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 September 30, 2021

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 incorporation or organization)	**(I.R.S. Employer Identification Number)**

220 Virginia Avenue
Indianapolis, Indiana 46204
(Address of principal executive offices) (Zip Code)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	ANTM	New York Stock Exchange

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 ☒

As of October 14, 2021, 242,714,676 shares of the Registrant's Common Stock were outstanding.

Anthem, Inc.

Quarterly Report on Form 10-Q
For the Period Ended September 30, 2021

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Anthem, Inc.
Consolidated Balance Sheets

(In millions, except share data)	September 30, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 5,490	$ 5,741
Fixed maturity securities (amortized cost of $25,495 and $22,222; allowance for credit losses of $6 and $7)	26,348	23,433
Equity securities	2,119	1,559
Premium receivables	6,008	5,279
Self-funded receivables	3,349	2,849
Other receivables	3,450	2,830
Other current assets	5,140	4,060
Total current assets	51,904	45,751
Long-term investments:		
Fixed maturity securities (amortized cost of $606 and $532; allowance for credit losses of $0 and $0)	625	562
Other invested assets	4,959	4,285
Property and equipment, net	3,835	3,483
Goodwill	24,184	21,691
Other intangible assets	10,749	9,405
Other noncurrent assets	1,804	1,438
Total assets	$ 98,060	$ 86,615
Liabilities and equity		
Liabilities		
Current liabilities:		
Medical claims payable	$ 13,562	$ 11,359
Other policyholder liabilities	5,201	4,590
Unearned income	954	1,259
Accounts payable and accrued expenses	5,960	5,493
Short-term borrowings	175	—
Current portion of long-term debt	849	700
Other current liabilities	8,461	6,052
Total current liabilities	35,162	29,453
Long-term debt, less current portion	21,761	19,335
Reserves for future policy benefits	788	794
Deferred tax liabilities, net	2,629	2,019
Other noncurrent liabilities	1,912	1,815
Total liabilities	62,252	53,416
Commitments 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 – 242,847,676 and 245,401,430	2	3
Additional paid-in capital	9,138	9,244
Retained earnings	26,700	23,802
Accumulated other comprehensive (loss) income	(103)	150
Total shareholders' equity	35,737	33,199
Noncontrolling interests	71	—
Total equity	35,808	33,199
Total liabilities and equity	$ 98,060	$ 86,615

See accompanying notes.

Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

(In millions, except per share data)	Three Months Ended September 30 2021	Three Months Ended September 30 2020	Nine Months Ended September 30 2021	Nine Months Ended September 30 2020
Revenues				
Premiums	$ 30,395	$ 26,392	$ 86,604	$ 77,001
Product revenue	3,353	2,598	9,132	7,485
Administrative fees and other revenue	1,800	1,659	5,189	4,789
Total operating revenue	35,548	30,649	100,925	89,275
Net investment income	335	280	1,026	591
Net realized (losses) gains on financial instruments	(61)	229	107	177
Total revenues	35,822	31,158	102,058	90,043
Expenses				
Benefit expense	26,645	22,921	75,107	63,957
Cost of products sold	2,898	2,222	7,825	6,431
Selling, general and administrative expense	3,946	5,305	11,692	13,132
Interest expense	201	198	598	593
Amortization of other intangible assets	136	93	306	269
Loss on extinguishment of debt	—	30	5	34
Total expenses	33,826	30,769	95,533	84,416
Income before income tax expense	1,996	389	6,525	5,627
Income tax expense	494	167	1,555	1,606
Net income	1,502	222	4,970	4,021
Net loss (income) attributable to noncontrolling interests	7	—	(3)	—
Shareholders' net income	$ 1,509	$ 222	$ 4,967	$ 4,021
Shareholders' net income per share				
Basic	$ 6.20	$ 0.88	$ 20.33	$ 15.96
Diluted	$ 6.13	$ 0.87	$ 20.09	$ 15.75
Dividends per share	$ 1.13	$ 0.95	$ 3.39	$ 2.85

See accompanying notes.

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

(In millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Net income	$ 1,502	$ 222	$ 4,970	$ 4,021
Other comprehensive (loss) income, net of tax:				
Change in net unrealized losses/gains on investments	(97)	113	(284)	154
Change in non-credit component of impairment losses on investments	(1)	16	1	(6)
Change in net unrealized gains/losses on cash flow hedges	4	4	10	10
Change in net periodic pension and postretirement costs	8	8	26	25
Foreign currency translation adjustments	(1)	1	(7)	1
Other comprehensive (loss) income	(87)	142	(254)	184
Net loss (income) attributable to noncontrolling interests	7	—	(3)	—
Other comprehensive loss attributable to noncontrolling interests	1	—	1	—
Total shareholders' comprehensive income	$ 1,423	$ 364	$ 4,714	$ 4,205

See accompanying notes.

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

(In millions)	Nine Months Ended September 30 2021	2020
Operating activities		
Net income	$ 4,970	$ 4,021
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on financial instruments	(107)	(177)
Depreciation and amortization	942	864
Deferred income taxes	114	(102)
Impairment of property and equipment	—	195
Share-based compensation	196	214
Changes in operating assets and liabilities:		
Receivables, net	(1,751)	(845)
Other invested assets	(56)	6
Other assets	(470)	(988)
Policy liabilities	2,328	1,624
Unearned income	(308)	(95)
Accounts payable and other liabilities	1,093	1,953
Income taxes	168	104
Other, net	(427)	101
Net cash provided by operating activities	6,692	6,875
Investing activities		
Purchases of investments	(15,130)	(16,708)
Proceeds from sale of investments	8,339	8,739
Maturities, calls and redemptions from investments	3,388	3,763
Changes in securities lending collateral	(1,030)	(668)
Purchases of subsidiaries, net of cash acquired	(3,442)	(1,973)
Purchases of property and equipment	(747)	(743)
Other, net	(50)	(39)
Net cash used in investing activities	(8,672)	(7,629)
Financing activities		
Net repayments of commercial paper borrowings	(150)	(400)
Proceeds from long-term borrowings	3,462	2,485
Repayments of long-term borrowings	(954)	(964)
Proceeds from short-term borrowings	175	970
Repayments of short-term borrowings	—	(1,520)
Changes in securities lending payable	1,030	668
Repurchase and retirement of common stock	(1,378)	(1,342)
Cash dividends	(831)	(720)
Proceeds from issuance of common stock under employee stock plans	161	112
Taxes paid through withholding of common stock under employee stock plans	(101)	(112)
Other, net	324	623
Net cash provided by (used in) financing activities	1,738	(200)
Effect of foreign exchange rates on cash and cash equivalents	(9)	1
Change in cash and cash equivalents	(251)	(953)
Cash and cash equivalents at beginning of period	5,741	4,937
Cash and cash equivalents at end of period	$ 5,490	$ 3,984

See accompanying notes.

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

	Nine Months Ended September 30, 2021						
	Common Stock						
(In millions)	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
January 1, 2021	245.4	$ 3	$ 9,244	$ 23,802	$ 150	$ —	$ 33,199
Net income	—	—	—	1,665	—	2	1,667
Other comprehensive loss	—	—	—	—	(345)	(2)	(347)
Noncontrolling interests adjustment	—	—	—	—	—	65	65
Repurchase and retirement of common stock	(1.4)	(1)	(53)	(393)	—	—	(447)
Dividends and dividend equivalents	—	—	—	(281)	—	—	(281)
Issuance of common stock under employee stock plans, net of related tax benefits	0.9	—	62	—	—	—	62
March 31, 2021	244.9	2	9,253	24,793	(195)	65	33,918
Net income	—	—	—	1,793	—	8	1,801
Other comprehensive income	—	—	—	—	178	2	180
Noncontrolling interests adjustment	—	—	—	—	—	3	3
Repurchase and retirement of common stock	(1.3)	—	(47)	(433)	—	—	(480)
Dividends and dividend equivalents	—	—	—	(279)	—	—	(279)
Issuance of common stock under employee stock plans, net of related tax benefits	0.3	—	119	—	—	—	119
Convertible debenture repurchases and conversions	—	—	(216)	—	—	—	(216)
June 30, 2021	243.9	2	9,109	25,874	(17)	78	35,046
Net income (loss)	—	—	—	1,509	—	(7)	1,502
Other comprehensive loss	—	—	—	—	(86)	(1)	(87)
Noncontrolling interest adjustment	—	—	—	—	—	1	1
Repurchase and retirement of common stock	(1.2)	—	(44)	(407)	—	—	(451)
Dividends and dividend equivalents	—	—	—	(276)	—	—	(276)
Issuance of common stock under employee stock plans, net of related tax benefits	0.1	—	75	—	—	—	75
Convertible debenture repurchases and conversions	—	—	(2)	—	—	—	(2)
September 30, 2021	242.8	$ 2	$ 9,138	$ 26,700	$ (103)	$ 71	$ 35,808

See accompanying notes.

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

	Nine Months Ended September 30, 2020						
	Common Stock						
(In millions)	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
December 31, 2019 (audited)	252.9	$ 3	$ 9,448	$ 22,573	$ (296)	$ —	$ 31,728
Adoption of Accounting Standards Update No. 2016-13	—	—	—	(35)	—	—	(35)
January 1, 2020	252.9	3	9,448	22,538	(296)	—	31,693
Net income	—	—	—	1,523	—	—	1,523
Other comprehensive loss	—	—	—	—	(712)	—	(712)
Repurchase and retirement of common stock	(1.9)	—	(71)	(458)	—	—	(529)
Dividends and dividend equivalents	—	—	—	(243)	—	—	(243)
Issuance of common stock under employee stock plans, net of related tax benefits	1.0	—	3	—	—	—	3
Convertible debenture repurchases and conversions	—	—	(42)	—	—	—	(42)
March 31, 2020	252.0	3	9,338	23,360	(1,008)	—	31,693
Net income	—	—	—	2,276	—	—	2,276
Other comprehensive income	—	—	—	—	754	—	754
Repurchase and retirement of common stock	(0.2)	—	(9)	(46)	—	—	(55)
Dividends and dividend equivalents	—	—	—	(244)	—	—	(244)
Issuance of common stock under employee stock plans, net of related tax benefits	0.3	—	113	—	—	—	113
Convertible debenture repurchases and conversions	—	—	(82)	—	—	—	(82)
June 30, 2020	252.1	3	9,360	25,346	(254)	—	34,455
Net income	—	—	—	222	—	—	222
Other comprehensive income	—	—	—	—	142	—	142
Repurchase and retirement of common stock	(2.9)	—	(106)	(652)	—	—	(758)
Dividends and dividend equivalents	—	—	—	(238)	—	—	(238)
Issuance of common stock under employee stock plans, net of related tax benefits	0.2	—	98	—	—	—	98
September 30, 2020	249.4	$ 3	$ 9,352	$ 24,678	$ (112)	$ —	$ 33,921

See accompanying notes.

Anthem, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2021

(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 and Puerto Rico, 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 45 medical members through our affiliated health plans as of September 30, 2021. We offer a broad spectrum of network-based managed care plans to Individual, Group, Medicaid and Medicare markets. Our managed care plans include: Preferred Provider Organizations ("PPOs"); Health Maintenance Organizations ("HMOs"); Point-of-Service plans; traditional indemnity plans and other hybrid plans, including Consumer-Driven Health Plans; and hospital only and limited benefit products. In addition, we provide a broad array of managed care services to fee-based 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 pharmacy benefits management ("PBM"), dental, vision, life and disability insurance benefits, radiology benefit management and analytics-driven personal healthcare. We also provide services to the federal government in connection with our Federal Health Products & Services business, which administers the Federal Employees Health Benefits ("FEHB") Program.

We are an independent licensee of the Blue Cross and Blue Shield Association ("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 ("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 as well as other strategic partners. Through our subsidiaries, we also serve customers in numerous states and Puerto Rico as AIM Specialty Health, Amerigroup, Aspire Health, Beacon, CareMore, Freedom Health, HealthLink, HealthSun, MMM, Optimum HealthCare, Simply Healthcare, and/or UniCare. Also, we provide PBM services through our IngenioRx, Inc. ("IngenioRx") subsidiary. We are licensed to conduct insurance operations in all 50 states, the District of Columbia and Puerto Rico 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 ("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 2020 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. 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 and nine months ended September 30, 2021 and 2020 have been recorded. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2021, 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, 2020 included in our 2020 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 ("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 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 we have cash and cash equivalents on deposit to meet certain regulatory requirements. These amounts totaled $186 and $170 at September 30, 2021 and December 31, 2020, respectively, and are included in the cash and cash equivalents line on our consolidated balance sheets.

Investments: We classify fixed maturity securities in our investment portfolio as "available-for-sale" and report those securities at fair value. Certain fixed maturity securities are available to support current operations and, accordingly, we classify such investments as current assets without regard to their contractual maturity. Investments used to satisfy contractual, regulatory or other requirements are classified as long-term, without regard to contractual maturity.

If a fixed maturity security is in an unrealized loss position and we have the intent to sell the fixed maturity security, or it is more likely than not that we will have to sell the fixed maturity security before recovery of its amortized cost basis, we write down the fixed maturity security's cost basis to fair value and record an impairment loss in our consolidated statements of income. For impaired fixed maturity securities that we do not intend to sell or if it is more likely than not that we will not have to sell such securities, but we expect that we will not fully recover the amortized cost basis, we recognize the credit component of the impairment as an allowance for credit loss in our consolidated balance sheets and record an impairment loss in our consolidated statements of income. The non-credit component of the impairment is recognized in accumulated other comprehensive (loss) income. Furthermore, unrealized losses entirely caused by non-credit-related factors related to fixed maturity securities for which we expect to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive (loss) income.

The credit component of an impairment is determined primarily by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed maturity security. The net present value is calculated by discounting our best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security at the date of purchase. For mortgage-backed and asset-backed securities, cash flow estimates are based on assumptions regarding the underlying collateral, including prepayment speeds, vintage, type of underlying asset, geographic concentrations, default rates, recoveries and changes in value. For all other securities, cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings and estimates regarding timing and amount of recoveries associated with a default.

For asset-backed securities included in fixed maturity securities, we recognize income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the purchase date of the securities. Such adjustments are reported within net investment income.

The changes in fair value of our marketable equity securities are recognized in our results of operations within net realized gains and losses on financial instruments. Certain marketable equity securities are held to satisfy contractual obligations, and are reported under the caption "Other invested assets" in our consolidated balance sheets.

We have corporate-owned life insurance policies on certain participants in our deferred compensation plans and other members of management. The cash surrender value of the corporate-owned life insurance policies is reported under the caption "Other invested assets" in our consolidated balance sheets.

We use the equity method of accounting for investments in companies in which our ownership interest may enable us to influence the operating or financial decisions of the investee company. Our proportionate share of equity in net income of these unconsolidated affiliates is reported within net investment income. The equity method investments are reported under the caption "Other invested assets" in our consolidated balance sheets.

Investment income is recorded when earned. 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.

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. We recognize the collateral as an asset, which is reported under the caption “Other current assets” in our consolidated balance sheets, and we record a corresponding liability for the obligation to return the collateral to the borrower, which is reported under the caption “Other current liabilities” in our consolidated balance sheets. The securities on loan are reported in the applicable investment category on our consolidated balance sheets. Unrealized gains or losses on securities lending collateral are included in accumulated other comprehensive (loss) income as a separate component of shareholders’ equity. 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. Secondarily, the 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.

Receivables: Receivables are reported net of amounts for expected credit losses. The allowance for doubtful accounts is based on historical collection trends, future forecasts and our judgment regarding the ability to collect specific accounts.

Premium receivables include the uncollected amounts from insured groups, individuals and government programs. Premium receivables are reported net of an allowance for doubtful accounts of $141 and $146 at September 30, 2021 and December 31, 2020, respectively.

Self-funded receivables include administrative fees, claims and other amounts due from self-funded customers. Self-funded receivables are reported net of an allowance for doubtful accounts of $49 and $54 at September 30, 2021 and December 31, 2020, respectively.

Other receivables include pharmacy rebates, provider advances, claims recoveries, reinsurance receivables, proceeds due from brokers on investment trades, accrued investment income, and other miscellaneous amounts due to us. These receivables are reported net of an allowance for doubtful accounts of $550 and $374 at September 30, 2021 and December 31, 2020, respectively.

Revenue Recognition: For our fee-based contracts, we had no material contract assets, contract liabilities or deferred contract costs recorded on our consolidated balance sheet at September 30, 2021. For the three and nine months ended September 30, 2021, 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 January 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2021-01, *Reference Rate Reform (Topic 848)* (“ASU 2021-01”). The amendments in ASU 2021-01 provide optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of the reference rate reform. The provisions must be applied at a Topic, Subtopic, or Industry Subtopic level for all transactions other than derivatives, which may be applied at a hedging relationship level. We adopted ASU 2021-01 on January 7, 2021, and the adoption did not have an impact on our consolidated financial position, results of operations or cash flows.

In October 2020, the FASB issued Accounting Standards Update No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs* (“ASU 2020-08”). The amendments in ASU 2020-08 clarify when an entity should assess whether a callable debt security is within the scope of accounting guidance, which impacts the amortization period for nonrefundable fees and other costs. ASU 2020-08 became effective for interim and annual reporting periods beginning after December 15, 2020. The amendments are to be applied on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. We adopted ASU 2020-08 on January 1, 2021, and the adoption did not have an impact on our consolidated financial position, results of operations or cash flows.

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The amendments in ASU 2019-12 remove certain exceptions to the general principles in Accounting Standards Codification Topic 740. The amendments also clarify and amend existing guidance to improve consistent application. The amendments became effective for our annual reporting periods beginning after December 15, 2020. The transition method (retrospective, modified retrospective, or prospective basis) related to the amendments depends on the applicable guidance, and all amendments for which there is no transition guidance specified are to be applied on a prospective basis. We adopted ASU 2019-12 on January 1, 2021, and the adoption did not have an impact on our consolidated financial position, results of operations or cash flows.

Recent Accounting Guidance Not Yet Adopted: In November 2020, the FASB issued Accounting Standards Update No. 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* ("ASU 2020-11"). The amendments in ASU 2020-11 make changes to the effective date and early application of Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* ("ASU 2018-12"), which was issued in November 2018. The amendments in ASU 2020-11 have extended the original effective date by one year, and now the amendments are required for our interim and annual reporting periods beginning after December 15, 2022. 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 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 2020-11 and ASU 2018-12 will have on our consolidated financial position, results of operations, cash flows, and related disclosures.

In August 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). The amendments eliminate two of the three accounting models that require separate accounting for convertible features of debt securities, simplify the contract settlement assessment for equity classification, require the use of the if-converted method for all convertible instruments in the diluted earnings per share calculation and expand disclosure requirements. The amendments are effective for our annual and interim reporting periods beginning after December 15, 2021, with early adoption permitted for reporting periods beginning after December 15, 2020. The guidance can be applied on a full retrospective basis to all periods presented or a modified retrospective basis with a cumulative effect adjustment to the opening balance of retained earnings during the period of adoption. We are currently evaluating the effects the adoption of ASU 2020-06 will have on our consolidated financial statements and disclosures.

There were no other new accounting pronouncements that were issued or became effective since the issuance of our 2020 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

MMM Holdings, LLC and Affiliates

On June 29, 2021, we completed our acquisition of MMM Holdings, LLC ("MMM"), and its Medicare Advantage plan, Medicaid plan and other affiliated companies from InnovaCare Health, L.P. MMM is a Puerto Rico-based integrated healthcare organization and seeks to provide its Medicare Advantage and Medicaid members with a whole health experience through its network of specialized clinics and wholly owned independent physician associations. This acquisition aligns with our vision to be an innovative, valuable and inclusive healthcare partner by providing care management programs that improve the lives of the people we serve.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the fair value of MMM's assets acquired and liabilities assumed, including identifiable intangible assets. The excess of consideration transferred over the fair value of net assets acquired resulted in preliminary goodwill of $1,956 at September 30, 2021, all of which was allocated to our Government Business segment. Preliminary goodwill recognized from the acquisition of MMM primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions and strategy. As of September 30, 2021, the initial accounting for the acquisition had not been finalized. Any additional payments or receipts of cash resulting from contractual purchase price adjustments or any subsequent adjustments made to the assets acquired or liabilities assumed during the measurement period will continue to be recorded as an adjustment to goodwill.

The preliminary fair value of the net assets acquired from MMM includes $1,313 of other intangible assets at September 30, 2021, which primarily consists of member relationships with amortization periods ranging from 12 to 15 years. The results of operations of MMM are included in our consolidated financial statements within our Government Business segment for the period following June 29, 2021. The proforma effects of this acquisition for prior periods were not material to our consolidated results of operations.

myNEXUS, Inc.

On April 28, 2021, we completed our acquisition of myNEXUS, Inc. ("myNEXUS") from WindRose Health Investors, a comprehensive home-based nursing management company for payors. At the time of acquisition, myNEXUS delivered integrated clinical support services for Medicare Advantage members across twenty states. This acquisition aligns with our strategy to manage integrated, whole person multi-site care and support, by providing national, large-scale expertise to manage nursing services in the home and facilitate transitions of care.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the fair value of myNEXUS' assets acquired and liabilities assumed, including identifiable intangible assets. The excess of consideration transferred over the fair value of net assets acquired resulted in preliminary goodwill of $520 at September 30, 2021, all of which was allocated to our Other segment. Preliminary goodwill recognized from the acquisition of myNEXUS primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions and strategy. As of September 30, 2021, the initial accounting for the acquisition has not been finalized. Any additional payments or receipts of cash resulting from contractual purchase price adjustments or any subsequent adjustments made to the assets acquired or liabilities assumed during the measurement period will continue to be recorded as an adjustment to goodwill.

The preliminary fair value of the net assets acquired from myNEXUS includes $284 of other intangible assets at September 30, 2021, which primarily consist of finite-lived customer relationships with amortization periods of 15 years. The results of operations of myNEXUS are included in our consolidated financial statements within our Other segment for the period following April 28, 2021. The proforma effects of this acquisition for prior periods were not material to our consolidated results of operations.

Beacon Health Options, Inc.

On February 28, 2020, we completed our acquisition of Beacon Health Options, Inc. ("Beacon"), which was the largest independently held behavioral health organization in the country. At the time of acquisition, Beacon served more than thirty-four million individuals across all fifty states. This acquisition aligned with our strategy to diversify into health services and deliver both integrated solutions and care delivery models that personalize care for people with complex and chronic conditions.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the fair value of Beacon'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 preliminary goodwill of $1,072 at December 31, 2020, all of which was allocated to our Other segment. Preliminary goodwill recognized from the acquisition of Beacon primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions and strategy. Goodwill was adjusted by $9 through the end of the measurement period in February 2021 related to finalization of income tax considerations, resulting in final goodwill of $1,081 as of September 30, 2021.

The fair value of the net assets acquired from Beacon includes $752 of other intangible assets at September 30, 2021, which primarily consist of finite-lived customer relationships with amortization periods ranging from 8 to 25 years. The results of operations of Beacon are included in our consolidated financial statements within our Other segment for the period following February 28, 2020. The proforma effects of this acquisition for prior periods were not material to our consolidated results of operations.

4. Business Optimization Initiatives

During the third quarter of 2020, management introduced enterprise-wide initiatives to optimize our business, including process automation and a reduction in our office space footprint and, as a result, we recognized a liability in 2020 for future payments for employee termination costs in connection with the repositioning and reskilling of our workforce. We believe these initiatives largely represent the next step forward in our progression towards becoming a more agile organization.

A summary of the activity related to the liability for the employee termination costs during the nine months ended September 30, 2021, by reportable segment, is as follows:

	Commercial & Specialty Business	Government Business	IngenioRx	Other	Total
2020 Business Optimization Initiatives					
Employee termination costs:					
Liability for employee termination costs at January 1, 2021	$ 92	$ 88	$ 1	$ 6	$ 187
Payments	(21)	(20)	—	(2)	(43)
Liability for employee termination costs at September 30, 2021	$ 71	$ 68	$ 1	$ 4	$ 144

5. Investments

Fixed Maturity Securities

We evaluate our available-for-sale fixed maturity securities for declines based on qualitative and quantitative factors. We have established an allowance for credit loss and recorded credit loss expense as a reflection of our expected impairment losses. 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 declines in fair value may occur and additional material impairment losses on investments may be recorded in future periods.

A summary of current and long-term fixed maturity securities, available-for-sale, at September 30, 2021 and December 31, 2020 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Allowance For Credit Losses	Estimated Fair Value	Non-Credit Component of Impairment Recognized in Accumulated Other Comprehensive (Loss) Income
			Less than 12 Months	12 Months or Greater			
September 30, 2021							
Fixed maturity securities:							
United States Government securities	$ 1,259	$ 6	$ (8)	$ (4)	$ —	$ 1,253	$ —
Government sponsored securities	55	4	—	—	—	59	—
Foreign government securities	346	7	(7)	(2)	—	344	—
States, municipalities and political subdivisions	5,231	319	(6)	(1)	—	5,543	—
Corporate securities	12,118	509	(38)	(11)	(4)	12,574	(1)
Residential mortgage-backed securities	4,224	108	(13)	(7)	(2)	4,310	—
Commercial mortgage-backed securities	66	2	—	(3)	—	65	—
Other securities	2,802	31	(3)	(5)	—	2,825	—
Total fixed maturity securities	$ 26,101	$ 986	$ (75)	$ (33)	$ (6)	$ 26,973	$ (1)
December 31, 2020							
Fixed maturity securities:							
United States Government securities	$ 765	$ 11	$ (2)	$ —	$ —	$ 774	$ —
Government sponsored securities	63	6	—	—	—	69	—
Foreign government securities	290	17	(2)	—	—	305	—
States, municipalities and political subdivisions	5,185	395	(1)	—	—	5,579	—
Corporate securities	10,233	697	(20)	(11)	(7)	10,892	(1)
Residential mortgage-backed securities	4,208	154	(8)	(9)	—	4,345	(2)
Commercial mortgage-backed securities	73	3	(1)	(3)	—	72	—
Other securities	1,937	33	(5)	(6)	—	1,959	—
Total fixed maturity securities	$ 22,754	$ 1,316	$ (39)	$ (29)	$ (7)	$ 23,995	$ (3)

For fixed maturity securities in an unrealized loss position at September 30, 2021 and December 31, 2020, 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:

	Less than 12 Months			12 Months or Greater		
(Securities are whole amounts)	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss
September 30, 2021						
Fixed maturity securities:						
United States Government securities	62	$ 702	$ (8)	17	$ 141	$ (4)
Government sponsored securities	1	1	—	—	—	—
Foreign government securities	191	155	(7)	22	10	(2)
States, municipalities and political subdivisions	254	516	(6)	4	11	(1)
Corporate securities	1,478	2,321	(38)	225	273	(11)
Residential mortgage-backed securities	418	1,430	(13)	101	108	(7)
Commercial mortgage-backed securities	1	1	—	4	7	(3)
Other securities	255	720	(3)	53	110	(5)
Total fixed maturity securities	2,660	$ 5,846	$ (75)	426	$ 660	$ (33)
December 31, 2020						
Fixed maturity securities:						
United States Government securities	27	$ 301	$ (2)	—	$ —	$ —
Government sponsored securities	—	—	—	1	—	—
Foreign government securities	55	35	(2)	9	4	—
States, municipalities and political subdivisions	36	57	(1)	1	3	—
Corporate securities	646	765	(20)	150	169	(11)
Residential mortgage-backed securities	224	442	(8)	90	110	(9)
Commercial mortgage-backed securities	6	16	(1)	3	4	(3)
Other securities	207	509	(5)	79	179	(6)
Total fixed maturity securities	1,201	$ 2,125	$ (39)	333	$ 469	$ (29)

Below are discussions by security type for unrealized losses and credit losses as of September 30, 2021:

Corporate securities: An allowance for credit losses on certain retail, travel and entertainment and energy sector fixed maturity corporate securities has been determined based on qualitative and quantitative factors including credit rating, decline in fair value and industry condition along with other available market data. With multiple risk factors present, these securities were reviewed for expected future cash flow to determine the portion of unrealized losses that were credit related and to record an allowance for credit losses. Unrealized losses on our other corporate securities were largely due to market conditions relating to the COVID-19 pandemic; however, qualitative factors did not indicate a credit loss as of September 30, 2021. We do not intend to sell these investments and it is likely we will not have to sell these investments prior to maturity or recovery of amortized cost.

Residential mortgage-backed securities: An allowance for credit loss was established on certain residential mortgage-backed securities. Notification of maturity and coupon default, as well as a significant and sustained decline in fair value, were factors to indicate a credit loss. No other mortgage securities had material unrealized losses or qualitative factors to indicate a credit loss. We do not intend to sell these investments and it is likely we will not be required to sell these investments prior to maturity or recovery of amortized cost.

As for the remaining securities shown in the table above, unrealized losses on these securities have not been recognized into income because we do not intend to sell these investments and it is likely that we will not be required to sell these investments prior to their anticipated recovery. The decline in fair value is largely due to changes in interest rates and other market conditions. We have evaluated these securities for any change in credit rating and have determined that no allowance is necessary. The fair value is expected to recover as the securities approach maturity.

The table below presents a roll-forward by major security type of the allowance for credit losses on fixed maturity securities available-for-sale held at period end for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30, 2021			Nine Months Ended September 30, 2021		
	Corporate Securities	Residential mortgage-backed securities	Total	Corporate Securities	Residential mortgage-backed securities	Total
Allowance for credit losses:						
Beginning balance	$ 4	$ 2	$ 6	$ 7	$ —	$ 7
Additions for securities for which no previous expected credit losses were recognized	—	—	—	1	—	1
Securities sold during the period	—	—	—	(2)	—	(2)
(Decreases) increases to the allowance for credit losses on securities	—	—	—	(2)	2	—
Total allowance for credit losses, ending balance	$ 4	$ 2	$ 6	$ 4	$ 2	$ 6

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	Corporate Securities	Foreign Government Securities	Total	Corporate Securities	Foreign Government Securities	Total
Allowance for credit losses:						
Beginning balance	$ 23	$ 1	$ 24	$ —	$ —	$ —
Additions for securities for which no previous expected credit losses were recognized	1	—	1	61	1	62
Securities sold during the period	(5)	—	(5)	(13)	—	(13)
Decreases to the allowance for credit losses on securities	(8)	—	(8)	(37)	—	(37)
Total allowance for credit losses, ending balance	$ 11	$ 1	$ 12	$ 11	$ 1	$ 12

The amortized cost and fair value of fixed maturity securities at September 30, 2021, 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	$ 770	$ 774
Due after one year through five years	6,599	6,821
Due after five years through ten years	8,682	8,948
Due after ten years	5,760	6,055
Mortgage-backed securities	4,290	4,375
Total fixed maturity securities	$ 26,101	$ 26,973

Proceeds from sales, maturities, calls or redemptions of fixed maturity securities during the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Proceeds	$ 2,620	$ 4,597	$ 8,570	$ 9,146

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 marketable equity securities at September 30, 2021 and December 31, 2020 is as follows:

	September 30, 2021	December 31, 2020
Equity securities:		
Exchange traded funds	$ 1,941	$ 1,154
Fixed maturity mutual funds	—	144
Common equity securities	94	201
Private equity securities	84	60
Total	$ 2,119	$ 1,559

Other Invested Assets

Other invested assets include primarily our investments in limited partnerships, joint ventures and other non-controlled corporations, as well as the cash surrender value of corporate-owned life insurance policies. Investments in limited partnerships, joint ventures and other non-controlled corporations are carried at our share in the entities' undistributed earnings, which approximates fair value. Financial information for certain of these investments are reported on a one or three month lag due to the timing of when we receive financial information from the companies.

Investment Gains and Losses

Net realized investment (losses) gains on investments for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Net realized (losses) gains:				
Fixed maturity securities:				
Gross realized gains from sales	$ 30	$ 52	$ 133	$ 131
Gross realized losses from sales	(8)	(14)	(32)	(84)
Impairment recoveries (losses) recognized in income	—	11	1	(13)
Net realized gains from sales of fixed maturity securities	22	49	102	34
Equity securities:				
Gross realized gains	10	207	32	260
Gross realized losses	(15)	(19)	(85)	(77)
Net realized (losses) gains on equity securities	(5)	188	(53)	183
Other invested assets:				
Realized (losses) gains	(91)	10	4	17
Impairment recoveries (losses) recognized in income	1	(16)	(5)	(51)
Net realized losses from sales of other investments	(90)	(6)	(1)	(34)
Net realized (losses) gains on investments	$ (73)	$ 231	$ 48	$ 183

The gains and losses related to equity securities for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Net realized (losses) gains recognized on equity securities	$ (5)	$ 188	$ (53)	$ 183
Less: Net realized (losses) gains recognized on equity securities sold during the period	(1)	13	(57)	20
Unrealized (losses) gains recognized on equity securities still held at the end of the period	$ (4)	$ 175	$ 4	$ 163

Accrued Investment Income

At September 30, 2021 and December 31, 2020, accrued investment income totaled $197 and $188, respectively. We recognize accrued investment income under the caption “Other receivables” on our consolidated balance sheets.

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 $2,229 and $1,199 at September 30, 2021 and December 31, 2020, respectively. The value of the collateral represented 102% of the market value of the securities on loan at each of September 30, 2021 and December 31, 2020. We recognize the collateral as an asset under the caption “Other current assets” in our consolidated balance sheets, and we recognize a corresponding liability for the obligation to return the collateral to the borrower under the caption “Other current liabilities.” 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 September 30, 2021 is as follows:

	Overnight and Continuous
Securities lending collateral	
Cash	$ 2,028
United States Government securities	200
Other securities	1
Total	$ 2,229

6. 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 LIBOR. Any amounts recognized for changes in fair value of these derivatives are included in the captions “Other current assets,” or “Other noncurrent assets,” or “Other current liabilities” or “Other noncurrent liabilities” in our consolidated balance sheets.

We have previously 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 future financings that were anticipated at the time of entering into the swaps.

The unrecognized loss for all expired and terminated cash flow hedges included in accumulated other comprehensive (loss) income, net of tax, was $240 and $250 at September 30, 2021 and December 31, 2020, respectively.

During the three and nine months ended September 30, 2021, we recognized net realized gains on non-hedging derivatives of $12 and $59, respectively. During the three and nine months ended September 30, 2020, we recognized net realized losses on non-hedging derivatives of $2 and $6, respectively.

For additional information relating to the fair value of our derivative assets and liabilities, see Note 7, “Fair Value,” of this Form 10-Q.

7. 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 corporate securities, securities from states, municipalities and political subdivisions, mortgage-backed securities, United States Government securities, foreign government 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.

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.

A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis at September 30, 2021 and December 31, 2020 is as follows:

	Level I	Level II	Level III	Total
September 30, 2021				
Assets:				
Cash equivalents	$ 2,527	$ —	$ —	$ 2,527
Fixed maturity securities, available-for-sale:				
United States Government securities	—	1,253	—	1,253
Government sponsored securities	—	59	—	59
Foreign government securities	—	344	—	344
States, municipalities and political subdivisions, tax-exempt	—	5,543	—	5,543
Corporate securities	—	12,240	334	12,574
Residential mortgage-backed securities	—	4,309	1	4,310
Commercial mortgage-backed securities	—	65	—	65
Other securities	—	2,823	2	2,825
Total fixed maturity securities, available-for-sale	—	26,636	337	26,973
Equity securities:				
Exchange traded funds	1,941	—	—	1,941
Common equity securities	15	79	—	94
Private equity securities	—	—	84	84
Total equity securities	1,956	79	84	2,119
Other invested assets - common equity securities	154	—	—	154
Securities lending collateral	—	2,229	—	2,229
Derivatives	—	116	—	116
Total assets	$ 4,637	$ 29,060	$ 421	$ 34,118
Liabilities:				
Derivatives	$ —	$ (40)	$ —	$ (40)
Total liabilities	$ —	$ (40)	$ —	$ (40)
December 31, 2020				
Assets:				
Cash equivalents	$ 3,163	$ —	$ —	$ 3,163
Fixed maturity securities, available-for-sale:				
United States Government securities	—	774	—	774
Government sponsored securities	—	69	—	69
Foreign government securities	—	305	—	305
States, municipalities and political subdivisions, tax-exempt	—	5,579	—	5,579
Corporate securities	—	10,567	325	10,892
Residential mortgage-backed securities	—	4,343	2	4,345
Commercial mortgage-backed securities	—	72	—	72
Other securities	—	1,954	5	1,959
Total fixed maturity securities, available-for-sale	—	23,663	332	23,995
Equity securities:				
Exchange traded funds	1,154	—	—	1,154
Fixed maturity mutual funds	—	144	—	144
Common equity securities	171	30	—	201
Private equity securities	—	—	60	60
Total equity securities	1,325	174	60	1,559
Securities lending collateral	—	1,199	—	1,199
Derivatives	—	43	—	43
Total assets	$ 4,488	$ 25,079	$ 392	$ 29,959
Liabilities:				
Derivatives	$ —	$ (5)	$ —	$ (5)
Total liabilities	$ —	$ (5)	$ —	$ (5)

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the three months ended September 30, 2021 and 2020 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Other Securities	Equity Securities	Total
Three Months Ended September 30, 2021					
Beginning balance at July 1, 2021	$ 351	$ 2	$ 7	$ 77	$ 437
Total gains (losses):					
Recognized in net income	1	—	—	5	6
Recognized in accumulated other comprehensive (loss) income	(1)	—	—	—	(1)
Purchases	34	—	—	3	37
Sales	—	—	—	(1)	(1)
Settlements	(47)	—	—	—	(47)
Transfers out of Level III	(4)	(1)	(5)	—	(10)
Ending balance at September 30, 2021	$ 334	$ 1	$ 2	$ 84	$ 421
Change in unrealized losses included in net income related to assets still held at September 30, 2021	$ —	$ —	$ —	$ 5	$ 5
Three Months Ended September 30, 2020					
Beginning balance at July 1, 2020	$ 314	$ 2	$ 5	$ 62	$ 383
Total (losses) gains:					
Recognized in net income	(1)	—	—	(3)	(4)
Recognized in accumulated other comprehensive (loss) income	14	—	—	—	14
Purchases	5	—	—	2	7
Sales	(5)	—	—	—	(5)
Settlements	(14)	—	—	—	(14)
Ending balance at September 30, 2020	$ 313	$ 2	$ 5	$ 61	$ 381
Change in unrealized losses included in net income related to assets still held at September 30, 2020	$ —	$ —	$ —	$ (3)	$ (3)

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the nine months ended September 30, 2021 and 2020 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Other Securities	Equity Securities	Total
Nine Months Ended September 30, 2021					
Beginning balance at January 1, 2021	$ 325	$ 2	$ 5	$ 60	$ 392
Total gains:					
Recognized in net income	2	—	—	17	19
Recognized in accumulated other comprehensive (loss) income	4	—	—	—	4
Purchases	135	—	—	11	146
Sales	(12)	—	—	(4)	(16)
Settlements	(118)	—	(1)	—	(119)
Transfers out of Level III	(2)	(1)	(2)	—	(5)
Ending balance at September 30, 2021	$ 334	$ 1	$ 2	$ 84	$ 421
Change in unrealized losses included in net income related to assets still held at September 30, 2021	$ —	$ —	$ —	$ 17	$ 17
Nine Months Ended September 30, 2020					
Beginning balance at January 1, 2020	$ 303	$ 2	$ 7	$ 85	$ 397
Total losses:					
Recognized in net income	(2)	—	—	(19)	(21)
Recognized in accumulated other comprehensive (loss) income	(3)	—	—	—	(3)
Purchases	44	—	—	17	61
Sales	(9)	—	—	(22)	(31)
Settlements	(33)	—	(2)	—	(35)
Transfers into Level III	13	—	—	—	13
Ending balance at September 30, 2020	$ 313	$ 2	$ 5	$ 61	$ 381
Change in unrealized losses included in net income related to assets still held at September 30, 2020	$ —	$ —	$ —	$ (20)	$ (20)

There were no individually material transfers into or out of Level III during the three and nine months ended September 30, 2021 or 2020.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. As disclosed in Note 3, “Business Acquisitions,” we completed our acquisitions of myNEXUS and MMM during the second quarter of 2021, as well as our acquisition of Beacon during the first quarter of 2020. The net assets acquired in our acquisitions of myNEXUS, MMM and Beacon and resulting goodwill and other intangible assets were recorded at fair value primarily using Level III inputs. The majority of assets acquired and liabilities assumed were recorded at their carrying values as of the respective date of acquisition, as their carrying values approximated their fair values due to their short-term nature. The fair values of goodwill and other intangible assets acquired in our acquisitions of myNEXUS, MMM and Beacon were internally estimated based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets could be expected to generate in the future. We developed internal estimates for the expected cash flows and discount rate in the present value calculation. Other than the assets acquired and liabilities assumed in our acquisitions of myNEXUS, MMM and Beacon described above, there were no material assets or liabilities measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2021 or 2020.

Our valuation policy is determined by members of our treasury and accounting departments. Whenever possible, our policy is to obtain quoted market prices in active markets to estimate fair values for recognition and disclosure purposes. Where quoted market prices in active markets are not available, fair values are estimated using discounted cash flow analyses, broker quotes, unobservable inputs or other valuation techniques. These techniques are significantly affected by our assumptions, including discount rates and estimates of future cash flows. The use of assumptions for unobservable inputs for the determination of fair value involves a level of judgment and uncertainty. Changes in assumptions that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value. Changes in fair value measurements, if significant, may affect performance of cash flows.

Potential taxes and other transaction costs are not considered in estimating fair values. Our valuation policy is generally to obtain quoted prices for each security from third-party pricing services, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. As we are responsible for the determination of fair value, we perform analysis on the prices received from the pricing services to determine whether the prices are reasonable estimates of fair value. This analysis is performed by our internal treasury personnel who are familiar with our investment portfolios, the pricing services engaged and the valuation techniques and inputs used. Our analysis includes procedures such as a review of month-to-month price fluctuations and price comparisons to secondary pricing services. There were no adjustments to quoted market prices obtained from the pricing services during the three and nine months ended September 30, 2021 or 2020.

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB guidance also requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in our consolidated balance sheets.

Non-financial instruments such as real estate, property and equipment, other current or noncurrent assets, deferred income taxes, intangible assets and certain financial instruments, such as policy liabilities, are excluded from the fair value disclosures. Therefore, the fair value amounts cannot be aggregated to determine our underlying economic value.

The carrying amounts for cash, premium receivables, self-funded receivables, other receivables, unearned income, accounts payable and accrued expenses, and certain other current liabilities approximate fair value because of the short-term nature of these items. These assets and liabilities are not listed in the table below.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument that is recorded at its carrying value in our consolidated balance sheets:

Other invested assets: Other invested assets include primarily our investments in limited partnerships, joint ventures and other non-controlled corporations, as well as the cash surrender value of corporate-owned life insurance policies. Investments in limited partnerships, joint ventures and other non-controlled corporations are carried at our share in the entities' undistributed earnings, which approximates fair value. The carrying value of corporate-owned life insurance policies represents the cash surrender value as reported by the respective insurer, which approximates fair value.

Short-term borrowings: The fair value of our short-term borrowings is based on quoted market prices for the same or similar debt, or, if no quoted market prices were available, on the current market interest rates estimated to be available to us for debt of similar terms and remaining maturities.

Long-term debt – commercial paper: The carrying amount for commercial paper approximates fair value, as the underlying instruments have variable interest rates at market value.

Long-term debt – senior unsecured notes and surplus notes: The fair values of our notes are based on quoted market prices in active markets for the same or similar debt, or, if no quoted market prices are available, on the current market observable rates estimated to be available to us for debt of similar terms and remaining maturities.

Long-term debt – convertible debentures: The fair value of our convertible debentures is based on the quoted market price in the active private market in which the convertible debentures trade.

A summary of the estimated fair values by level of each class of financial instrument that is recorded at its carrying value on our consolidated balance sheets at September 30, 2021 and December 31, 2020 is as follows:

	Carrying Value	Estimated Fair Value			
		Level I	Level II	Level III	Total
September 30, 2021					
Assets:					
Other invested assets	$ 4,805	$ —	$ —	$ 4,805	$ 4,805
Liabilities:					
Debt:					
Short-term borrowings	175	—	175	—	175
Commercial paper	100	—	100	—	100
Notes	22,433	—	25,188	—	25,188
Convertible debentures	77	—	596	—	596
December 31, 2020					
Assets:					
Other invested assets	$ 4,285	$ —	$ —	$ 4,285	$ 4,285
Liabilities:					
Debt:					
Commercial paper	250	—	250	—	250
Notes	19,677	—	23,307	—	23,307
Convertible debentures	108	—	712	—	712

8. Income Taxes

During the three months ended September 30, 2021 and 2020, we recognized income tax expense of $494 and $167, respectively, which represent effective income tax rates of 24.7% and 42.9%, respectively. The decrease in our effective income tax rate was primarily due to the repeal of the non-tax deductible Health Insurance Provider Fee, or HIP Fee, for years after 2020, applied to our quarterly results, which in 2020, included the impact of expenses for business optimization initiatives and the BCBSA litigation accrual recognized during the three months ended September 30, 2020.

During the nine months ended September 30, 2021 and 2020, we recognized income tax expense of $1,555 and $1,606, respectively, which represent effective income tax rates of 23.8% and 28.5%, respectively. The decrease in our effective income tax rate was primarily due to the repeal of the non-tax deductible HIP Fee for years after 2020.

Income taxes receivable totaled $95 and $262 at September 30, 2021 and December 31, 2020, respectively. We recognize the income tax receivable as an asset under the caption “Other current assets” in our consolidated balance sheets.

9. Medical Claims Payable

A reconciliation of the beginning and ending balances for medical claims payable, by segment (see Note 15, "Segment Information"), for the nine months ended September 30, 2021 is as follows:

	Commercial & Specialty Business	Government Business	Other	Total
Gross medical claims payable, beginning of period	$ 3,294	$ 7,646	$ 195	$ 11,135
Ceded medical claims payable, beginning of period	(13)	(33)	—	(46)
Net medical claims payable, beginning of period	3,281	7,613	195	11,089
Business combinations and purchase adjustments	—	375	45	420
Net incurred medical claims:				
Current period	20,499	52,422	1,176	74,097
Prior periods redundancies	(496)	(1,309)	(17)	(1,822)
Total net incurred medical claims	20,003	51,113	1,159	72,275
Net payments attributable to:				
Current period medical claims	16,985	44,160	978	62,123
Prior periods medical claims	2,450	5,781	169	8,400
Total net payments	19,435	49,941	1,147	70,523
Net medical claims payable, end of period	3,849	9,160	252	13,261
Ceded medical claims payable, end of period	15	23	—	38
Gross medical claims payable, end of period	$ 3,864	$ 9,183	$ 252	$ 13,299

At September 30, 2021, the total of net incurred but not reported liabilities plus expected development on reported claims for the Commercial & Specialty Business was $52, $283 and $3,514 for the claim years 2019 and prior, 2020 and 2021, respectively.

At September 30, 2021, the total of net incurred but not reported liabilities plus expected development on reported claims for the Government Business was $79, $444 and $8,637 for the claim years 2019 and prior, 2020 and 2021, respectively.

At September 30, 2021, the total of net incurred but not reported liabilities plus expected development on reported claims for Other was $0, $9 and $243 for the claim years 2019 and prior, 2020 and 2021, respectively.

A reconciliation of the beginning and ending balances for medical claims payable, by segment (see Note 15, "Segment Information"), for the nine months ended September 30, 2020 is as follows:

	Commercial & Specialty Business	Government Business	Other	Total
Gross medical claims payable, beginning of period	$ 3,039	$ 5,608	$ —	$ 8,647
Ceded medical claims payable, beginning of period	(14)	(19)	—	(33)
Net medical claims payable, beginning of period	3,025	5,589	—	8,614
Business combinations and purchase adjustments	—	141	198	339
Net incurred medical claims:				
Current period	17,964	43,135	878	61,977
Prior periods redundancies	(379)	(321)	—	(700)
Total net incurred medical claims	17,585	42,814	878	61,277
Net payments attributable to:				
Current period medical claims	15,319	36,680	880	52,879
Prior periods medical claims	2,426	5,063	—	7,489
Total net payments	17,745	41,743	880	60,368
Net medical claims payable, end of period	2,865	6,801	196	9,862
Ceded medical claims payable, end of period	102	27	—	129
Gross medical claims payable, end of period	$ 2,967	$ 6,828	$ 196	$ 9,991

The favorable development recognized in the nine months ended September 30, 2021 and 2020 resulted primarily from trend factors in late 2020 and late 2019, respectively, developing more favorably than originally expected. Favorable development in the completion factors resulting from the latter parts of 2020 and 2019, respectively, developing faster than expected also contributed to the favorability. The impact from COVID-19 on healthcare utilization and medical claims submission patterns continues to provide increased estimation uncertainty on our incurred but not reported liability at September 30, 2021.

The reconciliation of net incurred medical claims to benefit expense included in our consolidated statements of income for periods in 2021 is as follows:

	Three Months Ended			Nine Months Ended
	March 31, 2021	June 30, 2021	September 30, 2021	September 30, 2021
Net incurred medical claims:				
Commercial & Specialty Business	$ 6,072	$ 6,718	$ 7,213	$ 20,003
Government Business	16,319	16,723	18,071	51,113
Other	336	403	420	1,159
Total net incurred medical claims	22,727	23,844	25,704	72,275
Quality improvement and other claims expense	972	919	941	2,832
Benefit expense	$ 23,699	$ 24,763	$ 26,645	$ 75,107

The reconciliation of net incurred medical claims to benefit expense included in our consolidated statements of income for periods in 2020 is as follows:

	Three Months Ended			Nine Months Ended
	March 31, 2020	June 30, 2020	September 30, 2020	September 30, 2020
Net incurred medical claims:				
Commercial & Specialty Business	$ 5,797	$ 5,147	$ 6,641	$ 17,585
Government Business	14,603	13,233	14,978	42,814
Other	130	368	380	878
Total net incurred medical claims	20,530	18,748	21,999	61,277
Quality improvement and other claims expense	959	799	922	2,680
Benefit expense	$ 21,489	$ 19,547	$ 22,921	$ 63,957

The reconciliation of the medical claims payable reflected in the tables above to the consolidated ending balance for medical claims payable included in the consolidated balance sheet, as of September 30, 2021, is as follows:

	Commercial & Specialty Business	Government Business	Other	Total
Net medical claims payable, end of period	$ 3,849	$ 9,160	$ 252	$ 13,261
Ceded medical claims payable, end of period	15	23	—	38
Insurance lines other than short duration	—	263	—	263
Gross medical claims payable, end of period	$ 3,864	$ 9,446	$ 252	$ 13,562

10. Debt

We generally issue senior unsecured notes for long-term borrowing purposes. At September 30, 2021 and December 31, 2020, we had $22,408 and $19,652, respectively, outstanding under these notes.

On May 15, 2021, we redeemed the $700 outstanding principal balance of our 3.700% Notes due August 15, 2021 at a redemption price equal to 100% of the aggregate principal amount of the notes being redeemed, plus accrued and unpaid interest.

On March 17, 2021, we issued $500 aggregate principal amount of 0.450% Notes due 2023 (the "2023 Notes"), $750 aggregate principal amount of 1.500% Notes due 2026 (the "2026 Notes"), $1,000 aggregate principal amount of 2.550% Notes due 2031 (the "2031 Notes") and $1,250 aggregate principal amount of 3.600% Notes due 2051 (the "2051 Notes") under our shelf registration statement. Interest on the 2023 Notes, 2026 Notes, 2031 Notes and 2051 Notes is payable semi-annually in arrears on March 15 and September 15 of each year, commencing September 15, 2021. We used the net proceeds for working capital and general corporate purposes, including, but not limited to, the funding of acquisitions, repayment of short-term and long-term debt and the repurchase of our common stock pursuant to our share repurchase program.

We have an unsecured surplus note with an outstanding principal balance of $25 at both September 30, 2021 and December 31, 2020.

We have a senior revolving credit facility (the "5-Year Facility") with a group of lenders for general corporate purposes. The 5-Year Facility provides credit up to $2,500 and matures in June 2024. On June 3, 2021, we terminated our 364-day senior revolving credit facility (the "prior 364-Day Facility"), which was scheduled to mature in June 2021, and entered into a new 364-day senior revolving credit facility (the "new 364-Day Facility" and together with the 5-Year Facility, the "Credit Facilities") with a group of lenders for general corporate purposes. The new 364-Day Facility provides for credit in the amount of $1,000 and matures in June 2022. Our ability to borrow under these Credit Facilities is subject to compliance with certain covenants, including covenants requiring us to maintain a defined debt-to-capital ratio of not more than 60%, subject to increase in certain circumstances set forth in the applicable credit agreement. As of September 30, 2021, our debt-to-capital ratio, as defined and calculated under the Credit Facilities, was 38.9%. We do not believe the restrictions contained in the covenants under our Credit Facilities materially affect our financial or operating flexibility. As of September 30, 2021, we were in compliance with all of the debt covenants under these Credit Facilities. There were no amounts outstanding under the prior 364-Day Facility or the new 364-Day Facility at any time during the nine months ended September 30, 2021 or the year ended December 31, 2020. At September 30, 2021 and December 31, 2020, there were no amounts outstanding under our 5-Year Facility.

Through certain subsidiaries, we have entered into multiple 364-day lines of credit (the "Subsidiary Credit Facilities") with separate lenders for general corporate purposes. The Subsidiary Credit Facilities provide combined credit of up to $200. At September 30, 2021 and December 31, 2020, there were no amounts outstanding under our Subsidiary Credit Facilities.

We have an authorized commercial paper program of up to $3,500, the proceeds of which may be used for general corporate purposes. At September 30, 2021 and December 31, 2020, we had $100 and $250, respectively, outstanding under this program.

We have outstanding senior unsecured convertible debentures due 2042 (the "Debentures"), which are governed by an indenture (the "indenture") between us and The Bank of New York Mellon Trust Company, N.A., as trustee. We have accounted for the Debentures in accordance with the FASB cash conversion guidance for debt with conversion and other options. As a result, the value of the embedded conversion option (net of deferred taxes and equity issuance costs) has been bifurcated from its debt host and recorded as a component of additional paid-in capital in our consolidated balance sheets. During the three and nine months ended September 30, 2021, $0 and $47, respectively, of aggregate principal amount of the Debentures were surrendered for conversion by certain holders in accordance with the terms and provisions of the indenture. We elected to settle the excess of the principal amount of the conversions with cash for total payments during the three and nine months ended September 30, 2021 of $2 and $254, respectively. We recognized a loss on the extinguishment of debt related to the Debentures of $0 and $5, respectively, for the three and nine months ended September 30, 2021, based on the fair values of the debt on the conversion settlement dates.

The following table summarizes at September 30, 2021 the related balances, conversion rate and conversion price of the Debentures:

Outstanding principal amount	$	112
Unamortized debt discount	$	34
Net debt carrying amount	$	77
Equity component carrying amount	$	41
Conversion rate (shares of common stock per $1,000 of principal amount)		14.1784
Effective conversion price (per $1,000 of principal amount)	$	70.5298

We are a member, through certain subsidiaries, of the Federal Home Loan Bank of Indianapolis, the Federal Home Loan Bank of Cincinnati, the Federal Home Loan Bank of Atlanta and the Federal Home Loan Bank of New York (collectively, the "FHLBs"). As a member, we have the ability to obtain short-term cash advances, subject to certain minimum collateral requirements. We had $175 and $0 of outstanding short-term borrowings from the FHLBs at September 30, 2021 and December 31, 2020, respectively.

All debt is a direct obligation of Anthem, Inc., except for the surplus note, the FHLB borrowings, and the Subsidiary Credit Facilities.

11. Commitments and Contingencies

Litigation and Regulatory Proceedings

In the ordinary course of business, we are defendants in, or parties to, a number of pending or threatened legal actions or proceedings. To the extent a plaintiff or plaintiffs in the following cases have specified in their complaint or in other court filings the amount of damages being sought, we have noted those alleged damages in the descriptions below. With respect to the cases described below, we contest liability and/or the amount of damages in each matter and believe we have meritorious defenses.

Where available information indicates that it is probable that a loss has been incurred as of the date of the consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income. In many proceedings, however, it is difficult to determine whether any loss is probable or reasonably possible. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously identified loss contingency, it is not always possible to reasonably estimate the amount of the possible loss or range of loss.

With respect to many of the proceedings to which we are a party, we cannot provide an estimate of the possible losses, or the range of possible losses in excess of the amount, if any, accrued, for various reasons, including but not limited to some or all of the following: (i) there are novel or unsettled legal issues presented, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or decertified or the ultimate size and scope of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) in many cases, the plaintiffs have not specified damages in their complaint or in court filings. For those legal proceedings where a loss is probable, or reasonably possible, and for which it is possible to reasonably estimate the amount of the possible loss or range of losses, we currently believe that the range of possible losses, in excess of established reserves is, in the aggregate, from $0 to approximately $250 at September 30, 2021. This estimated aggregate range of reasonably possible losses is based upon currently available information taking into account our best estimate of such losses for which such an estimate can be made.

Blue Cross Blue Shield Antitrust Litigation

We are a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA and Blue Cross and/or Blue Shield licensees (the “Blue plans”) across the country. Cases filed in twenty-eight states were consolidated into a single, multi-district proceeding captioned *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama (the “Court”). Generally, the suits allege that the BCBSA and the Blue plans have conspired to horizontally allocate geographic markets through license agreements, best efforts rules that limit the percentage of non-Blue revenue of each plan, restrictions on acquisitions, rules governing the BlueCard® and National Accounts programs and other arrangements in violation of the Sherman Antitrust Act (“Sherman Act”) and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers.

In April 2018, the Court issued an order on the parties' cross motions for partial summary judgment determining that the defendants’ aggregation of geographic market allocations and output restrictions are to be analyzed under a per se standard of review, and the BlueCard® program and other alleged Section 1 Sherman Act violations are to be analyzed under the rule of reason standard of review. The Court also found that there remain genuine issues of material fact as to whether the defendants operate as a single entity with regard to the enforcement of the Blue Cross Blue Shield trademarks. In April 2019, the plaintiffs filed motions for class certification, which defendants opposed.

The BCBSA and Blue plans have entered into a settlement agreement and release (the “Subscriber Settlement Agreement”) with the subscriber plaintiffs. If approved by the Court, the Subscriber Settlement Agreement will require the defendants to make a monetary settlement payment, our portion of which is estimated to be $594, and will contain certain non-monetary terms including (i) eliminating the “national best efforts” rule in the BCBSA license agreements (which rule limits the percentage of non-Blue revenue permitted for each Blue plan) and (ii) allowing for some large national employers with self-funded benefit plans to request a bid for insurance coverage from a second Blue plan in addition to their local Blue plan. As of September 30, 2021, the liability balance accrued for our estimated remaining payment obligation was $507, net of payments made.

In November 2020, the Court issued an order preliminarily approving the Subscriber Settlement Agreement, following which members of the subscriber class were provided notice of the Subscriber Settlement Agreement and an opportunity to opt out of the class. All terms of the Subscriber Settlement Agreement are subject to final approval by the Court. The deadlines for objections to the settlement, as well as the deadline for those who wish to opt out from the settlement, was July 28, 2021 and a small number of subscribers submitted valid opt outs by the deadline. Claims for settlement payments by members of the subscriber class must be filed by November 5, 2021. Final approval briefs in support of the subscriber settlement were filed on September 3, 2021. A final approval hearing is scheduled for October 21, 2021. If the Court grants approval of the Subscriber Settlement Agreement, and after all appellate rights have expired or have been exhausted in a manner that affirms the Court's final order and judgment, the defendants' payment and non-monetary obligations under the Subscriber Settlement Agreement will become effective.

In October 2020, after the Court lifted the stay as to the provider litigation, provider plaintiffs filed a renewed motion for class certification, which defendants opposed. In March 2021, the Court issued an order terminating the pending motion for class certification until the Court determines the standard of review applicable to providers' claims. In May 2021, the defendants and provider plaintiffs filed renewed standard of review motions which are now fully briefed. In June 2021, the parties filed summary judgment motions not critically dependent on class certification, which are now fully briefed. We intend to continue to vigorously defend the provider suit; however, its ultimate outcome cannot be presently determined.

<u>Blue Cross of California Taxation Litigation</u>

In July 2013, our California affiliate Blue Cross of California (doing business as Anthem Blue Cross) ("BCC") was named as a defendant in a California taxpayer action filed in Los Angeles County Superior Court (the "Superior Court") captioned *Michael D. Myers v. State Board of Equalization, et al.* This action was brought under a California statute that permits an individual taxpayer to sue a governmental agency when the taxpayer believes the agency has failed to enforce governing law. Plaintiff contends that BCC, a licensed Health Care Service Plan, is an "insurer" for purposes of taxation despite acknowledging it is not an "insurer" under regulatory law. At the time, under California law, "insurers" were required to pay a gross premiums tax ("GPT") calculated as 2.35% on gross premiums. As a licensed Health Care Service Plan, BCC has paid the California Corporate Franchise Tax ("CFT"), the tax paid by California businesses generally. Plaintiff contends that BCC must pay the GPT rather than the CFT, and seeks a writ of mandate directing the taxing agencies to collect the GPT and an order requiring BCC to pay GPT back taxes, interest, and penalties for the eight-year period prior to the filing of the complaint.

Because the GPT is constitutionally imposed in lieu of certain other taxes, BCC has filed protective tax refund claims with the City of Los Angeles, the California Department of Health Care Services and the Franchise Tax Board to protect its rights to recover certain taxes previously paid should BCC eventually be determined to be subject to the GPT for the tax periods at issue in the litigation.

In March 2018, the Superior Court denied BCC's motion for judgment on the pleadings and similar motions brought by other entities. BCC filed a motion for summary judgment with the Superior Court, which was heard in October 2020. In December 2020, the Superior Court granted BCC's motion for summary judgment, dismissing the plaintiff's lawsuit. Plaintiff has appealed the order granting summary judgment. We estimate that the briefing on the appeal will be complete by the end of 2021 and that oral arguments will be scheduled sometime in 2022. We intend to vigorously defend the appeal of this lawsuit.

<u>Express Scripts, Inc. Pharmacy Benefit Management Litigation</u>

In March 2016, we filed a lawsuit against Express Scripts, Inc. ("Express Scripts"), our vendor at the time for PBM services, captioned *Anthem, Inc. v. Express Scripts, Inc.*, in the U.S. District Court for the Southern District of New York. The lawsuit seeks to recover over $14,800 in damages for pharmacy pricing that is higher than competitive benchmark pricing under the agreement between the parties (the "ESI PBM Agreement"), over $158 in damages related to operational breaches, as well as various declarations under the ESI PBM Agreement, including that Express Scripts: (i) breached its obligation to negotiate in good faith and to agree in writing to new pricing terms; (ii) was required to provide competitive benchmark pricing to us through the term of the ESI PBM Agreement; (iii) has breached the ESI PBM Agreement; and (iv) is required under the ESI PBM Agreement to provide post-termination services, at competitive benchmark pricing, for one year following any termination.

Express Scripts has disputed our contractual claims and is seeking declaratory judgments: (i) regarding the timing of the periodic pricing review under the ESI PBM Agreement, and (ii) that it has no obligation to ensure that we receive any specific level of pricing, that we have no contractual right to any change in pricing under the ESI PBM Agreement and that its sole obligation is to negotiate proposed pricing terms in good faith. In the alternative, Express Scripts claims that we have been unjustly enriched by its payment of $4,675 at the time we entered into the ESI PBM Agreement. In March 2017, the court granted our motion to dismiss Express Scripts' counterclaims for (i) breach of the implied covenant of good faith and fair dealing and (ii) unjust enrichment with prejudice. The only remaining claims are for breach of contract and declaratory relief. In August 2021, Express Scripts filed a motion for summary judgment. Our opposition to the motion is due in October 2021, and Express Scripts' reply to our opposition is due in November 2021. We intend to vigorously pursue our claims and defend against any counterclaims, which we believe are without merit; however, the ultimate outcome cannot be presently determined.

In re Express Scripts/Anthem ERISA Litigation

We are a defendant in a class action lawsuit that was initially filed in June 2016 against Anthem, Inc. and Express Scripts, which has been consolidated into a single multi-district lawsuit captioned *In re Express Scripts/Anthem ERISA Litigation*, in the U.S. District Court for the Southern District of New York. The consolidated complaint was filed by plaintiffs against Express Scripts and us on behalf of all persons who are participants in or beneficiaries of any ERISA or non-ERISA healthcare plan from December 1, 2009 to December 31, 2019 in which we provided prescription drug benefits through the ESI PBM Agreement and paid a percentage based co-insurance payment in the course of using that prescription drug benefit. The plaintiffs allege that we breached our duties, either under ERISA or with respect to the implied covenant of good faith and fair dealing implied in the health plans, (i) by failing to adequately monitor Express Scripts' pricing under the ESI PBM Agreement, (ii) by placing our own pecuniary interest above the best interests of our insureds by allegedly agreeing to higher pricing in the ESI PBM Agreement in exchange for the purchase price for our NextRx PBM business, and (iii) with respect to the non-ERISA members, by negotiating and entering into the ESI PBM Agreement that was allegedly detrimental to the interests of such non-ERISA members. Plaintiffs seek to hold us and Express Scripts jointly and severally liable and to recover all losses allegedly suffered by the proposed class, equitable relief, disgorgement of alleged ill-gotten gains, injunctive relief, attorney's fees and costs and interest.

In April 2017, we filed a motion to dismiss the claims brought against us, and it was granted, without prejudice, in January 2018. Plaintiffs filed a notice of appeal with the United States Court of Appeals for the Second Circuit (the "Second Circuit"), which was heard in October 2018. In December 2020, the Second Circuit affirmed the trial court's decision dismissing the ERISA complaint. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc. Plaintiff's Petition for Rehearing was denied. Plaintiffs filed a Writ of Certiorari with the U.S. Supreme Court, which we have opposed. We intend to vigorously defend this suit; however, its ultimate outcome cannot be presently determined.

Medicare Risk Adjustment Litigation

In March 2020, the U.S. Department of Justice ("DOJ") filed a civil lawsuit against Anthem, Inc. in the U.S. District Court for the Southern District of New York in a case captioned *United States v. Anthem, Inc*. The DOJ's suit alleges, among other things, that we falsely certified the accuracy of the diagnosis data we submitted to the Centers for Medicare and Medicaid Services ("CMS") for risk-adjustment purposes under Medicare Part C and knowingly failed to delete inaccurate diagnosis codes. The DOJ further alleges that, as a result of these purported acts, we caused CMS to calculate the risk-adjustment payments based on inaccurate diagnosis information, which enabled us to obtain unspecified amounts of payments in Medicare funds in violation of the False Claims Act. The DOJ filed an amended complaint in July 2020, alleging the same causes of action but revising some of its allegations. In September 2020, we filed a motion to transfer the lawsuit to the Southern District of Ohio, a motion to dismiss part of the lawsuit, and a motion to strike certain allegations in the amended complaint. The motions are fully briefed and no decision has been rendered. We intend to continue to vigorously defend this suit; however, the ultimate outcome cannot be presently determined.

Investigations of CareMore and HealthSun

With the assistance of outside counsel, we are conducting investigations of risk-adjustment practices involving data submitted to CMS (unrelated to our retrospective chart review program) at CareMore Health Plans, Inc. ("CareMore"), one of our California subsidiaries, and HealthSun Health Plans, Inc. ("HealthSun"), one of our Florida subsidiaries. Our CareMore investigation has resulted in the termination of CareMore's relationship with one contracted provider in California. Our HealthSun investigation focuses on risk adjustment practices initiated prior to our acquisition of HealthSun in December 2017 that continued after the acquisition. We have voluntarily self-disclosed the existence of both of our investigations to CMS and the Criminal Division of the DOJ, and most recently, to the Civil Division of the DOJ. We are cooperating with the ongoing investigations of the Criminal and Civil Divisions related to these risk adjustment practices. We are in the process of analyzing the scope of potential data corrections to be submitted to CMS. We have also asserted indemnity claims for escrowed funds under the HealthSun purchase agreement for, among other things, breach of healthcare and financial representation provisions, based on the conduct discovered during our investigation. We are in active litigation with two groups of sellers regarding part of the escrowed funds in cases captioned *Shareholder Representative Services, LLC v. ATH Holding Company, LLC and Highland Acquisition Holdings, LLC* and *LPPAS Representative, LLC v. ATH Holding Company, LLC*, both pending in the Delaware Court of Chancery.

Other Contingencies

From time to time, we and certain of our subsidiaries are parties to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. We, like HMOs and health insurers generally, exclude certain healthcare and other services from coverage under our HMO, PPO and other plans. We are, in the ordinary course of business, subject to the claims of our enrollees arising out of decisions to restrict or deny reimbursement for uncovered services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on us. In addition, the risk of potential liability under punitive damage theories may increase significantly the difficulty of obtaining reasonable reimbursement of coverage claims.

In addition to the lawsuits described above, we are also involved in other pending and threatened litigation of the character incidental to our business, and are from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits, reviews and administrative proceedings include routine and special inquiries by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on our business operations. Any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on our consolidated financial position or results of operations.

Contractual Obligations and Commitments

In March 2020, we entered into an agreement with a vendor for information technology infrastructure and related management and support services through June 2025. The new agreement supersedes certain prior agreements for such services and includes provisions for additional services not provided under those agreements. Our remaining commitment under this agreement at September 30, 2021 is approximately $1,104. We will have the ability to terminate the agreement upon the occurrence of certain events, subject to early termination fees.

In the second quarter of 2019, we began using our pharmacy benefits manager IngenioRx to market and offer PBM services to our affiliated health plan customers, as well as to external customers outside of the health plans we own. The comprehensive prescription benefits management services portfolio includes, but is not limited to, formulary management, pharmacy networks, prescription drug database, member services and mail order capabilities. IngenioRx delegates certain PBM administrative functions, such as claims processing and prescription fulfillment, to CaremarkPCS Health, L.L.C., which is a subsidiary of CVS Health Corporation, pursuant to a five-year agreement. With IngenioRx, we retain the responsibilities for clinical and formulary strategy and development, member and employer experiences, operations, sales, marketing, account management and retail network strategy.

12. Capital Stock

Use of Capital – Dividends and Stock Repurchase Program

We regularly review the appropriate use of capital, including acquisitions, common stock and debt security repurchases and dividends to shareholders. The declaration and payment of any dividends or repurchases of our common stock or debt is at the discretion of our Board of Directors and depends upon our financial condition, results of operations, future liquidity needs, regulatory and capital requirements and other factors deemed relevant by our Board of Directors.

A summary of our cash dividend activity for the nine months ended September 30, 2021 and 2020 is as follows:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share		Total
Nine Months Ended September 30, 2021					
January 26, 2021	March 10, 2021	March 25, 2021	$1.13	$	277
April 20, 2021	June 10, 2021	June 25, 2021	$1.13	$	278
July 20, 2021	September 10, 2021	September 24, 2021	$1.13	$	276
Nine Months Ended September 30, 2020					
January 28, 2020	March 16, 2020	March 27, 2020	$0.95	$	240
April 28, 2020	June 10, 2020	June 25, 2020	$0.95	$	242
July 28, 2020	September 10, 2020	September 25, 2020	$0.95	$	238

On October 19, 2021, our Audit Committee declared a fourth quarter 2021 dividend to shareholders of $1.13 per share, payable on December 21, 2021 to shareholders of record at the close of business on December 3, 2021.

Under our Board of Directors' authorization, we maintain a common stock repurchase program. On January 26, 2021, our Audit Committee, pursuant to authorization granted by the Board of Directors, authorized a $5,000 increase to the common stock repurchase program. Repurchases may be made from time to time at prevailing market prices, subject to certain restrictions on volume, pricing and timing. The repurchases are effected from time to time in the open market, through negotiated transactions, including accelerated share repurchase agreements, and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Our stock repurchase program is discretionary, as we are under no obligation to repurchase shares. We repurchase shares under the program when we believe it is a prudent use of capital. The excess cost of the repurchased shares over par value is charged on a pro rata basis to additional paid-in capital and retained earnings.

A summary of common stock repurchases for the nine months ended September 30, 2021 and 2020 is as follows:

	Nine Months Ended September 30			
		2021		2020
Shares repurchased		3.9		5.0
Average price per share	$	356.43	$	269.15
Aggregate cost	$	1,378	$	1,342
Authorization remaining at the end of the period	$	4,714	$	2,450

For additional information regarding the use of capital for debt security repurchases, see Note 10, "Debt," included in this Form 10-Q and Note 13, "Debt," to our audited consolidated financial statements as of and for the year ended December 31, 2020 included in our 2020 Annual Report on Form 10-K.

Stock Incentive Plans

A summary of stock option activity for the nine months ended September 30, 2021 is as follows:

	Number of Shares	Weighted-Average Option Price per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	3.1	$ 230.00		
Granted	0.7	313.48		
Exercised	(0.6)	196.29		
Forfeited or expired	(0.1)	285.46		
Outstanding at September 30, 2021	3.1	254.23	6.90	$ 364
Exercisable at September 30, 2021	1.6	215.64	5.67	$ 250

A summary of the nonvested restricted stock activity, including restricted stock units, for the nine months ended September 30, 2021 is as follows:

	Restricted Stock Shares and Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at January 1, 2021	1.3	$ 272.51
Granted	1.0	315.54
Vested	(0.9)	244.82
Forfeited	(0.1)	289.45
Nonvested at September 30, 2021	1.3	298.12

During the nine months ended September 30, 2021, we granted approximately 0.3 restricted stock units that are contingent upon us achieving earnings targets over the three year period from 2021 to 2023. These grants have been included in the activity shown above, but will be subject to adjustment at the end of 2023 based on results in the three year period.

During the nine months ended September 30, 2021, we granted an additional 0.4 restricted stock units associated with our 2018 grants that were earned as a result of satisfactory completion of performance measures between 2018 and 2020. These grants and vested shares have been included in the activity shown above.

Fair Value

We use a binomial lattice valuation model to estimate the fair value of all stock options granted. For a more detailed discussion of our stock incentive plan fair value methodology, see Note 15, “Capital Stock,” to our audited consolidated financial statements as of and for the year ended December 31, 2020 included in our 2020 Annual Report on Form 10-K.

The following weighted-average assumptions were used to estimate the fair values of options granted during the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30	
	2021	2020
Risk-free interest rate	1.44 %	1.30 %
Volatility factor	30.00 %	26.00 %
Quarterly dividend yield	0.360 %	0.350 %
Weighted-average expected life (years)	5.50	4.30

The following weighted-average fair values per option or share were determined for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30	
	2021	2020
Options granted during the period	$ 79.51	$ 54.02
Restricted stock awards granted during the period	315.54	272.11

13. Accumulated Other Comprehensive Loss

A reconciliation of the components of accumulated other comprehensive loss at September 30, 2021 and 2020 is as follows:

	September 30	
	2021	2020
Investments:		
Gross unrealized gains	$ 986	$ 1,136
Gross unrealized losses	(107)	(245)
Net pre-tax unrealized gains	879	891
Deferred tax liability	(210)	(216)
Adjustment for noncontrolling interest	(3)	—
Net unrealized gains on investments	666	675
Non-credit components of impairments on investments:		
Gross unrealized losses	(1)	(11)
Deferred tax asset	—	3
Net unrealized non-credit component of impairments on investments	(1)	(8)
Cash flow hedges:		
Gross unrealized losses	(304)	(319)
Deferred tax asset	64	67
Net unrealized losses on cash flow hedges	(240)	(252)
Defined benefit pension plans:		
Deferred net actuarial loss	(710)	(695)
Deferred prior service credits	—	(1)
Deferred tax asset	180	178
Net unrecognized periodic benefit costs for defined benefit pension plans	(530)	(518)
Postretirement benefit plans:		
Deferred net actuarial loss	(3)	(25)
Deferred prior service costs	9	14
Deferred tax (liability) asset	(2)	3
Net unrecognized periodic benefit credit (costs) for postretirement benefit plans	4	(8)
Foreign currency translation adjustments:		
Gross unrealized losses	(3)	(1)
Deferred tax asset	1	—
Net unrealized losses on foreign currency translation adjustments	(2)	(1)
Accumulated other comprehensive loss	$ (103)	$ (112)

Other comprehensive (loss) income reclassification adjustments for the three months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30	
	2021	2020
Investments:		
Net holding (loss) gain on investment securities arising during the period, net of tax benefit (expense) of $25 and ($43), respectively	$ (80)	$ 152
Reclassification adjustment for net realized gain on investment securities, net of tax expense of $5 and $10, respectively	(17)	(39)
Total reclassification adjustment on investments	(97)	113
Non-credit component of impairments on investments:		
Non-credit component of impairments on investments, net of tax expense of $0 and ($5), respectively	(1)	16
Cash flow hedges:		
Holding gain, net of tax expense of ($0) and ($0), respectively	4	4
Other:		
Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of ($4) and ($2), respectively	8	8
Foreign currency translation adjustment, net of tax benefit (expense) of $1 and ($1), respectively	(1)	1
Net (loss) gain recognized in other shareholders' comprehensive income, net of tax benefit (expense) of $27 and ($41), respectively	(87)	142
Net loss related to noncontrolling interests, net of tax benefit of $0 and $0, respectively	1	—
Net (loss) gain recognized in other comprehensive (loss) income, net of tax benefit (expense) of $27 and ($41), respectively	$ (86)	$ 142

Other comprehensive (loss) income reclassification adjustments for the nine months ended September 30, 2021 and 2020 are as follows:

	Nine Months Ended September 30	
	2021	2020
Investments:		
Net holding (loss) gain on investment securities arising during the period, net of tax benefit (expense) of $71 and ($68), respectively	$ (203)	$ 182
Reclassification adjustment for net realized gain on investment securities, net of tax expense of $21 and $7, respectively	(81)	(28)
Total reclassification adjustment on investments	(284)	154
Non-credit component of impairments on investments:		
Non-credit component of impairments on investments, net of tax (expense) benefit of ($1) and $2, respectively	1	(6)
Cash flow hedges:		
Holding gain, net of tax expense of ($2) and ($2), respectively	10	10
Other:		
Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of ($10) and ($9), respectively	26	25
Foreign currency translation adjustment, net of tax benefit (expense) of $2 and ($1), respectively	(7)	1
Net (loss) gain recognized in other shareholders' comprehensive income, net of tax benefit (expense) of $81 and ($71), respectively	(254)	184
Net loss related to noncontrolling interests, net of tax benefit of $1 and $0, respectively	1	—
Net (loss) gain recognized in other comprehensive (loss) income, net of tax benefit (expense) of $82 and ($71), respectively	$ (253)	$ 184

14. Earnings per Share

The denominator for basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Denominator for basic earnings per share – weighted-average shares	243.4	251.0	244.3	251.9
Effect of dilutive securities – employee stock options, nonvested restricted stock awards and convertible debentures	2.6	3.2	2.9	3.4
Denominator for diluted earnings per share	246.0	254.2	247.2	255.3

During the three months ended September 30, 2021 and 2020, weighted-average shares related to certain stock options of 0.0 and 1.6, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive. During the nine months ended September 30, 2021 and 2020, weighted-average shares related to certain stock options of 0.3 and 1.4, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

During the three and nine months ended September 30, 2021, we issued approximately 0.1 and 1.0 restricted stock units, respectively, under our stock incentive plans, 0.3 of which vesting is contingent upon us meeting specified annual earnings targets for the three year period of 2021 through 2023. During the three and nine months ended September 30, 2020, we issued approximately 0.0 and 1.3 restricted stock units, respectively, under our stock incentive plans, 0.3 of which vesting is contingent upon us meeting specified annual earnings targets for the three year period of 2020 through 2022. The contingent restricted stock units have been excluded from the denominator for diluted earnings per share and will be included only if and when the contingency is met.

15. Segment Information

The results of our operations are described through four reportable segments: Commercial & Specialty Business, Government Business, IngenioRx and Other.

Our Commercial & Specialty Business segment offers plans and services to our Individual, Group risk-based, Group fee-based, BlueCard, and Specialty customers. The Commercial & Specialty Business segment offers health products on a full-risk basis; provides a broad array of managed care services to fee-based customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services; and provides an array of specialty and other insurance products and services such as dental, vision, life and disability insurance benefits.

Our Government Business segment includes our Medicare and Medicaid businesses, National Government Services ("NGS"), and services provided to the federal government in connection with the FEHB program. Our Medicare business includes services such as Medicare Supplement plans; Medicare Advantage, including Special Needs Plans; Medicare Part D; and dual-eligible programs through Medicare-Medicaid Plans. Medicare Advantage membership also includes Medicare Advantage members in our Group Retiree Solutions business who are retired members of Commercial accounts or retired members of groups who are not affiliated with our Commercial accounts who have selected a Medicare Advantage product through us. Our Medicaid business includes our managed care alternatives through publicly funded healthcare programs, including Medicaid, Medicaid expansion programs related to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, as amended, Temporary Assistance for Needy Families programs, programs for seniors and people with disabilities, Children's Health Insurance Programs, and specialty programs such as those focused on long-term services and support, HIV/AIDS, foster care, behavioral health and/or substance abuse disorders, and intellectual disabilities or developmental disabilities. NGS acts as a Medicare contractor for the federal government in several regions across the nation.

Our IngenioRx segment includes our PBM business, which began its operations during the second quarter of 2019. IngenioRx markets and offers PBM services to our affiliated health plan customers, as well as to external customers outside of the health plans we own. IngenioRx has a comprehensive PBM services portfolio, which includes services such as formulary management, pharmacy networks, prescription drug database, member services and mail order capabilities.

Our Other segment includes our Diversified Business Group ("DBG"), which is our integrated health services business, and certain eliminations and corporate expenses not allocated to our other reportable segments.

Affiliated revenues represent revenues or cost for services provided by IngenioRx and DBG to our subsidiaries, are recorded at cost or management's estimate of fair market value, and are eliminated in consolidation.

Financial data by reportable segment for the three and nine months ended September 30, 2021 and 2020 is as follows:

	Commercial & Specialty Business	Government Business	IngenioRx	Other	Eliminations	Total
Three Months Ended September 30, 2021						
Operating revenue - unaffiliated	$ 9,863	$ 21,658	$ 3,369	$ 658	$ —	$ 35,548
Operating revenue - affiliated	—	—	3,180	2,012	(5,192)	—
Operating gain	620	967	445	27	—	2,059
Three Months Ended September 30, 2020						
Operating revenue - unaffiliated	$ 9,326	$ 18,101	$ 2,598	$ 624	$ —	$ 30,649
Operating revenue - affiliated	—	—	2,984	1,174	(4,158)	—
Operating (loss) gain	(234)	246	345	(156)	—	201
Nine Months Ended September 30, 2021						
Operating revenue - unaffiliated	$ 28,904	$ 61,007	$ 9,131	$ 1,883	$ —	$ 100,925
Operating revenue - affiliated	—	—	9,499	5,674	(15,173)	—
Operating gain	2,679	2,313	1,257	52	—	6,301
Nine Months Ended September 30, 2020						
Operating revenue - unaffiliated	$ 27,476	$ 52,809	$ 7,485	$ 1,505	$ —	$ 89,275
Operating revenue - affiliated	—	—	8,563	2,772	(11,335)	—
Operating gain (loss)	2,558	2,275	998	(76)	—	5,755

The major product revenues for each of the reportable segments for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Commercial & Specialty Business				
Managed care products	$ 8,005	$ 7,523	$ 23,481	$ 22,209
Managed care services	1,489	1,391	4,291	4,036
Dental/Vision products and services	342	318	1,013	917
Other	27	94	119	314
Total Commercial & Specialty Business	9,863	9,326	28,904	27,476
Government Business				
Managed care products	21,565	17,999	60,711	52,523
Managed care services	93	102	296	286
Total Government Business	21,658	18,101	61,007	52,809
IngenioRx				
Pharmacy products and services	6,549	5,582	18,630	16,048
Total IngenioRx	6,549	5,582	18,630	16,048
Other				
Integrated health services	2,506	1,716	7,121	4,040
Other	164	82	436	237
Total Other Business	2,670	1,798	7,557	4,277
Eliminations				
Eliminations	(5,192)	(4,158)	(15,173)	(11,335)
Total product revenues	$ 35,548	$ 30,649	$ 100,925	$ 89,275

The classification between managed care products and managed care services in the above table primarily distinguishes between the levels of risk assumed. Managed care products represent insurance products where we bear the insurance risk, whereas managed care services represent product offerings where we provide claims adjudication and other administrative services to the customer, but the customer principally bears the insurance risk.

A reconciliation of reportable segments' operating revenue to the amounts of total revenues included in our consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Reportable segments' operating revenue	$ 35,548	$ 30,649	$ 100,925	$ 89,275
Net investment income	335	280	1,026	591
Net realized (losses) gains on financial instruments	(61)	229	107	177
Total revenues	$ 35,822	$ 31,158	$ 102,058	$ 90,043

A reconciliation of reportable segments' operating gain to income before income tax expense included in our consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Reportable segments' operating gain	$ 2,059	$ 201	$ 6,301	$ 5,755
Net investment income	335	280	1,026	591
Net realized (losses) gains on financial instruments	(61)	229	107	177
Interest expense	(201)	(198)	(598)	(593)
Amortization of other intangible assets	(136)	(93)	(306)	(269)
Loss on extinguishment of debt	—	(30)	(5)	(34)
Income before income tax expense	$ 1,996	$ 389	$ 6,525	$ 5,627

16. Leases

We lease office space and certain computer and related equipment using noncancellable operating leases. Our leases have remaining lease terms of 1 year to 13 years.

The information related to our leases is as follows:

	Balance Sheet Location	September 30, 2021	December 31, 2020
Operating Leases			
Right-of-use assets	Other noncurrent assets	$ 685	$ 646
Lease liabilities, current	Other current liabilities	141	110
Lease liabilities, noncurrent	Other noncurrent liabilities	806	847

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Lease Expense				
Operating lease expense	$ 37	$ 272	$ 100	$ 378
Short-term lease expense	10	11	34	38
Sublease income	(1)	(1)	(3)	(8)
Total lease expense	$ 46	$ 282	$ 131	$ 408
Other information				
Operating cash paid for amounts included in the measurement of lease liabilities, operating leases	$ 53	$ 47	$ 141	$ 137
Right-of-use assets obtained in exchange for new lease liabilities, operating leases	$ 32	$ 17	$ 192	$ 372

As of September 30, 2021 and December 31, 2020, the weighted average remaining lease term of our operating leases was 6 years and 7 years, respectively. The lease liabilities reflect a weighted average discount rate of 2.82% at September 30, 2021 and 3.21% at December 31, 2020.

The operating lease expense for the three and nine months ended September 30, 2020 shown above included an impairment charge of $224 for affected right-of-use assets for reducing our office space footprint.

Future lease payments for noncancellable operating leases with initial or remaining terms of one year or more are as follows:

2021 (excluding the nine months ended September 30, 2021)	$	53
2022		209
2023		189
2024		161
2025		119
Thereafter		353
Total future minimum payments		1,084
Less imputed interest		(137)
Total lease liabilities	$	947

As of September 30, 2021, we have additional operating leases for building spaces that have not yet commenced, and some building spaces are being constructed by the lessors and their agents. These leases have terms of up to 11 years and are expected to commence on various dates during the fourth quarter of 2021 when the construction is complete and we take possession of the buildings. The undiscounted lease payments for these leases, which are not included in the tables above, aggregate to $65.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the accompanying consolidated financial statements and notes, our consolidated financial statements and notes as of and for the year ended December 31, 2020 and the MD&A included in our 2020 Annual Report on Form 10-K. References to the terms "we," "our," "us," or "Anthem" used throughout this MD&A 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 and Puerto Rico, unless the context otherwise requires.

Results of operations, cost of care trends, investment yields and other measures for the three and nine months ended September 30, 2021 are not necessarily indicative of the results and trends that may be expected for the full year ending December 31, 2021, or any other period.

Overview

We are one of the largest health benefits companies in the United States in terms of medical membership, serving approximately 45 medical members through our affiliated health plans as of September 30, 2021. We are an independent licensee of the Blue Cross and Blue Shield Association ("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 ("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 as well as other strategic partners. Through our subsidiaries, we also serve customers in numerous states and Puerto Rico as AIM Specialty Health, Amerigroup, Aspire Health, Beacon, CareMore, Freedom Health, HealthLink, HealthSun, MMM, Optimum HealthCare, Simply Healthcare, and/or UniCare. Pharmacy benefits management ("PBM") services are offered through our IngenioRx subsidiary. We are licensed to conduct insurance operations in all fifty states, the District of Columbia and Puerto Rico through our subsidiaries.

For additional information about our organization, see Part I, Item 1, "Business" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2020 Annual Report on Form 10-K. Additional information on our segments can be found in this MD&A and in Note 15, "Segment Information" of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

COVID-19

The COVID-19 pandemic continues to impact the global economy, cause market instability and put pressure on the healthcare system, and it has impacted, and will likely continue to impact, our membership, our benefit expense and our members' behavior, including how members access healthcare. We continue to assist our customers, providers, members and communities in addressing the effects of the COVID-19 pandemic, including by providing expanded benefit coverage for COVID-19 diagnostic tests, treatment and vaccine administration and taking steps to increase vaccinations by enabling, educating, and encouraging vaccine acceptance among our members as well as in the communities in which we operate.

COVID-19 care, testing and vaccine administration, and the impact of new COVID-19 variants, have resulted in increased medical costs for us in 2021. Since June 30, 2020, our Medicaid membership has grown as a result of the temporary suspension of eligibility recertification in response to the COVID-19 pandemic, which will remain suspended at least until the first quarter of 2022. Our Commercial fee-based membership has decreased in this same period due to in-group attrition likely attributable to the COVID-19 pandemic. See "Business Trends - *Medical Cost Trends*" below for a discussion of the impact of COVID-19 on our healthcare costs.

The COVID-19 pandemic continues to evolve and the full extent of its impact will depend on future developments, which are highly uncertain and cannot be predicted at this time. We will continue to monitor the COVID-19 pandemic as well as resulting legislative and regulatory changes to manage our response and assess and mitigate potential adverse impacts to our business. For additional discussion related to the COVID-19 pandemic and our risk factors, see Part I, Item 1, “Business–COVID-19”, Part I, Item 1A, “Risk Factors” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations–COVID-19” included in our 2020 Annual Report on Form 10-K.

Business Trends

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, as amended (collectively, the “ACA”) has changed and may continue to make broad-based changes to the U.S. healthcare system. In June 2021, the U.S. Supreme Court issued its opinion and dismissed the latest legal challenge to the constitutionality of the ACA, leaving the law intact. We expect the ACA will continue to impact our business model and strategy. In 2020, we made the decision to modestly expand our participation in the Individual ACA-compliant market for 2021. Our strategy has been, and will continue to be, to only participate in rating regions where we have an appropriate level of confidence that these markets are on a path toward sustainability, including, but not limited to, factors such as expected financial performance, regulatory environment, and underlying market characteristics. We currently offer Individual ACA-compliant products in 103 of the 143 rating regions in which we operate. In addition, the continuing growth in our government-sponsored business exposes us to increased regulatory oversight.

Our IngenioRx subsidiary markets and offers PBM services to our affiliated health plan customers throughout the country, as well as to customers outside of the health plans we own. Our comprehensive PBM services portfolio includes services such as formulary management, pharmacy networks, a prescription drug database, member services and mail order capabilities. IngenioRx delegates certain PBM administrative functions, such as claims processing and prescription fulfillment, to CaremarkPCS Health, L.L.C., which is a subsidiary of CVS Health Corporation, pursuant to a five-year agreement. With IngenioRx, we retain the responsibilities for clinical and formulary strategy and development, member and employer experiences, operations, sales, marketing, account management and retail network strategy.

Pricing Trends: We strive to price our healthcare benefit products consistent with anticipated underlying medical cost trends. We continue to closely monitor the COVID-19 pandemic (including new COVID-19 variants, which may be more contagious or severe, or less responsive to treatment or vaccines) and the impacts it may have on our pricing, such as surges in COVID-19 related hospitalizations, infection rates, the cost of COVID-19 vaccines and the return of non-COVID-19 healthcare utilization to our estimate of normal levels, based on historical utilization patterns. We frequently make adjustments to respond to legislative and regulatory changes as well as pricing and other actions taken by existing competitors and new market entrants. Product pricing in our Commercial & Specialty Business segment, including our Individual and Small Group lines of business, remains competitive. Revenues from the Medicare and Medicaid programs are dependent, in whole or in part, upon annual funding from the federal government and/or applicable state governments. The ACA imposed an annual Health Insurance Provider Fee (“HIP Fee”) on health insurers that write certain types of health insurance on U.S. risks. When applicable, we priced our affected products to cover the impact of the HIP Fee, including during 2020. The HIP Fee has been permanently repealed beginning in 2021.

Medical Cost Trends: Our medical cost trends are primarily driven by increases in the utilization of services across all provider types and the unit cost increases of these services. We work to mitigate these trends through various medical management programs such as utilization management, condition management, program integrity and specialty pharmacy management, as well as benefit design changes. There are many drivers of medical cost trends that can cause variance from our estimates, such as changes in the level and mix of services utilized, regulatory changes, aging of the population, health status and other demographic characteristics of our members, epidemics, pandemics, advances in medical technology, new high cost prescription drugs, and healthcare provider or member fraud.

The COVID-19 pandemic initially caused a decrease in utilization of non-COVID-19 health services, which decreased our claim costs in 2020. Over the course of the first half of 2021, our non-COVID-19 healthcare utilization experience gradually increased toward normalized levels, while COVID-19 related healthcare expenses declined and COVID-19 vaccination administration costs increased. During the third quarter of 2021, the COVID-19 Delta variant caused a significant increase in COVID-19 related healthcare utilization as a result of increased testing, treatment, and hospitalization costs, which was partially offset by a reduction in non-COVID-19 healthcare utilization. The reduction in non-COVID-19 healthcare utilization was particularly notable in the inpatient setting, as some regions limited elective surgeries in order to preserve limited resources to treat patients hospitalized with COVID-19.

Our expenses in 2020 and the first nine months of 2021 included additional costs to cover COVID-19 related testing, treatment and vaccine administration. In the fourth quarter of 2021, we expect COVID-19 related healthcare expenses to decline from the surge experienced during the third quarter of 2021 related to the Delta variant and utilization of non-COVID-19 healthcare services to recover toward the levels experienced in 2021 prior to the Delta surge. We anticipate additional COVID-19 vaccination costs as young children become eligible for the vaccine and more adults choose to receive the vaccine and booster doses. Further increases and pent-up demand in the utilization of non-COVID-19 healthcare services, as well as increases in acuity associated with deferred services and the long-term health complications of COVID-19, may increase our claim costs in the future and affect our medical cost trends. We continue to monitor the COVID-19 pandemic and its impacts on our business, financial condition, results of operations and medical cost trends.

For additional discussion regarding business trends, see Part I, Item 1, “Business” included in our 2020 Annual Report on Form 10-K.

Regulatory Trends and Uncertainties

Federal and state governments have enacted, and may continue to enact, legislation and regulations in response to the COVID-19 pandemic that have had, and we expect will continue to have, a significant impact on healthcare benefits, consumer eligibility for public programs and our cash flows for all of our lines of business. These actions, which are or have been in effect for various durations, provide, among other things:

- waivers on cost-sharing on COVID-19 testing, treatment, vaccines and related services;
- reforms, including waiving Medicare originating site restrictions for qualified providers providing telehealth services;
- financial support to healthcare providers, including expansion of the Medicare accelerated payment program to all providers receiving Medicare payments;
- mandated expansion of premium payment terms, including the time period for which claims can be denied for lack of payment; and
- mandates related to prior authorizations and payment levels to providers, additional consumer enrollment windows and an increased ability to provide telehealth services.

The Consolidated Appropriations Act of 2021, which was enacted in December 2020 (the “Appropriations Act”), contains a number of provisions that may have a material effect upon our business, including procedures and coverage requirements related to surprise medical bills and new mandates for continuity of care for certain patients, price comparison tools, disclosure of broker compensation and reporting on pharmacy benefits and drug costs. The health plan-related requirements of the Appropriations Act have varying effective dates beginning as early as December 2021, some of which have been extended since the enactment of the Appropriations Act.

The American Rescue Plan Act of 2021, (the “Rescue Plan”), which was enacted in March 2021, contains several health-related provisions that have impacted our business, including expansion of premium tax credits for our Individual exchange business and full subsidization of the Consolidated Omnibus Budget Reconciliation Act (“COBRA”) continuation coverage for those who were involuntarily terminated or had their work hours reduced. The Rescue Plan’s premium tax provisions became effective in January 2021, while the COBRA premium subsidization extended from April through September 2021.

The ACA presented us with new growth opportunities, but also introduced new risks, regulatory challenges and uncertainties, and required changes in the way products are designed, underwritten, priced, distributed and administered. Changes to our business environment are likely to continue as elected officials at the national and state levels continue to enact, and both elected officials and candidates for election continue to propose, significant modifications to existing laws and regulations, including changes to taxes and fees. We will continue to evaluate the impact of the ACA as any further developments or judicial rulings occur.

For additional discussion regarding regulatory trends and uncertainties and risk factors, see Part I, Item 1, “Business – Regulation”, Part I, Item 1A, “Risk Factors”, and the “Regulatory Trends and Uncertainties” section of Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2020 Annual Report on Form 10-K.

Other Significant Items

Business and Operational Matters

On June 29, 2021, we completed our acquisition of MMM Holdings, LLC ("MMM") and its Medicare Advantage plan, Medicaid plan and other affiliated companies from InnovaCare Health, L.P. MMM is a Puerto Rico-based integrated healthcare organization and seeks to provide its Medicare Advantage and Medicaid members with a whole health experience through its network of specialized clinics and wholly owned independent physician associations. This acquisition aligns with our vision to be an innovative, valuable and inclusive healthcare partner by providing care management programs that improve the lives of the people we serve.

On April 28, 2021, we completed our acquisition of myNEXUS, Inc. ("myNEXUS") from WindRose Health Investors. myNEXUS is a comprehensive home-based nursing management company for payors and, at the time of acquisition, delivered integrated clinical support services for Medicare Advantage members across twenty states. This acquisition aligns with our strategy to manage integrated, whole person multi-site care and support by providing national, large-scale expertise to manage nursing services in the home and facilitate transitions of care.

On February 28, 2020, we completed our acquisition of Beacon Health Options, Inc. ("Beacon"), the largest independently held behavioral health organization in the country. At the time of acquisition, Beacon served more than thirty-four million individuals across all fifty states. This acquisition aligned with our strategy to diversify into health services and deliver both integrated solutions and care delivery models that personalize care for people with complex and chronic conditions.

For additional information, see Note 3, "Business Acquisitions," of the Notes to Consolidated Financial Statements included in Part 1, Item 1 of this Form 10-Q.

In 2020, we introduced enterprise-wide initiatives to optimize our business, and as a result, recorded a charge of $653 in selling, general and administrative expenses for the year ended December 31, 2020. We believe these initiatives largely represent the next step forward in our progression towards becoming a more agile organization, including process automation and a reduction in our office space footprint. For additional information see Note 4, "Business Optimization Initiatives" and Note 16, "Leases" of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Litigation Matters

In the consolidated multi-district proceeding in the United States District Court for the Northern District of Alabama (the "Court") captioned *In re Blue Cross Blue Shield Antitrust Litigation* ("BCBSA Litigation"), the BCBSA and Blue Cross and/or Blue Shield licensees, including us (the "Blue plans"), have approved a settlement agreement and release (the "Subscriber Settlement Agreement") with the plaintiffs representing a putative nationwide class of health plan subscribers. Generally, the lawsuits in the BCBSA Litigation challenge elements of the licensing agreements between the BCBSA and the independently owned and operated Blue plans. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers, and the Subscriber Settlement Agreement applies only to the putative subscriber class. No settlement agreement has been reached with the provider plaintiffs at this time, and the defendants continue to contest the consolidated cases brought by the provider plaintiffs.

If approved by the Court, the Subscriber Settlement Agreement will require the defendants to make a monetary settlement payment, our portion of which is estimated to be $594, and will include certain non-monetary terms. As of September 30, 2021, the liability balance accrued for our estimated remaining payment obligation was $507, net of payments made. All terms of the Subscriber Settlement Agreement are subject to approval by the Court before they become effective. For additional information regarding the BCBSA Litigation, see Note 11, "Commitments and Contingencies – *Litigation and Regulatory Proceedings – Blue Cross Blue Shield Antitrust Litigation*," of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

In January 2019, we exercised our contractual right to terminate our PBM agreement (the "ESI PBM Agreement") with Express Scripts, Inc. ("Express Scripts"). We completed the transition of our members from Express Scripts to IngenioRx by January 1, 2020. Notwithstanding our termination of the ESI PBM Agreement, the litigation between us and Express Scripts regarding the ESI PBM Agreement continues. For additional information regarding this lawsuit, see Note 11, "Commitments and Contingencies – *Litigation and Regulatory Proceedings – Express Scripts, Inc. Pharmacy Benefit Management Litigation,*" of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Selected Operating Performance

For the twelve months ended September 30, 2021, total medical membership increased 2.4, or 5.7%. Our medical membership grew in both our Government Business and Commercial & Specialty Business segments. The increase in our Government Business membership was primarily driven by increases in our Medicaid membership, including organic growth resulting from the temporary suspension of eligibility recertification during the COVID-19 pandemic, which will remain suspended at least until the first quarter of 2022, our acquisition of MMM on June 29, 2021, the launch of our HealthyBlue managed care alliance in North Carolina and organic growth in our Medicare Advantage business. Commercial & Specialty Business membership growth included increases in Group risk-based membership resulting from sales exceeding lapses and increases in Individual membership due to the ACA expansion in 2021, partially offset by declines in Group fee-based membership due to in-group attrition likely resulting from the COVID-19 pandemic.

Operating revenue for the three months ended September 30, 2021 was $35,548, an increase of $4,899, or 16.0%, from the three months ended September 30, 2020. The increase in operating revenue for the three months ended September 30, 2021 compared to 2020 was primarily driven by higher premium revenue due mainly to membership growth in our Government Business segment, including related to our acquisition of MMM, and increased product revenue in our IngenioRx segment. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021. Operating revenue for the nine months ended September 30, 2021 was $100,925, an increase of $11,650, or 13.0%, from the nine months ended September 30, 2020. The increase in operating revenue for the nine months ended September 30, 2021 compared to 2020 was primarily driven by higher premium revenue due mainly to membership growth in our Government Business segment, including related to the acquisition of MMM, increased product revenue in our IngenioRx segment and premium rate increases in our Commercial & Specialty Business segment. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021.

Net income for the three months ended September 30, 2021 was $1,502, an increase of $1,280, or 576.6%, from the three months ended September 30, 2020. The increase in net income for the three months ended September 30, 2021 was primarily due to increased operating gain in all of our business segments, primarily the result of the absence of charges in 2021 for our business optimization initiatives and the BCBSA litigation accrual recognized during the third quarter of 2020. Net income for the nine months ended September 30, 2021 was $4,970, an increase of $949, or 23.6% from the nine months ended September 30, 2020. The increase in net income for the nine months ended September 30, 2021 was primarily due to increased operating gain in all of our business segments, primarily due to the absence of charges in 2021 for our business optimization initiatives and the BCBSA litigation accrual recognized during the third quarter of 2020. These operating gain increases were partially offset by increased COVID-19 and non-COVID-19 healthcare costs.

Our fully-diluted shareholders' earnings per share ("EPS") was $6.13 for the three months ended September 30, 2021, which represented a 604.6% increase from EPS of $0.87 for the three months ended September 30, 2020. Our fully-diluted shareholders' EPS was $20.09 for the nine months ended September 30, 2021, which represented a 27.6% increase from fully-diluted EPS of $15.75 for the nine months ended September 30, 2020. The increase in EPS for the three and nine months ended September 30, 2021 compared to 2020 resulted primarily from the increase in net income, as well as lower shares outstanding in 2021.

Operating cash flow for the nine months ended September 30, 2021 and 2020 was $6,692 and $6,875, respectively. The decrease in operating cash flow was primarily driven by the timing of working capital changes, partially offset by higher net income in 2021.

Membership

In the first quarter of 2021, we updated our medical membership reporting to better align with how we view our business. Our medical membership now includes the following customer types: Individual, Group risk-based, Group fee-based, BlueCard®, Medicare, Medicaid and our Federal Employees Health Benefits ("FEHB") Program. BCBS-branded business generally refers to members in our service areas licensed by the BCBSA. Non-BCBS-branded business refers to members in our non-BCBS-branded Amerigroup, Freedom Health, HealthSun, MMM, Optimum HealthCare and Simply Healthcare plans, as well as HealthLink and UniCare members. In addition to the above medical membership, we also serve customers who purchase one or more of our other products or services that are often ancillary to our health business.

- Individual consists of individual customers under age 65 and their covered dependents. Individual policies are generally sold through independent agents and brokers, retail partnerships, our in-house sales force or via the exchanges. Individual business is sold on a risked-based basis. We offer on-exchange products through public exchanges and off-exchange products. Federal premium subsidies are available only for certain public exchange Individual products. Unsubsidized Individual customers are generally more sensitive to product pricing and, to a lesser extent, the configuration of the network and the efficiency of administration. Customer turnover is generally higher with Individual as compared to Group risk-based business.
- Group risk-based consists of employer customers who purchase products on a full-risk basis, which are products for which we charge a premium and indemnify our policyholders against costs for health benefits. Group risk-based accounts include Local Group customers and National Accounts. Local Group consists of those employer customers with less than 5% of eligible employees located outside of the headquarter state, as well as customers with more than 5% of eligible employees located outside of the headquarter state with up to 5,000 eligible employees. In addition, Local Group includes Student Health members. National Accounts generally consist of multi-state employer groups primarily headquartered in an Anthem service area with at least 5% of the eligible employees located outside of the headquarter state and with more than 5,000 eligible employees. Some exceptions are allowed based on broker and consultant relationships. Group risk-based accounts are generally sold through brokers or consultants who work with industry specialists from our in-house sales force and are offered both on and off the public exchanges.
- Group fee-based customers represent employer groups, Local Group, including UniCare members, and National Accounts, who purchase fee-based products and elect to retain most or all of the financial risk associated with their employees' healthcare costs. Some fee-based customers choose to purchase stop loss coverage to limit their retained risk. Group fee-based accounts are generally sold through independent brokers or consultants retained by the customer working with our in-house sales force.
- BlueCard® host customers represent enrollees of Blue Cross and/or Blue Shield plans not owned by Anthem who receive healthcare services in our BCBSA licensed markets. BlueCard® membership consists of estimated host members using the national BlueCard® program. Host members are generally members who reside in or travel to a state in which an Anthem subsidiary is the Blue Cross and/or Blue Shield licensee and who are covered under an employer-sponsored health plan issued by a non-Anthem controlled BCBSA licensee (the "home Blue plan"). We perform certain functions, including claims pricing and administration, for BlueCard® members, for which we receive administrative fees from the BlueCard® members' home Blue plans. Other administrative functions, including maintenance of enrollment information and customer service, are performed by the home Blue plan. Host members are computed using, among other things, the average number of BlueCard® claims received per month.
- Medicare customers are Medicare-eligible individual members age 65 and over who have enrolled in Medicare Supplement plans; Medicare Advantage, including Special Needs Plans ("SNPs"), also known as Medicare Advantage SNPs; Medicare Part D; and dual-eligible programs through Medicare-Medicaid Plans ("MMPs"). Medicare Supplement plans typically pay the difference between healthcare costs incurred by a beneficiary and amounts paid by Medicare. Medicare Advantage plans provide Medicare beneficiaries with a managed care alternative to traditional Medicare and often include a Medicare Part D benefit. In addition, our Medicare Advantage SNPs provide tailored benefits to special needs individuals who are institutionalized or have severe or disabling chronic conditions and to dual-eligible customers, who are low-income seniors and persons under age 65 with disabilities. Medicare Advantage SNPs are coordinated care plans specifically designed to provide targeted care, covering all the healthcare services considered medically necessary for members and often providing professional care coordination services, with personal guidance and programs that help members maintain their health. Medicare Advantage membership also includes Medicare Advantage members in our Group Retiree Solutions business who

are retired members of Commercial accounts or retired members of groups who are not affiliated with our Commercial accounts who have selected a Medicare Advantage product through us. Medicare Part D offers a prescription drug plan to Medicare and MMP beneficiaries. MMP, which was established as a result of the passage of the ACA, is a demonstration program focused on serving members who are dually eligible for Medicaid and Medicare. Medicare Supplement and Medicare Advantage products are marketed in the same manner, primarily through independent agents and brokers.

- Medicaid membership represents eligible members who receive healthcare benefits through publicly funded healthcare programs, including Medicaid, ACA-related Medicaid expansion programs, Temporary Assistance for Needy Families, programs for seniors and people with disabilities, Children's Health Insurance Programs, and specialty programs such as those focused on long-term services and support, HIV/AIDS, foster care, behavioral health and/or substance abuse disorders, and intellectual disabilities or developmental disabilities, among others.
- FEHB members consist of United States government employees and their dependents within our geographic markets through our participation in the national contract between the BCBSA and the U.S. Office of Personnel Management.

The following table presents our medical membership by reportable segment and customer type as of September 30, 2021 and 2020. Also included below is other membership by product. The medical membership and other membership data presented are unaudited and in certain instances include estimates of the number of members represented by each contract at the end of the period.

	September 30			
(In thousands)	**2021**	**2020**	**Change**	**% Change**
Medical Membership				
Commercial & Specialty Business:				
Individual	769	701	68	9.7 %
Group Risk-Based	3,946	3,774	172	4.6 %
Commercial Risk-Based	4,715	4,475	240	5.4 %
BlueCard®	6,166	6,106	60	1.0 %
Group Fee-Based	19,370	19,508	(138)	(0.7)%
Commercial Fee-Based	25,536	25,614	(78)	(0.3)%
Total Commercial & Specialty Business	30,251	30,089	162	0.5 %
Government Business:				
Medicare Advantage	1,853	1,416	437	30.9 %
Medicare Supplement	947	933	14	1.5 %
Total Medicare	2,800	2,349	451	19.2 %
Medicaid	10,391	8,569	1,822	21.3 %
Federal Employees Health Benefits	1,629	1,618	11	0.7 %
Total Government Business	14,820	12,536	2,284	18.2 %
Total Medical Membership	45,071	42,625	2,446	5.7 %
Other Membership				
Life and Disability Members	4,695	5,029	(334)	(6.6)%
Dental Members	6,637	6,356	281	4.4 %
Dental Administration Members	1,486	1,315	171	13.0 %
Vision Members	7,974	7,487	487	6.5 %
Medicare Part D Standalone Members	438	405	33	8.1 %

Medical Membership

Total medical membership increased primarily due to growth in our Government Business, which was driven primarily by increases in our Medicaid membership, including organic growth resulting from the temporary suspension of eligibility recertification during the COVID-19 pandemic, growth resulting from our acquisition of MMM on June 29, 2021 and the launch of our HealthyBlue managed care alliance in North Carolina. Our Medicare Advantage membership also increased due to organic growth. Increases in Group risked-based membership resulting from sales exceeding lapses and increases in Individual membership due to our ACA expansion in 2021 also contributed to overall membership increases. Declines in our Group fee-based membership due to in-group attrition likely attributable to the COVID-19 pandemic partially offset the increases in our medical membership.

Other Membership

Our other membership can be impacted by changes in our medical membership, as our medical members often purchase our other products that are ancillary to our health business. Life and disability membership decreased primarily due to the loss of a Group risked-based account and membership decreases in our Group fee-based business. Dental membership increased primarily due to higher sales in our Individual and Group risk-based accounts and growth in our FEHB program. Dental administration membership increased due to growth in our FEHB program. Vision membership increased as a result of growth in our Medicare business.

Consolidated Results of Operations

Our consolidated summarized results of operations and other financial information for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30		Change: Three Months Ended September 30, 2021 vs. 2020		Change: Nine Months Ended September 30, 2021 vs. 2020	
	2021	2020	2021	2020	$	%	$	%
Total operating revenue	$ 35,548	$ 30,649	$ 100,925	$ 89,275	$ 4,899	16.0 %	$ 11,650	13.0 %
Net investment income	335	280	1,026	591	55	19.6 %	435	73.6 %
Net realized (losses) gains on financial instruments	(61)	229	107	177	(290)	NM	(70)	(39.5)%
Total revenues	35,822	31,158	102,058	90,043	4,664	15.0 %	12,015	13.3 %
Benefit expense	26,645	22,921	75,107	63,957	3,724	16.2 %	11,150	17.4 %
Cost of products sold	2,898	2,222	7,825	6,431	676	30.4 %	1,394	21.7 %
Selling, general and administrative expense	3,946	5,305	11,692	13,132	(1,359)	(25.6)%	(1,440)	(11.0)%
Other expense[1]	337	321	909	896	16	5.0 %	13	1.5 %
Total expenses	33,826	30,769	95,533	84,416	3,057	9.9 %	11,117	13.2 %
Income before income tax expense	1,996	389	6,525	5,627	1,607	413.1 %	898	16.0 %
Income tax expense	494	167	1,555	1,606	327	195.8 %	(51)	(3.2)%
Net income	$ 1,502	$ 222	$ 4,970	$ 4,021	$ 1,280	576.6 %	$ 949	23.6 %
Net loss (income) attributable to noncontrolling interests	7	—	(3)	—	7	NM	(3)	NM
Shareholders' net income	$ 1,509	$ 222	$ 4,967	$ 4,021	$ 1,287	579.7 %	$ 946	23.5 %
Average diluted shares outstanding	246.0	254.2	247.2	255.3	(8.2)	(3.2)%	(8.1)	(3.2)%
Diluted shareholders' net income per share	$ 6.13	$ 0.87	$ 20.09	$ 15.75	$ 5.26	604.6 %	$ 4.34	27.6 %
Effective tax rate	24.7 %	42.9 %	23.8 %	28.5 %		(1820) bp[3]		(470) bp[3]
Benefit expense ratio[2]	87.7 %	86.8 %	86.7 %	83.1 %		90 bp[3]		360 bp[3]
Selling, general and administrative expense ratio[4]	11.1 %	17.3 %	11.6 %	14.7 %		(620) bp[3]		(310) bp[3]
Income before income tax expense as a percentage of total revenues	5.6 %	1.2 %	6.4 %	6.2 %		440 bp[3]		20 bp[3]
Shareholders' net income as a percentage of total revenues	4.2 %	0.7 %	4.9 %	4.5 %		350 bp[3]		40 bp[3]

Certain of the following definitions are also applicable to all other results of operations tables in this discussion:

NM Not meaningful.

1 Includes interest expense, amortization of other intangible assets and loss on extinguishment of debt.

2 Benefit expense ratio represents benefit expense as a percentage of premium revenue. Premiums for the three months ended September 30, 2021 and 2020 were $30,395 and $26,392, respectively. Premiums for the nine months ended September 30, 2021 and 2020 were $86,604 and $77,001, respectively.

3 bp = basis point; one hundred basis points = 1%.

4 Selling, general and administrative expense ratio represents selling, general and administrative expense as a percentage of total operating revenue.

Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020

Total operating revenue increased primarily as a result of higher premium revenue due mainly to membership growth in our Government Business segment, including related to our acquisition of MMM, and increased product revenue in our IngenioRx segment. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021.

Net investment income increased primarily due to increases in income from other invested assets, partially offset by declines in fixed maturity income due to lower yields on fixed maturity securities.

We recognized net realized losses on financial instruments for the three months ended September 30, 2021 compared to net realized gains on financial instruments for the three months ended September 30, 2020. The change was primarily due to the fair value of equity securities still held moving from gains to losses, which is recorded in earnings.

Benefit expense increased primarily due to cost increases resulting from membership growth in our Medicaid and Medicare businesses, including related to our acquisition of MMM and increased COVID-19 healthcare costs for both our Commercial & Specialty Business and Government Business segments.

Our benefit expense ratio increased primarily due to the repeal of the HIP Fee for 2021, partially offset by the impact of negative rate adjustments within our Medicaid business in 2020.

Cost of products sold reflects the cost of pharmaceuticals dispensed by IngenioRx for our unaffiliated PBM customers. Cost of products sold increased as the corresponding pharmacy product revenues increased.

Selling, general and administrative expense decreased primarily due to the absence of charges in 2021 for our business optimization initiatives and the BCBSA litigation accrual that were both recognized during the third quarter of 2020, as well as the repeal of the HIP Fee for 2021. These decreases were partially offset by increased costs to support growth in our businesses.

Our selling, general and administrative expense ratio decreased primarily due to the absence of charges in 2021 for our business optimization initiatives and the BCBSA litigation accrual which were both recognized in the third quarter of 2020, increased operating revenue in 2021 and the repeal of the HIP Fee for 2021. These items were partially offset by increased costs to support growth in our businesses.

Our effective income tax rate decreased primarily due to the repeal of the HIP Fee, for years after 2020, applied to our quarterly results, which in 2020, included the impact of expenses for business optimization initiatives and the BCBSA litigation accrual recognized during the three months ended September 30, 2020.

Our shareholders' net income as a percentage of total revenues increased in 2021 as compared to 2020 as a result of all factors discussed above.

Nine Months Ended September 30, 2021 Compared to the Nine Months Ended September 30, 2020

Total operating revenue increased primarily as a result of higher premium revenue due mainly to membership growth in our Government Business segment, including the acquisition of MMM, and increased product revenue in our IngenioRx segment. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021.

Net investment income increased primarily due to increases in income from other invested assets, partially offset by declines in fixed maturity income due to lower yields on fixed maturity securities.

Net realized gains on financial instruments decreased primarily due to a change from gains to losses in the fair value of equity securities still held, which is recorded in earnings, partially offset by a change from losses to gains on other invested assets and higher net realized gains on fixed maturity securities.

Benefit expense increased primarily due to cost increases resulting from membership growth in our non-MMM Medicaid and Medicare businesses and increased COVID-19 and non-COVID-19 healthcare costs for both our Commercial & Specialty Business and Government Business segments.

Our benefit expense ratio increased primarily due to increased COVID-19 and non-COVID-19 healthcare costs for both our Commercial & Specialty Business and Government Business segments, and, to a lesser extent, the repeal of the HIP Fee for 2021.

Cost of products sold reflects the cost of pharmaceuticals dispensed by IngenioRx for our unaffiliated PBM customers. Cost of products sold increased as the corresponding pharmacy product revenues increased.

Selling, general and administrative expense decreased primarily due to the absence of charges in 2021 for our business optimization initiatives and the BCBSA litigation accrual recognized during the third quarter of 2020, as well as the repeal of the HIP Fee for 2021. These decreases were partially offset by increased costs to support growth in our businesses.

Our selling, general and administrative expense ratio decreased primarily due to increased operating revenue in 2021, the absence of charges in 2021 for our business optimization initiatives and the BCBSA litigation accrual recognized in the third quarter of 2020 and the repeal of the HIP Fee for 2021. These items were partially offset by increased costs to support growth in our businesses.

Our effective income tax rate decreased primarily due to the repeal of the HIP Fee for 2021, which was non-deductible for tax purposes.

Our shareholders' net income as a percentage of total revenues increased in 2021 as compared to 2020 as a result of all factors discussed above.

Reportable Segments Results of Operations

Our results of operations discussed throughout this MD&A are determined in accordance with U.S. generally accepted accounting principles ("GAAP"). We also calculate operating gain and operating margin to further aid investors in understanding and analyzing our core operating results and comparing them among periods. We define operating revenue as premium income, product revenue and administrative fees and other revenue. Operating gain is calculated as total operating revenue less benefit expense, cost of products sold and selling, general and administrative expense. It does not include net investment income, net realized gains (losses) on financial instruments, interest expense, amortization of other intangible assets, loss on extinguishment of debt or income taxes, as these items are managed in our corporate shared service environment and are not the responsibility of operating segment management. Operating margin is calculated as operating gain divided by operating revenue. We use these measures as a basis for evaluating segment performance, allocating resources, forecasting future operating periods and setting incentive compensation targets. This information is not intended to be considered in isolation or as a substitute for income before income tax expense, shareholders' net income or EPS prepared in accordance with GAAP, and may not be comparable to similarly titled measures reported by other companies. For a reconciliation of reportable segments' operating revenue to the amounts of total revenue included in the consolidated statements of income and a reconciliation of reportable segments' operating gain to income before income tax expense, see Note 15, "Segment Information," of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Results of our operations are described through four reportable segments: Commercial & Specialty Business, Government Business, IngenioRx and Other. For additional information, see Note 15, "Segment Information," of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

The following table presents a summary of the reportable segment financial information for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30		Nine Months Ended September 30		Change			
					Three Months Ended September 30		Nine Months Ended September 30	
					2021 vs 2020		2021 vs 2020	
	2021	2020	2021	2020	$	%	$	%
Operating Revenue								
Commercial & Specialty Business	$ 9,863	$ 9,326	$ 28,904	$ 27,476	$ 537	5.8 %	$ 1,428	5.2 %
Government Business	21,658	18,101	61,007	52,809	3,557	19.7 %	8,198	15.5 %
IngenioRx	6,549	5,582	18,630	16,048	967	17.3 %	2,582	16.1 %
Other	2,670	1,798	7,557	4,277	872	48.5 %	3,280	76.7 %
Eliminations	(5,192)	(4,158)	(15,173)	(11,335)	(1,034)	NM	(3,838)	NM
Total operating revenue	$ 35,548	$ 30,649	$ 100,925	$ 89,275	$ 4,899	16.0 %	$ 11,650	13.0 %
Operating Gain (Loss)								
Commercial & Specialty Business[1]	$ 620	$ (234)	$ 2,679	$ 2,558	$ 854	NM	$ 121	4.7 %
Government Business[2]	967	246	2,313	2,275	721	293.1 %	38	1.7 %
IngenioRx[3]	445	345	1,257	998	100	29.0 %	259	26.0 %
Other[4]	27	(156)	52	(76)	183	NM	128	NM
Operating Margin								
Commercial & Specialty Business	6.3 %	(2.5)%	9.3 %	9.3 %		880 bp		0 bp
Government Business	4.5 %	1.4 %	3.8 %	4.3 %		310 bp		(50) bp
IngenioRx	6.8 %	6.2 %	6.7 %	6.2 %		60 bp		50 bp

1 Includes expenses of $566 for the BCBSA litigation accrual and $299 for business optimization initiatives recognized in the three and nine months ended September 30, 2020.
2 Includes expenses of $183 for business optimization initiatives and $28 for the BCBSA litigation accrual recognized in the three and nine months ended September 30, 2020.
3 Includes expenses of $3 for business optimization initiatives recognized in the three and nine months ended September 30, 2020.
4 Includes expenses of $122 for business optimization initiatives recognized in the three and nine months ended September 30, 2020.

Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020

Commercial & Specialty Business

Operating revenue increased primarily due to increased membership in our Commercial risk-based businesses, premium rate increases in our Commercial risk-based businesses designed to cover medical cost trends and administrative fee increases in our Group fee-based business. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021.

Operating gain increased primarily due to the absence of charges in 2021 for the BCBSA litigation accrual and our business optimization initiatives, which were both recognized during the third quarter of 2020.

Government Business

Operating revenue increased primarily due to higher premium revenue growth in our non-MMM Medicaid business, driven by the temporary suspension of eligibility recertification, which will remain suspended at least until the first quarter of 2022. The acquisition of MMM on June 29, 2021 and non-MMM membership growth in our Medicare business also contributed to the operating revenue growth. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021.

The increase in operating gain was primarily driven by the impact of negative rate adjustments within our Medicaid business in 2020 related to COVID-19, the absence of charges in 2021 for our business optimization initiatives recognized during the third quarter of 2020 and membership growth in our Medicaid and Medicare businesses, including related to the acquisition of MMM on June 29, 2021.

IngenioRx

Operating revenue increased as a result of higher drug spend from IngenioRx customers, including spend related to increased Medicaid membership within our Government Business segment.

The increase in operating gain was primarily driven by growth in integrated medical and pharmacy members in 2021.

Other

Operating revenue increased primarily due to higher administrative fees and other revenue for services performed by our Diversified Business Group for our Commercial & Specialty Business and Government Business segments.

We recognized an operating gain for the three months ended September 30, 2021 compared to an operating loss for the three months ended September 30, 2020. The change was primarily driven by the absence of charges in 2021 for our business optimization initiatives recognized during the third quarter of 2020 and a decline in unallocated corporate expenses in 2021.

Nine Months Ended September 30, 2021 Compared to the Nine Months Ended September 30, 2020

Commercial & Specialty Business

Operating revenue increased primarily due to premium rate increases in our Group risk-based business designed to cover medical cost trends, increased membership in our Commercial risk-based businesses, administrative fee increases in our Group fee-based business and the non-recurring premium credits provided to members enrolled in select Group and Individual health plans in response to the COVID-19 pandemic in the second quarter of 2020. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021.

Operating gain increased primarily due to the absence of charges in 2021 for the BCBSA litigation accrual and our business optimization initiatives, that were both recognized during the third quarter of 2020, as well as the non-recurring premium credits that were provided to members enrolled in select Group and Individual health plans in response to the COVID-19 pandemic in the second quarter of 2020. These increases were partially offset by increased COVID-19 and non-COVID-19 healthcare costs in 2021.

Government Business

Operating revenue increased primarily due to higher premium revenue growth in our non-MMM Medicaid business, driven by the temporary suspension of eligibility recertification, which will remain suspended at least until the first quarter of 2022. Non-MMM membership growth in our Medicare business and the acquisition of MMM on June 29, 2021 also contributed to operating revenue growth. These increases were partially offset by the impact of lower premium revenue associated with the repeal of the HIP Fee for 2021, increased experience-rated refunds in our Medicaid business and lower risk revenue.

The increase in operating gain was primarily driven by increased revenue resulting from membership growth in our Medicaid and Medicare businesses, including related to the acquisition of MMM on June 29, 2021 and the absence of charges in 2021 for our business optimization initiatives recognized during the third quarter of 2020. These increases were partially offset by an increase in COVID-19 and non-COVID-19 healthcare costs, increased experience-rated refunds in our Medicare business and lower risk revenue.

IngenioRx

Operating revenue increased as a result of higher drug spend from IngenioRx customers, including spend related to increased Medicaid membership within our Government Business segment.

The increase in operating gain was primarily driven by growth in integrated medical and pharmacy members in 2021.

Other

Operating revenue increased primarily due to higher administrative fees and other revenue for services performed by our Diversified Business Group for our Commercial & Specialty Business and Government Business segments.

We recognized an operating gain for the nine months ended September 30, 2021 compared to an operating loss for the nine months ended September 30, 2020. The change was primarily driven by the absence of charges in 2021 for our business optimization initiatives recognized during the third quarter of 2020 and a decline in unallocated corporate expenses in 2021, partially offset by an increase in non-COVID 19 utilization impacting the risk sharing arrangements within the Diversified Business Group, as utilization was depressed during the nine months ended September 30, 2020.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with GAAP. Application of GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes and within this MD&A. We consider our most important accounting policies that require significant estimates and management judgment to be those policies with respect to liabilities for medical claims payable, income taxes, goodwill and other intangible assets, investments and retirement benefits. Our accounting policies related to these items are discussed in our 2020 Annual Report on Form 10-K in Note 2, “Basis of Presentation and Significant Accounting Policies,” to our audited consolidated financial statements as of and for the year ended December 31, 2020, as well as in the “Critical Accounting Policies and Estimates” section of Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” As of September 30, 2021, our critical accounting policies and estimates have not changed from those described in our 2020 Annual Report on Form 10-K.

Medical Claims Payable

The most subjective accounting estimate in our consolidated financial statements is our liability for medical claims payable. Our accounting policies related to medical claims payable are discussed in the references cited above. As of September 30, 2021, our critical accounting policies and estimates related to medical claims payable have not changed from those described in our 2020 Annual Report on Form 10-K. For a reconciliation of the beginning and ending balance for medical claims payable for the nine months ended September 30, 2021 and 2020, see Note 9, “Medical Claims Payable,” of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

The following table provides a summary of the two key assumptions having the most significant impact on our incurred but not paid liability estimates for the nine months ended September 30, 2021 and 2020, which are the trend and completion factors. These two key assumptions can be influenced by utilization levels, unit costs, mix of business, benefit plan designs, provider reimbursement levels, processing system conversions and changes, claim inventory levels, claim processing patterns, claim submission patterns and operational changes resulting from business combinations. The impact from COVID-19 on healthcare utilization and medical claims submission patterns continues to provide increased estimation uncertainty on our incurred but not reported liability at September 30, 2021.

	Favorable Developments by Changes in Key Assumptions	
	Nine Months Ended September 30	
	2021	2020
Assumed trend factors	$ 1,443	$ 606
Assumed completion factors	379	94
Total	$ 1,822	$ 700

The favorable development recognized in the nine months ended September 30, 2021 and 2020 resulted primarily from trend factors in late 2020 and late 2019, respectively, developing more favorably than originally expected. Favorable development in the completion factors resulting from the latter parts of 2020 and 2019 developing faster than expected also contributed to the favorability.

The ratio of current year medical claims paid as a percent of current year net medical claims incurred was 83.8% and 85.3% for the nine months ended September 30, 2021 and 2020, respectively. This ratio serves as an indicator of claims processing speed whereby claims payments slowed down slightly during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. This was driven by the strengthening of incurred but not reported claims, within our medical claims payable, to account for an increase in overall payment cycle time.

We calculate the percentage of prior year redundancies in the current period as a percent of prior year net medical claims payable less prior year redundancies in the current period in order to demonstrate the development of prior year reserves. For the nine months ended September 30, 2021, this metric was 19.7%, largely driven by favorable trend factor development at the end of 2020 as well as favorable completion factor development from 2019 and 2020. For the nine months ended September 30, 2020, this metric was 8.8%, largely driven by favorable trend factor development at the end of 2019 as well as favorable completion factor development from 2019.

We calculate the percentage of prior year redundancies in the current period as a percent of prior year net incurred medical claims to indicate the percentage of redundancy included in the preceding year calculation of current year net incurred medical claims. We believe this calculation supports the reasonableness of our prior year estimate of incurred medical claims and the consistency in our methodology. For the nine months ended September 30, 2021, this metric was 2.2%, which was calculated using the redundancy of $1,822. For the nine months ended September 30, 2020, the comparable metric was 0.9%, which was calculated using the redundancy of $700. We believe these metrics demonstrate an appropriate level of reserve conservatism.

New Accounting Pronouncements

For information regarding new accounting pronouncements that were adopted and new accounting pronouncements that were issued during the nine months ended September 30, 2021, see the "*Recently Adopted Accounting Guidance*" and "*Recent Accounting Guidance Not Yet Adopted*" sections of Note 2, "Basis of Presentation and Significant Accounting Policies," of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Liquidity and Capital Resources

Sources and Uses of Capital

Our cash receipts result primarily from premiums, product revenue, administrative fees and other revenue, investment income, proceeds from the sale or maturity of our investment securities, proceeds from borrowings, and proceeds from the issuance of common stock under our employee stock plans. Cash disbursements result mainly from claims payments, administrative expenses, taxes, purchases of investment securities, interest expense, payments on borrowings, acquisitions, capital expenditures, repurchases of our debt securities and common stock and the payment of cash dividends. Cash outflows fluctuate with the amount and timing of settlement of these transactions. Any future decline in our profitability would likely have an unfavorable impact on our liquidity.

For a more detailed overview of our liquidity and capital resources management, see the "*Introduction*" section included in the "Liquidity and Capital Resources" section of Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2020 Annual Report on Form 10-K.

For additional information regarding our sources and uses of capital during the three and nine months ended September 30, 2021, see Note 6, "Derivative Financial Instruments," Note 10, "Debt," and Note 12, "Capital Stock – *Use of Capital – Dividends and Stock Repurchase Program*," of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Liquidity

A summary of our major sources and uses of cash and cash equivalents for the nine months ended September 30, 2021 and 2020 is as follows:

	Nine Months Ended September 30		2021 vs. 2020
	2021	**2020**	**Change**
Sources of Cash:			
Net cash provided by operating activities	$ 6,692	$ 6,875	$ (183)
Issuances of commercial paper and short- and long-term debt, net of repayments	2,533	570	1,963
Proceeds from issuance of common stock under employee stock plans	161	112	49
Other sources of cash, net	173	474	(301)
Total sources of cash	9,559	8,031	1,528
Uses of Cash:			
Purchases of investments, net of proceeds from sales, maturities, calls and redemptions	(3,403)	(4,207)	804
Purchases of subsidiaries, net of cash acquired	(3,442)	(1,973)	(1,469)
Repurchase and retirement of common stock	(1,378)	(1,342)	(36)
Purchases of property and equipment	(747)	(743)	(4)
Cash dividends	(831)	(720)	(111)
Total uses of cash	(9,801)	(8,985)	(816)
Effect of foreign exchange rates on cash and cash equivalents	(9)	1	(10)
Net decrease in cash and cash equivalents	$ (251)	$ (953)	$ 702

The decrease in cash provided by operating activities was primarily driven by the timing of working capital changes, partially offset by higher net income in 2021.

Other significant changes in sources or uses of cash year-over-year included an increase in net proceeds received from the issuance of commercial paper and short-term and long-term debt, net of repayments, an increase in cash paid for the purchase of subsidiaries, net of cash acquired, and a decrease in purchases of investments, net of proceeds from sales, maturities, calls and redemptions.

Financial Condition

We maintained a strong financial condition and liquidity position, with consolidated cash, cash equivalents and investments in fixed maturity and equity securities of $34,582 at September 30, 2021. Since December 31, 2020, total cash, cash equivalents and investments in fixed maturity and equity securities increased by $3,287, primarily due to cash generated from operations and net proceeds from the issuance of commercial paper and short-term and long-term debt. The increase was partially offset by cash used for acquisitions, common stock repurchases, dividends paid to shareholders and purchases of property and equipment.

Many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Certain accounting practices prescribed by insurance regulatory authorities, or statutory accounting practices, differ from GAAP. Changes that occur in statutory accounting practices, if any, could impact our subsidiaries' future dividend capacity. In addition, we have agreed to certain undertakings to regulatory authorities, including requirements to maintain certain capital levels in certain of our subsidiaries.

At September 30, 2021, we held $1,360 of cash, cash equivalents and investments at the parent company, which are available for general corporate use, including investment in our businesses, acquisitions, potential future common stock repurchases and dividends to shareholders, repurchases of debt securities and debt and interest payments.

Debt

Periodically, we access capital markets and issue debt ("Notes") for long-term borrowing purposes, for example, to refinance debt, to finance acquisitions or for share repurchases. Certain of these Notes may have a call feature that allows us to redeem the Notes at any time at our option and/or a put feature that allows a Note holder to redeem the Notes upon the occurrence of both a change in control event and a downgrade of the Notes below an investment grade rating. For more information on our debt, including redemptions and issuances, see Note 10, "Debt," of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

We calculate our consolidated debt-to-capital ratio, a non-GAAP measure, from the amounts presented on our consolidated balance sheets included in Part I, Item 1 of this Form 10-Q. Our debt-to-capital ratio is calculated as total debt divided by total debt plus total shareholders' equity. Total debt is the sum of short-term borrowings, current portion of long-term debt and long-term debt, less current portion. We believe our debt-to-capital ratio assists investors and rating agencies in measuring our overall leverage and additional borrowing capacity. In addition, our bank covenants include a maximum debt-to-capital ratio that we cannot and did not exceed. Our debt-to-capital ratio may not be comparable to similarly titled measures reported by other companies. Our consolidated debt-to-capital ratio was 38.9% and 37.6% as of September 30, 2021 and December 31, 2020, respectively. The increase in our consolidated debt-to-capital ratio was primarily due to the debt issued in our March 2021 Notes offering, offset by our redemption of Notes in May 2021.

Our senior debt is rated "A" by S&P Global Ratings, "BBB" by Fitch Ratings, Inc., "Baa2" by Moody's Investor Service, Inc. and "bbb+" by AM Best Company, Inc. We intend to maintain our senior debt investment grade ratings. If our credit ratings are downgraded, our business, liquidity, financial condition and results of operations could be adversely impacted by limitations on future borrowings and a potential increase in our borrowing costs.

Future Sources and Uses of Liquidity

We have a senior revolving credit facility (the "5-Year Facility") with a group of lenders for general corporate purposes. The 5-Year Facility provides credit up to $2,500 and matures in June 2024. On June 3, 2021, we terminated our 364-day senior revolving credit facility, which was scheduled to mature in June 2021 (the "prior 364-Day Facility"), and entered into a new 364-day senior revolving credit facility (the "new 364-Day Facility" and together with the 5-Year Facility, the "Credit Facilities") with a group of lenders for general corporate purposes. The new 364-Day Facility provides for credit in the amount of $1,000 and matures in June 2022. Our ability to borrow under these Credit Facilities is subject to compliance with certain covenants, including covenants requiring us to maintain a defined debt-to-capital ratio of not more than 60%, subject to increase in certain circumstances set forth in the applicable credit agreement. As of September 30, 2021, our debt-to-capital ratio, as defined and calculated under the Credit Facilities, was 38.9%. We do not believe the restrictions contained in any of our Credit Facility covenants materially affect our financial or operating flexibility. As of September 30, 2021, we were in compliance with all of the debt covenants under these Credit Facilities. There were no amounts outstanding under the prior 364-Day Facility or the new 364-Day Facility at any time during the nine months ended September 30, 2021 or the year ended December 31, 2020. At September 30, 2021 and December 31, 2020, there were no amounts outstanding under our 5-Year Facility.

We have an authorized commercial paper program of up to $3,500, the proceeds of which may be used for general corporate purposes. Should commercial paper issuance become unavailable, we intend to use a combination of cash on hand and/or our Credit Facilities, which provide for combined credit up to $3,500, to redeem any outstanding commercial paper upon maturity. While there is no assurance in the current economic environment, we believe the lenders participating in our Credit Facilities, if market conditions allow, will be willing to provide financing in accordance with their legal obligations. At September 30, 2021, we had $100 outstanding under our commercial paper program.

We have a shelf registration statement on file with the U.S. Securities and Exchange Commission to register an unlimited amount of any combination of debt or equity securities in one or more offerings. Specific information regarding terms and securities being offered will be provided at the time of an offering. Proceeds from future offerings are expected to be used for general corporate purposes, including, but not limited to, the repayment of debt, investments in or extensions of credit to our subsidiaries, the financing of possible acquisitions or business expansions or the repurchase of shares of our common stock.

We regularly review the appropriate use of capital, including acquisitions, common stock and debt security repurchases and dividends to shareholders. The declaration and payment of any dividends or repurchases of our common stock or debt is at the discretion of our Board of Directors and depends upon our financial condition, results of operations, future liquidity needs, regulatory and capital requirements and other factors deemed relevant by our Board of Directors.

For additional information regarding our sources and uses of capital at September 30, 2021, see Note 5, “Investments,” Note 6, “Derivative Financial Instruments,” Note 10, “Debt,” and Note 12, “Capital Stock – *Use of Capital – Dividends and Stock Repurchase Program*,” of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Risk-Based Capital

Our regulated subsidiaries’ states of domicile have statutory risk-based capital (“RBC”) requirements for health and other insurance companies and health maintenance organizations largely based on the National Association of Insurance Commissioners (“NAIC”) Risk-Based Capital (RBC) for Insurers Model Act (the “RBC Model Act”). These RBC requirements are intended to measure capital adequacy, taking into account the risk characteristics of an insurer’s investments and products. The NAIC sets forth the formula for calculating the RBC requirements, which are designed to take into account asset risks, insurance risks, interest rate risks and other relevant risks with respect to an individual insurance company’s business. In general, under the RBC Model Act, an insurance company must submit a report of its RBC level to the state insurance department or insurance commissioner, as appropriate, at the end of each calendar year. Our regulated subsidiaries’ respective RBC levels as of December 31, 2020, which was the most recent date for which reporting was required, were in excess of all mandatory RBC requirements. In addition to exceeding the RBC requirements, we are in compliance with the liquidity and capital requirements for a licensee of the BCBSA and with the tangible net equity requirements applicable to certain of our California subsidiaries.

For additional information, see Note 22, “Statutory Information,” in our audited consolidated financial statements as of and for the year ended December 31, 2020 included in our 2020 Annual Report on Form 10-K.

Contractual Obligations and Commitments

We believe that funds from future operating cash flows, cash and investments and funds available under our 5-Year Facility and our new 364-Day Facility senior revolving credit facilities and/or from public or private financing sources will be sufficient for future operations and commitments, and for capital acquisitions and other strategic transactions.

There have been no material changes to our Contractual Obligations and Commitments disclosure in our 2020 Annual Report on Form 10-K other than an increase in our borrowings. For additional information regarding our estimated contractual obligations and commitments, see Note 6, “Derivative Financial Instruments,” Note 10, “Debt,” and the “*Other Contingencies*” and “*Contractual Obligations and Commitments*” sections of Note 11 “Commitments and Contingencies,” of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect our views about future events and financial performance and are generally not historical facts. Words such as "expect," "feel," "believe," "will," "may," "should," "anticipate," "intend," "estimate," "project," "forecast," "plan" and similar expressions are intended to identify forward-looking statements. These statements include, but are not limited to: financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. You are also urged to carefully review and consider the various risks and other disclosures discussed in our reports filed with the U.S. Securities and Exchange Commission from time to time, which attempt to advise interested parties of the factors that affect our business. Except to the extent otherwise required by federal securities laws, we do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof. These risks and uncertainties include, but are not limited to: the impact of large scale medical emergencies, such as public health epidemics and pandemics, including COVID-19, and catastrophes; trends in healthcare costs and utilization rates; our ability to secure sufficient premium rates, including regulatory approval for and implementation of such rates; the impact of federal and state regulation, including ongoing changes in the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, as amended; changes in economic and market conditions, as well as regulations that may negatively affect our liquidity and investment portfolios; our ability to contract with providers on cost-effective and competitive terms; competitive pressures and our ability to adapt to changes in the industry and develop and implement strategic growth opportunities; reduced enrollment; unauthorized disclosure of member or employee sensitive or confidential information, including the impact and outcome of any investigations, inquiries, claims and litigation related thereto; risks and uncertainties regarding Medicare and Medicaid programs, including those related to non-compliance with the complex regulations imposed thereon; our ability to maintain and achieve improvement in Centers for Medicare and Medicaid Services Star ratings and other quality scores and funding risks with respect to revenue received from participation therein; a negative change in our healthcare product mix; costs and other liabilities associated with litigation, government investigations, audits or reviews; risks and uncertainties related to our pharmacy benefit management ("PBM") business, including non-compliance by any party with the PBM services agreement between us and CaremarkPCS Health, L.L.C.; medical malpractice or professional liability claims or other risks related to healthcare and PBM services provided by our subsidiaries; general risks associated with mergers, acquisitions, joint ventures and strategic alliances; changes in U.S. tax laws; possible impairment of the value of our intangible assets if future results do not adequately support goodwill and other intangible assets; possible restrictions in the payment of dividends from our subsidiaries and increases in required minimum levels of capital; our ability to repurchase shares of our common stock and pay dividends on our common stock due to the adequacy of our cash flow and earnings and other considerations; the potential negative effect from our substantial amount of outstanding indebtedness; a downgrade in our financial strength ratings; the effects of any negative publicity related to the health benefits industry in general or us in particular; failure to effectively maintain and modernize our information systems; events that may negatively affect our licenses with the Blue Cross and Blue Shield Association; the impact of international laws and regulations; intense competition to attract and retain employees; and various laws and provisions in our governing documents that may prevent or discourage takeovers and business combinations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of our market risks, refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” included in our 2020 Annual Report on Form 10-K. There have been no material changes to any of these risks since December 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation as of September 30, 2021, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be disclosed in our reports under the Exchange Act. In addition, based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings at September 30, 2021, see the “*Litigation and Regulatory Proceedings*,” and “*Other Contingencies*” sections of Note 11, “Commitments and Contingencies” of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q, which information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in our 2020 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table presents information related to our repurchases of common stock for the periods indicated:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs[2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
(in millions, except share and per share data)				
July 1, 2021 to July 31, 2021	442,555	$ 385.96	432,400	$ 4,998
August 1, 2021 to August 31, 2021	497,244	375.96	495,759	4,812
September 1, 2021 to September 30, 2021	269,524	372.85	260,806	4,714
	1,209,323		1,188,965	

1 Total number of shares purchased includes 20,358 shares delivered to or withheld by us in connection with employee payroll tax withholding upon the exercise or vesting of stock awards. Stock grants to employees and directors and stock issued for stock option plans and stock purchase plans in the consolidated statements of shareholders' equity are shown net of these shares purchased.

2 Represents the number of shares repurchased through the common stock repurchase program authorized by our Board of Directors, which the Board of Directors evaluates periodically. During the three months ended September 30, 2021, we repurchased 1,188,965 shares at a total cost of $450 under the program, including the cost of options to purchase shares. The Board of Directors has authorized our common stock repurchase program since 2003. The most recent authorized increase to the program was $5,000 on January 26, 2021 by our Audit Committee, pursuant to authorization granted by the Board of Directors. No duration has been placed on our common stock repurchase program, and we reserve the right to discontinue the program at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit
3.1	Amended and Restated Articles of Incorporation of the Company, as amended and restated effective May 15, 2019, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 15, 2019.
3.2	Bylaws of the Company, as amended effective September 30, 2020, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 6, 2020.
4.7	Upon the request of the U.S. Securities and Exchange Commission, the Company will furnish copies of any other instruments defining the rights of holders of long-term debt of the Company or its subsidiaries.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following material from Anthem, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Shareholders' Equity; and (vi) Notes to Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File formatted in Inline XBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANTHEM, INC.
Registrant

October 20, 2021	By:	/s/ John E. Gallina
		John E. Gallina Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
October 20, 2021	By:	/s/ Ronald W. Penczek
		Ronald W. Penczek Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE EXCHANGE ACT RULES,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gail K. Boudreaux, certify that:

1. I have reviewed this report on Form 10-Q of Anthem, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 20, 2021

/s/ GAIL K. BOUDREAUX
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE EXCHANGE ACT RULES,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John E. Gallina, certify that:

1. I have reviewed this report on Form 10-Q of Anthem, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 20, 2021

/s/ JOHN E. GALLINA
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Anthem, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gail K. Boudreaux, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GAIL K. BOUDREAUX

Gail K. Boudreaux
President and Chief Executive Officer
October 20, 2021

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Anthem, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John E. Gallina, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN E. GALLINA

John E. Gallina
Executive Vice President and Chief Financial Officer
October 20, 2021