

**CIGNA CORPORATION**

**FIRST QUARTER 2008 INVESTOR TELECONFERENCE**  
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**THURSDAY, MAY 1, 2008**

**H. EDWARD HANWAY – CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER**

**MICHAEL W. BELL – EXECUTIVE VICE PRESIDENT AND  
CHIEF FINANCIAL OFFICER**

**DAVID M. CORDANI – PRESIDENT, CIGNA HEALTHCARE**

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INVESTOR RELATIONS**

**NOTE: CIGNA has made editorial changes to this transcript.**

*As used herein, "CIGNA" refers to CIGNA Corporation and/or its consolidated subsidiaries.*

**CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

CIGNA and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in CIGNA's filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management's beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include but are not limited to the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends, and, in particular, CIGNA's productivity initiatives, litigation and other legal matters, operational improvement in the health care operations, and the outlook for CIGNA's full year 2008 results. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "may," "should" or similar expressions.

You should not place undue reliance on these forward-looking statements. CIGNA cautions that actual results could differ materially from those that management expects, depending on the outcome of certain factors. Some factors that could cause actual results to differ materially from the forward-looking statements include:

1. increased medical costs that are higher than anticipated in establishing premium rates in CIGNA's health care operations, including increased use and costs of medical services;
2. increased medical, administrative, technology or other costs resulting from new legislative and regulatory requirements imposed on CIGNA's employee benefits businesses;
3. challenges and risks associated with implementing operational improvement initiatives and strategic actions in the health care operations, including those related to: (i) offering products that meet emerging market needs, (ii) strengthening underwriting and pricing effectiveness, (iii) strengthening medical cost and medical membership results, (iv) delivering quality member and provider service using effective technology solutions, and (v) lowering administrative costs;
4. risks associated with pending and potential state and federal class action lawsuits, purported securities class action lawsuits, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging CIGNA's businesses and the outcome of pending government proceedings and federal tax audits;
5. heightened competition, particularly price competition, which could reduce product margins and constrain growth in CIGNA's businesses, primarily the health care business;
6. risks associated with CIGNA's mail order pharmacy business which, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
7. significant changes in interest rates for a sustained period of time;
8. downgrades in the financial strength ratings of CIGNA's insurance subsidiaries, which could, among other things, adversely affect new sales and retention of current business;
9. limitations on the ability of CIGNA's insurance subsidiaries to dividend capital to the parent company as a result of downgrades in the subsidiaries' financial strength ratings, changes in statutory reserve or capital requirements or other financial constraints;
10. inability of the program adopted by CIGNA to substantially reduce equity market risks for reinsurance contracts that guarantee minimum death benefits under certain variable annuities

(including possible market difficulties in entering into appropriate futures contracts and in matching such contracts to the underlying equity risk);

11. adjustments to the reserve assumptions (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating CIGNA's liabilities for reinsurance contracts covering guaranteed minimum death benefits under certain variable annuities;
12. adjustments to the assumptions (including annuity election rates and reinsurance recoverables) used in estimating CIGNA's assets and liabilities for reinsurance contracts that guarantee minimum income benefits under certain variable annuities;
13. significant stock market declines, which could, among other things, result in increased expenses for guaranteed minimum income benefit contracts and pension expenses for CIGNA's pension plan in future periods as well as the recognition of additional pension obligations;
14. unfavorable claims experience related to workers' compensation and personal accident exposures of the run-off reinsurance business, including losses attributable to the inability to recover claims from retrocessionaires;
15. significant deterioration in economic conditions, which could have an adverse effect on CIGNA's operations and investments;
16. changes in public policy and in the political environment, which could affect state and federal law, including legislative and regulatory proposals related to health care issues, which could increase cost and affect the market for CIGNA's health care products and services; and amendments to income tax laws, which could affect the taxation of employer provided benefits, and pension legislation, which could increase pension cost;
17. potential public health epidemics and bio-terrorist activity, which could, among other things, cause CIGNA's covered medical and disability expenses, pharmacy costs and mortality experience to rise significantly, and cause operational disruption, depending on the severity of the event and number of individuals affected;
18. risks associated with security or interruption of information systems, which could, among other things, cause operational disruption;
19. challenges and risks associated with the successful management of CIGNA's outsourcing projects or key vendors, including the agreement with IBM for provision of technology infrastructure and related services;
20. the ability to successfully integrate and operate the businesses acquired from Great-West by, among other things, renewing insurance and administrative services contracts on competitive terms, retaining and growing membership, realizing revenue, expense and other synergies, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel; and
21. the ability of CIGNA to execute its growth plans by successfully managing Great-West's outsourcing arrangements and leveraging CIGNA's capabilities and those of the business acquired from Great-West to further enhance the combined organization's network access position, underwriting effectiveness, delivery of quality member and provider service, and increased penetration of its membership base with differentiated product offerings.

This list of important factors is not intended to be exhaustive. Other sections of CIGNA's most recent Annual Report on Form 10-K, including the "Risk Factors" section, the Cautionary Statement in Management's Discussion and Analysis of Financial Condition and Results of Operations, CIGNA's Form 10-Q for the quarter ended March 31, 2008, and other documents filed with the Securities and Exchange Commission include both expanded discussion of these factors and additional risk factors and uncertainties that could preclude CIGNA from realizing the forward-looking statements. CIGNA does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Ted Detrick (Vice President, Investor Relations):**

Good Morning, everyone, and thank you for joining today's call. I am Ted Detrick, Vice President of Investor Relations. And with me this Morning are Ed Hanway, CIGNA's Chairman and CEO; Mike Bell, CIGNA's Chief Financial Officer; David Cordani, President of CIGNA HealthCare; and Marcia Dall, CIGNA HealthCare's Financial Officer.

In our remarks today, Ed Hanway will begin by discussing highlights of CIGNA's first quarter results. Mike Bell will then review the financial details of the quarter and provide the financial outlook for full year 2008. David Cordani will discuss the HealthCare results and medical membership outlook. And he will also comment on the strategic importance of the Great-West acquisition. Ed will make some concluding remarks, and then we will open the lines for your questions.

Now as noted in our earnings release, CIGNA uses certain financial measures which are not determined in accordance with generally accepted accounting principles, or GAAP, when describing its financial results. Specifically, we use the term labeled "adjusted income from operations" as the principle measure of performance for CIGNA and our operating segments. Adjusted income from operations is defined as income from continuing operations excluding realized investment results, special items, and beginning in 2008, the results of our Guaranteed Minimum Income Benefits business. A reconciliation of adjusted income from operations to income from continuing operations, which is the most directly comparable GAAP measure, is contained in today's earnings release, which was filed this morning on Form 8-K with the Securities and Exchange Commission and is also posted in the Investor Relations section of [cigna.com](http://cigna.com).

Prior period results have been restated to conform to the new basis of reporting adjusted income from operations. And we expect to make available shortly restated quarterly statistical information for the years 2006 and 2007 that reflect this new basis of reporting.

Now in our remarks today, we will be making some forward-looking comments. We would remind you that there are risks factors that could cause actual results to differ materially from our current expectations. And those risk factors are discussed in today's earnings release.

Before turning the call over to Ed, I will cover a few items pertaining to our first quarter results and disclosures. First, CIGNA's quarterly results included an after-tax charge of \$24 million related to litigation matters associated with our HealthCare business. This charge is reported as a special item and therefore is excluded from adjusted income from operations in today's discussion of both our first quarter results and our full year 2008 outlook.

Next, effective January 1<sup>st</sup> of 2008, CIGNA adopted Statement of Financial Accounting Standards No. 157 entitled, "Fair Value Measurements," which clarifies the measurement of, and expands, disclosures regarding the fair valuing of certain assets and liabilities. Now in addition to expanding the fair value disclosures, Statement 157 also affects the results of our Guaranteed Minimum Income Benefits business, otherwise known as GMIB, which is reported in the Run-off insurance segment. This pronouncement requires CIGNA to fair value its GMIB assets and liabilities based on exit values, using current risk-free interest rates, volatility and other market assumptions. Now historically, we have used longer-term averages for our market assumptions. We believe that using an exit value approach to fair value the assets and liabilities of this business is a methodology that does not reflect the underlying economics of the GMIB business.

In total, CIGNA's first quarter net income included after-tax losses of \$195 million, or \$0.69 per share, related to the GMIB business, of which \$131 million, or \$0.46 per share, related to the adoption of Statement 157. I would remind you that the impact of Statement 157 reporting on our GMIB results is for GAAP accounting purposes only and does not represent the actual economics or cash flows of the GMIB

business. Accordingly, the first quarter after-tax losses are non-cash charges and have no effect on our estimates for 2008 subsidiary dividends.

Also as a reminder, CIGNA's future results for the GMIB business will become more volatile as any future change in the exit value of the GMIB assets and liabilities will be recorded in net income. CIGNA's 2008 earnings outlook, which Mike Bell will review in a few moments, excludes the results of the GMIB business and therefore any potential volatility related to the perspective application of Statement 157.

Finally, prior year claim development for our Health Care business has been relatively stable over the past several quarters and is no longer significant to that segment's reported results. Accordingly, beginning this quarter we will no longer provide a breakout of prior year claim developments for the Health Care segment. However, we will disclose the amount of prior year claim development in future periods if the business experiences significant changes from its current levels.

And lastly, I would like to inform you that CIGNA will be hosting its annual Investor Day this year on November 21<sup>st</sup> in New York City.

And with that, I'll turn it over to Ed.

**Ed Hanway (Chairman and CEO):**

Thanks, Ted.

Good Morning, everyone. Our first quarter adjusted income from operations was \$265 million, or \$0.94 per share. Our quarterly results reflect both the challenging environment for our Health Care segment as well as the continued strength of our Disability and Life and International businesses. These results also demonstrate the benefits of our diversified business portfolio, which provides us with unique opportunities to grow profitably in today's difficult market. Health Care earnings were below our expectations due to the impact of lower margins on the experience-rated book, and lower than expected guaranteed cost in experience-rated membership.

There were also several unfavorable items in the quarter, which we do not expect to repeat in the rest of the year. Our experience-rated book provides us with a differentiated product in the marketplace and continues to be an important contributor to our earnings. While first quarter experience-rated results were lower than we expected, we are focused on strengthening the margins on this book over the remainder of the year. David will review, in detail, the actions we are taking to increase the profitability of this business.

The specialty health care business continued to post strong results in the quarter. Specialty programs are key to our value proposition as they create economic value in two ways: by improving our persistency and by increasing our profit margin.

We grew aggregate medical membership by 2% on an organic basis, which was in line with our expectations for the quarter. This membership result reflected higher than expected growth in ASO lives. However, our guaranteed cost membership in this quarter declined more than we expected, and this reflects our continued focus on maintaining price discipline in a very competitive environment. Our overall organic membership growth validates that our value proposition and capabilities continue to resonate well in the marketplace.

In addition, we are very pleased that the Great-West Healthcare transaction was completed on time and closed on April 1<sup>st</sup>. The timing of the transaction and the high quality of their book of business are both positive contributors to our outlook. Our acquisition of Great-West brings us a strong organization whose talented employees, product platform and distribution capabilities will accelerate our profitable growth in the small group market, as well as increase the opportunities for national and mid-size employers to improve the health, well-being and security of their employees.

Let me now comment briefly on our other businesses. Our Group Disability and Life and International businesses delivered another strong quarter with competitively strong top-line growth and profit margins. For the quarter, our Group Disability and Life business reported earnings of \$68 million, on 9% year-over-year premium growth, and an after-tax margin that continues to be industry leading. Our International business reported earnings of \$52 million on 14% year-over-year growth in premiums and fees. Overall, both our Group and International operations have good growth opportunities and strong market positions, which we expect will enable them to deliver another year of good top-line and bottom-line growth in 2008.

Regarding the full year 2008 outlook, we expect that earnings per share will be in the range of \$4.05 to \$4.25 per share, which is consistent with our prior guidance. The outlook now reflects the impact of the Great-West acquisition on 2008 results and increased earnings expectations for our Group Disability and Life and International businesses, essentially offset by lowered expectations for our HealthCare business.

Now Mike is now going to cover the specifics of the first quarter results, as well as our 2008 outlook.

**Mike Bell (Chief Financial Officer):**

Thanks, Ed.

Good Morning, everyone. In my remarks today I will review CIGNA's first quarter 2008 results. I'll provide an update on our full year outlook. In my review of consolidated segment results, I'll comment on adjusted income from operations. This is income from continuing operations excluding realized investment results, GMIB results and special items.

Our first quarter earnings were \$265 million, or \$0.94 a share, compared to \$279 million, or \$0.94 a share in 2007. Our consolidated first quarter 2008 results reflected Health Care earnings, which were lower than our expectations, partly offset by strong results in our Group Disability and Life and International businesses.

I'll now review each of the segment results, beginning with Health Care. First quarter Health Care earnings were \$138 million. This result includes several items which we do not expect to repeat in the balance of the year. First, we recorded a \$7 million after-tax loss on a large non-medical account, which is now managed by CIGNA Group Insurance. Second, we estimate that we experienced a \$4 million after-tax impact on our guaranteed cost book from higher than expected upper respiratory inpatient claims, which we believe were related to the increasing incidence of the flu. Third, we incurred \$4 million of after-tax integration expenses associated with the Great-West acquisition. In addition, as expected, we had a loss on Medicare Part D in the quarter due to our earnings recognition pattern for this product.

So apart from these items, underlying Health Care results primarily reflected lower than expected margins on our experience-rated book, lower net investment income and lower than expected guaranteed cost and experience-rated membership, partly offset by strong contributions from our specialty businesses.

Experience-rated margins were driven by higher than expected medical costs on accounts in deficit and lower than expected net premium yields, in part reflecting competitive market conditions. So we are taking action to improve experience-rated earnings in the balance of the year, including securing additional renewal pricing increases and accelerating our deficit recovery efforts.

Health Care membership grew organically by 200,000 members in the quarter, a 2% increase relative to year-end 2007. This aggregate result was in line with our expectations, although the mix was more heavily weighted towards ASO business.

Our experience-rated membership grew by 1% which, while positive, was short of our expectations. Our guaranteed cost membership declined by 9% in the first quarter. This decrease was higher than we expected and reflected our focus on maintaining pricing discipline in an environment which continues to be very competitive. Our guaranteed cost MCR was 83.8% in the quarter, excluding our voluntary business. This included approximately 50 basis points in the quarter related to the higher than expected

upper respiratory inpatient claims, which we do not expect to repeat in the balance of the year. And apart from this impact, our MCR was in line with our expectations.

All in, we continue to expect the full year 2008 guaranteed cost MCR, excluding our voluntary business, to be approximately 83%. This is unchanged from our previous assessment and reflects the fact that our price increases have been higher than medical cost trend.

We also continue to expect medical trend for our total book of business to be in the range of 6.5% to 7.5 for the full year 2008. Health Care premiums and fees for the quarter increased 1% versus the first quarter of 2007, primarily reflecting rate increases and higher specialty premiums, mostly offset by the declining guaranteed cost membership.

First quarter operating expenses increased relative to last year, primarily reflecting higher technology and customer acquisition expenses. While we currently expect operating expenses per member to be relatively flat in the balance of the year, we are evaluating our options, particularly in light of the Great-West acquisition.

Now I'll discuss the results of our other segments.

First quarter 2008 earnings in the Disability and Life segment were \$68 million. Earnings in the quarter were strong due to attractive revenue growth and strong disability management results.

In our International segment, first quarter 2008 earnings of \$52 million reflected continued growth and competitively strong margins in our life, accident and supplemental health and expatriate benefits businesses. Our Group Insurance and International businesses continue to be important contributors to our consolidated results.

Results for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate were \$7 million of earnings for the quarter. The first quarter results in the Run-off Reinsurance segment included the net favorable impact of settlement activity.

Before discussing our 2008 outlook, I'll comment briefly on our investment portfolio and results. As we've discussed before, our investment strategy is to maintain a high quality, well diversified portfolio. We're pleased with our investment management results and our highly experienced team of investment professionals. Our investment portfolio is well diversified, and our performance has been competitively very strong. We continue to have no direct exposure to sub-prime loans, and de minimis direct exposure to residential mortgages.

Our current commercial portfolio results are strong, reflecting our consistent disciplined approach to underwriting. All of our loans in this portfolio are fully performing. Said differently, none of our loans is currently 30 days delinquent.

I would note that we reported the net realized capital gains in first quarter, as we expected. Future realized capital gains and losses cannot be reasonably estimated. But based on the current strength of our portfolio and our consistent record of investment management discipline, we currently do not expect our net capital gain or loss results to be material to full year 2008 net income for the enterprise or to have any material impact on our outlook for full year subsidiary dividends. Overall, we continue to be very pleased with our investment management results.

I'll now comment briefly on the capital outlook and provide an update on the impact of the Great-West acquisition. Our parent company capital position continues to be strong, and our subsidiaries remain well capitalized. We ended first quarter 2008 with cash and short-term investments of the parent of approximately \$1.6 billion. This included approximately \$550 million in proceeds from debt issuance in first quarter, as well as \$120 million of subsidiary dividends received during the quarter. We used approximately \$1.5 billion of this balance to finance the Great-West acquisition, which closed on April 1<sup>st</sup>.

With respect to our outlook, I would note that there is no change to our expectations for our full year 2008 subsidiary dividends. In the balance of the year we expect subsidiary dividends to be approximately \$380 million. This is consistent with our February estimate of \$500 million of subsidiary dividends for the full year, and takes into account approximately \$400 million of surplus that we plan to retain in the subsidiaries to support the Greatest acquisition. At this point, excluding any additional M&A activity, any share repurchase and any additional net debt issuance, we expect other sources and uses of parent company cash in the balance of the year to net to approximately zero.

Now our capital management priorities remain consistent with our prior communications. We intend to continue effectively deploying capital for the benefit of our shareholders. We now expect to have the capacity to resume share repurchase or consider additional acquisitions during the second quarter of 2008. So in summary, we continue to have a strong capital position and good financial flexibility.

Next I'll provide an update regarding our acquisition of Great-West Healthcare operations. We closed the transaction on April 1, as we targeted. We acquired approximately 1.4 million full service medical members, as well as some membership in TPA arrangements. Margin from the full service book continues to be strong. We're currently completing detailed integration plans, with a strong focus on stabilizing and then resuming membership growth and on providing timely access to our more favorable total medical costs.

There are a number of moving parts in our plans. For example, we're pleased with the estimated earnings power of the current book of business, which is slightly better than our expectations. On the other hand, there is some downward pressure on investment income due to the lower market interest rates, and there's some upward pressure on integration expenses.

So we're currently focused on decisions and actions which would position us to achieve or surpass our targets for 2009 and 2010 earnings. We expect to provide additional updates on the outlook for our integrated Healthcare business in future earnings calls. Consistent with our previous discussions, we expect the acquisition to be accretive relative to the full year 2008 EPS outlook that we discussed on our February earnings call. We continue to expect the transaction will be further accretive in 2009 and that it will be significantly accretive in 2010 and beyond. Overall, we continue to be excited about the long-term growth prospects that our acquisition of Great-West provides.

Now I'll review the earnings outlook for full year 2008. The consolidated earnings estimates that I'll provide include our current expectations for the impact of Great-West. For full year 2008 we currently expect consolidated adjusted income from operations of \$1.16 billion to \$1.22 billion. This range is modestly lower than the range we provided in February.

I'll discuss the components starting with Health Care and, in a minute, I'll provide our Health Care outlook including, and then excluding, Great-West. But first, let me provide some additional performance metrics.

We currently expect our medical membership to increase by approximately 2 to 2-1/2% for the full year 2008, excluding Great-West. The upper end of this range is lower than our previous estimate and takes into account our current assessment of the weaker economic outlook and of the competitive pricing environment. We currently expect guaranteed cost membership to decline by an additional 1% in the balance of the year, as a result of our maintaining pricing and underwriting discipline in a competitive market. We expect some very modest additional experience-rated membership growth in the balance of this year.

We continue to expect medical cost trend for our total book of business, excluding Great-West, to be in the range of 6.5% to 7.5% for the full year. We expect guaranteed cost pricing yields to exceed trend, and we continue to estimate that the full year guaranteed cost MCR, excluding the voluntary business, will be approximately 83%.

Our estimate for full year 2008 Health Care earnings is a range of \$735 million to \$775 million. This range reflects updated estimates based on our first quarter results, and it also incorporates our current expectations for the 2008 impact of Great-West.

Our updated outlook reflects a year-over-year earnings increase of \$65 million to \$105 million after tax, excluding the \$8 million of after-tax prior-year development that we had in 2007. We currently expect Great-West to contribute approximately \$40 to 50 million in earnings, excluding the related financing costs of approximately \$15 million after tax, which will be reflected in the Corporate segment.

There are several major drivers in the additional year-over-year earnings growth, which I'll now summarize.

We expect growth in our service business, including the impact of increased membership and higher penetration of our specialty products, to deliver \$50 million to \$65 million of after-tax year-over-year earnings growth. We expect guaranteed cost pricing actions, in excess of medical trend, to improve the full year MCR to approximately 83%. The impact of the improved MCR will be tempered by a projected full year guaranteed cost membership decrease of 10%. We now expect guaranteed cost year-over-year earnings growth of approximately \$15 million after tax.

We now expect experienced-rated earnings to be approximately flat with full year 2007, excluding the first quarter loss on the non-medical account. In addition, the \$7 million first quarter loss on the non-medical account and our current estimate of the impact of lower short-term interest rates will combine to lower Health Care earnings by approximately \$15 million to \$20 million after tax for the full year relative to 2007.

We also continue to expect that our investments in segment expansion initiatives in the individual, small group and seniors markets will be dilutive in 2008 by approximately \$15 million after tax but will be accretive to earnings starting in 2009.

So summing up the pieces, our all in estimate for full year 2008 Health Care earnings, including Great-West, is a range of \$735 million to \$775 million. Excluding Great-West, our full year Health Care estimates are now \$50 million lower than our February range. And this mainly reflects lower expectations for experienced-rated margins, lower expectations for investment income and lower estimates for guaranteed cost and experience-rated membership, together with the unfavorable first quarter items that I discussed earlier.

Now regarding earnings for the balance of the year, we continue to expect to see an increasing pattern of Health Care earnings throughout the year as we execute our pricing and underwriting actions and achieve additional revenue growth, including additional growth in our high-margin specialty businesses. In addition, we expect Great-West net earnings contribution to primarily emerge in the second half of the year, with second quarter more impacted by integration expenses.

To be more specific, I'll now discuss our earnings expectations for the balance of the year relative to our first quarter results. And I'll do this on a basis that excludes Great-West.

As I mentioned, our first quarter earnings included items which we do not expect to repeat in second through fourth quarters. When we remove the non-medical account loss, the higher than expected upper respiratory inpatient claims in guaranteed cost, the first quarter Part D loss and Great-West integration expenses, our underlying run rate in the quarter was approximately \$156 million. This run rate would equate to \$468 million in earnings in second through fourth quarters. Our updated estimates for the full year, excluding Great-West, indicate an increase in the balance of the year of approximately \$85 million to \$115 million relative to this run rate.

With respect to the components, we expect experience-rated earnings in the balance of the year to be approximately \$40 million to \$50 million higher than the first quarter, reflecting the impact of the profit improvement actions that we're taking as well as the normal seasonal patterns.

We expect energy cost earnings to be approximately \$20 to 25 million higher than the first quarter run rate, reflecting the projected improvement in the MCR from 83.8% in first quarter to approximately 83% for the full year. We estimate that service earnings will be approximately \$20 million to \$30 million higher than the first quarter run rate due to additional business growth, including the impact of higher penetration of our specialty products, offset by a modest increase in operating expenses. And we expect Part D to move from a loss of \$3 million after taxes in first quarter to positive earnings of \$10 million in second through fourth quarters, consistent with the pattern in 2007. So all in, we currently expect full year 2008 Health Care earnings, excluding Great-West, to be \$695 million to \$725 million, and including Great-West, \$735 million to \$775 million.

Now let's turn to the balance of our segments. We expect our remaining operations to contribute approximately \$425 million to \$445 million of earnings in 2008. We have modestly raised our expectations for the Group Disability and Life and the International businesses based on the strength of their fundamentals. We expect both to continue to grow revenue while maintaining strong margins.

Specifically, we expect mid-single digit earnings growth in Group and double digit earnings growth in International. Now earnings for the balance of our operations, which include run-off businesses and the parent company, are expected to be lower in the balance of the year, mainly reflecting higher debt financing costs and the impact of lower cash balances on parent company investment income.

Updated parent company losses for the full year have been updated to include approximately \$15 million of after-tax financing costs related to the Great-West acquisition. This has been offset by higher than expected earnings in the non-Health Care businesses. As a reminder, our 2008 outlook excludes any potential GAAP results from the GMIB book.

Relative to our consolidated outlook, as is customary, our estimates for earnings and EPS assume no repurchase during 2008. On this basis, we estimate that our full year 2008 consolidated adjusted income from operations will be in a range of \$1.16 billion to \$1.22 billion and EPS in the range of \$4.05 to \$4.25 a share. Our estimated range of EPS is equal to our previous range. And we believe this reflects the ability of our businesses to perform in a challenging environment, as well as the benefit of our diversified earning streams.

So to recap, our consolidated first quarter results reflected Health Care earnings which were lower than our expectations, partly offset by strong results in our Group Disability and Life and International businesses. As I discussed, we do expect Health Care earnings to improve significantly over the balance of the year. And our 2008 EPS estimate, assuming no further repurchase and including the impact of the Great-West acquisition, is a range of \$4.05 to \$4.25.

And with that, I'll turn it over to David.

**David Cordani (President, CIGNA HealthCare):**

Thanks, Mike, and Good Morning, everyone.

It's been a challenging few months for a number of sectors in the U.S. and in the broader global economy. As a health service company, we clearly see the economic challenges faced by our customers. Our focus on health translates to productivity and ultimately cost savings for our customers, both the employers and the individuals we serve. Our strategy is to develop innovative products and services that promote consumer engagement to drive personal health improvement at a competitive cost. This approach enables our customers in this economically challenging time to be more competitive. In this environment, our business remains strong, and our strategy position positions us very effectively to help our customers. In addition, our acquisition of Great-West on April 1<sup>st</sup> expands our reach geographically in the West and within buyer segments, specifically the small employer segment.

Today I'm going to share with you some additional thoughts on our first quarter results and the actions we're taking to further expand profitability in our experience-rated book; second, our 2008 outlook on

membership growth and medical cost trends and third, I'll share an update on market expansion, specifically the Great-West acquisition and integration.

Starting with the first quarter, as Ed and Mike described, our Health Care earnings for the quarter were below our expectations, in part due to lower than expected results in our experience-rated product, which was partially driven by membership and lower membership in our guaranteed cost product, both of which were impacted by the challenging external environment. This was somewhat offset by strong growth in our specialty and health advocacy programs.

As a quick reminder, our experience-rated product provides competitive differentiation in the marketplace and generates very attractive earnings per member. The key point of differentiation is the participating nature of the contract between us and our employer customers and the high rate of penetration of our specialty products.

With respect to experience-rated, we believe the results for the balance of the year will show meaningful improvement, bringing the full year 2008 earnings in line with 2007. With respect to this increase over the balance of the year, it can be driven by: first, a continuous, albeit measured, growth in membership; second, further margin expansion on our renewal book of business and third, further gains on deficit recoveries from active and canceled cases.

Our specific actions fall into three categories. First, we expect to secure further rate actions on the renewing book of business for the balance of the year and additional specialty penetration on new business we plan to write over the remainder of the year. We are committed to maintaining our pricing and underwriting discipline. Second, we remain focused on improving our medical cost results through a combination of actions including intensifying our clinical reviews, large claim negotiations and obtaining additional provider discounts in targeted areas. And third, we're accelerating our efforts for deficit recovery to improve profitability on specific accounts.

I'll now move to comments on our medical membership and medical cost outlook. From a membership perspective, our total medical membership grew 2% organically in the first quarter, with higher membership in our service product partially offset by lower membership in the guarantee cost product. As Mike discussed, the decline in guaranteed cost membership was higher than expected reflecting our pricing discipline in a very competitive environment and higher levels of disenrollment as a result of the economic environment.

Our Consumer Driven Health Plan membership grew 40% since year end 2007, to 820,000 members, which was consistent with our expectations. Looking through the balance of the year, we expect higher existing case member disenrollment and lower new sales, reflecting the impact of the economic slowdown on our customers on the former and the very competitive pricing on the latter. As such, our membership growth expectations for 2008 are in the range of 2% to 2.5%, excluding Great-West. We expect the majority of the growth for the full year to be in ASO products. We expect the guaranteed cost membership to be relatively flat and some modest experienced-rated membership growth in the balance of the year as a result of maintaining our pricing and underwriting discipline.

From a medical cost perspective, we continue to expect the trend for our book to be in the 6.5% to 7.5% range for 2008. I would note that this range is consistent with our previous expectations and reinforces a very strong competitive result that we are delivering for our ASO customers and overall book of business.

I'll now turn to my final topic, our market expansion strategy. We successfully closed the acquisition of Great-West on April 1<sup>st</sup> without any regulatory issues and little disruption to the business. I'm really pleased with the way the CIGNA team coordinated with the Great-West team to ensure that we were successful with this important first step. As we previously discussed, we see the Great-West acquisition as a meaningful part of our market expansion strategy. First, it strengthens our geographic presence for our national and regional segments. Second, it accelerates our segment strategy in the small segment area. And third, it provides the opportunity to cross-sell additional programs and services to thousands of new

employer relationships. The acquisition adds approximately 1.4 million medical members in the employer segment and some additional members served through TPA arrangements.

We expect to create significant value for our customers and shareholders by focusing on four key economic levers. First, by combining the capabilities of our two organizations, including our strong total medical cost position, we expect to stabilize and resume growth of the Great-West membership. Second, we expect our strong total medical cost addition will improve cost levels for employers and margins on the acquired book. Third, our measured approach to integration will achieve operating expense synergies over time. And fourth, we'll expand choice by offering our specialty products and health advocacy programs focused on improving health to current Great-West members.

I've named Bill Roth as the leader of this business on a going-forward basis. Bill, who currently leads our individual and under-50 business, has taken on the responsibility for ongoing leadership of Great-West. Bill has considerable experience running these unique segments and brings the right perspective and leadership to the team. In addition, we have a dedicated team solely focused on ensuring the successful integration of the business.

Looking forward, we will operate as one company, CIGNA, in the marketplace. We are focused on preserving and feeding the existing Great-West Healthcare book of business, operating platform and infrastructure, while improving profitable growth. To that end, we've been able to retain nearly 100% of the Great-West team. We recognize the importance of this team in building Great-West, and now on building the next exciting chapter with CIGNA.

I'll now move to wrap up my comments. It is clear that our first quarter results didn't meet our expectations and are not fully reflective of the current market position we have built over the last several years. While our current full year outlook does reflect continued share gain and earnings expansion, it is below our potential, even when I consider these very challenging and competitive market conditions. To that end, we are focused on: First, expanding our operating margins on our book of business through a combination of pricing and underwriting, continued effective medical cost management and ongoing improvement in operating effectiveness and efficiency. Second, effectively integrating the Great-West business, which means avoiding service disruption for our customers and physician partners, retaining the strong Great-West team, improving the total medical cost position, securing operational efficiencies and positioning for profitable growth in 2009. And our third priority is ensuring effective client and member service delivery of our existing programs while we continue to innovate our health service offerings for 2009 and beyond. We remain focused on improving our results for 2008 and ensuring we are well positioned as we look toward 2009.

With that, I'll turn the call back over to Ed for his closing remarks.

**Ed Hanway:**

Thanks, David.

Now before we take your questions, I want to underscore several points. Our quarterly results reflect both the challenging environment for our Health Care segment, as well as the continued strength of our Disability and Life and International businesses. This diverse mix of business provides us with unique opportunities to grow profitably in today's difficult market. While first quarter Health Care results did not meet our expectations, we are committed to improving these results over the balance of the year with a strong focus, as David noted, on pricing and underwriting and continued effective medical cost management, particularly with regard to our experience-rated business.

In 2008 we will continue to make investments in targeted market expansions for our Health Care business. We believe this will lead to good growth opportunities in the long term. We are very pleased with the timely close of the Great-West acquisition. And we are focused on completing an integration that truly combines the strength of both Great-West and CIGNA to the benefit of our customers. We expect to

leverage the Great-West acquisition and strong competitive position we have built in the health care marketplace to meaningfully grow Health Care earnings over time.

Our Group Disability and Life and International businesses delivered another quarter of strong results. The value proposition in both Disability and Life and the International operations will enable us to profitably grow these businesses in 2008, while maintaining their competitively superior margins. And relative to the 2008 outlook, I am confident we will be able to achieve our EPS range of \$4.05 to \$4.25.

In closing, I believe that CIGNA has solid market position in each of our ongoing businesses, and that we will leverage these positions to continue to create value for the benefit of our customers and shareholders.

And while this completes our prepared remarks, as always, we will now be glad to take your questions.

**Matthew Borsch (Goldman Sachs):**

Good Morning. What are you seeing in terms of price competition, particularly as it's impacting your fully insured business – Could just give us any sense whether you are seeing any signs of potential improvement in the pricing trends in the markets that you're in as it relates particularly to the not-for-profits, but also the public companies?

**David Cordani:**

As we have stated in prior quarters, the pricing environment is competitive, very competitive. As we noted in our prepared remarks, our guaranteed cost membership results are a bit lower than our expectations, primarily as a result of the competitive environment. Specifically, the primary driver is lower new business sales. And we attribute that to the pricing environment and our commitment to maintain pricing discipline.

To the second part of your question, is it more pronounced with not-for-profit competitors and whether we see it firming up? It's geographically specific, as we have talked about before. In some geographies in which there are very dominant not-for-profit competitors, we look at their surplus patterns. It appears they are returning surplus, and then we seem to be pretty competitive. We are on the sideline right now in terms of whether or not we see it firming up. As I sit here today, the pattern is very similar. To be optimistic that it might firm up, I think that might be a good sign. But as of right now, we would say that the competitive pricing environment had a direct impact on our new sales in the guaranteed cost book.

**Matthew Borsch:**

How should we think about the Great-West enrollment in terms of where it fits in your three categories of commercial enrollment? Is it more like the service business or in one of the other categories?

**David Cordani:**

I will refer to the 1.4 million members that are in the employer segment. We categorize national accounts as commercial accounts of 5,000 or more employees that are multi-state, which excludes municipalities, etc. We categorize our middle market as employers in the 200 to 5,000 employee range, and the small segment is below 200.

As you think about the Great-West membership, approximately one-third of the total membership falls in what we would call the small segment, or what Great-West refers to as the select segment. Approximately two-thirds falls into what we would have called the middle market segment. As I believe you know, their contracts are ASO with stop loss and packaged specialty capabilities. So you could think about them as service products as we classify them. Because their ASO product is matched up with stop loss, as well as specialty, they have a very nice earnings pattern. And they match up nicely against guaranteed cost products, especially in the select, or small, segment.

**Matthew Borsch:**

OK, thank you.

**John Rex (Bear Stearns):**

On the experience-rated business, could you give the comparison in terms of first quarter 2007 experience-rated earnings versus this quarter? I recall last year in 2007, you were down approximately \$15 million to \$20 million from the prior year. Can you give us a similar comparison for first quarter 2008 versus first quarter 2007?

**Mike Bell:**

In this particular case, John, I think the best way to look at the comparison of first quarter 2008 to first quarter 2007 for experience-rated is to look at the ratio of the experience-rated medical costs to the net experience-rated premium. Now, as we have discussed previously, that is not a perfect measure because it ignores investment income, specialty products, and operating expenses. However, because several people like to look at the aggregate loss ratio, I will start there.

In terms of first quarter 2008 versus first quarter 2007, that ratio increased 220 basis points. So if one takes 220 basis points multiplied by the \$493 million of medical premium in our statistical supplement, one would calculate \$11 million pre-tax, which would be approximately \$7 million after-tax. I think that would be a reasonable measure for you to focus on.

**John Rex:**

Perfect. And then could you just tell us a little bit about what's going on with the accounts in deficit position? You spoke about increasing your efforts to recover the deficit. What kind of leverage do you really have to recover deficits from an account that walks out on you, one that decides they are going to go somewhere else, and it's in a deficit position? How do you do that? And what's happening with existing accounts? Are they just resisting your efforts to collect those deficits? That sounds like that's part of the issue you're seeing here.

**Mike Bell:**

To answer the question on what kind of leverage we have, we do not have contractual leverage that would enable us to recover the deficit. However, our history of recovering deficits is strong. The experience-rated book has traditionally run in the 80's in terms of persistency rates. And again, we have a long history, for the most part, of being able to recover deficits.

Now your point is a fair one. This is a particularly difficult environment to try to secure deficit recovery, and we saw that to some extent in first quarter. The persistency on this book in first quarter was 83%, which is several points lower than what we had been targeting. In terms of what we expect going forward, we continue to expect there will be meaningful opportunity to secure deficit recovery over the balance of the year. And that is certainly baked into our expectations.

**David Cordani:**

John, I would add one point. During the quarter, we saw some accounts that were in margin move to deficit. That will occur in any given quarter, but we saw a little bit more in this quarter. And the relevant point is, when you think about the relationship of those margin accounts, they historically run well, which means the employer is seeing predictable service delivery. Because they recently moved into deficit, as you might expect, these deficits are smaller, on average, than those in the historical book. And that speaks to a healthy relationship and the opportunity, with good medical cost management, to be able to recover that deficit going forward.

**John Rex:**

In terms of your experience-rated earnings forecast, do you explicitly build in an assumption of deficit recovery at some amount? And if you do, can you tell us what it was and what it is now?

**Mike Bell:**

John, we do explicitly build that into our overall earnings expectations for experience-rated. I prefer not to quantify the specific amount. But it is fair to say that is built into the earnings expectation that I described in my prepared comments.

**John Rex:**

Would that be the majority of the take-down in your expectations for earnings for experienced-rated for this year?

**Mike Bell:**

It is fair to say that it would be a slight majority of the increase in earnings for the second through fourth quarters, versus first quarter.

**John Rex:**

OK, thank you.

**Stacy Groll (Citi):**

What is your capacity to buy back stock this year, and what is your free cash flow after the Great-West acquisition?

**Mike Bell:**

Stacy, in terms of our share repurchase capacity, I suggest that you think about the roll-forward that I gave in my prepared remarks. At the end of first quarter, we ended with parent company cash and short-term investments of \$1.63 billion. Assume that we paid approximately \$1.5 billion for Great-West on April 1<sup>st</sup>. Then, add the subsidiary dividends for the last three quarters of the year of approximately \$380 million, you would conclude that if we did no repurchase, no acquisition, and no additional debt issuance, we would end the year with approximately \$500 million of cash at the parent.

If you compare that to our long-term target of \$250 million of parent company cash, you could conclude that we have the capacity, again with no further debt issuance at this point, to do approximately \$250 million of either share repurchase or acquisitions beginning in second quarter.

**Stacy Groll:**

OK. Can you break down the components of your medical cost trend?

**Marcia Dall:**

As Mike stated earlier, our overall medical trend is expected to be 6.5% to 7.5%, which is consistent with our previous guidance. The components of the trends are also consistent with our prior guidance: inpatient and outpatient are each in the high single digits, professional is in the mid single digits, and pharmacy is in the high single digits.

**Stacy:**

Great. Thank you.

**Christine Arnold (Morgan Stanley):**

Good morning. A couple of questions on Great-West. They ran about \$44 million to \$48 million in net income each quarter last year. And then we are excluding \$13 million, because Great-West had investment income that you are not taking. So that leaves about \$30-\$31 million per quarter in net income times three, which suggests that you should have \$93 million in contribution from Great-West. Why are we only looking for \$40 million to \$50 million?

**Mike Bell:**

First, in terms of determining the pro-forma of the Great-West results for our investment income, I would suggest you look at full year 2007, which was approximately \$172 million of after-tax earnings on the book of business that we acquired [at CIGNA's Health Care effective tax rate]. If we reduce the net investment income by approximately \$22 million, which takes into account the lower interest rates and also the lower amount of capital that we have invested in this business compared to Great-West, you get approximately \$150 million as a starting point, which I believe is a little higher than what you were describing – we'll call it \$37.5 million per quarter, to be precise. Multiplying that quarterly rate by three calculates to \$110 million to \$115 million, which is roughly flat with their run rate in 2007, adjusting for lower investment income [and the higher tax rate]. And that is the combination of a better loss ratio and some revenue leverage, offset by the lower membership that we are projecting here for the balance of the year. We currently expect approximately \$20 million of after-tax costs to amortize intangibles. I need to emphasize, we are still working through the purchase accounting, but that is our current estimate and that number is in a little bit of flux. Reducing the \$110 million to \$115 million by the \$20 million of intangible amortization and \$45 million to \$50 million of after-tax integration/transitional expenses, you would arrive at the \$40 million to \$50 million of incremental earnings that we expect for Great-West, excluding the financing costs, which are included in Corporate, not Health Care. Is that helpful?

**Christine Arnold:**

Yes, it is. What we're saying is the integration costs are not going to be offset by synergies as a net reduction.

**Mike Bell:**

I think it is fair to say that in 2008 there are some modest synergies built into the \$110 million to \$115 million that I just described. But it is fair to say that there are not sufficient synergies to offset what we believe will be non-repeating integration expenses in 2008.

**Christine Arnold:**

And two follow-ups. Experienced-rated – could you help me understand how much you expect to be able to improve your MCR just with rate actions excluding deficit recoveries and everything else? And then why did the voluntary loss ratio increase by 10 percentage points?

**Mike Bell:**

First, on experienced-rated, we do not typically project things on a loss ratio basis, because there are other components to earnings besides the loss ratio. But it is fair to say that last year we saw an improvement from first quarter 2007 to the full year 2007 of approximately 190 basis points, or approximately 250 basis points lower for second quarter through fourth quarter 2007. We expect to see a similar pattern in 2008. I am not trying to be precise with the loss ratio, because I think there are more important metrics. But we expect approximately that kind of improvement over the balance of the year. Again, it is a combination of the renewal pricing actions that we expect to get during the second half of the

year, which will be higher than what we achieved in the first quarter, and the additional deficit recoveries we expect to obtain. We also expect some contribution in terms of earnings from increased revenue, which includes the benefit of higher net investment income. Because with increased revenue, we have higher asset balances.

In the case of the voluntary business, we feel good about the voluntary growth that we saw in first quarter. On an all in basis, voluntary earnings were up relative to both our expectations and actual 2007 results. Your comment that the loss ratio increased is fair, but from an earnings standpoint, we feel good about the first quarter results.

David, anything you want to add?

**David Cordani:**

Christine, good morning. I would just one item to your analysis of the voluntary loss ratio. The voluntary business grows over time. One of the things we found very interesting is the opportunity to bring new voluntary products to market. There are new products, in addition to what the industry knows as traditional, lean benefits that are paid weekly. As we start to see some sales of the new products in the voluntary portfolio come through, they will have higher premium and higher medical costs in relation to those premiums. They produce a very nice contribution, as Mike noted, to our bottom line as well.

**Christine Arnold:**

OK. So it's product mix. Thank you.

**Scott Fidel (Deutsche Bank):**

Can you walk through the expected impact relative to your initial guidance around investment income? And could you split it among the three primary business segments – Health Care, Group and International?

**Mike Bell:**

Sure, Scott. For Health Care, we are now expecting an impact for of \$5 million to \$10 million lower net investment income, after tax, for the full year 2008 versus our original expectations.

The only other business where it has a material impact on our earnings expectations is Group Insurance. And the impact is reasonably manageable – less than \$5 million after tax.

**Scott Fidel:**

OK. Then a follow-up question around Part D and how claims are coming in relative to expectations in the first quarter relative to competitor comments about higher than expected costs there. And can you give us an early glimpse into how the sales pipeline in national accounts is looking at this point for 2008 relative to 2007?

**David Cordani:**

Good Morning, Scott. As you know, relative to some of the other competitors, our Part D portfolio is meaningfully smaller. Although I would add that we are very pleased with the growth we saw from 2007 to 2008. As it relates to claims, loss ratios at this point are very immature, but our loss ratio in the first quarter of 2008 is meaningfully better than 2007. Our 2007 pattern evolved as we thought it would. The 2008 Part D loss ratio starts in the low to mid 90's, as opposed to the comparable 2007 quarter started just over 100%, before you start factoring in the CMS risk corridors. The performance that we are seeing in first quarter is in line with our expectations. And the current pattern is in line with our expectations, in which the MCR would improve throughout the course of the year to finish the range of 83% or so.

Specific to the national account pipeline, currently the 2009 pipeline is in line with our 2007 pipeline – and bear with me for a second – which was a very strong, very attractive pipeline. In 2008, the pipeline spiked up even further. As we peel that apart, the spike was related to a meaningful amount of business from one competitor in one geography specifically on the West Coast, but most of that business did not move. So if I exclude that unique circumstance, which was tied to some integration disruption, our current look at our 2009 pipeline is consistent with both 2007 and 2008, on a same store basis. The only additional nuance I would provide is we tend to look at our opportunities in terms of either entering new relationships with employers versus expanding growth opportunities with existing relationships. What is interesting about the 2009 pipeline is it is a bit higher on the new relationships, which we view as attractive as well. As you might recall over the past couple of years, we have talked about really aggressively working to expand relationships. We have been successful. We need to continue to do that, but introduce new relationships into the company.

**Scott Fidel:**

That's helpful with the new business sales visibility. Can you think about the other piece, and in terms of in-group attrition as a percentage of the book or as a percentage of particular accounts? How's that looking now relative to the past couple years, so we could think about sort of the net number when combining new sales and retention?

**David Cordani:**

Sure. Again, I will speak to national accounts, because relative to 2009, it is too early to speak about the regional segment. By way of backdrop, we have consistently told you that we believe the national account portfolio, when it is healthy, runs in the low to mid 90's, say 92% to 94%, case level member retention rates. As you recall, a year ago we achieved an even higher performance level. For 2008, we expect to see it in the 92% to 94% range. As we sit here today, we expect 2009 to be in the same range. In conclusion, we have achieved consistent and healthy case level retention in this very competitive marketplace.

To the second part of your question, based on pattern of disenrollment from the second half of 2007 through 2008 and our early look at 2009, we expect to continue to see more pressure on membership from disenrollment, which we could attribute to the economy. You could even dial into some sectors specifically. To recap, the 2009 national accounts pipeline is currently relatively close to the healthy, consistent level of the last couple of years, excluding that unique point I made for 2008. The case level retention ratio is in line with historical patterns in the 92% to 94% range, with potentially a little softer enrollment number, which is consistent with what we are seeing right now.

**Scott Fidel:**

Thank you.

**Justin Lake (UBS):**

Good Morning. A couple questions on Great-West. As far as the book for 2008, can you tell us how much has already renewed? And as far as attrition? And can you give us an early read on what you are seeing in regard to moving Great-West providers over to your contracts?

**Mike Bell:**

Justin, I will start on the membership renewal piece. Approximately a shade over 60% of the book at this point has renewed for 2008. And just a shade higher than 35% is the remaining portion of the book to renew over the balance of the year.

David, do you want to talk about the providers?

**David Cordani:**

Good Morning, Justin. Relative to the providers, we have consistently communicated that our approach is to improve total medical cost. And our approach to improve total medical cost has three fundamental components. One is obviously the payment relationship with the hospital or the physician in terms of unit cost. Two is the medical management programs that affect both utilization and mix and severity. And three is the provider service model. That is the large body of work that is underway today. We believe it is very important to approach the medical cost improvement as a total medical cost improvement package. To date, we have been pleased with the interactions with the physician and hospital community in general. Clearly there are some cases where there is a little bit of ongoing dialogue and negotiations. But we are building off an environment where both CIGNA and Great-West have a reputation for servicing the physician and hospital community pretty well. So, as we approach the dialogue with the two entities coming together, we are approaching with a good service proposition and plan to further improve results. We have a lot of work to do in 2008, but early indicators are positive and in line with our expectations.

**Justin Lake:**

OK. Could you remind us if you start off with that \$40 to \$50 million baseline, \$25 to \$35 million baseline excluding the financing, how that steps up in 2009, 2010 as far as costs? Given that only two-thirds of the book has renewed and you are seeing about 100,000 members of attrition, should we expect that your projections already include another 50,000 members of attrition for the rest of the year?

**Mike Bell:**

You are right. We are expecting, or at least we have included approximately another 50,000 – it is actually a shade higher than that, approximately 5% – of additional membership attrition in the financial model over the remainder of 2008. So we expect to end 2008, in terms of full service members, at approximately 1.35 million full service members.

In terms of the expectation for 2009, it is a little early to attempt to be specific in terms of membership outlook – there are a lot of moving parts. As we get closer to 2009 we will update that. Certainly our goal at this point is to stabilize the membership in 2009, and then begin growing in the second half of the year, and certainly begin growing that into 2010.

In terms of how that relates to the earnings expectations, first it is important to note that there are a number of moving parts. As I mentioned earlier in response to Christine's question, the purchase accounting is something that we are still working through right now. We expect to have that finalized in second quarter; but that is an estimate that is potentially moving around. There is some upward pressure on the integration expenses related to the transition period. Again, we are still working through plans there.

On the flip side, the book of business coming into the year is actually stronger than what we had modeled. So that is obviously an area of upside opportunity relative to our earlier expectations. And then very importantly, we are still working through our strategies around pricing for 2009 on the operating expense and specialty synergies. The point is there are a lot of moving parts.

Now to your question, "what are your expectations for 2009 and 2010?" As we talked about on prior calls, we expect to be in the range of \$170 to \$180 million of after-tax earnings, before the financing costs, in 2009, subject to the caveats I provided earlier. In terms of our updated estimates, we expect that the underlying earnings would be in the ballpark of \$215 million to \$230 million, aftertax. And that reflects the expected improved loss ratio capturing the benefit of the access to the stronger overall medical cost position, as well as some very modest expense synergies. Membership is the main wild card. But that \$215 million to \$230 million is a reasonable starting point. At this point, we are modeling \$25 million of after-tax costs from the amortization of the intangibles. And at this point for 2009, we are modeling approximately \$20 million to \$25 million of after-tax integration expenses. So that would net to

approximately \$170 million to \$180 million, before financing costs. And that \$170 million to \$180 million is comparable to \$225 million to \$275 million then for 2010 – let's see it would be – it was \$200 million to \$250 million on a net basis, so add \$25 million to that. So call it \$225 million to \$275 million on a gross basis before financing for 2010. That's still our expectation again subject to the moving parts that I described earlier.

**Justin Lake:**

Great. Appreciate the update. Thanks.

**Bill Georges (JP Morgan):**

Good Morning – a couple of follow-ups on the experience-rated book. I think last quarter you talked about persistency in the 83% range. And I think you said you were targeting 86% to 88% persistency in that book. So I'm wondering, do you think it is reasonable to assume that you are going to get to that by the back half of the year? And then could you specifically address within the deficit accounts, what does persistency look like and how has that changed over the last couple of quarters?

**Mike Bell:**

First, in terms of persistency, you are absolutely right. We had persistency in first quarter for the experience-rated book of approximately 83%, which is consistent with the full year persistency that we had on the book in 2007. In terms of our persistency expectation for the remainder of the year, we expect a very modest decline. So I would expect, at this point, that we will end the year with full year persistency in the book of approximately 82%.

In terms of the persistency of deficit versus surplus cases, I do not have the specific numbers committed to memory. I believe it is fair to say that the persistency rate on the deficit cases is modestly lower than our expectations and modestly lower than it was a year ago. At this point, while we are still working to optimize the balance of membership and earnings over the course of the year, I think it is fair to say that we do intend to increase our intensity on the renewals and err on the side of higher margins than those we achieved in first quarter.

**Bill Georges:**

OK. And one quick follow-up, you talked about having maybe 30% of this book in deficit as a target. And I'm just wondering if there has been any change in the percentage of the experience-rated book that is in deficit?

**Mike Bell:**

There has, Bill. Our longer-term target is 30%. The actual percentage was 32% at year end 2007, and it has increased to 35%.

**Bill Georges:**

OK. Thanks very much.

**Douglas Simpson (Merrill Lynch):**

Good Morning. Just a quick question on the \$0.46 impact on the mark to market on the GMIB piece of the business – what was the additional \$0.23 loss from that business in the quarter? And was that \$0.23 loss a normal event, or was it driven in some respects by the change in accounting? I guess what I'm getting at is – is that \$0.23 loss from GMIB a lot bigger than what you have historically seen, but now it is excluded from the results?

**Mike Bell:**

Doug, you are absolutely right in terms of the component parts. In addition to the one-time impact of implementing the SFAS 157 rules on January 1, 2008, there was a \$0.23 charge to net income in the first quarter of 2008, which was driven by a combination of the weak stock market and lower interest rates, which gets exacerbated by the new SFAS 157 standards. As we discussed before, we knew the SFAS 157 standard is a very, very conservative accounting standard. It forces us to value these liabilities on an exit pricing basis. So we have to hypothetically put ourselves in the shoes of a buyer of this business, and try to say if there was a buyer out there for this book, how would that buyer likely value it? That standard is much more conservative than what we have used historically. We used historical averages, as opposed to this hypothetical exit pricing standard. And that difference generated the \$0.23 charge in the quarter.

I believe it is important to remember that SFAS 157 is not the basis on which we are going to capitalize this business. It is not the basis that determines the capital requirements for CG Life. Given that there is no change in our subsidiary dividend outlook for the remainder of the year, you can conclude that we do not believe this will have a material economic impact in 2008. If our estimates turn out to be right, this effect reverses over time and becomes gains in future quarters, which we believe it will over a long period of time. So the point is, it really does not drive the economics of CG Life, in particular.

And that volatility has motivated us to not include it in our adjusted income from operations.

**Doug Simpson:**

OK. Going over to the Health Care segment, as you think about growth, if we look back 2005 to 2008, the Health Care segment profit has grown, if you include Great-West, you're on track for CAGR of about 2% annually over that four-year period. And as you look out over the next four years, do you think that accelerates, because 2005 to 2008 you had a lot of buy-back activity, and you had a relatively stable net income, or operating income, line in the Health Care segment. And as we look forward, I think you've intimated that you'll buy back stock, probably not as aggressively. But do you see the Health Care segment growth accelerating over the next three to four years?

**Mike Bell:**

Doug, we expect the Health Care growth to accelerate over the next three to four years, even without the Great-West acquisition. You obviously think the Great-West acquisition adds to that growth rate. But as we talked about at Investor Day, we continue to expect that Health Care revenue growth to be in the high single digit range for the next several years. And when we add expected margin improvement to that, we expect, over a 3-5 year period, we expect Health Care operating income growth of approximately 10%.

In 2008, we expect our capacity to repurchase shares to be lower than our longer-term expectation, because we are building capital in CG Life to support the Great-West business. On a going-forward basis, whether it be share repurchase or additional acquisitions that make sense economically and strategically, we would expect to get another 3 to 5 percent of EPS growth from that combination. So I believe it is not a good idea to look at your 2005 to 2008 piece and extrapolate that as our expectation going forward.

**Carl McDonald (Oppenheimer):**

Thank you. The operating expenses in the Health Care segment were higher than I expected – looks like the core went up about 6%. Clearly the lower enrollment, if you include commercial risk impact, was there anything else in that core number that inflated the first quarter?

**Mike Bell:**

Carl, the main driver of our Health Care other operating expense increase in first quarter in was higher technology expenses. As we have discussed on prior calls, we see the need for higher technology expenses in 2008 than 2007 in particular. It relates to strengthening our market facing capabilities, particularly in this environment where, more than ever, service at the consumer level is increasingly important. Therefore, we are making the technology investments to support our capabilities to meet those needs over the long term.

**Carl McDonald:**

If you could quantify that, that would be helpful. My follow-up was on the Great-West enrollment – any way you can size for us what the loss in terms of the Great-West enrollment was last year relative to expectations this year? I'm just trying to get a sense for whether the enrollment that you're seeing in that book is normal attrition. Or if it is not, is it in some way related to the acquisition?

**Mike Bell:**

Are you referring to the quantification of the IT piece in particular?

**Carl McDonald:**

Yes, the incremental spending that you're doing this year.

**Mike Bell:**

There are a number of moving parts here. If you look at first quarter 2008 versus fourth quarter 2007, you would see that IT expenses in Health Care increased \$15 million on a sequential basis, which is a little more than half of the sequential increase in the other operating expense line that you are referencing in the Statistical supplement.

In the case of Great-West, I must admit, Carl, I do not have the 2007 membership results for Great-West committed to memory. We did not own the business then. In 2008, we currently expect approximately a 10% membership decline for the full year. And that would be 5% from here through the end of the year. And I think it is fair to say that there is some pressure on that number. The point is that number does reflect pressure on the book of business out in the marketplace, which is fairly normal in an acquisition like this.

David, did you want to add?

**David Cordani:**

Good Morning, Carl. As I look at the 2008 results, as Mike said, we expect approximately 10% pressure on the membership, which is generally in line with our expectations. As you peel it apart, retention levels are generally strong, which I believe is an important part of the quality of the book, as Mike referenced previously. And that is indicative of the value Great-West is supplying to the employers, the members and their producer partners. What we are seeing is lower new business sales and that carried in 2008; and I believe some of that relates to market conditions. Some of that, as Mike made reference to, is simply the general uncertainty that accompanies a pending acquisition and transition.

But we have a little bit of market color, and we spent a lot of time with Great-West's very strong sales leadership around the country, as well as a lot of the producers. There is a lot of excitement and support for the two companies coming together because of: one, our understanding of their product, or our shared view of the value of their product via the stop loss; two, our ability to improve the overall medical cost and three, our ability to expand choice relative to specialty products, as well as health improvement products. So while our projected total membership growth is a minus 10% for 2008, the marketplace is reacting very positively to the two companies coming together.

**Carl McDonald:**

Great. Thank you.

**Josh Raskin (Lehman Brothers):**

I have two quick questions. I just want to understand the deficit recovery actions that you're taking – how exactly do you go back to the account and try to get that? And then second, is there an embedded assumption that lost accounts are going to contribute to those recoveries?

**David Cordani:**

Good Morning, Josh. Specific to your question on deficit recoveries, there are really two fundamental ways to go about recovering deficits as the book is managed over time. One is the ongoing management of prudent underwriting and execution in medical cost management. To point out an example, let's assume an account has the equivalent of 1% of medical costs in deficit upon renewal. If we secure a rate increase that's 1% greater than the ongoing medical trend, and it performs accordingly, then we work our way into recovery of the deficit.

The second fundamental way to recover the deficit is with targeted medical cost actions to the extent something unique is happening in the account, for example more consumption of care in a specific category, in a specific geography, a specific facility, etc. So that's kind of fundamental management of the book day in and day out, underwriting execution and medical cost management.

Beyond that, especially as we have longer-term relationships with customers, the opportunity exists to facilitate deficit recoveries even. As an employer understands their experience, and as employers are committed to a longer-term relationship to improve the health of their employees, in some cases employers will formally commit to funding their deficits over time. That is an ongoing negotiation that happens between our sales leaders and our underwriting leaders with the accounts, as the transparency of their experience is shared with them and we discuss why it's in deficit. And in some cases, during the contract year, the employer will make a binding commitment to fund their deficit.

So the first category is fundamental underwriting and medical cost management. And the second category is working with the employer, employer-by-employer, to secure commitment to fund that deficit either that year or the next year over time for a binding relationship.

**Josh Raskin:**

And in your guidance, it sounds like none of the improvement in the experience-rated book for the remaining three quarters of the year includes recoveries from lapsed accounts. Is that right?

**David Cordani:**

Josh, I believe that is a fair comment.

**Josh Raskin:**

OK. And what's the dollar value of the deficits, in terms of the size versus some historical perspective?

**David Cordani:**

Josh, it's a fair amount lower than what it was during the challenging period back in 2003 and 2004. I believe it's fair to say that it is higher than what it was a year ago by approximately 12%. And that reflects the fact that 35% of the cases are now in deficit versus 30% a year ago.

**Josh Raskin:**

I was just trying to get at the dollar amount. I was trying to figure out how much of that is contributing to the degradation of the Health Care earnings.

**Mike Bell:**

Sure, Josh. At the end of first quarter, for those accounts that are active, we have approximately \$132 million of deficits, which we charged to earnings in the past, that represent an opportunity to recover in the future, to the extent that all those cases persist. That would be the potential upside.

David, anything you want to add?

**David Cordani:**

Josh, I have one additional point. As you're thinking about the number that Mike provided, which is lower than it had been in the past, you could also think about the average deficit per case, or the average deficit per member within the case, as being lower. That is a very important point, because, as Mike correctly pointed out, it represents an opportunity for us to recover earnings over time in an area in which we have been very consistent. A key is to ensure that when a case does go into deficit, which is a normal part of running the portfolio, it doesn't go into deficit for too long a period of time, or too severe of a deficit relative to the type of the case.

**Ed Hanway:**

And I think the other thing to remember as well is, on a per member basis, the margins that we generate from our experience-rated book are extremely strong – in fact some of our best margins, as Mike pointed out. Although the number in aggregate is lower than it has been historically. That presents an opportunity for us, if we manage it effectively, to improve those margins even further.

**Greg Nersessian (Credit Suisse):**

Good Morning. Just a quick question on the membership drop in the guaranteed cost book. Could you break out the pressures there in terms of a couple of different sources, in terms of potentially losing some of that enrollment to other fully-insured carriers, losing some fully-insured business that's going to ASO (either with another carrier or switching internally), and then breaking out the in-group attrition?

**David Cordani:**

Greg, I would offer the following macro-level observation relative to our expectations. The results we are seeing versus our expectation are predominately driven by lower new business sales. That is the first headline in terms of what we expected three or four months ago. As it relates to some of the color that you are describing, as you think about the guaranteed cost product and the market conditions, we are seeing more movement of ASO and alternative funding mechanisms like experience-rated coming down in average case size. So the guaranteed cost segment is predominately hunting in the small employer segment and the lower end of the middle market segment. As we look at the mix of our business, our retention rate was a tad lower than we would have liked it to have been on January 1, 2008. We do not see that business leaving to any one competitor or competitor type. Generally speaking, we see that business moving to other guaranteed cost alternatives in a very competitive environment.

**Peter Costa (FTN Midwest):**

Could you contrast for me what is going on in the experience-rated book versus what is going on in the guaranteed cost book. In the guaranteed cost book you've got membership down, but your MCR improved, even though flu carried about 50 bps. On the experience-rated book, your membership is more flat, but you have had a 220 bps increase in MCR. Can you describe why those two different things have happened as these books have gotten more similar over time? And I would think that is the function

of what your actions are. Is it the other businesses that you're selling to the experience-rated that makes that business worth keeping more?

**Mike Bell:**

Peter, in terms of the difference in membership between guaranteed cost and experience-rated, as David appropriately pointed out, a big difference in the two books of business is the higher new business sales in experience-rated versus the new business sales in the guaranteed cost book. That is a primary driver of the difference in the membership piece.

In terms of your comment around the loss ratio, I think that is really mixing apples and oranges. First, the loss ratio is a very crude way to look at the experience-rated book. We think it is much more appropriate, for example, to include the specialty relationships and really look at the all-in profitability of those customers.

In terms of new business profitability, I believe it is fair to say that new business tends to be lower margin than the renewal book. For example, by definition there is no deficit recovery on new business just by the nature of the product. We do believe that while the new experience-rated business generates lower margins than the renewing experience-rated business, all in the new business is contributing to 2008 earnings, and perhaps more importantly, we believe the economics are very attractive longer-term, as Ed reinforced. This is a book for which we have very strong earnings on a per member basis.

David, did you want to add to that?

**David Cordani:**

Peter, I have just two points. First, as we think of what transpired by way of the volume versus our expectations for the first quarter, as I noted previously, the guaranteed cost book experienced somewhat lower membership, specifically driven by fewer new business sales. To contrast that with the point that Mike pointed out on the experience-rated book, our sales were not lower. Our retention drove about half of the lower membership that we saw. And then conversions of the experience-rated business to ASO within the Company drove the other half. To reinforce Mike's point, it was different levers.

And finally, as we have consistently pointed out, it's important to note that the experience-rated book is highly-penetrated with specialty products, including stop loss, behavioral, pharmacy, disease management, dental programs, etc.