 million or 6% year-over-year with approximately 3/4 of those gains coming from organic growth. In our Commercial business, improved selling strategies in innovative, customized product offerings sustained our momentum and led to the best ever selling season for our National Accounts team.

In addition, traction is accelerating as we address clients' unique needs in targeted subsegments such as balanced funding for midsized employers and customized plans and digital tools for college students.

The flexible architecture of our Sydney Health mobile app enables seamless integration into clients' ecosystems while helping deepen digital engagement with members in this fast-growing market. As a result, we anticipate delivering another year of growth in our Group and Individual businesses in 2022.

For many employers, our focus on affordability and integrated whole health solutions is prompting consolidation with Anthem, eliminating other medical carriers and integrating pharmacy management. Consequently, IngenioRx saw significant growth in net new sales to start 2022, keeping us on track with our goal of narrowing the profitability gap of risk-based and fee-based Commercial customers.

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Moving to Medicare Advantage, our continuing work to strengthen Anthem's value proposition helped drive another strong annual election period. Customers want their benefits to meet their needs today and in the future, and packages like our everyday extras that offer holistic services such as transportation, personal home health and healthy preprepared meal delivery are resonating because they provide the flexibility to choose what matters most to each individual. Offering flexible and personalized benefits will remain a key part of our approach in individual MA, and we expect ongoing enhancements to power another year of double-digit growth in 2022.

We also expect a substantial membership increase in group Medicare Advantage when our contracts serving the retirees of the City of New York begins on April 1. This timing is consistent with the recent court ruling that upheld our contract and extended the open enrollment period for an additional 3 months.

In Medicaid, our team did an outstanding job in 2021 demonstrating the differentiated value we offer states built on our deep understanding of the needs of their communities. Our rich legacy of investing in community health uniquely positions us to address health disparities with solutions that extend beyond clinical care to improve health outcomes.

Our 100% RFP win rate included renewals of our statewide contracts in Tennessee and Indiana and a new statewide contract in Ohio, which will help further deepen our roots in that state given our leading market share positions in commercial and Medicare Advantage. Then as we begin serving Ohio in July, our pending acquisition of Paramount Advantage's Ohio Medicaid contract will amplify our Medicaid footprint. This investment follows our pending acquisition of Integra, a New York managed long-term care plan that will strengthen our presence and capabilities in the greater New York City area.

These examples demonstrate our commitment to strategic and programmatic M&A. And we've become more agile and proactive as we target health plans that deepen our existing benefits business and acquisitions, which diversify and expand our addressable markets. A good example is our myNEXUS acquisition, which enables members to live healthier lives in their homes. myNEXUS has performed well to date, driven partly by its expanding scope within Anthem. In addition, we expect the ongoing aging of the population and consumer preference for at-home care to propel growth for years to come.

Over the last year, we significantly advanced our care provider strategy with investments in risk-bearing primary care providers and aggregators while enhancing value-based arrangements across our network. These arrangements accounted for more than 60% of our medical expense last year. We expect this strategy to accelerate membership growth, increase STAR ratings and improve health outcomes and cost of care. Investing in providers and aggregators secures joint governance to maintain alignment of shared interest with our partners, giving Anthem value from sharing risk and elevating the customer and provider experience.

Importantly, this strategy ensures Anthem is not overly reliant on one care model as value-based care matures. Our diversified business group will increasingly benefit from these arrangements by opportunities to service Anthem's providers with enablement programs and other diversified services, many of which target the needs of complex and chronic patient populations where we see significant opportunities to improve outcomes, access and total cost of care.

We expect to remain flexible and thoughtful in our provider strategy, partnering in most markets and investing in care delivery and others where it makes sense.

We also made meaningful headway in our digital transformation during the quarter with accelerated investments to deepen digital engagement and meet the increasing need for convenience and personalized care. During our peak onboarding period earlier this month, digital registrations rose 150%, and visits to Sydney Health grew 142%.

Capabilities and investments in artificial intelligence, which power our personalization engine, are helping optimize the customer experience and reduce low-value administrative tasks. For example, our virtual primary care platform builds real-world learnings on commercial members' usage patterns and preferences to anticipate customer needs and offer customized experiences, and automating the on-boarding process delivers better experiences by saving time and improving the accuracy of critical data and the quality of virtual visits.

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To illustrate, more than 1,000 emergency room visits were avoided last month by predicting and addressing adverse health events through our virtual care options. Results like this are encouraging, and we're excited to accelerate the pace.

Anthem enters 2022 with strong growth momentum across all of our businesses. This gives us confidence in our ability to deliver growth in adjusted earnings per share consistent with our long-term target range of 12% to 15%, as John will discuss more in a moment. Looking ahead, you can expect us to continue investing in profitable growth, innovating for consumers and advancing our digital platform for health as we work to achieve our purpose of improving the health of humanity.

As part of our community health and sustainability commitments, I'm pleased to share we recently met our 100% renewable electricity goal 4 years ahead of schedule and are now producing enough clean energy via off-site purchase agreements to power all of the Anthem's offices, data centers and clinics. It's gratifying to see our efforts earn Anthem a place on the 2021 Dow Jones Sustainability Index for the fourth consecutive year and on JUST Capital's 2022 rankings of America's most just companies.

We're also in the early stages of leveraging insights derived from a dynamic model, tracking the health of our communities across local, social and clinical drivers. We call it our whole health index, and we believe it will help us more closely assess our progress towards helping people live healthier lives.

In its simplest form, the index will help us identify the most promising opportunities to improve the health of our members and their communities. To date, we've leveraged the index to design and launch programs to manage obesity in 5 of our Medicaid states, where this health issue is especially severe.

We're currently learning from field tests and are excited about the possibilities ahead, notably in diabetes prevention and customized wellness campaigns for employers based on the needs of their employees.

As part of our ongoing work to support our customers' health, we also began offering risk-based commercial members free at-home COVID tests through our Sydney app starting last November. Delivered within 1 to 2 business days, the kits allow members to test safely without leaving the comfort of their homes. This program has positioned us well to comply with the administration's recent requirement to provide home testing at no cost.

In closing, I'll leave you with these 3 takeaways. Anthem's fiscal year 2021 performance demonstrates our strategy to become a lifetime trusted partner in health is helping unlock Anthem's full potential. With our plans and continued investments for fiscal year 2022, we are excited about our ability to sustain this momentum and deliver growth in the years ahead. And our strategic approach to innovation and digital transformation enables us to move even faster and with greater agility as we accelerate our digital platform for health and offer new ways to attract, engage and retain more customers while streamlining our business and simplifying the consumer experience.

Now I'd like to welcome John to add his view on the quarter and our outlook for 2022. John?

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

Thank you, Gail, and good morning to everyone on the line. As Gail stated, we are pleased to have delivered solid fourth quarter financial results, closing out another year of strong growth, driven by the continued execution of our long-term strategy, all while navigating the ongoing uncertainties associated with the pandemic.

Fourth quarter earnings per share of $5.14 was ahead of our expectations and drove full year adjusted earnings per share to $25.98, reflecting growth of approximately 16% year-over-year, above our long-term 12% to 15% annual earnings per share growth target.

Total operating revenue for the fourth quarter was $36 billion, an increase of more than 14% over the prior year quarter, reflecting solid growth in our benefits business, coupled with continued momentum in our services businesses.

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We closed the year with 45.4 million members, growth of nearly 6% or 2.4 million members in the year, including 303,000 lives added just during the fourth quarter and with growth in both our Government and Commercial businesses. This was the 14th consecutive quarter in which we grew total medical membership underscoring the strength and resilience of our core benefits businesses through periods of economic strength and periods of economic uncertainty.

In 2021, we grew our government membership over 17% driven by organic growth in Medicaid, another year of double-digit organic growth in Medicare Advantage, and the acquisition of MMM.

Commercial enrollment grew modestly as solid growth in our risk-based areas were partially offset by in-group attrition in our fee-based business due to broader labor market dynamics that occurred during the year.

Our fourth quarter benefit expense ratio was 89.5%, an increase of 60 basis points over the prior year quarter, driven by the repeal of the Health Insurance Tax in 2021. As expected, total medical costs in the quarter were above normal or baseline levels but still compared favorably to our expectations driven by lower utilization of non-COVID care partially offset by higher-than-expected COVID-related costs, notably in December.

Anthem's SG&A ratio in the fourth quarter was 11.7% on a GAAP basis, a decrease of 200 basis points over the prior year quarter. Excluding adjustment items noted in our press release, our adjusted SG&A ratio would have been 11.1%, down approximately 250 basis points year-over-year. The decrease was driven by the repeal of the Health Insurer Tax and the expense leverage associated with strong growth in operating revenue partially offset by increased investments to support our growth and digital transformation efforts afforded by outperformance in our investment income.

Fourth quarter operating cash flow was $1.7 billion, bringing full year 2021 operating cash flow to $8.4 billion or 1.4x net income. Our fourth quarter and full year cash generation beat our expectations, reflecting strong operating performance this year as well as a shift in the timing of the planned payment of our share of the Blue Cross and Blue Shield Association litigation settlement. We now expect to make this payment of approximately $500 million in 2022, which is included in the guidance we provided this morning for operating cash flow of greater than $6.9 billion.

We ended 2021 with a debt-to-capital ratio of 38.9%, in line with our expectations and well within our targeted range.

Consistent with our approach throughout the pandemic, we maintained a prudent posture with respect to reserves. Days and claims payable ended the year at 45.2 days, an increase of 1.8 days year-over-year, with medical claims payable up 19% year-over-year compared to premium revenue increasing by 13%.

During the quarter, we repurchased 1.3 million shares of our stock at a weighted average price of $417.92. For the year, we repurchased 5.1 million shares for $1.9 billion, ahead of our original guidance of $1.6 billion. We were opportunistic in the year, capitalizing on periods of market volatility, notably during the fourth quarter.

Turning to our outlook for 2022. We are pleased to provide initial guidance, including adjusted earnings per share of greater than $28.25, which reflects growth of at least 12% from the normalized adjusted earnings per share baseline of $25.20 in 2021. As a reminder, we benefited from significant investment income outperformance during the year, including amounts that we believe to be nonrecurring. We offset a portion of the upside in the fourth quarter by accelerating investments in our business.

In total for the year, we believe nearly $0.80 of our adjusted earnings per share to be outside of our run rate. Accordingly, we continue to view $25.20 as the appropriate starting point for our growth in 2022.

We expect to end 2022 with total medical membership in the range of 45.6 million to 46.2 million members. This outlook includes the expectation of generating double-digit organic growth in our individual Medicare Advantage business and the launch of our group Medicare Advantage contract serving the retirees of the City of New York in April to add at least 200,000 group Medicare Advantage lives while shifting a like number of members out of our commercial fee-based enrollment given that we currently serve the city's retirees on a self-insured basis. In all, Medicare Advantage membership is expected to grow in the mid-teens percentage range.

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Our outlook also reflects strong growth in our commercial risk and fee-based businesses, including a strong starting point due to a record selling season for national accounts. We expect commercial fee-based membership to grow by 2% to 3% or 530,000 to 730,000 members net after covering the transition of our more than 200,000 existing fee-based members in New York into our new group Medicare Advantage contract and low single-digit growth in our commercial risk-based members.

With respect to Medicaid, our guidance assumes that public health emergency will end in mid-April, as is currently planned, with Medicaid eligibility redeterminations resuming around the middle of the year. Correspondingly, we expect to capture our commensurate share of growth in commercial fee and risk-based markets as consumers losing Medicaid benefits migrate to employer-sponsored coverage and individual plans.

As you might expect, our membership outlook for our Commercial and Medicaid business is highly dependent on the timing and pace of Medicaid eligibility redeterminations. The launch of our new statewide Medicaid contract serving Ohio in July is also contemplated in our guidance range, while membership associated with pending acquisitions is not. We expect continued momentum in our Diversified Business Group and IngenioRx segments with revenue growth on a combined basis in the low to mid-teens.

Altogether, the momentum we are seeing across all of our businesses will drive operating revenue up 11% year-over-year to approximately $152 billion. This includes approximately $130 billion of premium revenue, also up 11% over 2021, representing an increase of nearly $13 billion.

The consolidated benefit expense ratio is expected to be 88% plus or minus 50 basis points in 2022, consistent with our initial outlook for 2021. At the midpoint, this reflects a 50 basis point increase year-over-year driven primarily by the launch of our New York group Medicare Advantage contract.

With respect to the impacts of COVID on our overall cost structure, we anticipate another year in which the overall cost of care will track above normalized levels driven by COVID-related treatment, vaccination and testing costs.

We expect the SG&A expense ratio to be 10.8% plus or minus 50 basis points in 2022, reflecting a reduction of 60 basis points at the midpoint of the range relative to our adjusted SG&A ratio in 2021. The reduction was primarily driven by operating expense leverage due to strong growth in revenue, in addition to the benefits of our ongoing modernization efforts, including workflow automation and digitization. This is partially offset by continued investment in our initiatives that will drive future growth in the operating efficiencies, including digital engagement and system migrations.

We expect our operating gain for the year to be greater than $8.4 billion, reflecting growth of at least 8% year-over-year over adjusted operating earnings in 2021. Below the line, investment income is expected to be approximately $1.1 billion and interest expense is expected to be approximately $840 million. Our effective income tax rate for the year is expected to be in the range of 22% to 24%, consistent with 2021.

Full year operating cash flow is expected to be greater than $6.9 billion, which includes the anticipated payment of our share of the BCBSA litigation settlement, which, as I noted earlier, is approximately $500 million.

From a capital deployment perspective, our long-term targets remain unchanged, and we will continue to pursue programmatic M&A in an effort to enhance the organic growth of our existing operations and diversify and extend our capabilities, moving us closely to our goal of becoming a lifetime trusted partner in health.

While our guidance does not include any benefit from future or pending M&A, it does contemplate a 4% to 5% contribution to growth in adjusted earnings per share associated with capital deployment, including M&A completed in 2021, notably MMM and myNEXUS, and anticipated share repurchases of at least $1.5 billion in 2022 that we expect will drive our weighted average share count into the range of 243 million to 244 million shares outstanding for the full year.

With respect to seasonality, we are projecting profitability patterns close to our historical ranges and expect to earn approximately 55% of our income in the first half of the year, although earnings in the first and second quarter will be split roughly evenly. Our guidance assumes that our

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benefit expense ratio will approximate the midpoint of our full year range in the first quarter, which we believe will be a prudent assumption in light of the uncertainties associated with the COVID-19 pandemic.

I am also pleased to announce that our Board recently authorized and increased our quarterly dividend of more than 13% to $1.28 per share, continuing our track record of increasing our dividend every year since we began paying dividends in 2011. Our new dividend annualizes to $5.12 per share, a yield of approximately 1.2% based on our current share price.

In closing, we are pleased to have delivered another year of strong growth despite significant challenges related to the COVID-19 pandemic. While much of the backdrop remains uncertain, we are committed to managing the uncertainty thoughtfully and prudently. We look forward to making further progress against our strategy and delivering on our financial commitments once again in 2022.

Operator, we will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) For our first question, we'll go to the line of Steven Valiquette from Barclays.

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

Great. So regarding Medicare Advantage, there's obviously been a lot of industry discussion related to the external telephonic sales channel. Just curious if you can give us an update on how important you think that channel is in relation to your growth outlook in individual MA. Can you also remind us again where you stand on your internal sales and distribution capabilities for individual MA? Is this something that you're content with as far as the sizing right now? Are you looking to expand that further?

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

Thanks for the question, Steve. I'm going to ask Felicia Norwood, who leads our Government Business, to respond.

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

So good morning, Steven. Thank you for that question.

First and foremost, let me say that we are very pleased with our overall performance during this past AEP, and we're on track for another year of double-digit growth in our individual Medicare Advantage business.

When we think about distribution, we meet our members where they want to be met from a sales perspective, and that means providing them with a range of distribution options. The EMO channel represents an important and valuable distribution partner for us. We saw an acceleration in this channel prior to the pandemic, and we've long recognized the value that they bring in educating consumers about Medicare options and, equally important, the differentiated value that Anthem provides.

This AEP for us wasn't meaningfully different in terms of our distribution mix, and we are going to continue to provide a distribution mix that represents being able to meet our consumers at the full end of the spectrum.

We believe in the strong value of MA. It's a very solid business, and we really provide a strong value proposition for consumers. So we continue to evaluate all the time our mix, but we feel good about where we're positioned today with our distribution mix.

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

Thanks for the question, Steve. And I'll just sort of summarize what Felicia said. I mean I think we felt we had a very strong AEP with expecting double-digit growth and very consistent from our perspective around the competitive market as well as the distribution channels. So thanks for the question.

Operator

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

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

First, I wanted to just follow up on Steve's question there in terms of the specific around the third-party marketing. The focus has been on churn. So I'd be curious what you've seen on churn. And then I know there's some more compliance that CMS is looking for there. So do you think that affects the market or the effectiveness of that market?

And then my question was just around commercial trend. Can you talk about testing costs in 2022 and what you're thinking there? And then just, overall, I know you said you had -- John, you said that there'd be some consistency in terms of an expectation of trend above normal. Any differences in '22 versus '21 on -- by segment, given that commercial seems to be running hotter than the government going into the year?

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

Well, thank you, Justin. There were a number of questions there, so we'll try to address. Let me first take the first one around Medicare Advantage.

Overall, I think very consistent competitive environment. When you talk about churn specifically, we're not seeing anything significantly different than we've seen in the past. It's been a competitive market. It remains a competitive market. As I shared, we feel that our supplemental benefits and the things that we do to help support Medicare beneficiaries has been very positive. And also, we spent a lot of time on ensuring that, through our marketing and other things, that our members understand the components of our benefits and have a good welcome experience with us. But again, we see that as pretty consistent.

I'm going to ask John to address the questions that you had more specifically around trend.

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

Yes. Thank you, Justin, for the questions.

In terms of trends by lines of business, and as I had stated in the prepared comments, overall, total COVID was higher than anticipated but non-COVID more than offset it. And so our total cost structure, while above baseline, was better than our expectations. Commercial had the highest cost compared to baseline. You look at what happened in the fourth quarter. Children were eligible for vaccines for the first time. You had the Omicron surge, et cetera. Medicare was next in line with overall cost structure of adding COVID and non-COVID combined to be slightly above baseline. And Medicaid overall, actually ended the quarter slightly below baseline. But all in, the total is what I said.

As you look to 2022, there's consistent themes, and we're not going to go into specific trends by line of businesses. But overall, we expect commercial to have the highest amount of cost compared to baseline of the 3 lines of business for the year and Medicare to be second and Medicaid to be third. So very consistent 2022 expectations versus fourth quarter actuals. So thank you for the question.

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Operator

Next, we'll go to the line of Nathan Rich from Goldman Sachs.

Nathan Allen Rich - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Maybe just following up, John, on the comments on the MLR. I think you said that first quarter MLR would be kind of consistent with the annual range. That's a fair bit higher than, I think, how it typically trends. So could you maybe just go into some more detail on what you're expecting to play out in the first quarter and what's driving that step-up?

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

Yes. Good morning, Nathan, and thank you for the question. And maybe I'll address earnings seasonality and MLR seasonality somewhat consistently because they obviously drive each other.

You look at the seasonality of earnings patterns that we've had historically as a company, we've had 55%, 60%, closer to 60% of our money we'd make in the first 6 months of the year pre-pandemic. That obviously has shifted the last couple of years and which are really not the best benchmarks to use now for analysis purposes.

And now we look at what we expect this year. We expect closer to 55% of our money we'd be earning in the first half. And then we expect the first and second quarter to be relatively consistent with each other. First quarter MLR, as you pointed out, will be a bit higher than historical patterns.

A few key reasons for that. We ended 2021 going into 2022 with an Omicron surge. That was impacting our Commercial business maybe a bit more than other lines, consistent with how I just answered Justin's question. There's a spike in hospitalizations that we're going through. We do expect non-COVID to drop but the quarterly timing maybe isn't quite as clear.

One other comment just to make -- to help clarify maybe a change in seasonality patterns is we're within the public health emergency right now. And the public health emergency has many, many provisions associated with it. One of those is that any COVID diagnostic testing or cost structure, we need to waive co-pays and deductibles. And so if you think about our historic seasonality patterns and the historic fact that, at the beginning of the year, that co-pays and deductibles are a significant part of the leverage between quarters, you don't have that to quite the same level during a public health emergency. And while those co-pays and deductibles are still in effect for the full year, they do not apply to COVID-type cost structures, and so we have a shift of cost between quarters.

And then in the second quarter, we do expect COVID to be a little bit less severe than it is in the first quarter, and so that will impact our MLR positively. But we also launched the City of New York Group Retiree business and that excellent contract that we won. And so that will put upward pressure on the MLR in the second quarter. So all in, we think we're in pretty good shape, and we want to be very prudent in terms of how we're assessing the COVID, the pandemic in our guidance.

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

Thanks for the question, John. And I guess I would reiterate, as John said, there are a number of moving parts to this, but we feel that we've taken those into consideration and wanted to share our thoughts on certainly the first half of the year but feel confident in the way we've managed through it in '21 and heading into 2022.

Operator

Next, we'll go to the line of A.J. Rice from Credit Suisse.

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

I know Pete took over the Diversified Business Group operation in October. And I wondered if I could get either Gail or Pete to talk a little bit about where the near to intermediate-term opportunity. I know you mentioned a lot of things that touch on DBG in your prepared remarks. But what are the 2 or 3 or 4 big opportunities for DBG looking over the next year or 2?

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

Well, thanks for the question, A.J. And I will turn this over to Peter Haytaian to share his perspective, but I think there's a few things, going back to my remarks. One, clearly, a huge opportunity for us in IngenioRx as well, and we shared how well that business is performing and the opportunity that we have to continue to embed the Ingenio as part of our whole health solutions into particularly mid-market accounts, and we've done a nice job there.

And then in terms of the Diversified Business Group, again, serving our complex and chronic patients has been an area of focus for a number of years. and we're seeing acceleration in that.

So I'll ask Pete to give some specific points about where he sees that growth coming from.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Diversified Business & IngenioRx*

Yes. Thanks, Gail, and thanks, A.J. Appreciate it.

I continue to be really energized about the opportunity. As Gail said, serving the complex and the chronically ill really aligns well with our core business and where we're seeing the trends go in our core business.

I'd say of paramount importance is the opportunity to penetrate Anthem more as it relates to our core existing offerings, a tremendous opportunity to expand our product portfolio and offer new products for these complex populations.

I'd say we're very focused on, at least I am and the team, is in the short term, on how a lot of these solutions stitch together and extend to create further value. For example, if you think about myNEXUS, which, as Gail said in her prepared comments, is performing really well, its connection to the home, it allows us to consider a lot of extension product opportunities.

So when you think about that more specifically, the post-acute care opportunity, and we're actually going to be launching some new post-acute care product offerings this upcoming year when you think about managing durable medical equipment and the opportunity there. And then importantly, as we've talked about for the last several quarters, the importance of social drivers of health and how much is occurring in the home, so that's one area that we are very interested in. And then again, how you weave IngenioRx into this also plays a critical role in terms of specialty pharmacy and potentially, home infusion, et cetera.

And I think the other really important point, as we put these product offerings together and stitch them together, it creates tremendous proof points as it relates to our opportunities externally with the Blues and our Blue partners. We currently have 26 Blue clients. I think there's tremendous opportunity to improve that. And then importantly, with those Blue clients, we have 10 with multiple solutions. So I look forward to the opportunity to create value in Anthem and then extend that externally as well.

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

Yes. Thank you, Pete. And I think you heard from Pete, there's really 2 huge opportunities for us for accelerating growth: one, deeper penetration inside of Anthem, and we're beginning to bring all of these products together in a much more integrated way; and two, the opportunity through

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our provider strategy, our aggregator strategy to use our diversified business assets to participate in the profit pools in that area. So those are 2, we think, growth opportunities for us in the future. And again, it's early days, but we're seeing some really nice progress in these early days. Thanks for the question.

Operator

Next, we'll go to the line of Stephen Baxter from Wells Fargo.

Stephen C. Baxter - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I don't think I heard you talk too much about the outlook for the Individual, Commercial business during prepared remarks. Was hoping you could give us a sense of where membership there is expected to be for 2022 in that business and then how you're thinking about profitability in 2022 in light of your expectations around COVID and anything you want to touch on for the competitive dynamics there.

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

Thank you. I'm going to ask Morgan Kendrick, who leads that business, to provide some commentary.

Morgan Kendrick - *Anthem, Inc. - Executive VP & President of Commercial and Specialty Business Division*

Hey there, Stephen. Thank you for the question.

I -- first of all, I'd say we are expecting growth in our individual business this cycle. You asked about our margin trajectory on that and how we felt about it. Clearly, we're expecting to -- we price the business accurately. We price it based on our forward view of trend. COVID certainly is a big piece of that. And when we think about it, we've adjusted pricing as necessary, but we're seeing -- and we're still in open enrollment for 1/1. Some of them are extended through the end of the month. And right now, things are looking quite good. You would imagine there are some states, there are puts and takes across the country. But nonetheless, we feel good about it, and we're expecting growth in the first quarter. Thank you for the question.

Operator

Next, we'll go to the line of Lisa Gill from JPMorgan.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

Just want to go back to thinking about medical costs. And John, you talked about overall cost of care being above, and you talked a lot about COVID. But how do we think about any elective procedures that have been pushed off due to COVID would be my first question.

And then secondly, as you looked at Delta versus Omicron, it appears at least from the seat I sit in, that it was much less severe. A lot more people had testing and other types of costs. But how do we think about if there is that next variant. Now that we'll have a treatment in the marketplace, obviously, a lot more testing. How do we think about how that cost progressed and what that means to pushing off incremental elective procedures to have those costs offset? So how do I think about that in total?

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

Sure. Thank you, Lisa, for the questions. I'll see if I can unpack them all with this answer.

But in terms of access to the health care system, over the past year, we really have not seen anyone that has been denied access to needed and necessary care. And so while there may have been some puts and takes and some pent-up demand in the past, we think the vast, vast majority of that has all passed. And while that does happen on a temporary basis during some of these surges, the system is able to accommodate.

So -- and the other thing I think is very clear that we've seen is that whenever there is a COVID surge, that there has historically now been a non-COVID drop that is a natural hedge against it.

In terms of the -- just the cost trend in general and other variants. I certainly don't want to predict what the next variant is going to look like or even what letter of the Greek alphabet it's going to be named after. But on the other hand, as we look at Omicron, Omicron is clearly less severe on a per-member basis but far more contagious.

So you look at really the number of people who are infected by it, it's more multiplicatively higher than the number of people that were infected by Delta or the original COVID, and then the hospitalization rates are then a fraction. But you look at it sort of on a year-over-year basis, the hospitalization rates are relatively consistent in total and maybe even up a little bit for Omicron.

So it's really hard to say exactly what the next variant is going to look like, but we model these things. We try to be very thoughtful and even prudent and conservative in the way that we've modeled it. And I think you can see our 2021 performance has shown that we are a bit conservative in the way that we assess these things, and we're going to continue that same thought process for 2022. So thank you for the question.

Operator

Next, we'll go to the line of Rob Cottrell from Cleveland.

Robert Sohngen Cottrell - *Cleveland Research Company - Research Associate*

I wanted to focus on the commercial fee growth and the outlook for 2% to 3% membership growth. Just curious are those members coming in with higher specialty attachment rates that keep you on track for the 3:1 margin targets? Or is that something that potentially pushes that target out given the stronger growth?

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

Thanks for the question. Just to clarify a little bit, when we talk about the profitability between fully insured and our self-insured business or risk versus fee, we're really talking about adding more services to the fee-based business. So I wasn't sure if I understood your question correctly, but we are making great progress on that. We had predicted that we would end the year on 4:1, which we did. And we're seeing, as I mentioned in my opening comments, the opportunity to add IngenioRx plus clinical services, advocacy. So there's a whole number of areas that have begun to gain traction in that. So we feel very much on target, feel good about it.

If you think about just our fee-based revenue in the fourth quarter, increased 12% compared to a year ago when revenue increased over -- and for the year increased over 7%, so this growth came despite somewhat flattish membership growth. I think that really punctuates the impact of the various buy-up programs that we had. So again, overall, I feel like we're making really good progress on that.

Your question about the 2% plus risk-based membership growth, we feel that, that's a prudent projection going into the year. We had very strong growth in 2020 but feel good about where we are positioned. There was a previous question about our individual membership. Again, we have

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taken, I think, a very steady and consistent approach to the individual market. We did that again this year. So we don't look for outsized growth in any one of those markets but consistent growth across our risk base and in the 14 states where we do business.

So again, feel good about it, making progress around all of those. And again, we are making progress on that profit targetability. Thank you.

Operator

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

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

Yes. I wanted to ask you a little bit about your value-based care delivery strategy and was interested in the stake you've taken in some companies recently and how you look at -- how you kind of parcel out the country with respect to those, one. Also, has your appetite for owning care delivery changed? And then last, as you're thinking about partnering with other Blues, is this a capability that you could provide to other Blues in some sort of way?

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

Well, Lance, thank you very much for the series of questions, and let me try to kind of go through each of them and give you a bit of a perspective.

As I shared in my opening remarks, I think we've been very consistent actually in our care provider and our value-based strategy over the years.

Specifically, your question comes to what it relates to primary care. I think we've always taken a very thoughtful approach to how we leverage our scale in the market because we do believe that's one of the critical criteria for success. Recently, we shared and have updated everyone on some of the partnerships. Our model primarily has been a partnership model. So our investments, for example, in Privia and Aledade are the 2 that I think you're referring to, but there have been others that we've also shared.

When you talk about taking an ownership position, again, that's something we have done in the past. So it's not -- I know often we get the question of why we don't do it. We have done it actually and where it makes sense in our local markets and based on the depth and the dynamics. And good examples, very early on with CareMore but also HealthSun simply, most recently last year when we bought MMM.

So we're not against owning care delivery, but we do think in areas where we want to own it would be where we can accelerate our membership growth. And predominantly in areas where complex and chronic patients, we can improve the impact we have there, obviously, increase our STAR ratings and improve the health outcomes and by partnering is one of the important parts in our aggregators.

I want to take a minute on the aggregator strategy and why we're investing in some of these because they also allow us to stand up joint governance structures. And my prior answer, we talked a little bit about making sure that we remain aligned with our care provider partners. So that's a great way for us to participate in the governance structure and be aligned with our care providers and be very direct about our partnership preference where we can do it.

So as you think about these partnerships, they also benefit our Diversified Business Group. Again, going back to my last answer, we see an opportunity to wrap around different provider enablement programs. Also some of the acquisitions we've done recently are good examples of where we can do pull-through, and we can participate in the profit pool in a broader way. So very consistent with that. They're very capital-efficient for us. And again, our focus is very much on complex and chronic, and we see significant opportunities.

So I guess I would conclude our strategy is different than others, and we see that as unique because of the set of assets that we have are very unique, and we want to leverage that depth and, again, that partnership that we've built. It also allows us to derive value from sharing risk and ensuring that we're not reliant on any single model. As we know, this value-based space continues to evolve and mature. We don't think that one

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model is going to work in every market. We fundamentally believe that care is delivered locally and that's the core to who we are and sort of how we've grown up as a company. And so we see each model as unique, but we do think that there's an opportunity for scale and to wrap around, particularly our DBG assets, and to drive differentiated outcome.

In terms of your last question, we do share a lot of these models with our partner Blues, particularly in states where we have JVs already. So yes, we do think there's opportunities for us to take a leadership role there and work closely. Other Blues have great ideas, and we also learn from them. So we think this is an opportunity where the market is going to change quite a bit, and we're going to keep optionality and be very capital-efficient but also drive through, I think, a differentiated cost structure, and that's kind of where we start today. So thank you very much for the question.

Operator

Next, we'll go to the line of Gary Taylor from Cowen.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

I just had a quick follow-up on the '22 MLR guidance, that 88% midpoint up about 50 basis points. How do we think about mix impacting that this year? Obviously, that group MA account would push it higher, but the Medicaid redeterminations, we would think about bringing consolidated MLR down. And I just want to think about the mix impact versus your comment that overall cost of care will still run above baseline in '22. And just are you implying that there are certain lines of business where the MLR moves up because that underlying trend isn't priced for '22?

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

Gary, thank you for the question, and I really do appreciate the opportunity to provide clarity because it's actually an excellent question that you've asked.

The increase in MLR is essentially entirely driven by mix. So we have the state of New York -- or I'm sorry, the City of New York Medicare Advantage contract that goes live. It's going to be in excess of 200,000 members launching April 1. That will increase the overall MLR of the company.

We have just general growth in various other areas. We acquired MMM midyear 2021. We will have a full year of MMM in 2022. The overall aspect of that is that the weighted average MLR for the entire company goes up. We'd go live with Ohio midyear as well in our new Medicaid win.

So when you -- our Medicare Advantage, on an individual basis is growing by double digits, really outpacing every other line of business we have in the company. And the average MLR associated with those new members increases the MLR of the company.

So the core underlying MLRs associated with each of the lines of business, the forward pricing aspects of including COVID, we feel very good about and feel very solid about. But the analysis of the 50 basis point increase, it's entirely mix. So thank you for the opportunity to provide that clarification.

Operator

Next, we'll go to the line of Matt Borsch from BMO Capital Markets.

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

Yes. I had a regional question, which is you talked about the New York market. It seems like you're making progress in a number of fronts there. Can you just talk about the small group market? As I recall, you pulled out of the small group market, I want to say, maybe 8 years ago. And is kind of -- as I understand it, kind of dysfunctional the way it's structured, and you've got a lot of small groups that are going into sort of private employer pools as a result. I'm just wondering, I realize this is kind of region-specific, but if you'd be willing to address that.

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

Yes, Matt, thanks for the question. As you can appreciate, we won't go into details on specific markets and really won't comment on one area in particular. Overall, our small group market, we feel really good about, particularly the alternative and submarket strategy that we've launched over the last several years and have continued to make gains in it. So our products are resonating there quite well. We added a virtual-only product this year. That's having -- gaining a lot of traction. But again, won't speak to specific markets. So thanks for the question.

Operator

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

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

So just as a follow-up, on the cost of care in 2022, that's coming in above normal trend. Just for context, how does it compare to the $600 million in COVID costs that were in 2021, the headwinds? And then with the Blue settlement now finalized, how big is the opportunity when you think about market expansion into new states?

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

Thank you, Ricky. I'll answer your first question on the cost of care, and then maybe I think Gail wants to make a couple of comments on the Blue settlement.

But associated with the cost of care, I did not say that we would be above normal trend. I said that the cost structure would be above baseline. So I just want to make sure that the nuance of those words is very clear to everyone on the line.

In terms of how that compares to the COVID headwind and the $600 million, I'll just say COVID headwinds, there's many different things associated with them. Certainly, there's treatment cost, vaccine administration and testing that all go through cost of care. Our COVID headwinds, though, encompassed everything associated with COVID. That might include things like the impact on risk adjustment revenue, not necessarily cost of care, but clearly an item that's going to impact revenue and impact the bottom line. And then offsets will include drop in non-COVID utilization, pricing actions and various other aspects. And those are just examples of a very, very long list.

And so in 2021, we did estimate that about $600 million of net headwinds. And while each bucket maybe didn't come out exactly how we had predicted, the overall estimate was reasonable. And so you look into '22, our net headwind is smaller. For instance, risk adjustment revenue should be improved compared to 2021. As you look at the amount of utilization that occurred in the Medicare Advantage in '20 versus '21, we should have better risk scores. But additionally, we've continued our pricing discipline.

So anyway, so thank you for the question. I just want to make sure that we are clear on exactly what the headwind related to and the size of it. Gail?

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

Yes. Thanks for the second question, Ricky.

In terms of the BCBSA litigation, just to clarify, as you know, the final approval hearing was held in October of '21, and that court took the matter under advisement, which is typical for cases of this size and scale. And so some of the account members have submitted objections, which they're working through right now, and that's not unusual. So it's pretty typical for a case of this size.

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So in terms of projecting what this all means, et cetera. As John said, we expect to pay the settlement in 2022 versus what we had previously projected in '21. We fully accrued for that. In terms of the overall market, I think it's too early to say. I mean we've always worked inside of the Blue system with our peer plans. We have a number of seeds, and so I really don't have a comment on that until we get through the overall process. But again, I feel that, that will get resolved in 2022. Thank you.

Operator

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

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

Great. You guys, I guess, I don't remember you going in and specifically quantifying the impact of having to cover in-home testing. Can you just talk a little bit about how you guys thought about it? Is that not an issue because you already assumed COVID cost? Is it an issue because there's offsets on the PCR front? Any color there about how the size or think about how you came to your net impact?

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

Yes. Thanks for the question, Kevin. In terms of home testing, I think it is a good opportunity to provide a little clarity on just how we're thinking about it.

First of all, let me point out, and I know everyone is quite aware of this, that we're already paying for a significant volume of testing, mostly inside of medical facilities. And generally, these tend to be 8 to 10x the price of the at-home test. In addition, you add on the office fee.

So while it's difficult to know the exact degree to which the home testing or testing will go up as a result of the rule, we do expect some substitution with lower-cost home tests displacing some of those tests that are currently done in the medical facilities.

It's also, as you heard in my opening remarks, we proactively began offering free home COVID tests to our risk-based commercial members through Sydney Health in November. And those tests right now are delivered to our members' homes within 1 to 2 business days and our early experience indicates that individuals are ordering these based on their need and there's been appropriate usage.

With respect to our guidance, we did consider the effect of the substitution, the availability of the 4 free tests per household that the federal government is supplying, current short-term supply constraints and the likelihood of spikes in demand in the year that would drive potential surges in the COVID case rate. So those tended to coincide, as you know, with the lower non-COVID utilization. So that should be a natural offset, as John has shared earlier in the call.

So bottom line, there's pretty wide range or there is a wide range of outcomes around the rule, but we believe that our guidance provided that this morning captures the most likely net impact in our financial results. And that's one reason why our cost structure is expected to be at or above baseline in the 4 quarters of 2022. So overall, we feel we've captured it. We've used our analytics to do our best assessment. And again, we do have some experience with the test through our Sydney app. So thanks very much for allowing us to clarify how we're thinking about that.

Operator

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

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

I believe you've talked about 60% of your medical costs, I believe, specifically in MA are running through value-based care. I'm wondering how much of that is full risk capitation, how important that is to your strategy there? And maybe relatedly, how important are duals in your MA strategy and moving them into more value-based care?

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

Yes. Thanks for the question, Dave. Just to clarify, it's actually 6% across all lines of business. So that's across commercial Medicaid and Medicare Advantage, so just to clarify that answer.

In terms of duals, duals are an important part of our MA growth strategy. We have a very significant impact on duals that aligns both with the Government Business but also what Pete does in the Diversified Business Group and a lot of the investments that we've made, so in myNEXUS home care and Aspire palliative care. Part of what CareMore does is quite extensive in the dual market. So very important part of us. Part of what we do, we think value-based care is critically important to this space. And some of the investments we've made with aggregators will help support our strategy there.

In terms of full risk, as we shared at our Investor Day, it's an area that, right now, we're looking to significantly grow and impact over the next several years. So of that 60%, it's mid-teens, I'd say, across our book of business in total, where it continues to grow in terms of full upside downside risks, so not just capitation but other arrangements that we're also looking to expand.

So overall, it's a growing area for us, including with our high-performance network providers. But we think across the board that this is a core to how we get in to trend at CPI plus in our commercial business and to continue to deliver value in our government-based business. So thank you very much for the question.

Operator

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

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

Just was hoping to get a little more insight into your expectations on Medicaid enrollment for 2022. Maybe if you could talk about some of the offsets in terms of how much the traction from membership you're assuming just from the resumption of reverifications and any sequencing on the timing of that. And then as a positive offset, if you have an estimate on the amount of members you're going to add from the new Ohio contract in Medicaid, that would be helpful, too.

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

Yes. Thanks, Scott. Appreciate the question, and hopefully, I can give you some detail to help clarify.

The timing of the public health emergency clearly is the most significant assumption that needs to be evaluated as part of all this. And right now, the public health emergency is slated to expire April 16. And as a result, we would expect reverifications to begin in the middle of the year. So obviously, if the public health emergency changes, then everything else I'm saying right now needs to be updated simultaneously.

But at that point in time, we do expect to see the reverifications. We expect the reverifications to occur over a 12-month period of time through the end of '22 into the first half of '23. And we are not expecting a cliff event associated with membership dropping off. At the same time, we expect to capture our fair share of those commercial members, and part of our commercial risk membership growth is predicated on the Medicaid reverifications occurring as I had stated. And so there's certainly a natural hedge or an offset associated with those.

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The one thing I do want to make sure that everyone is clear about is that there are 2 states out of our portfolio of Medicaid states that expanded the number of MCOs in their geographies for 2022. And those are states that we have retained our business. However, with additional members -- I'm sorry, additional payers in those, that the states are going to redistribute many of the members. And so there's somewhere between 100,000 and 200,000 members that we will lose within those states that we have retained. And that's probably part of the reconciling item that maybe you don't have associated with this.

And then as we look at our membership in total, we gave all the components, fee-based, up very nicely individual; MA, double-digit growth; group MA, nice growth with the City of New York; commercial risk, up a couple percent; and then the balance is the loss of members through the Medicaid reverification. So hopefully, all that clarifies your membership questions. Thank you.

Operator

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

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

My question is on Ingenio and Rx volumes. And we talk a lot about medical utilization. But could you guys talk about if you feel like prescription drug utilization has kind of rebounded off of how I would think about a normalized growth trend line maybe from an unaffected 2019? And kind of what -- can you talk a little bit about the puts and takes if we see a rebound in prescription drug utilization, both in the risk book and in the fee-based book in Ingenio?

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

Yes. So thank you, George, for the question. Really reflecting on what happened in 2020 maybe as a starting point, we have about half of our scripts are maintenance-type scripts. And so certainly, when the pandemic first occurred, we didn't see any impact really, notable impact on that level of script volume.

And then if you recall, we did relax the 90-day rules back then and saw a little bit of a blip in script count, but the overall script volume of the remainder of the scripts was down, and that really corresponded directly to the non-COVID utilization being down as well.

And so now as we fast forward through '20 -- through '21, into '22, script levels are relatively consistent with where we would have thought. Certainly, as I said, half of the scripts are maintenance scripts. Those haven't been impacted at all. And then the other half very much are related to the non-COVID. And the non-COVID utilization was approaching baseline levels near the end of the year before this last Omicron surge. So the script volume really corresponded to that. So hopefully, that clarifies the issues on that.

Operator

Next, we'll go to the line of Josh Raskin from Nephron Research.

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

I just wanted to take one layer deeper on the strategy around working with value-based providers. And I'm curious what model seems to be working best. And I think maybe you could delineate commercial versus Medicare because it sounds like it's across both books of business.

And then lastly, I'm not sure I understand what you mean by aggregators. Are those the sort of tech enablers? And should we read into your comments and investments in Privia and Aledade as a preference there? I didn't hear CareMax or any of the center-based investments that you've made.

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

Well, thanks for the question, Josh. In terms of value based, I mean the deepest penetration has historically been in the Medicare Advantage space. Given the nature of the product design that we've had, it's been more around very specific networks and the depth.

So I think -- the industry has a lot more depth and experience in Medicare Advantage, but we're seeing significant growth in our commercial business, across not just Anthem but our partnership with our other non-Anthem Blues. So our high-performing network, part of the success that you saw in the significant growth in our National Account business was just a significant difference in our value proposition driven by high-performing networks. And again, we've got double-digit improvement in costs versus our competitors there that has been validated by outside consulting firms. So again, that's one of the reasons we consolidated where we -- we're one of a multi carrier in those accounts. And this year, particularly with our largest, probably most discerning accounts where they could see year-over-year performance, we were able to consolidate to a single carrier.

So I'd use those as some proof points around the traction happening in the high-performing markets or high-performing providers. And again, those are mostly contracting relationships.

When I referenced the 2 aggregator models, those are examples. We clearly are working with others, but I thought that, that would give you a sense of 2 of the models that we're working with. We're learning a lot. I guess I'd say it's still early days in many of these relationships. We began them over the last, really, 12 to 18 months. We think that what's important there is an alignment to the goals, the depth of our market share and the opportunity for us to work hand-in-hand in that local market to really respond to the unique needs of that marketplace.

Predominantly started in Medicare Advantage. But as you saw from some recent announcements, we're also doing quite a bit of work in commercial because we see the real opportunity there. And then you look at some of our markets where Ohio is a great example, we have leading market share in Medicare and commercial, and we'll soon add Medicaid to that. So again, you think across all businesses and supporting those. Many of the early value-based providers were focused on Medicare Advantage. We see that expanding much more broadly to all markets and the skill sets there.

So again, I wouldn't read in just the 2 names that we shared with you. Our preference is to really work with the best of breed in the markets and be able to leverage our scale and deliver something very differentiated because of that unique market. And we're going to continue to evolve that marketplace, and we do believe that the Diversified Business Group can wrap around its services, and that's a way for us to participate in the profit pool, but also bring our services to our members and keep a very consistent consumer experience.

So hopefully, that answers your question, and thanks very much for the ability to clarify that.

Operator

Next, we'll go to the line of Ben Hendrix from RBC Capital Markets.

Benjamin Hendrix - *RBC Capital Markets, Research Division - Assistant VP*

Just one, going back to your value-based evolution here. Your competitor, United, had talked about achieving 8% to 10% margin across the kind of overall across the various cohorts of their capitated membership as they've been scaling rapidly. And I know you guys are taking a very much more capital efficient partnership approach. So how should we think about margins kind of as you scale in value-based and capitated arrangements, maybe as you grow and then also on a run rate basis?

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

Yes. Thank you for the question. And we do provide some target margins at a line of business level. but we really don't think it's appropriate to go through and talk about target margins at a more granular level than that.

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The one thing I will say, though, associated with margin expansion is that our Diversified Business Group is going to provide us a great opportunity for margin expansion because, as Pete had talked about, serving Anthem members more holistically, more deeply. And the Commercial and the Government Business units will pay Diversified Business Group fair market value for the value that Diversified is providing. And then Pete will continue to make a margin on his services.

Certainly, the transaction will eliminate intercompany revenue. Yet, we'll still have target margins on Commercial and Government, and then we'll have the margins within Pete's area. So we do expect margin expansion over the next 5 years and really driven by that.

Operator

And for our final question, we'll go to the line of Whit Mayo from SVB Leerink.

Benjamin Whitman Mayo - *SVB Leerink LLC, Research Division - MD of Equity Research & Senior Research Analyst*

All right. I'll be quick. Just looking at the individual exchange enrollment numbers, they look pretty good, at least at the national level. Is there anything that you've learned as you study these new members? Any underlying characteristics of where they're coming from? Were these commercial? Were they Medicaid? Just what you're thinking as it relates to the risk pool.

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

Morgan Kendrick will address that. Thank you.

Morgan Kendrick - *Anthem, Inc. - Executive VP & President of Commercial and Specialty Business Division*

Whit, thanks, it's Morgan here. Thanks for the question. Regarding unique characteristics, one thing we've noticed -- I mean we like this business. As you've said, we see it behave and evolve differently by geography. One of the things is there's a stickiness to it that wasn't there originally. And that's something that's been notable of late.

As far as where it's coming from, we're typically seeing it come from other exchange members in the market. There are targeted areas where we've made real discerning efforts to get after deep areas that we're underpenetrated in certain geographies that we have, and they're paying dividends for us.

So again, one of the things -- in the beginning of the ACA, it wasn't a sticky market. There was lots of churn every year. We're seeing that very differently now. And we believe the assets we have and the assets we're bringing to the market will indeed pay dividends for us. So we like the market and look forward to continue to work there.

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

Thank you, Morgan.

Now I'd like to close by saying thank you. It's been a strong year for Anthem, and we greatly appreciate the interest you've shown in our company along the way. I hope today provided some more insight into how we're managing the short term while building for the long term. Our results show we're on our front foot and we're optimistic about the future. We're clear on our commitment to make whole health a reality. And as we go forward, you can expect our focus on being a lifetime trusted partner in health to be consistent.

Our work is a privilege and a responsibility of all 98,000 of us in Anthem, and we take it personally every day, and we'll keep executing with excellence and discipline to make a valuable difference for all of those who we are so privileged to serve.

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Thank you, everyone. Have a great week.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11 a.m. today through February 25, 2022. You may access the replay system at any time by dialing (800) 570-8796, and international participants can dial (203) 369-3290.

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

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