

Anthem, Inc.
Form 10-Q
April 24, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2019

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 001-16751

ANTHEM, INC.

(Exact name of registrant as specified in its charter)

INDIANA 35-2145715
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

220 VIRGINIA AVENUE 46204
INDIANAPOLIS, INDIANA (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (800) 331-1476

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of Each Class	Outstanding at April 15, 2019
Common Stock, \$0.01 par value	257,195,705 shares

Anthem, Inc.
 Quarterly Report on Form 10-Q
 For the Period Ended March 31, 2019
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Anthem, Inc.

Consolidated Balance Sheets

	March 31, 2019	December 31, 2018
	(Unaudited)	
(In millions, except share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,482	\$ 3,934
Fixed maturity securities, current (amortized cost of \$17,550 and \$16,894)	17,795	16,692
Equity securities, current	1,211	1,493
Other invested assets, current	20	21
Accrued investment income	161	162
Premium receivables	5,049	4,465
Self-funded receivables	2,491	2,278
Other receivables	2,639	2,558
Income taxes receivable	—	10
Securities lending collateral	591	604
Other current assets	2,172	2,104
Total current assets	36,611	34,321
Long-term investments:		
Fixed maturity securities (amortized cost of \$482 and \$486)	492	487
Equity securities	33	33
Other invested assets	3,710	3,726
Property and equipment, net	2,799	2,735
Goodwill	20,500	20,504
Other intangible assets	8,925	9,007
Other noncurrent assets	1,453	758
Total assets	\$ 74,523	\$ 71,571
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	\$ 8,242	\$ 7,454
Reserves for future policy benefits	78	75
Other policyholder liabilities	2,577	2,590
Total policy liabilities	10,897	10,119
Unearned income	998	902
Accounts payable and accrued expenses	3,951	4,959
Income taxes payable	105	—
Security trades pending payable	158	197
Securities lending payable	590	604
Short-term borrowings	1,095	1,145
Current portion of long-term debt	851	849
Other current liabilities	4,037	3,190
Total current liabilities	22,682	21,965
Long-term debt, less current portion	17,396	17,217

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Reserves for future policy benefits, noncurrent	719	706
Deferred tax liabilities, net	2,116	1,960
Other noncurrent liabilities	1,612	1,182
Total liabilities	44,525	43,030
Commitment and contingencies – Note 11		
Shareholders' equity		
Preferred stock, without par value, shares authorized – 100,000,000; shares issued and outstanding – none	—	—
Common stock, par value \$0.01, shares authorized – 900,000,000; shares issued and outstanding – 257,354,383 and 257,395,577	3	3
Additional paid-in capital	9,482	9,536
Retained earnings	21,136	19,988
Accumulated other comprehensive loss	(623	) (986)
Total shareholders' equity	29,998	28,541
Total liabilities and shareholders' equity	\$ 74,523	\$ 71,571

See accompanying notes.

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Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

(In millions, except per share data)	Three Months Ended March 31	
	2019	2018
Revenues		
Premiums	\$22,843	\$20,903
Administrative fees and other revenue	1,545	1,439
Total operating revenue	24,388	22,342
Net investment income	210	229
Net realized gains (losses) on financial instruments	78	(26)
Other-than-temporary impairment losses on investments:		
Total other-than-temporary impairment losses on investments	(13)	(8)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	3	—
Other-than-temporary impairment losses recognized in income	(10)	(8)
Total revenues	24,666	22,537
Expenses		
Benefit expense	19,282	17,046
Selling, general and administrative expense	3,166	3,428
Interest expense	187	184
Amortization of other intangible assets	87	80
(Gain) loss on extinguishment of debt	(1)	19
Total expenses	22,721	20,757
Income before income tax expense	1,945	1,780
Income tax expense	394	468
Net income	\$1,551	\$1,312
Net income per share		
Basic	\$6.03	\$5.13
Diluted	\$5.91	\$4.99
Dividends per share	\$0.80	\$0.75

See accompanying notes.

Anthem, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended March 31	
	2019	2018
Net income	\$1,551	\$1,312
Other comprehensive income (loss), net of tax:		
Change in net unrealized gains/losses on investments	357	(245)
Change in net unrealized losses on cash flow hedges	3	29
Change in net periodic pension and postretirement costs	3	7
Other comprehensive income (loss)	363	(209)
Total comprehensive income	\$1,914	\$1,103

See accompanying notes.

Anthem, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Three Months Ended	
	March 31	2018
	2019	
Operating activities		
Net income	\$ 1,551	\$ 1,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized (gains) losses on financial instruments	(78)	26
Other-than-temporary impairment losses recognized in income	10	8
(Gain) loss on extinguishment of debt	(1)	19
Deferred income taxes	55	(51)
Amortization, net of accretion	255	240
Depreciation expense	34	30
Share-based compensation	70	42
Changes in operating assets and liabilities:		
Receivables, net	(753)	37
Other invested assets	(21)	(7)
Other assets	(125)	(392)
Policy liabilities	791	(561)
Unearned income	96	1,182
Accounts payable and accrued expenses	(1,029)	(300)
Other liabilities	675	147
Income taxes	115	537
Other, net	(15)	(54)
Net cash provided by operating activities	1,630	2,215
Investing activities		
Purchases of fixed maturity securities	(2,300)	(2,236)
Proceeds from fixed maturity securities:		
Sales	1,075	1,864
Maturities, calls and redemptions	393	363
Purchases of equity securities	(3,691)	(566)
Proceeds from sales of equity securities	4,048	1,776
Purchases of other invested assets	(78)	(72)

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Proceeds from sales of other invested assets	113		23	
Changes in securities lending collateral	14		(158))
Purchases of subsidiaries, net of cash acquired	—		(1,346))
Purchases of property and equipment	(234)	)	(218))
Other, net	8		4	
Net cash used in investing activities	(652)	)	(566))
Financing activities				
Net proceeds from (repayments of) commercial paper borrowings	178		(108))
Proceeds from long-term borrowings	2		836	
Repayments of long-term borrowings	(63)	)	(663))
Proceeds from short-term borrowings	2,710		1,505	
Repayments of short-term borrowings	(2,760)	)	(1,655))
Changes in securities lending payable	(14)	)	158	
Changes in bank overdrafts	20		(124))
Repurchase and retirement of common stock	(294)	)	(395))
Change in collateral and settlements of debt-related derivatives	—		24	
Cash dividends	(206)	)	(192))
Proceeds from issuance of common stock under employee stock plans	76		60	
Taxes paid through withholding of common stock under employee stock plans	(78)	)	(73))
Net cash used in financing activities	(429)	)	(627))
Effect of foreign exchange rates on cash and cash equivalents	(1))	—	
Change in cash and cash equivalents	548		1,022	
Cash and cash equivalents at beginning of period	3,934		3,609	
Cash and cash equivalents at end of period	\$ 4,482		\$ 4,631	

See accompanying notes.

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Anthem, Inc.
Consolidated Statements of Shareholders' Equity
(Unaudited)

(In millions)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income		Total Shareholders' Equity
	Number of Shares	Par Value			(Loss)	Income	
December 31, 2018 (audited)	257.4	\$ 3	\$ 9,536	\$ 19,988	\$ (986)	)	\$ 28,541
Adoption of Accounting Standards Update No. 2016-02 (Note 2)	—	—	—	26	—	)	26
January 1, 2019	257.4	3	9,536	20,014	(986)	)	28,567
Net income	—	—	—	1,551	—	)	1,551
Other comprehensive income	—	—	—	—	363	)	363
Repurchase and retirement of common stock	(1.1)	) —	(71)	) (223)	) —	)	(294)
Dividends and dividend equivalents	—	—	—	(206)	) —	)	(206)
Issuance of common stock under employee stock plans, net of related tax benefits	1.1	—	69	—	—	)	69
Convertible debenture repurchases and conversions	—	—	(52)	) —	—	)	(52)
March 31, 2019	257.4	\$ 3	\$ 9,482	\$ 21,136	\$ (623)	)	\$ 29,998
December 31, 2017 (audited)	256.1	\$ 3	\$ 8,547	\$ 18,054	\$ (101)	)	\$ 26,503
Adoption of Accounting Standards Update No. 2016-01 (Note 2)	—	—	—	320	(320))	—
January 1, 2018	256.1	3	8,547	18,374	(421)	)	26,503
Net income	—	—	—	1,312	—	)	1,312
Other comprehensive loss	—	—	—	—	(209)	)	(209)
Repurchase and retirement of common stock	(1.7)	) —	(56)	) (338)	) —	)	(394)
Dividends and dividend equivalents	—	—	—	(198)	) —	)	(198)
Issuance of common stock under employee stock plans, net of related tax benefits	1.1	—	28	—	—	)	28
Convertible debenture repurchases and conversions	—	—	(30)	) —	—	)	(30)
Adoption of Accounting Standards Update No. 2018-02 (Note 2)	—	—	—	91	(91))	—
March 31, 2018	255.5	\$ 3	\$ 8,489	\$ 19,241	\$ (721)	)	\$ 27,012

See accompanying notes.

Anthem, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2019

(In Millions, Except Per Share Data or As Otherwise Stated Herein)

1. Organization

References to the terms “we,” “our,” “us” or “Anthem” used throughout these Notes to Consolidated Financial Statements refer to Anthem, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries. References to the “states” include the District of Columbia, unless the context otherwise requires.

We are one of the largest health benefits companies in the United States in terms of medical membership, serving approximately 41 million medical members through our affiliated health plans as of March 31, 2019. We offer a broad spectrum of network-based managed care plans to Large Group, Small Group, Individual, Medicaid and Medicare markets. Our managed care plans include: Preferred Provider Organizations, or PPOs; Health Maintenance Organizations, or HMOs; Point-of-Service, or POS, plans; traditional indemnity plans and other hybrid plans, including Consumer-Driven Health Plans, or CDHPs; and hospital only and limited benefit products. In addition, we provide a broad array of managed care services to self-funded customers, including claims processing, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. We provide an array of specialty and other insurance products and services such as dental, vision, life and disability insurance benefits, radiology benefit management and analytics-driven personal health care. We also provide services to the federal government in connection with the Federal Employee Program®.

We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee for California and as the Blue Cross and Blue Shield, or BCBS, licensee for Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (in the New York City metropolitan area and upstate New York), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.) and Wisconsin. In a majority of these service areas, we do business as Anthem Blue Cross, Anthem Blue Cross and Blue Shield, and Empire Blue Cross Blue Shield or Empire Blue Cross. We also conduct business through arrangements with other BCBS licensees. Through our subsidiaries, we also serve customers in numerous states across the country as America’s 1st Choice, Amerigroup, Aspire Health, CareMore, Freedom Health, HealthLink, HealthSun, Optimum HealthCare, Simply Healthcare, and/or Unicare. We are licensed to conduct insurance operations in all 50 states and the District of Columbia through our subsidiaries.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting.

Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2018 Annual Report on Form 10-K, unless the information contained in those disclosures materially changed or is required by GAAP. Certain prior year amounts have been reclassified to conform to the current year presentation or adjusted to conform to the current year rounding convention of reporting financial data in whole millions of dollars, except as otherwise noted. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the consolidated financial statements as of and for the three months ended March 31, 2019 and 2018 have been recorded. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019, or any other period. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2018 included in our 2018 Annual Report on Form 10-K.

Certain of our subsidiaries operate outside of the United States and have functional currencies other than the U.S. dollar, or USD. We translate the assets and liabilities of those subsidiaries to USD using the exchange rate in effect at

the end of the period. We translate the revenues and expenses of those subsidiaries to USD using the average exchange rates in effect during

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the period. The net effect of these translation adjustments is included in “Foreign currency translation adjustments” in our consolidated statements of comprehensive income.

Cash and Cash Equivalents: We control a number of bank accounts that are used exclusively to hold customer funds for the administration of customer benefits and have cash and cash equivalents on deposit to meet certain regulatory requirements. These amounts totaled \$262 and \$222 at March 31, 2019 and December 31, 2018, respectively and are included in the cash and cash equivalents line on our consolidated balance sheets.

Leases: We lease office space and certain computer and related equipment under noncancelable operating leases. We determine whether an arrangement is or contains a lease at its inception. We recognize lease liabilities based on the present value of the minimum lease payments not yet paid by using the lease term and discount rate determined at lease commencement. As our leases do not provide an implicit rate, we use our incremental secured borrowing rate commensurate with the underlying lease terms to determine the present value of our lease payments. Our leases may include options to extend or terminate a lease when it is reasonably certain that we will exercise that option. We recognize the operating right-of-use, or ROU, assets at an amount equal to the lease liability adjusted for prepaid or accrued rent, remaining balance of any lease incentives and unamortized initial direct costs.

The operating lease liabilities are reported in other current liabilities and other noncurrent liabilities and the related ROU assets are reported in other noncurrent assets on our consolidated balance sheet. Lease expense for our operating leases is calculated on a straight-line basis over the lease term and is reported in selling, general and administrative expense on our consolidated statements of income. For our office space leases, we account for the lease and non-lease components (such as common area maintenance) as a single lease component. We also do not recognize a lease liability or ROU asset for our office space leases whose lease terms, at commencement, are twelve months or less and that do not include a purchase option or option to extend that we are reasonably certain to exercise.

Revenue Recognition: Premiums for fully-insured contracts are recognized as revenue over the period insurance coverage is provided, and, if applicable, net of amounts recognized for the minimum medical loss ratio rebates or contractual or government-mandated premium stabilization programs. Administrative fees and other revenues include revenue from certain group contracts that provide for the group to be at risk for all, or with supplemental insurance arrangements, a portion of their claims experience. We charge these self-funded groups an administrative fee, which is based on the number of members in a group or the group’s claim experience. Under our self-funded arrangements, revenue is recognized as administrative services are performed, and benefit payments under these programs are excluded from benefit expense. For additional information about our revenues, see Note 2, “Basis of Presentation and Significant Accounting Policies” and Note 19, “Segment Information,” to our audited consolidated financial statements as of and for the year ended December 31, 2018 included in our 2018 Annual Report on Form 10-K. In addition, see Note 15, “Segment Information,” herein for the disaggregation of revenues by segments and products.

For our non-fully-insured contracts, we had no material contract assets, contract liabilities or deferred contract costs recorded on our consolidated balance sheet at March 31, 2019. For the three months ended March 31, 2019, revenue recognized from performance obligations related to prior periods, such as due to changes in transaction price, was not material. For contracts that have an original expected duration of greater than one year, revenue expected to be recognized in future periods related to unfulfilled contractual performance obligations and contracts with variable consideration related to undelivered performance obligations is not material.

Recently Adopted Accounting Guidance: In March 2019, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2019-01, Leases (Topic 842): Codification Improvements. In July 2018, the FASB issued Accounting Standards Update No. 2018-11, Leases (Topic 842): Targeted Improvements and Accounting Standards Update No. 2018-10, Codification Improvements to Topic 842, Leases. These updates provide additional clarification, an optional transition method, a practical expedient and implementation guidance on the previously issued Accounting Standards Update No. 2016-02, Leases (Topic 842). Collectively, these updates supersede the lease guidance in Accounting Standards Codification, or ASC, Topic 840 and require lessees to recognize for all leases, with the exception of short-term leases, a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis. Concurrently, lessees are required to recognize an ROU asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. We adopted this standard on January 1, 2019 by applying the optional transition method on the adoption date and did not adjust

comparative periods. We also elected the package of practical

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expedients permitted, which among other things, allowed us to carry forward the lease classification for our existing leases. In preparation for the adoption of this standard and to enable preparation of the required financial information, we implemented a new lease accounting software solution as well as new internal controls. The adoption of this standard impacted our 2019 opening consolidated balance sheet as we recorded operating lease liabilities of \$728 and ROU assets of \$637, which equals the lease liabilities net of accrued rent, lease incentives and the carrying amount of ceased-use liabilities previously recorded on our balance sheet under the old guidance. We also recognized a cumulative-effect adjustment of \$26 to our opening retained earnings for deferred gains on our previous sale-leaseback transactions. The adoption of this standard did not have an impact on our consolidated statements of income or cash flows.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, or ASU 2018-13. The amendments in ASU 2018-13 eliminate, add, and modify certain disclosure requirements for fair value measurements. The amendments are effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for either the entire ASU or only the provisions that eliminate or modify requirements. We early adopted the provisions that eliminate and modify disclosure requirements, on a retrospective basis, effective in our 2018 Annual Report on Form 10-K. We will adopt the new disclosure requirements, on a prospective basis, effective for our interim and annual reporting periods beginning after December 15, 2019.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, or ASU 2018-02. On December 22, 2017, the federal government enacted a tax bill, H.R.1, An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, or the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act contains significant changes to corporate taxation, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35% to 21% and modifying or limiting many business deductions. Current FASB guidance requires adjustments of deferred taxes due to a change in the federal corporate income tax rate to be included in income from operations. As a result, the tax effects of items within accumulated other comprehensive loss did not reflect the appropriate tax rate. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the change in the federal corporate income tax rate. We adopted the amendments in ASU 2018-02 for our interim and annual reporting periods beginning on January 1, 2018 and reclassified \$91 of stranded tax effects from accumulated other comprehensive loss to retained earnings on our consolidated balance sheet. The adoption of ASU 2018-02 did not have any impact on our results of operations or cash flows.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, or ASU 2017-09. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. We adopted ASU 2017-09 on January 1, 2018. The guidance has been and will be applied prospectively to awards modified on or after the adoption date. The adoption of ASU 2017-09 did not have any impact on our consolidated financial position, results of operations or cash flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, or ASU 2017-08. This update changes the amortization period for certain purchased callable debt securities held at a premium by shortening the amortization period for the premium to the earliest call date. Under current guidance, the premium is generally amortized over the contractual life of the instrument. The amendments are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We adopted ASU 2017-08 on January 1, 2019, and the adoption of this standard did not have a material impact on our beginning retained earnings or on our consolidated financial position, results of operations or cash flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, or ASU 2017-07. This amendment requires entities to disaggregate the service cost component from the other

components of the benefit cost and present the service cost component in the same income statement line item as other employee compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Certain of our defined benefit plans have previously been frozen, resulting in no annual service

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costs, and the remaining service costs for our non-frozen plan are not material. We adopted ASU 2017-07 on January 1, 2018, and it did not have a material impact on our results of operations, cash flows or consolidated financial position.

In December 2016, the FASB issued Accounting Standards Update No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. In May 2016, the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). These updates provide additional clarification and implementation guidance on the previously issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). Collectively, these updates require a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. These updates supersede almost all existing revenue recognition guidance under GAAP, with certain exceptions, including an exception for our premium revenues, which are recorded on the Premiums line item on our consolidated statements of income and will continue to be accounted for in accordance with the provisions of ASC Topic 944, Financial Services - Insurance. Our administrative service and other contracts that are subject to these Accounting Standards Updates are recorded in the Administrative fees and other revenue line item on our consolidated statements of income and represents approximately 6% of our consolidated total operating revenue. We adopted these standards on January 1, 2018 using the modified retrospective approach. The adoption of these standards did not have a material impact on our beginning retained earnings, results of operations, cash flows or consolidated financial position.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, or ASU 2016-18. This update amends ASC Topic 230, Statement of Cash Flow, to add and clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018 using a retrospective approach. The adoption of ASU 2016-18 did not have a material impact on our consolidated statements of cash flows and did not impact our results of operations or consolidated financial position.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, or ASU 2016-15. This update addresses the presentation and classification on the statement of cash flows for eight specific items, with the objective of reducing existing diversity in practice in how certain cash receipts and cash payments are presented and classified. We adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our consolidated statements of cash flows, results of operations or consolidated financial position.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01. The amendments in ASU 2016-01 change the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. We adopted ASU 2016-01 on January 1, 2018 as a cumulative-effect adjustment and reclassified \$320 of unrealized gains on equity investments, net of tax, from accumulated other comprehensive loss to retained earnings on our consolidated balance sheet. Effective January 1, 2018, our results of operations include the changes in fair value of these financial instruments.

Recent Accounting Guidance Not Yet Adopted: In November 2018, the FASB issued Accounting Standards Update No. 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, or ASU 2018-19. The amendments in ASU 2018-19 provide additional clarification and implementation guidance on certain aspects of the previously issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326):

Measurement of Credit Losses on Financial Instruments, or ASU 2016-13, and have the same effective date and transition requirements as ASU 2016-13. ASU 2016-13 introduces a current expected credit loss model for measuring expected credit losses for certain types of financial instruments held at the reporting date based on historical experience, current conditions and reasonable

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supportable forecasts. ASU 2016-13 replaces the current incurred loss model for measuring expected credit losses, requires expected losses on available-for-sale debt securities to be recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities and provides for additional disclosure requirements. ASU 2016-13 is effective for us on January 1, 2020, with early adoption permitted. We are currently evaluating the effects the adoption of ASU 2016-13 will have on our consolidated financial statements, results of operations and cash flows.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, or ASU 2018-15. The amendments in ASU 2018-15 require implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance. The amendments also require an entity to disclose the nature of its hosting arrangements and adhere to certain presentation requirements in its balance sheet, income statement and statement of cash flows. ASU 2018-15 is effective for us on January 1, 2020, with early adoption permitted. The guidance can be applied either prospectively to all implementation costs incurred after the date of adoption or retrospectively. We are currently evaluating the effects the adoption of ASU 2018-15 will have on our consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued Accounting Standards Update No. 2018-14, Compensation—Retirement Benefits - Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans, or ASU 2018-14. The amendments in ASU 2018-14 eliminate, add, and modify certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments are effective for our annual reporting periods beginning after December 15, 2020, with early adoption permitted. The guidance is to be applied on a retrospective basis to all periods presented. We are currently evaluating the effects the adoption of ASU 2018-14 will have on our disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, or ASU 2018-12. The amendments in ASU 2018-12 make changes to a variety of areas to simplify or improve the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments require insurers to annually review the assumptions they make about their policyholders and update the liabilities for future policy benefits if the assumptions change. The amendments also simplify the amortization of deferred contract acquisition costs and add new disclosure requirements about the assumptions insurers use to measure their liabilities and how they may affect future cash flows. The amendments in ASU 2018-12 will be effective for our interim and annual reporting periods beginning after December 15, 2020. The amendments related to the liability for future policy benefits for traditional and limited-payment contracts and deferred acquisition costs are to be applied to contracts in force as of the beginning of the earliest period presented, with an option to apply such amendments retrospectively with a cumulative-effect adjustment to the opening balance of retained earnings as of the earliest period presented. The amendments for market risk benefits are to be applied retrospectively. We are currently evaluating the effects the adoption of ASU 2018-12 will have on our consolidated financial position, results of operations, cash flows, and related disclosures.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, or ASU 2017-04. This update removes Step 2 of the goodwill impairment test under current guidance, which requires a hypothetical purchase price allocation. The new guidance requires an impairment charge to be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. Upon adoption, the guidance is to be applied prospectively. ASU 2017-04 is effective for us on January 1, 2020, with early adoption permitted. The adoption of ASU 2017-04 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

There were no other new accounting pronouncements that were issued or became effective since the issuance of our 2018 Annual Report on Form 10-K that had, or are expected to have, a material impact on our consolidated financial position, results of operations or cash flows.

3. Business Acquisitions

Acquisition of America's 1st Choice

On February 15, 2018, we completed our acquisition of Freedom Health, Inc., Optimum HealthCare, Inc., America's 1st Choice of South Carolina, Inc. and related entities, or collectively, America's 1st Choice, a Medicare Advantage organization that offers HMO products, including Chronic Special Needs Plans and Dual-Eligible Special Needs Plans under its Freedom Health and Optimum HealthCare brands in Florida and its America's 1st Choice of South Carolina brand in South Carolina. At the time of acquisition, through its Medicare Advantage plans, America's 1st Choice served approximately one hundred and thirty-five thousand members in twenty-five Florida and three South Carolina counties. This acquisition aligns with our plans for continued growth in the Medicare Advantage and Special Needs populations.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the fair value of America's 1st Choice's assets acquired and liabilities assumed, including identifiable intangible assets. The excess of the consideration transferred over the fair value of net assets acquired resulted in goodwill of \$1,029 at March 31, 2019, of which \$296 was tax deductible. All of the goodwill was allocated to our Government Business segment. Goodwill recognized from the acquisition of America's 1st Choice primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions to strengthen our position and expand operations in the government sector to service Medicare Advantage and Special Needs populations.

The fair value of the net assets acquired from America's 1st Choice includes \$711 of other intangible assets at March 31, 2019, which primarily consist of finite-lived customer relationships with amortization periods ranging from 9 to 13 years. The results of operations of America's 1st Choice are included in our consolidated financial statements within our Government Business segment for the periods following February 15, 2018. The pro forma effects of this acquisition for prior periods were not material to our consolidated results of operations.

4. Investments

Fixed Maturity Securities

We evaluate our available-for-sale fixed maturity securities for other-than-temporary declines based on qualitative and quantitative factors. There were no individually significant other-than-temporary impairment losses on investments during the three months ended March 31, 2019 and 2018. We continue to review our investment portfolios under our impairment review policy. Given the inherent uncertainty of changes in market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairment, or OTTI, losses on investments may be recorded in future periods.

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A summary of current and long-term fixed maturity securities, available-for-sale, at March 31, 2019 and December 31, 2018 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Non-Credit Component of OTTIs Recognized in Accumulated Other Comprehensive Loss
			Less than 12 Months	12 Months or Greater		
March 31, 2019						
Fixed maturity securities:						
United States Government securities	\$ 388	\$ 6	\$ —	\$ (1)	\$ 393	\$ —
Government sponsored securities	139	2	—	(1)	140	—
States, municipalities and political subdivisions, tax-exempt	4,523	173	—	(3)	4,693	—
Corporate securities	8,594	132	(24)	(60)	8,642	(3)
Residential mortgage-backed securities	3,034	48	(1)	(24)	3,057	—
Commercial mortgage-backed securities	79	1	—	(1)	79	—
Other securities	1,275	17	(3)	(6)	1,283	—
Total fixed maturity securities	\$ 18,032	\$ 379	\$ (28)	\$ (96)	\$ 18,287	\$ (3)
December 31, 2018						
Fixed maturity securities:						
United States Government securities	\$ 414	\$ 3	\$ —	\$ (1)	\$ 416	\$ —
Government sponsored securities	108	1	—	(1)	108	—
States, municipalities and political subdivisions, tax-exempt	4,716	91	(3)	(19)	4,785	—
Corporate securities	8,189	33	(170)	(115)	7,937	(3)
Residential mortgage-backed securities	2,769	31	(3)	(47)	2,750	—
Commercial mortgage-backed securities	69	—	—	(2)	67	—
Other securities	1,115	14	(8)	(5)	1,116	—
Total fixed maturity securities	\$ 17,380	\$ 173	\$ (184)	\$ (190)	\$ 17,179	\$ (3)

For fixed maturity securities in an unrealized loss position at March 31, 2019 and December 31, 2018, the following table summarizes the aggregate fair values and gross unrealized losses by length of time those securities have continuously been in an unrealized loss position:

(Securities are whole amounts)	Less than 12 Months			12 Months or Greater		
	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss
March 31, 2019						
Fixed maturity securities:						
United States Government securities	8	\$ 39	\$ —	16	\$ 65	\$ (1)
Government sponsored securities	7	6	—	28	29	(1)
States, municipalities and political subdivisions, tax-exempt	13	17	—	199	288	(3)
Corporate securities	586	1,068	(24)	1,295	2,273	(60)
Residential mortgage-backed securities	87	157	(1)	764	1,372	(24)
Commercial mortgage-backed securities	—	—	—	12	23	(1)
Other securities	125	413	(3)	142	368	(6)
Total fixed maturity securities	826	\$ 1,700	\$ (28)	2,456	\$ 4,418	\$ (96)
December 31, 2018						
Fixed maturity securities:						
United States Government securities	5	\$ 47	\$ —	25	\$ 79	\$ (1)
Government sponsored securities	8	11	—	24	31	(1)
States, municipalities and political subdivisions, tax-exempt	177	295	(3)	604	1,032	(19)
Corporate securities	2,185	4,503	(170)	1,220	2,072	(115)
Residential mortgage-backed securities	259	383	(3)	816	1,458	(47)
Commercial mortgage-backed securities	6	11	—	19	37	(2)
Other securities	193	599	(8)	93	237	(5)
Total fixed maturity securities	2,833	\$ 5,849	\$ (184)	2,801	\$ 4,946	\$ (190)

The amortized cost and fair value of fixed maturity securities at March 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 541	\$ 542
Due after one year through five years	5,431	5,466
Due after five years through ten years	5,068	5,153
Due after ten years	3,879	3,990
Mortgage-backed securities	3,113	3,136
Total fixed maturity securities	\$ 18,032	\$ 18,287

Proceeds from sales, maturities, calls or redemptions of fixed maturity securities and the related gross realized gains and gross realized losses for the three months ended March 31, 2019 and 2018 are as follows:

	Three Months Ended March 31	
	2019	2018
Proceeds	\$1,468	\$2,227
Gross realized gains	18	30
Gross realized losses	(17)	(36)

In the ordinary course of business, we may sell securities at a loss for a number of reasons, including, but not limited to: (i) changes in the investment environment; (ii) expectation that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; or (v) changes in expected cash flow. All securities sold resulting in investment gains and losses are recorded on the trade date. Realized gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

Equity Securities

A summary of current and long-term marketable equity securities at March 31, 2019 and December 31, 2018 is as follows:

	March 31, December 31,	
	2019	2018
Equity securities:		
Exchange traded funds	\$ 2	\$ 2
Fixed maturity mutual funds	589	557
Common equity securities	356	654
Private equity securities	297	313
Total	\$ 1,244	\$ 1,526

The gains and losses related to equity securities for the three months ended March 31, 2019 and 2018 are as follows:

	Three Months Ended March 31	
	2019	2018
Net realized gains (losses) recognized on equity securities	\$79	\$(43)
Less: Net realized gains recognized on equity securities sold during the period	(21)	(173)
Unrealized gains (losses) recognized on equity securities still held at March 31, 2019	\$58	\$(216)

Securities Lending Programs

We participate in securities lending programs whereby marketable securities in our investment portfolio are transferred to independent brokers or dealers in exchange for cash and securities collateral. The fair value of the collateral received at the time of the transactions amounted to \$590 and \$604 at March 31, 2019 and December 31, 2018, respectively. The value of the collateral represented 103% and 102% of the market value of the securities on loan at March 31, 2019 and December 31, 2018, respectively. We recognize the collateral as an asset under the caption "Securities lending collateral" on our consolidated balance sheets and we recognize a corresponding liability for the obligation to return the collateral to the borrower under the caption "Securities lending payable." The securities on loan are reported in the applicable investment category on our consolidated balance sheets.

The remaining contractual maturity of our securities lending agreements at March 31, 2019 is as follows:

	Overnight
	and
	Continuous
Securities lending transactions	
United States Government securities	\$ 25
Corporate securities	545
Equity securities	20
Total	\$ 590

The market value of loaned securities and that of the collateral pledged can fluctuate in non-synchronized fashions. To the extent the loaned securities' value appreciates faster or depreciates slower than the value of the collateral pledged, we are exposed to the risk of the shortfall. As a primary mitigating mechanism, the loaned securities and collateral pledged are marked to market on a daily basis and the shortfall, if any, is collected accordingly. Secondly, the minimum collateral level is set at 102% of the value of the loaned securities, which provides a cushion before any shortfall arises. The investment of the cash collateral is subject to market risk, which is managed by limiting the investments to higher quality and shorter duration instruments.

5. Derivative Financial Instruments

We primarily invest in the following types of derivative financial instruments: interest rate swaps, futures, forward contracts, put and call options, swaptions, embedded derivatives and warrants. We also enter into master netting agreements which reduce credit risk by permitting net settlement of transactions.

We have entered into various interest rate swap contracts to convert a portion of our interest rate exposure on our long-term debt from fixed rates to floating rates. The floating rates payable on all of our fair value hedges are benchmarked to the London Interbank Offering Rate, or LIBOR.

Prior to 2019, we entered into a series of forward starting pay fixed interest rate swaps with the objective of reducing the variability of cash flows in the interest payments on anticipated future financings. The unrecognized loss for all expired and terminated cash flow hedges included in accumulated other comprehensive loss, net of tax, was \$243 and \$246 at March 31, 2019 and December 31, 2018, respectively.

For additional information relating to the fair value of our derivative assets and liabilities, see Note 6, "Fair Value," of this Form 10-Q.

6. Fair Value

Assets and liabilities recorded at fair value in our consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

Level Input Input Definition

Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following methods, assumptions and inputs were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in our consolidated balance sheets:

Cash equivalents: Cash equivalents primarily consist of highly rated money market funds with maturities of three months or less and are purchased daily at par value with specified yield rates. Due to the high ratings and short-term nature of the funds, we designate all cash equivalents as Level I.

Fixed maturity securities, available-for-sale: Fair values of available-for-sale fixed maturity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value to facilitate fair value measurements and disclosures. Level II securities primarily include United States Government securities, corporate securities, securities from states, municipalities and political subdivisions, mortgage-backed securities and certain other asset-backed securities. For securities not actively traded, the pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. We have controls in place to review the pricing services' qualifications and procedures used to determine fair values. In addition, we periodically review the pricing services' pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. We also have certain fixed maturity securities, primarily corporate debt securities, which are designated Level III securities. For these securities, the valuation methodologies may incorporate broker quotes or discounted cash flow analyses using assumptions for inputs such as expected cash flows, benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets.

Equity securities: Fair values of equity securities are generally designated as Level I and are based on quoted market prices. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. These securities are designated Level II.

We also have certain equity securities, including private equity securities, for which the fair value is estimated based on each security's current condition and future cash flow projections. Such securities are designated Level III. The fair values of these private equity securities are generally based on either broker quotes or discounted cash flow projections using assumptions for inputs such as the weighted-average cost of capital, long-term revenue growth rates and earnings before interest, taxes, depreciation and amortization, and/or revenue multiples that are not observable in the markets.

Other invested assets, current: Other invested assets, current include securities held in rabbi trusts that are classified as trading. These securities are designated Level I securities, as fair values are based on quoted market prices.

Securities lending collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value, to facilitate fair value measurements and disclosures.

Derivatives: Fair values are based on the quoted market prices by the financial institution that is the counterparty to the derivative transaction. We independently verify prices provided by the counterparties using valuation models that incorporate observable market inputs for similar derivative transactions. Derivatives are designated as Level II securities. Derivatives presented within the fair value hierarchy table below are presented on a gross basis and not on a master netting basis by counterparty.

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A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis at March 31, 2019 and December 31, 2018 is as follows:

	Level I	Level II	Level III	Total
March 31, 2019				
Assets:				
Cash equivalents	\$2,551	\$	—\$	—\$2,551
Fixed maturity securities, available-for-sale:				