CIGNA CORPORATION

SECOND QUARTER 2008 INVESTOR TELECONFERENCE
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**H. EDWARD HANWAY – CHAIRMAN AND
CHIEF EXECUTIVE OFFICER**

**DAVID M. CORDANI – PRESIDENT AND
CHIEF OPERATING OFFICER**

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

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**EDWIN J. DETRICK – VICE PRESIDENT,
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 the CIGNA's full year 2008 and 2009 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, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging CIGNA's businesses, government investigations and proceedings and 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) used in estimating CIGNA's assets and liabilities for reinsurance contracts covering guaranteed 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 benefits 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 the 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 Healthcare's outsourcing projects 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 Statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, our Forms 10-Q for the quarters ended March 31, 2008, and June 30, 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. With me this morning are Ed Hanway, CIGNA's Chairman and CEO; David Cordani, CIGNA's President and Chief Operating Officer; Mike Bell, CIGNA's Chief Financial Officer; and Marcia Dall, Financial Officer for CIGNA HealthCare.

In our remarks today, Ed will begin by discussing highlights of CIGNA's second quarter results. Mike will then review the financial details of the quarter and provide the financial outlook for full year 2008. He will also comment on our current view regarding 2009. David will discuss a number of topics, including the actions we are taking to increase Health Care's results in the second half of 2008. He will also comment on the integration status of our recent acquisition of the Great-West Healthcare business. Ed will make some concluding remarks, and then we will open the lines for your questions.

As noted in our earnings release, CIGNA uses certain financial measures which are not determined in accordance with generally accepted accounting principals, or GAAP, when describing its financial results. Specifically, we use the term labeled "adjusted income from operations" as the principal 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 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.

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

Before I turn the call over to Ed, I will cover a few items pertaining to our second quarter results and disclosures.

First, our second quarter results include the results of the Great-West Healthcare business, which we acquired on April 1st of this year. Our second quarter 10-Q will provide expanded disclosures regarding the acquisition of Great-West, including pro-forma supplemental financial information as if the acquisition had closed on January 1, 2007.

In addition, CIGNA's second quarter net income included an after-tax charge of $52 million related to a litigation matter related to our pension plan. This charge is reported as a special item and therefore is excluded from adjusted income from operations in today's discussion of both our second quarter results and our full year 2008 outlook.

Lastly, CIGNA's second quarter net income included after-tax gains of $34 million, or $0.12 per share, related to the Guaranteed Minimum Income Benefits business, otherwise known as GMIB, which is reported in the Run-off Reinsurance segment.

Remember that CIGNA adopted Statement of Financial Accounting Standard No. 157 in the first quarter of this year, which impacts the measurement of fair value for the assets and liabilities of the GMIB business. I would also 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 flow of that business.

Accordingly, the year-to-date after-tax losses of $161 million from that business are non-cash charges and have no effect on our estimate for 2008 subsidiary dividends.

Finally, 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 assets and liabilities of that business will be recorded in net income.

CIGNA's 2008 earnings outlook, which Mike Bell will discuss in a few moments, excludes the results of the GMIB business and, therefore any potential volatility related to the prospective application of that Statement 157.

One last item, I would like to remind you that CIGNA will be hosting its annual Investor Day this year on November 21, 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 second quarter adjusted income from operations was $303 million, or $1.08 per share. Our second quarter earnings improved from first quarter, reflecting higher Health Care results and continued strong results from our Group Disability and Life and International businesses.

These results demonstrate the strength of our diversified earnings streams, which provide us with unique opportunities to grow profitably despite challenging economic conditions.

On a year to date basis, Health Care earnings were $319 million, with earnings improving by approximately $40 million in the second quarter relative to the first quarter.

Second quarter Health Care results were impacted by a number of factors, including favorable operating expenses, increased contributions from our specialty businesses, and strong earnings from the recently acquired Great-West business.

Conversely, the guaranteed cost book experienced lower membership driven by pricing discipline and lower new business sales and a higher medical cost ratio. We expect to see meaningfully improved Health Care earnings through the remainder of 2008, although the extent of the improvement will be less than previously expected. David will describe the actions we are taking to drive that improvement.

Related to the Great-West acquisition, our integration efforts to date are progressing well and consistent with our expectations. We continue to expect the acquisition to be accretive to earnings in 2008 and significantly accretive in 2009 and 2010.

I will now comment briefly on our Group Disability and Life and International business. Our Group and International businesses delivered another strong quarter with competitively strong top-line growth and profit margins. In the first half of 2008, our Group business reported earnings of $141 million, with premiums and fees growing year over year at an attractive rate of 10%. Our after-tax margins in this business continue to be industry leading. Our International business has reported year-to-date earnings of $100 million, an increase of 22% compared to the first half of 2007, on growth in premium and fees of 12%.

Overall, both our Group and International operations have good growth opportunities and strong market position, which we expect will enable them to continue to deliver good top-line and bottom-line growth over the next several years.

Turning to capital management, we resumed our share buyback program during the second quarter and repurchased 6.7 million shares for $264 million through July 31, 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 reflects higher second half

Health Care earnings, although the level of growth is less than previously expected related to both the experience-rated and guaranteed cost books. The outlook also reflects the positive impact of our year-to-date share repurchase.

Mike is now going to cover the specifics of the second quarter results and our 2008 outlook.

Mike Bell (Chief Financial Officer):

Thanks, Ted.

Good morning, everyone. In my remarks today, I'll review CIGNA's second quarter 2008 results. I will also provide an update to our full year outlook, and I'll comment briefly on our early thinking for 2009.

In my review of consolidated and 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 second quarter earnings were $303 million, or $1.08 per share, compared to $284 million, or $0.98 per share in 2007.

Our consolidated second quarter 2008 earnings improved relative to first quarter, reflecting increased Health Care earnings and continued strong results in Group Disability and Life and International.

I'll now review each of the segment results, beginning with Health Care. Second quarter Health Care earnings were $181 million. Relative to first quarter, this result reflected the benefit of lower operating expenses and increased contributions from our specialty businesses.

In addition, Great-West contributed $16 million of after-tax earnings in second quarter, excluding financing costs, which are reflected in the Corporate segment.

I will now discuss our Health Care results by major component. Guaranteed cost earnings declined sequentially, mainly reflecting a higher than expected Medical Cost Ratio (MCR) and lower membership. Our guaranteed cost MCR for the first half of 2008 was 84.8%, excluding our voluntary business. This included approximately 50 basis points related to flu-related upper respiratory claims in the first quarter and higher than expected year-to-date catastrophic claims.

We currently expect our guaranteed cost MCR to improve to a range of 83% to 83.5% for the full year. This range is slightly higher than our previous estimate of 83%. It reflects modestly higher expectations for medical trend, due to the higher upper respiratory and catastrophic claims in the first half of the year.

We expect the improvement in the MCR during the second half of the year to be driven primarily by renewal price increases that are higher than trend and the impact of additional underwriting actions.

Excluding the non-medical account loss in first quarter, our experience-rated results improved sequentially but were below our expectations. The sequential improvement reflected a better medical cost ratio and more favorable operating expenses. Relative to our expectations, we experienced a higher dollar amount of account-level deficits in the second quarter than we had anticipated.

Our ASO results were strong in the quarter, driven by lower operating expenses and continued increases in the earnings contribution from our specialty products. Relative to operating expenses, our second quarter earnings benefited by $16 million after-tax due to lower expenses compared to the first quarter. Approximately half of the sequential improvement was due to items which we do not expect to repeat in the second half of the year.

With respect to medical costs, there is no change in the full year medical trend outlook for our total book of business. We continue to expect medical cost trend for our total book to be in a range of 6.5% to 7.5% for full year 2008.

Our medical membership was 12.1 million as of June 30, 2008. This includes the impact of the acquisition of Great-West Healthcare on April 1, 2008. Excluding Great-West, membership was 1% higher than at year end 2007.

During the first quarter, our guaranteed cost membership declined by 2%, and our ASO membership decreased by 1%. Our membership results reflect our continued focus on maintaining pricing discipline as well as the impact of higher disenrollment.

Health Care premiums and fees increased 13% relative to second quarter 2007, primarily due the acquisition of Great-West Healthcare. Excluding Great-West, premiums and fees were flat, reflecting rate increases on our guaranteed cost and experienced-rated businesses and higher specialty revenue, offset primarily by a decline in our guaranteed cost membership.

Now I will discuss the results of our other segments.

Second quarter 2008 earnings in our Group Disability and Life were $73 million. This result includes an $8 million favorable impact from a disability reserve study. Earnings in the quarter primarily reflected attractive margins, revenue growth and continued strong disability management results, partly offset by less favorable life claims experience.

In our International segment, second quarter 2008 earnings of $48 million reflected continued growth and competitively strong margins in our Life, Accident and supplemental Health and Expatriate businesses.

Our Group and International businesses continue to be important contributors to our consolidated results.

Earnings for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate were $1 million for the quarter. Second quarter results in the Run-off Reinsurance segment included the net favorable impact of settlement activity.

I'll now 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. Our investment portfolio performance continues to be very strong competitively. We continue to have no direct exposure to subprime loans and no material 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.

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 have any material impact on our outlook for our full year subsidiary dividends. Overall, we continue to be pleased with our investment management results.

I'll now comment briefly on our capital outlook. Our parent company capital position continues to be strong and our subsidiaries remain well capitalized. We ended second quarter 2008 with cash and short-term investments at the parent of approximately $100 million. During second quarter we resumed our share repurchase program and repurchased approximately 6.7 million shares for $264 million through July 31st, including $44 million in the month of July.

In the balance of the year, we expect subsidiary dividends to be approximately $200 to $250 million. As a result, our full year estimate for subsidiary dividends is now $500 to $550 million. The upper end of this range is modestly higher than our previous estimate.

At this point, excluding any additional M&A activity or any additional share repurchase, we expect other sources and uses of parent company cash in the balance of the year to net to approximately zero.

Over the balance of the year, we expect to continue to increase our parent company cash balance at a modest pace with the expectation that we would be at our long-term target of $250 million by the end of 2009.

Our capital management priorities remain consistent with our prior communications. We intend to continue effectively deploying capital for the benefit of our shareholders.

In summary, we continue to have a strong capital position and good financial flexibility.

I will now review the earnings outlook for full year 2008. For full year 2008, we currently expect consolidated adjusted income from operations of $1.135 to $1.185 billion. While we continue to expect earnings improvement in the second half of the year, this updated full year range is lower than the estimates we provided in May. I'll discuss the components starting with Health Care.

We currently expect our medical membership, excluding Great-West, to end the year approximately 1% higher than at year end 2007. This outlook is lower than our previous estimate and takes into account our current assessment of the weaker economic outlook and of the competitive pricing environment. In addition, we currently expect Great-West membership to decrease by approximately 100,000 over the balance of the year.

We continue to expect medical cost trend for our total book of business to be in the range of 6.5% to 7.5% for the full year. We expect guaranteed cost pricing yields to exceed trend in the balance of the year, and we estimate that the full year guaranteed cost MCR, excluding the voluntary business, will be approximately 83% to 83.5%.

For the full year, we expect guaranteed cost pricing yields to be in a range of 8% to 8.5%, and we expect medical trend for this book to be approximately 7% to 7.5%.

Our estimate for full year 2008 Health Care earnings is a range of $700 to $730 million. This range includes approximately $50 million of earnings contribution from the Great-West book.

Our updated range is approximately $40 million lower than the full year range we had communicated in May, mainly reflecting lower expectations for our guaranteed cost and experience-rated businesses. Our guaranteed cost outlook reflects a modestly higher estimated MCR and lower membership expectations. The updated outlook for experienced-rated earnings reflects lower full year margin expectations as a result of the lower than expected second quarter results.

We expect Health Care earnings to increase in the second half of the year relative to the first half as we execute additional pricing and underwriting actions. We also expect to generate increased earnings from the Great-West book. Our updated outlook reflects approximately a $60 to $90 million after-tax earnings increase in the second half of the year compared to the first half. I'll now discuss the key drivers of that increase.

We expect Great-West to contribute approximately $50 million of earnings for the full year. This implies second half earnings of approximately $38 million, compared to $12 million in the first half. These amounts exclude financing costs of approximately $5 million per quarter, which are included in the Corporate segment.

We estimate that guaranteed cost earnings will be approximately $30 million higher in the second half of the year relative to the first half. This increase is due to an improvement in the MCR as a result of strong renewal pricing and underwriting actions, partly offset by lower membership. Specifically, we expect guaranteed cost MCR to be approximately 82% for the second half of the year.

We estimate that ASO earnings will essentially be flat in the second half of the year as increased specialty earnings are approximately offset by higher operating expenses.

We expect experience-rated earnings to be $5 to $10 million higher in the second half of the year, excluding the first quarter charge of $7 million after-tax related to the non-medical account. This implies a very modest deterioration relative to the second quarter actual results.

We expect Medicare Part D to move from a break-even position through six months to positive earnings of $10 million for the full year.

With respect to operating expenses, we expect to increase our investments in information technology capabilities in the second half of the year. Our investments will be focused on capabilities which we believe will be key to winning in the market over the next several years. We also expect increased investments in the second half of the year to support our segment expansions, particularly the individual and small group segments. At the same time, we intend to identify additional expense reductions in other areas, which we expect to benefit our second half results and to have a larger, favorable impact on 2009. So, all in, our current estimate is that operating expenses will be higher in the second half of the year compared to the first.

In total, we estimate that Health Care earnings will improve in the second half of the year, yielding full year earnings in a range of $700 to $730 million.

I will now discuss the balance of our segments. We expect our remaining operations to contribute approximately $435 to $455 million of earnings for the full year. We expect our Group Disability and Life and International businesses 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 for the full year 2008.

Earnings for the balance of our operations, which include run-off businesses and the parent, are expected to be lower in the second half of the year than in the first, mainly reflecting higher debt financing costs and the impact of lower cash balances on parent company investment income. In addition, we do not expect the year-to-date favorable settlement activity in Run-off Re-insurance to repeat in the second half.

Relative to our consolidated outlook, as is customary, our estimates for earnings and EPS assume no additional share repurchase. On this basis, we estimate that our full year 2008 consolidated adjusted income from operations will be in a range of $1.135 to $1.185 billion and that EPS will be in a range of $4.05 to $4.25 a share. Our estimated range of EPS is equal to our previous range; this reflects the benefit of stock repurchase completed to date, which we expect to offset lower Health Care earnings.

Now, looking ahead to 2009, we expect to achieve attractive earnings growth despite pressure on several fronts. We expect that the economy will remain weak and that the pricing environment will continue to be very competitive. We also anticipate upward pressure on operating expenses as we continue to invest more in enhancing our information technology capabilities.

On the other hand, there are a number of positive factors. First, we currently expect Great-West 2009 earnings to be in a range of $150 to $175 million after-tax, excluding financing costs. This would represent meaningful earnings growth relative to the expected $50 million contribution in 2008. This updated range for 2009 is lower than our May estimates, primarily reflecting higher IT related integration expenses and greater uncertainty around market pricing conditions than we had previously forecasted.

We also expect to improve experience-rated margins in 2009 as we continue to execute stronger pricing and underwriting actions. In addition, we expect the operating expense reduction opportunities that we identify in the balance of this year to have a greater impact in 2009. And we expect to continue growing earnings in our Group Disability and Life and International businesses.

So, all in, we currently expect to achieve attractive earnings growth in 2009. Now, consistent with past practice, we expect to provide specific guidance about our 2009 outlook on next quarter's call.

To recap, our consolidated second quarter 2008 earnings improved relative to first quarter, reflecting increased Health Care earnings and continued strong results in Group Disability and Life and International. We expect to further increase earnings in the balance of the year and we expect full year EPS, assuming no further repurchase, to be in the range of $4.05 to $4.25 a share.

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

David Cordani (Chief Operating Officer):

Thanks, Mike, and good morning everyone.

Today I'm going to share some additional perspective on second quarter Health Care results, the outlook, including key actions for the balance of 2008 and some thoughts on our Group and International businesses.

Let's get started with Health Care. As Ed mentioned, the economy continues to have an impact on our customers. We're seeing some significant marketplace challenges that are having an impact on all businesses and in all industries. Our health service focus drives improved health, which drives improved productivity and ultimately cost savings for both employers and the individuals we serve. In this environment, our business remains strong and our strategy positions us to effectively help our customers.

In addition, our acquisition of Great-West on April 1st expands our reach geographically in the West and within buyer segments, specifically the select employer segment, representing employers with less than 250 employees.

Today I'm going to share with you first some thought on our 2008 membership outlook and medical cost trend; second, additional insights on our second quarter 2008 results including actions we're taking to further expand profitability; third, an update on integration of Great-West; and finally a brief update on our strategy.

From a membership perspective, our total medical membership at the end of June was 12.1 million members, including the addition of approximately 1.8 million Great-West Healthcare members on April 1st. We are working to stabilize the Great-West client base in 2009 through our improved total medical cost position, access to broader specialty programs and our focus on health improvement.

Our total medical membership has grown 1%, excluding Great-West, since the end of 2007, with higher membership in our service products, partially offset by lower membership in the guaranteed cost products.

As Mike discussed, the decline in guaranteed cost membership was higher than expected, reflecting our pricing discipline in a very competitive environment. Additionally, we have seen higher disenrollment as employer workforces declined. We expect our membership at the end of the year to be approximately 1% higher than at the end of last year, on an organic basis.

From a medical cost perspective, we continue to expect trend to be in the 6.5% to 7.5% range for 2008, consistent with our previous estimates. This is primarily achieved from effective execution by our contracting team along with strong execution from our medical management and our health advocacy programs.

Turning to earnings, as Mike discussed, our second quarter earnings improved from first quarter 2008 as a result of increased contributions from lower operating expenses, our specialty business, and earnings from the Great-West acquisition.

Looking forward, our earnings projection for the full year is now $700 to $730 million. We expect to achieve meaningful improvement in our second half earnings from four key actions. First, Great-West

earnings will contribute higher earnings in the second half of the year. Our focus on preserving and growing the existing membership, driving total medical cost improvement and integrating the operations will also provide a strong catalyst for 2009 earnings growth.

Second, we expect our guaranteed cost earnings to increase in the second half of 2008, reflecting the impact of strong pricing execution and underwriting actions. We expect additional margin expansion in the second half of 2008 from renewal pricing yields that are approximately 200 to 250 basis points higher than our medical cost trend, and we're seeing these pricing results in the July 1st renewals.

Third, our experience-rated earnings are expected to stabilize in the second half of 2008 as a result of aggregate rate action being greater than expected medical cost trends, which will enhance margins on our second half of business. Additionally, we will seek to expand margins with our January 2009 renewals as we balance membership growth objectives.

And fourth, regarding expenses, we will create additional operating efficiencies in our organization to partially offset the increased expenses from two areas. Our expansion in the individual and small group segments and from technology investments to support our growth and position us for further expense synergies in 2009 and beyond.

As a final note, as Mike mentioned, our Medicare book of business will have higher earnings in the second half of 2008 from the seasonal nature of the Part D product.

Looking forward, we remain committed to maintaining our pricing and underwriting discipline and improving our medical costs results through a combination of pricing actions and ongoing medical cost management.

Turning to our acquisition of the Great-West Healthcare business, we are four months into the integration and are making good progress with minimal disruption.

We remain focused on preserving and ultimately growing the existing Great-West Healthcare book of business, on integrating provider networks and clinical programs as well as key aspects of the infrastructure and, as we've noted in the past, we expect to retain and build on the strength of the Great-West organization. To that end, we are pleased that we have been able to retain almost all of the Great-West employees.

I'll now turn to my final Health Care topic, our health service strategy. More and more employers are interested in our focus on the individual because, at the end of the day, that's where you can make a real difference. As a health service company, we're focused on being the best at listening to, understanding and helping individuals improve their health and providing the best customer service experience.

This approach is relevant for all individuals, keeping the healthy healthy, reducing the risk levels for the healthy at risk, ensuring the most effective course of treatment for those with chronic conditions and addressing the needs of those with acute medical conditions. As we look forward, we recognize the system needs further simplification. To that end, last week we announced our integrated personal health team. This team combines behavioral health care, lifestyle management programs, case management, disease management, health coaching, and employee assistance programs with a single point of contact for the individual customer. One call to one phone number gets our customer to a personal health advocate who will be their guide to whatever type of help is needed -- it could be nutrition advice, help to manage stress, resources to cope will all aspects of a major illness, or just answer a question about a claim. The goal is to personalize and simplify the experience for our customers. We recognize that it is important for these programs to be built on a strong foundation and a track record of service and clinical program delivery.

From a service standpoint, we are ranked as the number one national health plan in customer satisfaction. All our call centers have been certified again this year by JD Power Associates.

From a clinical standpoint, we've also been recognized again as having the best clinical quality outcomes as measured through NCQA and HEDIS again this year.

In June we launched a new corporate brand and customer advertising campaign. We're sending a different message of what we think a health service company is and needs to be and that starts with recognizing the issues that everyone faces. We'll do everything in our power to simplify and improve for our customers benefit. Our objective, to be clear, is to make your path to health and well-being as easy as possible.

Now, I'd like to shift gears and spend a few minutes on our Group Insurance and International businesses. Both businesses will deliver top-line and bottom-line growth again in 2008. Each business has a strong leadership team and benefits from a good competitive position, whether that's in disability, life and accident or expatriate benefits in individual health and life products for individuals and global employers.

In our Group business, we deliver best in class results with our disability claim management model. We help people return to work sooner than the competition.

Like our Health Care business, our Group business is steeped in clinical excellence. One of the differentiators for us is our ability to integrate our programs. People with our disability and health plans have lower rates of disability and return to work more quickly. That's real value for the individual customer and for the employer.

Results from our International business remain competitively strong, with robust growth and targeted markets around the world. Most notably in the individual direct marketed health, life and accident insurance businesses in Asia and in the international expatriate benefit business.

Today, many corporations and our employer customers, are seeing significant growth outside the United States. The idea of multinational borderless solutions is increasing. Employers and individuals are looking for solutions that offer access to quality providers, affordable care and have dimensions of portability.

At CIGNA, we are well positioned to integrate our services and leverage the depth of understanding and experience we have in these global markets.

I'll end my formal remarks with the reiteration that we are taking appropriate actions to further improve profitability of our Health Care book of business.

First, we will effectively integrate the Great-West business and realize the added earnings power it brings to CIGNA. Second, we will expand our operating margins of our Health Care book of business through a combination of pricing and underwriting actions on our guaranteed cost and experience-rated books, effective total medical cost management and ongoing improvements to operating effectiveness and efficiency. And third, we will ensure effective client and individual service delivery from our existing programs while we innovate our health service offerings for 2009 and beyond.

We are committed to further improving our results in 2008 and ensuring we are well positioned as we look toward 2009. With that, I'll turn the call back to Ed for his closing remarks.

Ed Hanway (Chairman and CEO):

Thanks, David.

Now, before we take your questions, I want to underscore several points. It is our diverse mix of businesses that has enabled us to profitably grow earnings for our ongoing businesses in 2008. We are committed to improving our Health Care results over the balance of 2008 by maintaining a strong focus on pricing and underwriting discipline and continued effective medical cost management, particularly with regard to our guaranteed cost and experience-rated businesses, as David has noted.

In the second half of 2008, we will continue to make investments in targeted market expansions for our HealthCare business. We believe this will lead to good growth opportunities in the long-term.

Regarding our 2008 outlook, I remain confident that we can achieve our full year earnings per share range of $4.05 to $4.25 per share.

Looking to 2009, it is important to note that CIGNA has very good prospects to grow earnings in our ongoing businesses. We expect to leverage the Great-West acquisition and the strong competitive position we have built in the healthcare marketplace to produce significant earnings growth for the Health Care segment in 2009.

In addition, our value proposition in both our Group Disability and Life and International operations will enable us to continue to profitability grow these businesses in 2009, while maintaining their competitively superior margins.

Our ability to grow earnings in each of our ongoing businesses, coupled with continued effective capital management, will enable us to deliver significant EPS growth in 2009.

In closing, I believe that CIGNA has strong market positions 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 our shareholders.

This concludes our prepared remarks, and now we'd be glad to take your questions.

Matthew Borsch (Goldman Sachs):

Good morning. I'm trying to understand with your renewal rate increases, does that reflect that the rate increases were inadequate, to some degree, coming into this year and into the second quarter, and if that is the case, just to help us understand, has it been trend higher than expected or to what extent has it been the dynamic of the pricing pressure in the market?

Mike Bell:

Regarding the guaranteed cost book, I would not characterize our renewal rate increases thus far in 2008 as inadequate. In fact, to put some numbers around it, our pricing yields on a year to date basis for 2008 in the guaranteed cost book are 7.4%. That compares to medical cost trend for the guaranteed cost book in the first half of the year of 7.1%. So admittedly, we didn't expand margins as much as we had targeted, mainly reflecting the higher level of catastrophic claims as well as the higher medical costs from the flu. The main point here is that we'll get additional leverage in the second half of the year through even stronger pricing and underwriting actions.

We're actually expecting, as I said in my prepared remarks, full year pricing yields to be 8% to 8.5%, which includes pricing increases for the second half of 9% to 10%, which is obviously higher than first half and even higher than medical costs. I wouldn't characterize it as inadequate rate increases in the first half of the year, but I would characterize it as we expect better pricing and underwriting actions in the second half of the year which will improve the MCR.

Matthew Borsch:

Yes and I realize you guys gave full medical enrollment guidance, but can you just drill down to what you expect from the guaranteed cost business in terms of enrollment in light of those rate increases that you're putting through?

Mike Bell:

We're down 11% on a year to date basis. And we now expect full year membership to be down approximately 15%.

Matthew Borsch:

That makes sense. And last question here, what are you guys seeing in terms of the stop loss pricing. One of your competitors talked to a pricing cycle in that segment coming from some of the non-managed care reinsurance companies. How do you think that may impact your ability to do some of the re-pricing that you're looking to do on the Great-West business?

Mike Bell:

First of all, our stop loss results continue to be very strong. Our stop loss ratios have been stable over the last 18 months and have actually improved significantly from the 2005 and 2006 timeframe.

Now, in terms of competitive pricing conditions, I think it's fair to say it's a very competitive market. There are a certainly a number of specialty players, who we think of as the second tier in the industry, working hard to compete on the basis of price in order to maintain their membership.

So it is a competitive market. As it relates to the Great-West earnings expansion, the vast bulk of the earnings expansion in Great-West actually stems from delivering lower medical costs to this book, as opposed to trying to somehow price higher than medical cost trend. It's more about lowering the medical costs to take advantage of our more favorable total medical cost position than what Great-West has had historically. David, do you want to add?

David Cordani:

Good morning, Matthew. Just two points. First, relative to the CIGNA stop loss team, as Mike said, we've had a very good track record there. We have a dedicated business unit and stop loss has been a well run book of business for us for some time. The specific piece to Great-West I'd also ask you to think about is in the select segment. So for employers 250 and below, stop loss is an integrated sale and it's not like their go to market strategy or our go to market strategy now is operating so that stop loss is optional. So we are not coming up against the same kind of specialty carve out vendors. And as Mike said, we're increasing value by adding the additional medical cost improvement and specialty solutions, so we still feel very good about that strategy and the market conditions.

Matthew Borsch:

Great. Thank you.

Josh Raskin (Lehman Brothers):

Good morning. A couple of questions on Great-West. First on membership, I think you reported now 1.76 million and you were suggesting 1.4 million last quarter. I assume there's classification issue there, just curious what that was? Also the medical payable is up $50 million. I'm curious how much of that was Great-West? And then are there any planned systems conversions for some of the Great-West systems?

Mike Bell:

In terms of the Great-West membership, you're exactly right. There are some classification issues in terms of what we count as members versus what Great-West has historically counted as members. Based on our membership definition, which has been consistent for several years now, we are including a number of Third Party Administrator (TPA) members that are either in TPAs that Great-West, or now CIGNA owns, as well as TPA members that are accessing the medical network. So based on that definition, we were able to count roughly 350,000 or so members that are in those arrangements and that's why we're reporting 1.76 million members.

In terms of the medical payable, at June 30, 2008, Great-West reserves on a net basis were $67 million of the overall balance of $827 million.

David Cordani:

I'll take the systems component. So, as you might recall when we talked about the Great-West acquisition, we suggested that one of the real attractive parts for us was to secure their infrastructure and build on that. So the way I'd ask you to think about the systems for the market facing systems and tools, claim payment, and market support, those systems for the select segment and the core Great-West members as staying in place.

Great-West is in the process, was in the process and CIGNA will continue that process, of enhancing their systems and moving to an upgraded platform from a market standpoint. We will build on those systems and will not convert that business in masse to CIGNA systems.

Behind the scenes, as you might expect, there's some infrastructure support for data centers which we had planned for. The most important message is that the service proposition to the individual member, the employer, and the physicians will stay on Great-West's very strong systems.

Josh Raskin:

Thanks, that's helpful. And then just last follow-up on the membership. Are you expecting more attrition in 2009 on the Great-West book?

Mike Bell:

At this point, Josh, we've not communicated specific membership projections for 2009. I think its fair to say that embedded in our current earnings range for 2009, is some additional downward pressure on membership, but we do expect by year-end 2009 to be able to stabilize that book, particularly given the access to the improved medical cost position.

Josh Raskin:

Thank you.

John Rex (JP Morgan):

I want to first think about the medical costs here. Could you size for us the impact of the kind of higher level of catastrophic claims you saw in the quarter? And also the negative development that was rolling through from first quarter and I guess maybe a little color commentary on the catastrophic claims? Coventry at least has spoken to higher acuity levels that they're seeing, and I'm wondering what are you seeing as it relates to that?

Mike Bell:

For the first six months of the year, we saw catastrophic claims including catastrophic claims related to what we believe is the flu in first quarter, of approximately 50 basis points. And you're right, in terms of your assertion, that first quarter did emerge worse than we had expected and that is picked up in the second quarter reported results. All together it would be 50 basis points.

In terms of kind of specifics underneath that, we did see an increase in acuity claims and again, just overall higher inpatient costs. Interestingly that has been centered in the guaranteed cost book. We did not see a material change in either the ASO or the experience-rated book in the first half of the year as it relates to catastrophic claims. So, therefore, we do not believe that this is a widespread phenomenon. In our guaranteed cost the higher catastrophic claims experience was concentrated in some of our under 50 accounts as well as a couple of selected geographies. So I would not characterize it as an overall issue here.

Final point I would make is that, remember the medical cost trend for our guaranteed cost for the first six months of the year was 7.1% versus the comparable period in 2007. Now for full year, we have modeled

a medical cost trend for guaranteed cost book of 7% to 7.5%. Again, we're not talking about an overall sea change in terms of trend.

John Rex:

So there is not a theory that this is something to do with coding creep or something like that? This is more about a relatively small book of business and some bad luck?

Mike Bell:

I believe that to be the case. Again, particularly given that we did not see a comparable acceleration in trend or comparable acceleration in catastrophic claims for ASO and experience-rated. David, did you want to add anything?

David Cordani:

I just want to reinforce, that remember the guaranteed cost book is 8% or 9% of our total membership. So we tend to get a little bit more volatility there. And no, we don't see any evidence of a broad sweeping different movement in, your terminology, code creep or up-coding or change in profile that way. There's always a bit of movement, plus or minus, but nothing unique.

John Rex:

And I just want to make sure I understand a few points on Great-West. So the $150 to $170 million for 2009 you're guiding to compares to the $170 to $180 million from last quarter. Is that the correct comparison? Just so I have the numbers.

Mike Bell:

That's correct, John.

John Rex:

In terms of the transaction costs that you're bearing in 2008, I think your guidance was $45 to $50 million before. I want to see if that's still the same. And then, how much was borne in the second quarter, because I think the assumption was that the vast majority of that would be borne in the second quarter?

Mike Bell:

That's correct. Internally we refer to those costs as integration expenses, which includes integration and transition costs, because they're incremental expenses that we don't believe will be part of our expense base for the long term.

Our current estimate for 2008 integration cost impact is $50 million after-tax, so at the upper end of the previous range. The main delta there is higher Information Technology (IT) costs. It's the phenomenon David was referencing earlier. We've got a little higher data center migration costs, including a little higher labor costs there, and we are also more likely to incur some upgraded software costs, again, not to do with the major change in customer facing systems or anything but kind of behind the scenes cost. So that's the reason we're now at the upper end of that range for 2008.

John Rex:

And how much was borne in the second quarter?

Mike Bell:

Less was incurred in the second quarter than we had anticipated. It was just a shade more than a third of the $50 million. We expect third quarter to be modestly higher and fourth quarter to be modestly lower. David, do you want to add?

David Cordani:

Just a point to bridge Mike's comment to 2009. So the somewhat higher, we'll call it transitional costs around technology in 2008. We also expect to see some higher transitional costs in technology in 2009 and that's one of the primary items that affects the earnings range that you referenced before. Our focus here is to ensure that we're doing everything that's prudent to make sure we have no disruption or as minimal disruption as possible for the benefit of the customers. Thus far there's been de minimus disruption and we're really fixated on making sure the service proposition which has been strong from Great-West continues to be very strong on all fronts.

John Rex:

Just to make sure I understand the progression here. So the next two-thirds mostly would be borne in the third quarter of the $50 million. Is that right?

Mike Bell:

That's our current estimate, John.

John Rex:
Thank you.

Greg Nersessian (Credit Suisse):

Hi. Good morning. Could you touch on the catastrophic claims again. Just curious why that doesn't impact your stop loss results? Why a higher level of inpatient acuity wouldn't be rubbing up against your stop loss threshold?

Mike Bell:

Overall, it's really the same point that we talked about earlier. We don't see it as a widespread phenomenon of increased acuity claims in terms of inpatient claims. We did see it specifically in the guaranteed cost block, which again is a relatively small part of our overall membership block. Again, it was concentrated in a couple of specific geographies and concentrated in the under 50 group business.

So again, I think it's a combination of volatility. We're also looking at if there was any kind of anti-selection, particularly with the under 50 book. We don't see any evidence that it has spread at this point to the more stable ASO and experience-rated blocks at this point. And we would have seen that as higher stop loss claims on both ASO and experience-rated, if in fact that had spread to those books.

Greg Nersessian:

Is there any concern, I mean on the guaranteed cost book, where you're raising rates ahead of trend that if there is anti-selection then those rate actions are only going to exacerbate that problem and you're going to lose more of your good risk?

Mike Bell:

Certainly in the under 50 book in certain states, for example that require community rates or specific filed rates that don't vary group to group. There is that risk. Now, remember, the under 50 block is a very small proportion even of our overall guaranteed cost book. We have less than 100,000 members in that

book. We are underwriting that book on a market to market basis and certainly are cognizant of the point that you're making. David, did you want to add?

David Cordani:

Yes two points. One is clearly that risk always exists, but you should not anticipate that we're going to pass a blanket rate increase across the book of business, as Mike said, other than when we're dealing with the under 50.

And, secondly, as we look at our July results, it would suggest that the loss ratios on the business we are retaining versus the loss ratios on the business that we are losing are in the direction we expect. So the loss ratios are higher on the business we are losing than on the business we are retaining, which would suggest we're retaining the better risks and differentiating our pricing strategy.

Greg Nersessian:

Great. That's encouraging. Do I understand that the bulk of the repurchases for this year are complete? Could you just run through what your uses and sources of cash in terms of what's available for repurchase?

Mike Bell:

We ended second quarter with $100 million of parent company cash. We expect subsidiary dividends in the second half of the year between $200 and $250 million. Now, remember, we also repurchased $44 million worth of shares in July that you will need to take out of the roll forward. So basically if for example we use the midpoint, then that would indicate that if we did no further repurchase, no M&A over the remainder of the year, we would expect to end the year at $280 million of parent company cash.

Now, again our policy is to be noncommittal in terms of share repurchase, but I think you can conclude from my prepared remarks, that we would expect to end the year in terms of parent company cash balance somewhere between the $100 million that we had at June 30th and our long-term target which we'd expect to gradually get to at year end 2009 of $250 million. So that would be, I think, a good way to think about the ranging.

Greg Nersessian:

Great, that helps. Thank you.

Scott Fidel (Deutsche Bank):

Good morning. First question, could you give us an early read into what you're expecting for medical costs in 2009? It looks like most of the competitors are expecting some modest upward pressure that they're planning to price to and it seems it is sort of 8%, which might be the composite expectation so far for 2009 and if you could also talk about your views for medical costs looking out to 2009?

Mike Bell:

It is early obviously to give definitive guidance in terms of 2009, but what I can tell you is that for cases where we've had to do early quotes for insured cases for 2009, we have been assuming roughly 50 basis points of higher medical cost trend in 2009 than what we've been seeing here in 2008, so that would suggest you know 7% to 8% in 2009 as opposed to the 6.5% to 7.5% that we're experiencing thus far in 2008.

Now, I would point out that on a reported basis Great-West is going to add some noise to the trend numbers, and we're still sorting out how we're going to end up reporting medical cost trends in 2009. So the numbers that I just described are on a CIGNA basis excluding Great-West, and are on an apple to apple comparison with the 6.5% to 7.5% expected for full year 2008.

Scott Fidel:

And then, just thinking on medical costs if you could walk through the components of second quarter and how that might have shifted from first quarter and any early thoughts on how those might move around for 2009?

Marcia Dall:

As Mike mentioned earlier, our overall medical cost trend is expected to be 6.5% to 7.5% for full year 2008, which is consistent with our prior guidance. When you look at the components, they're essentially consistent with our prior guidance as well. Inpatient and outpatient are in the high single digits and professional are in the mid-single digits. Related to pharmacy, we are updating our trend expectations from the high single digits to the mid-single digits, reflecting improvements in the generic drug utilization and overall lower pharmacy utilization.

Mike Bell:

Just to add on, in terms of 2009. At this point, we have not seen any specific upward pressure on medical costs for 2009 for any of the categories. So, as an example, the hospital renewals that we've had to date have been in-line with our targets, which have been in-line with our 2008 actuals. We'll obviously give further specificity for 2009 by category during the third quarter earnings call.

Scott Fidel:

So, Mike, is it fair to say then that the 50 basis points assumed increase will just be more cushion around utilization for 2009?

Mike Bell:

Essentially, that's right, Scott.

Scott Fidel:

Just one last question, I know the focus on improving the medical costs and the stop loss business is a big part of the synergy targets for Great-West. Can you update us on the progress so far around those initiatives and how those are tracking relative to your expectations?

David Cordani:

Relative to the medical cost improvement. First just to box it. The nature of the product is such that you have an ASO relationship and a stop loss relationship, so as we are able to improve the total medical costs, the beauty of it is a meaningful amount of that total medical cost accretes to the employer and ultimately to the employer individual relationship, and a portion of that accretes to us through the stop loss relationship, etc. The progress we're seeing thus far as we're stepping though 2008 and into 2009 as we sit here today, we expect to be able to achieve our total medical costs improvement by the end of 2009. And we expect to have meaningful amount of that total medical cost improvement secured by the first quarter of 2009.

Scott Fidel:

Thank you.

Justin Lake (UBS):

Good morning. One further question on Great-West, you've mentioned that you expect to see another 100,000 members in attrition by the end of the year. Can you give us an idea of how many members are renewing over that period. So July 1st through the end of the year, what percentage of the book is actually renewing?

Mike Bell:

30% of the book renews in the second half of the year and 70% of the book renewed in the first half of the year.

Justin Lake:

So if I think about 30%, should I multiply that number times the 1.7 million you reported?

Mike Bell:

That's correct.

Justin Lake:

So maybe out of approximately 500,000 members, we're talking attrition of about 100,000. Is that about right?

Mike Bell:

I think that's fair. I would point out, though, that the mix of business here is particularly important. We actually expect a higher rate of lapse in the membership that is part of the TPA arrangements, which tend to be lower margin. On a year to date, on an actual basis, the persistency on the select segment, which is the small group, Great-West full service business has actually been higher than the overall average. And that's really where the bulk of the earnings power is for 2009. So, if you're building your own earnings model here for 2009, I wouldn't try to spread that proportionally.

Justin Lake:

So what has been the attrition in the select membership for 2008?

Mike Bell:

The overall persistency has been in the mid 80's for the select segment. In terms of percentage, the overall Great-West book is down 3.5% year to date, and the select group is a little smaller decrease than that.

Justin Lake:

That's helpful. And then, on the experience-rated book, I know you mentioned that you're seeing higher deficit dollars in total. Can you just run us through some of the numbers you did on last quarter as far as the percentage of accounts in deficit and new business versus existing business with deficits being around $132 million last quarter?

Mike Bell:

Sure, Justin, good memory. Let me walk through maybe an overview of the numbers and you can tell me if you'd like to go deeper on any of the specifics. I feel compelled to remind you Justin that this is a great product for us. Remember this is our highest earnings product per member and we believe it's a real win/win.

In second quarter we did see an improvement in the medical cost ratio. It improved sequentially, approximately 150 basis points. So if you take 150 basis points times the $493 million of medical premium, you'd conclude that it improved $4 to $5 million after-tax.

In fairness, it did not improve as much as we expected it to, and that's the reason for the lower full year outlook for experience-rated. And in terms of some of the specific numbers that you're interested in, we did in fact experience an increase in deficit recoveries in second quarter versus first. But we also saw an

increase in the new and existing deficits. So the $132 million that you recalled is right in terms of the end of first quarter. That increased to $151 million at the end of second quarter.

Now remember, that increase of $19 million was fully charged to earnings and, in fact, all $151 million has been charged over time fully to earnings. So remember, today's deficit balances are tomorrow's opportunity for deficit recovery, which is potentially a good thing.

It is fair to say now that for the full year 2008, we do expect additional deficit recoveries in the second half of the year due to the pricing and underwriting actions that we're taking, but we now expect deficits in the second half of the year on the first half case renewals to increase based on what we saw in second quarter results.

So the net impact on second half of the year earnings is that we expect second half of the year experience-rated earnings to be $5 to 10 million after-tax, higher than the first half, which is therefore, modestly lower than the second quarter run rate.

The real interesting opportunity here, of course is the first half of the year 2009 case renewals. We have an opportunity obviously for additional deficit recovery, even greater than what we had expected before and we expect to be in a position to quantify those expectations at the end of October.

Justin Lake:

Mike, what percentage of the accounts are in deficit and how does that compare to last quarter?

Mike Bell:

Let's see, at June 30th at 34% and that compares to 35% at the end of first quarter.

Justin Lake:

So that's actually improved. So the size of the deficit is getting larger?

Mike Bell:

Yes, modestly and again, I wouldn't overreact. In fact, there is one particular account that actually has a loss in the single digit after-tax earnings range for 2008 that is approximately 10% of the $151 million balance. That account is renewing later this year.

Justin Lake:

And just one more question on experience-rated. You've always said this business runs at a very attractive margin, and I realize you don't want to discuss that specific margin on the call, but can you give us an idea of how far away are you right now, if you think about your 2008 or 2009 results including the higher deficit? What kind of basis point difference are you from the target margin you have historically run in this business excluding the recoveries or increased deficit?

Mike Bell:

Well, first I'd remind you that a portion of our lower earnings expectation for 2008, roughly a third of it, is driven by lower revenue expectations. We now expect membership to be down 2% for the full year for experience-rated versus our original expectation of full year membership growth. This means we expect revenue to be up 4% to 5% for the full year.

So, in terms of margins, we expect to end 2008 with margins on this book in the ballpark of $30 to $40 million after-tax lower than our historical average. Based on the $30 to $40 million after-tax on approximately $3 billion of overall revenue, you can calculate the after-tax margins for full year 2008 versus what we've historically run longer term.

Now, obviously, we've got some real important decisions to make here regarding 2009, in terms of how much of the deficit do we try to recover and that's where we'll give additional clarification on the third quarter earnings call.

Justin Lake:

And does the $3 billion number include all the ancillary?

Mike Bell:

That's correct, Justin. That's what was I was referring to.

Justin Lake:

And the $30 to $40 million, is specifically without any improvement in recovery?

Mike Bell:

Well, that would include, in fact, getting the deficits back to our historical target of 30%. So it would include some level of recovery back from where we are currently.

Justin Lake:

Thanks.

Doug Simpson (Merrill Lynch):

Good morning. I was wondering if you could talk about 2009 in a general sense, I know you don't want to get too specific, but if we look at the Health Care segment profit and took 715, the mid point of the range for this year and then said Great-West is going to add about $100 million incremental from 2008 to 2009, that gets us to kind of a 815 number. This would be about 15% growth year over year. I'm just trying to connect the dots. I think Ed had commented about the opportunity for significant segment profit growth in that area. Is this a reasonable starting point?

Mike Bell:

I think the components that you're talking about are in fact reasonable, and again, just to reiterate, we'd prefer not to give specific numbers at this point. We do expect to give specific numbers on the third quarter earnings call. Maybe just to flesh out your list a little bit more, because the list of plusses and minuses is a little longer than what you described.

I think you're right on Great-West; we're modeling $100 to $125 million of earnings growth 2008 to 2009. We do expect continued specialty earnings growth to increase ASO earnings, just like we've seen this year. As I mentioned to Justin's question, we do expect better margins in experience-rated than what we've gotten so far this year. I'd rather not try to mention a specific 2009 expectation there. But we do expect better results. Remember we are going to get the benefit of the transformation amortization rolling off and as we have talked about previously, that's approximately $30 million or so after-tax. And then, final positive I'd list here is the segment expansions. This year we expect net drain of $15 to $20 million after-tax related to our investments in individual small group and seniors. Next year we expect this to be modestly accretive, so that would be a positive.

Going the other way though, I think it's important to note two things. One would be that we do expect higher IT expenses. Again, our entire sector is investing in additional technology capabilities to, in effect, capitalize on this market need for additional consumer engagement, health advocacy, and this really requires additional technology than what we've had or the sector has had historically. And in addition, the other wild card, of course, is the challenging economy and the competitive pricing environment, which will particularly have an impact on the guaranteed cost book.

So we've got some work to do in terms of sizing out the various plusses and minuses, but that's at a high level what's on our plus and minus list here for Health Care segment for 2009. David, do you want to add?

David Cordani:

Just to recap, as Mike said in his prepared remarks, as we look at 2009 we do view that the marketplace is going to continue to be challenging both economically and competitively. Having said that we have a wonderful growth catalyst in Great-West. We have diversity in our earnings stream beyond that from the Disability and International businesses, which we expect to continue to stay strong.

I will just reiterate Mike's point that we have the opportunity to have attractive earnings growth and invest back in ourselves, in technology, and in further segment expansions. So overall we're well positioned for 2009 and beyond.

Doug Simpson:

I think in the prepared remarks, there was a comment that again there are plusses and minuses, which was sort of hey, we have the operating expense up-tick, but in the other hand we expect operating expense reductions. Could you just help us think about netting the two of those?

Mike Bell:

At this point, I'd really prefer not to be specific there. We've got some very important work to do over the next 60 days. I do believe that directionally there is going to be increased pressure for us to spend more on IT. Again, this year we expect to spend more on the segment expansions, which next year we believe will turn into accretive earnings. You're absolutely right; we need to reduce operating expenses further. We know we need to improve our competitive operating expense position in 2009, and that's likely going to require additional reductions here in 2008. But I'd rather not try to size that at this point.

Doug Simpson:

Thank you.

Charles Boorady (Citigroup):

Good morning. On Great-West, can you talk about your network re-contracting progress and what your assumptions are in your 2009 Great-West guidance that you gave for net loss ratio improvement and the degree to which that would come from pricing versus re-contracting the network?

David Cordani:

I'll start with the network re-contracting and medical cost improvement and I'll ask Mike to pick up from the Medical Cost Ratio and other points.

First, as we think about the total medical cost improvement, it's important to note that we are looking at that as the improvement of the total medical costs, so network optimization, clinical model optimization, provider service model optimization, and it's built on both Great-West and CIGNA having a very good track record of servicing the doctors and hospitals. So we're able to build off of that.

Second, as we've suggested in the past, it's not going to transpire overnight. So we're on a methodical path to see improvement in 2008 and 2009. Our expectations are to see some improvement in 2008 in order of magnitude of the total opportunity that we expect we can improve medical costs, maybe around 20% of that will occur in 2008. We see line of sight to be able to achieve our total medical cost improvement goals and objectives by the end of 2009, and as we sit here today with the interactions back and forth between the doctors and hospitals, we'll have a meaningful amount of that completed by the first quarter of 2009, which is important because then we're able to see continued improvement in the value delivery back to the Great-West customers, both the ASO customers who benefit directly from that, as well as some of the stop loss benefits.

Mike Bell:

Regarding the Medical Cost Ratio for 2009, just to give some additional background here, we expect that stop loss premiums next year, ballpark, will be approximately $800 million for the full year. What we're modeling is an improvement in earnings contribution from the improved MCR in the $50 to $65 million after-tax range. That is what is embedded in the $150 to $175 million projections for 2009 that I gave in the prepared remarks.

Now, we are about to embark on literally market to market plans to sort out our product strategy, our pricing strategies here for 2009. So we've got some very important decisions to make around the pricing and membership trade-off for 2009. We believe that the $50 to $65 million is achievable. Again, it would improve the MCR but not to the level actually that we've historically run at CIGNA, and therefore while there's more work to come and we'll update this again at third quarter, we do expect this to be achievable.

Charles Boorady:

Last question on experience-rated. You made some commentary on the second half versus first half. Is the fourth quarter still when we should expect the most noise in the experience-rated results?

Mike Bell:

I don't expect, Charles, that there'd be tremendous amount of noise in the fourth quarter results. I do think that we'll see additional improvement in the third quarter from the pricing and underwriting actions that we've targeted. We do expect net yields for the second half of the year for experience-rated to be in the 8.5% to 9% range compared to the 6% to 7% that we achieved in the first half of the year.

The only thing I can think of off the top of my head that would specifically impact fourth quarter would be that given the increase in the percentage of the book that is now in high deductible plans. I could conceive of an up-tick in medical costs sequentially third to fourth quarter from the impact of members meeting their deductibles. We have modeled for this and expect full year medical costs for the experience-rated book to be approximately 8%.

Charles Boorady:

Thanks.

END