CIGNA CORPORATION

FIRST QUARTER 2012 EARNINGS CONFERENCE CALL TRANSCRIPT
THURSDAY, MAY 3, 2012

DAVID M. CORDANI – PRESIDENT AND
CHIEF EXECUTIVE OFFICER

RALPH J. NICOLETTI – CHIEF FINANCIAL OFFICER

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 Corporation and its subsidiaries (the "Company") and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company'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, the Company's strategic initiatives, litigation and other legal matters, operational improvement initiatives in the Health Care operations, and the outlook for the Company's full year 2012 and beyond 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.

By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as a result of a variety of 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 the Company'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 the Company's businesses;
3. challenges and risks associated with implementing operational improvement initiatives and strategic actions in the ongoing operations of the businesses, including those related to: (i) growth in targeted geographies, product lines, buying segments and distribution channels, (ii) offering products that meet emerging market needs, (iii) strengthening underwriting and pricing effectiveness, (iv) strengthening medical cost results and a growing medical customer base, (v) delivering quality service to customers and health care professionals using effective technology solutions, and (vi) lowering administrative costs;
4. adverse changes in state, federal and international laws and regulations, including health care reform legislation and regulation that could, among other items, affect the way the Company does business, increase costs, limit the ability to effectively estimate, price for and manage medical costs, and affect the Company's products, services, market segments, technology and processes;
5. the ability to successfully complete the integration of acquired businesses, including the acquired HealthSpring businesses by, among other things, operating Medicare Advantage coordinated care plans and HealthSpring's prescription drug plan, retaining and growing the customer base, realizing revenue, expense and other synergies, renewing contracts on competitive terms, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel;
6. the ability of the Company to execute its growth plans by successfully leveraging its capabilities and those of the businesses acquired in serving the Seniors segment and the Company's other market segments, including through successful execution of the Company's physician engagement strategy;
7. the possibility that the acquired HealthSpring business may be adversely affected by economic, business and/or competitive factors, or by federal and/or state regulation, including health care reform, reductions in funding levels for Medicare programs, and potential changes in risk adjustment data validation audit and payment adjustment methodology;
8. risks associated with pending and potential state and federal class action lawsuits, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging the Company's

businesses, including disputes related to payments to health care professionals, government investigations and proceedings, tax audits and related litigation, and regulatory market conduct and other reviews, audits and investigations;
9. heightened competition, particularly price competition, that could reduce product margins and constrain growth in the Company's businesses, primarily the Health Care business;
10. risks associated with the Company's mail order pharmacy business that, among other things, include any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
11. significant changes in interest rates or sustained deterioration in the commercial real estate markets;
12. downgrades in the financial strength ratings of the Company's insurance subsidiaries, that could, among other things, adversely affect new sales and retention of current business; downgrades in financial strength ratings of reinsurers, that could result in increased statutory reserves or capital requirements of the Company's insurance subsidiaries;
13. limitations on the ability of the Company'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;
14. inability of the hedge programs adopted by the Company to substantially reduce equity market and certain interest rate risks in the run-off reinsurance operations;
15. adjustments to the reserve assumptions (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating the Company's liabilities for reinsurance contracts covering guaranteed minimum death benefits under certain variable annuities;
16. adjustments to the assumptions (including interest rates, annuity election rates and amounts collectible from reinsurers) used in estimating the Company's assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits under certain variable annuities;
17. significant stock market declines, that could, among other things, result in increased expenses for guaranteed minimum income benefit contracts, guaranteed minimum death benefit contracts and the Company's pension plans in future periods as well as the recognition of additional pension obligations;
18. significant deterioration in economic conditions and significant market volatility, that could have an adverse effect on the Company's operations, investments, liquidity and access to capital markets;
19. significant deterioration in economic conditions and significant market volatility, that could have an adverse effect on the businesses of our customers (including the amount and type of health care services provided to their workforce, loss in workforce and our customers' ability to pay their obligations) and our vendors (including their ability to provide services);
20. amendments to income tax laws, that could affect the taxation of employer provided benefits, the taxation of certain insurance products such as corporate-owned life insurance, or the financial decisions of individuals whose variable annuities are covered under reinsurance contracts issued by the Company;
21. potential public health epidemics, pandemics, natural disasters and bio-terrorist activity, that could, among other things, cause the Company'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;
22. risks associated with security or interruption of information systems, that could, among other things, cause operational disruption;
23. challenges and risks associated with the successful management of the Company's outsourcing projects or key vendors; and
24. the unique political, legal, operational, regulatory and other challenges associated with expanding our business globally.

This list of important factors is not intended to be exhaustive. Other sections of the Company's most recent Annual Report on Form 10-K, including the "Risk Factors" section, 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 the Company from realizing the forward-looking statements. The Company 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'm Ted Detrick, Vice President of Investor Relations,and with me this morning are David Cordani, our President and Chief Executive Officer, and Ralph Nicoletti, Cigna's Chief Financial Officer.

In our remarks today, David will begin by commenting on Cigna's first quarter results. He will then review our approach to delivering value for our customers and clients. He will also discuss our key earnings drivers and why we believe Cigna is well positioned to deliver attractive top line and bottom line growth over the long term.

Next, Ralph will review the financial results for the first quarter and provide an update on Cigna's financial outlook for full year 2012.

We will then open the lines for your questions, and following our question and answer session, David will provide some brief closing remarks before we end the call.

As noted in our earnings release, Cigna uses certain financial measures which are not determined in accordance with generally accepting accounting principles, or GAAP, when describing its financial results. Specifically, we use the term "adjusted income from operations" as the principal measure of performance for Cigna and our operating segments. A reconciliation of these measures to the most directly comparable GAAP measure is contained in today's earnings release, which is posted in the Investor Relations section of Cigna.com. As is customary, our quarterly financial supplement is also available through Cigna.com. In addition, as we begin the year, we have made additional information available on our Web site (http://www.cigna.com/assets/docs/about-cigna/Investor%20Relations/CignaCorp_1Q12Slides.pdf) to facilitate your understanding of our full year 2012 outlook as well as our longer term growth goals and opportunities.

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.

Now, before turning the call over to David, I will cover a few items pertaining to our first quarter results and disclosures.

Regarding our results, I would note that in the first quarter we recorded two charges to shareholders' net income, which we reported as special items. The first special item was an after-tax charge of $28 million, or $0.10 per share, for transaction costs related to the HealthSpring acquisition. The second special item was an after-tax charge of $13 million, or $0.04 per share, for costs associated with a litigation matter. I would remind you that special items are excluded from adjusted income from operations in today's discussion of our first quarter 2012 results, as well as the full year 2012 outlook.

Relative to our Run-off Reinsurance operations, our first quarter shareholders' net income included an after-tax, non-cash gain of approximately $41 million, or $0.14 per share, related to the Guaranteed Minimum Income Benefits business, otherwise known as GMIB. I would remind you that the impact of FASB's fair value disclosure and measurement guidance on our GMIB results is for GAAP accounting purposes only. We believe that the application of this guidance is not reflective of the underlying economics as it does not represent management's expectation of the ultimate liability payout. Because of application of this accounting guidance, Cigna's future results for the GMIB business will be volatile, as any future change in the exit value of GMIB's assets and liabilities will be recorded in shareholders' net income. Cigna's 2012 earnings outlook, which we will discuss in a few moments, excludes the results of the GMIB business and therefore any potential volatility related to the prospective applications of this accounting guidance.

Also, as we previously disclosed, effective January 1, 2012, Cigna has adopted new accounting guidance regarding the accounting for the deferral of certain costs related to the acquisition of new or renewal insurance contracts. This accounting change restricts the amount of costs that can be capitalized and accelerates the recognition of certain acquisition costs that previously would have been deferred.

Cigna adopted this accounting change on a retrospective basis in the first quarter of 2012, recasting prior periods and recording a one-time non-cash charge of $289 million directly to shareholders' equity, effective January 1, 2011. Prior period results have been recast to reflect the impact of this accounting change and the impact to recast 2011 results for the adoption of this new guidance was to reduce earnings for our International business by $16 million in the first quarter of 2011 and by $67 million for full year 2011.

We would remind you that this accounting change has no impact on the fundamentals of the business, that is, there is no effect on future cash flows, our statutory capital position or the lifetime profitability of these policies.

Also, please note that when we discuss our full year 2012 outlook in a few moments, it will be on a basis which excludes any future capital deployment and assumes breakeven results for the remainder of the year for our Run-off Guaranteed Minimum Death Benefits business know as VADBe.

One last item, please note that Cigna will be hosting our upcoming Investor Day on November 16, 2012 in New York City.

With that, I will turn it over to David.

David Cordani (President and Chief Executive Officer):

Thanks, Ted, and good morning, everyone. Before Ralph reviews our results and outlook, I'll briefly comment on our first quarter performance, then I'll discuss how our capabilities continue to deliver differentiated value for our customers and clients, and finally, I'll briefly highlight how we are positioned for continued long-term profitable growth.

Turning to our results, we are pleased with our results for the first quarter. We exceeded our expectations in earnings and in medical customer growth, resulting in a stronger capital position at the end of the quarter. We also accelerated investments in our technology infrastructure, which we expect will start to yield efficiency gains in the second half of this year, in 2013, and beyond.

We reported adjusted income from operations of $370 million, or $1.28 per share, excluding the VADBe results, and consolidated operating revenues of $6.9 billion, an increase of 27% over the first quarter of 2011.

Our results demonstrate the ongoing effective execution of our Go Deep, Go Global and Go Individual strategy. Each of our ongoing businesses, Health Care, International and Group, made strong organic revenue and earnings contributions in the first quarter.

For our U.S. Health Care business, our results demonstrate continued growth in our targeted customer segments. In addition, we added two months of attractive contributions from HealthSpring, which we closed on January 31, 2012.

First quarter revenues increased approximately 32% relative to the first quarter of 2011. Our medical customer based grew by 1.2 million members. Nearly 800,000 of these customers represent organic growth from our core commercial business. This was ahead of our previous outlook, driven by strong sales and higher than planned client retention levels across all of our targeted customer segments.

Approximately 300,000 of these customers were gained in our National Accounts segment, reinforcing the effectiveness of our strategy to reposition this business.

We also experienced favorable prior year claim development in the quarter. Utilization trends remained low through the end of 2011 and into 2012. I would note that while overall utilization growth is somewhat muted, we continue to drive higher use of prevention and wellness services in our portfolio. Our ASO clients benefit directly from these lower medical costs. Today, 85% of our commercial customers are in these arrangements, which enable Cigna clients to choose from our comprehensive suite of programs, while having full transparency and control of their costs.

In our International business, we delivered top line growth of 24%, driven by robust premium and fee growth in our Health, Life and Accident business, as well as our Global Health Benefits business. With infrastructure in 30 countries and jurisdictions, in-country sales expertise, and in-depth customer understanding, our global footprint continues to provide a powerful advantage in our ability to design, develop and sell locally differentiated products and services.

In our Group Disability and Life business, our revenue growth of 8% was in line with our expectations. We continue to see good client interest in our programs that focus on productivity.

Now, let me take a moment to discuss the future business environment.

We believe that businesses today must be able to adapt to continued economic, social and political changes at an accelerated pace. Health systems around the world are demanding health and wellness solutions that address improvements in quality and costs. At Cigna, we are constructively engaging with lawmakers, regulators, businesses and other thought leaders in our global markets to create effective health and benefit systems for the future.

Here in the U.S., attention is being focused on the Supreme Court's evaluation of the Patient Protection and Affordable Care Act. Regardless of that outcome, there are three indisputable certainties that Cigna is taking into account in our strategies and interactions. First, the cost of health care is unsustainable. In an environment where almost 75% of costs can be influenced by lifestyle and behavioral choice, demand for innovative solutions is increasing. Second, individuals will assume increasing responsibility for their own health and well-being decisions. Actionable information and resources to enable them to make choices based on what they value is critical to improve health outcomes and lower costs. And third, aging populations require new models for sustainable social programs. By 2030, the number of people in the world over the age of 50 will be greater than those under the age of 17 for the first time in history. This means we will have more people requiring health benefits for a longer period of time and fewer workers in the system paying for it.

At Cigna, we are helping our clients and customers address these trends with our health, wellness and productivity programs that focus on engagement and incentives to yield better value.

With this environment as a backdrop, several elements of our growth strategy and business capabilities position us to continue to deliver value for our customers and clients. Our approach starts with our focus on our customer.

We have been at the forefront of the market shift to a more retail customer focused approach to health care. We are reengineering our business around the individual. Our goal is to deliver a simple, easy and helpful customer experience for everyone, every time, and we will continuously work to improve to meet the emerging needs and customer trends.

From a service standpoint, we were the first, and remain the only, global health service company with 24/7/365 live phone service, and we are becoming even more accessible through channels such as Facebook, Twitter and YouTube.

Our Web site has recently earned recognition as a resource that helps customers evaluate the quality of health care professionals, provides tools to calculate the cost of care and offers advisory capabilities to make more informed decisions. Last month we launched a new tool that provides real time pricing for more than 200 common medical procedures which represent 80% of our medical claims.

Our customer focus is delivering results.

For example, in the U.S., our consumer-directed health plans grew by 35% in 2011, more than double the industry average. In the first quarter, we have already grown enrollment in these plans by another 24%.

Outside the U.S., sales of our direct to consumer Health, Life and Accident business continues to grow by more than 20% per year. Our successful expansion into the Internet and direct response TV distribution complements our leading telemarketing capabilities.

Next, we add our consultative sales approach. Our approach helps us to deliver differentiated value for our clients and customers. This, in turn, positions us to expand existing client relationships over time.

We start by listening to our clients to understand their business strategy, their benefit goals, and their corporate culture. Then we analyze the claims utilization and conduct health assessments and biometric screenings to get a more complete view of their employee population. We design health and wellness plans to align to a client’s specific goals for health and productivity improvement. Then we drive high individual engagement, aided by incentive programs that reflect the unique needs of their employees, and we complement these programs with our physician engagement models.

At Cigna, we’ve taken the leadership role in physician engagement - moving away from offering rewards for just the quantity of services performed to providing incentives for achieving better health outcomes for our customers. Our approach, which we call Collaborative Accountable Care (CAC), provides physicians with actionable information on their patients to improve health and close gaps in care, financial incentives for keeping patients healthy and delivering the highest quality of care, and assistance from care coordinators to help patients follow prescribed treatments and improve their overall health by participating in our coaching and lifestyle programs.

Today we have 22 of these CAC initiatives in place in 13 states and by 2014, we expect to have 100.

The addition of HealthSpring further builds on our ability to reshape the delivery of health care. HealthSpring has demonstrated that truly partnering with physicians, integrating services and driving innovation, delivers market leading results for customers. In fact, many of HealthSpring’s programs are recognized as some of the most innovative in the market, reflecting the type of coordinated care, clinical quality and physician engagement needed to address key aspects of sustainable health care reform.

Combined, these elements of our strategy, customer focus, consultative sales approach and physician engagement, allow us to offer our customers and clients a differentiated value proposition. We leverage these capabilities to deliver competitively attractive growth for our shareholders. This growth is driven by our U.S. commercial business, our International business and our Medicare business.

In our U.S. Commercial business, we are seeing increased demand for our health and productivity programs. As a proof point, we expect to add approximately 800,000 new medical customers in 2012.

Second, in our International business, we continue to expect high demand for health solutions to serve globally mobile individuals and the growing middle class in emerging markets. We are continuously evaluating opportunities to expand our international distribution capabilities and product portfolios as well as invest in new markets where there is attractive growth potential. For example, in 2011 we deepened our geographic footprint further in China by securing our 10th license. We now have the ability to reach more than 500 million people. This represents 40% of the population and over 65% of the GDP in the country.

Third is our Medicare business. We plan to expand HealthSpring's offerings beyond the current markets to leverage Cigna's broader U.S. footprint, including our employee base and our established relationships with physicians and hospitals. Our integration with HealthSpring is well on track. We have effectively engaged our customers, employees and physician partners, resulting in continued business momentum. We are also aggressively working on our strategic growth priorities to extend the value of HealthSpring's physician engagement model by developing new commercial offerings and to leverage Cigna's footprint to extend HealthSpring's Seniors capabilities into new markets. I attribute this early success to our common vision and shared philosophy of strong physician partnership that focuses on delivering the highest clinical quality for our customers.

When you take these growth drivers together, plus our ongoing effective capital deployment, we continue to expect to deliver 10% to 13% annual EPS growth over the next three to five years.

Now, before I turn it over to Ralph, let me highlight just a few key points.

Our first quarter results exceeded our expectations in earnings and medical customer growth, resulting in a strong capital position at the end of the quarter. We also accelerated investments in our technology infrastructure, which we expect will start to yield efficiency gains in the second half of this year, then in 2013 and beyond. Our integration of HealthSpring is progressing well. Based on the strength of our first quarter results, we are increasing our full year outlook for earnings and customer growth.

Our results reflect the dedication of more than 30,000 Cigna colleagues who are working every day to improve the health, well-being and sense of security of the individuals we serve around the world.

Lastly, I would highlight that our strategy is built to thrive on and seize on the opportunities created by today's dynamic business environment.

With that, I'll turn the call over to Ralph.

Ralph Nicoletti (Chief Financial Officer):

Thanks, David, and good morning, everyone.

In my remarks today, I will review Cigna's first quarter 2012 results and provide an update to our full year outlook. In my review of consolidated and segment results, I will comment on adjusted income from operations. This is also the basis on which I'll provide our earnings outlook.

Before I get into the specifics of the quarter, I wanted to highlight that the quarter reflects strong fundamental execution of our strategy, earnings and customer growth ahead of our expectations, continued strategic investments to support growth and ongoing efficiency gains, as well as strong contributions from HealthSpring. These results provide me the confidence to increase our full year earnings outlook.

Now moving to the results. Our first quarter 2012 consolidated operating revenues grew 27% to $6.9 billion, driven by growth in our targeted markets and the impact of the HealthSpring acquisition. First quarter consolidated earnings were $370 million, or $1.28 per share, excluding the after-tax loss of $0.04 per share from the results of the Run-off VADBe business.

Turning to the segments,in Health Care, first quarter 2012 premiums and fees grew 36% to $4.5 billion, reflecting strong business growth and two months of HealthSpring revenues. First quarter earnings for

Health Care were $262 million and reflect growth in our Commercial business, contributions from HealthSpring and the impact of favorable prior year claim development.

In addition, the quarter's results include strategic spending to support our business growth and service capabilities, as well as targeted investments that will deliver operating expense efficiencies beginning in the second half of this year. Specific to our spending to deliver operating efficiencies, these costs impacted the quarter's results by approximately $30 million pre-tax, or $0.07 per share.

We ended first quarter 2012 with approximately 12.7 million medical customers, representing growth of almost 1.2 million customers. The increase is comprised of organic growth of 800,000 commercial customers, which are essentially all ASO, and roughly 400,000 HealthSpring customers, reflecting continued growth of the Medicare book of business. As David noted, our customer growth is aligned with our Go Deep strategy, with strong results in our National Account, Middle Market and Select segments, where we offer clients differentiated funding alternatives and product solutions through our consultative approach and focus on incentive alignment.

Now turning to medical costs, in the quarter we continued to deliver favorable medical costs and sustained clinical quality for our clients and customers. I would remind you that 85% of our Commercial customers are in ASO funding arrangements, where they directly benefit from these medical trend results, and we continue to see a growing proportion of our Commercial customers in service based relationships.

Across our Commercial and Medicare risk books of business, our first quarter earnings included favorable prior year claim development of $38 million after tax, net of our rebate accrual, compared to $22 million after tax in first quarter 2011.

Specific to commercial guaranteed costs, our first quarter 2012 medical care ratio, or MCR, was 76.2% on a reported basis. Excluding prior year claim development, the commercial guaranteed cost MCR for first quarter 2012 was 79.6%. Our first quarter 2012 MCR for Medicare Advantage was 81.1% on a reported basis, or 82.8% excluding prior year claim development. Overall, we are pleased with the results in our medical risk businesses, as they continue to reflect good pricing and underwriting discipline as well as sustained clinical quality for our clients and customers.

For the first quarter 2012, total operating expense ratio was 24.3%, which is a 280 basis point reduction over the first quarter 2011 expense ratio, and primarily reflects the change in business mix associated with the HealthSpring acquisition.

Now, I will discuss the results of our International business.

International continues to deliver attractive growth and profitability. The results reflect targeted new sales, strong retention and further product penetration to existing customers. Premiums and fees grew 24% quarter over quarter, driven by strong customer retention and growth within our Health, Life and Accident business and increased risk membership in our Global Health Benefits business.

First quarter earnings in our International business were $80 million, representing continued high-single digit margins in line with our long-term growth expectations for this business.

I would note that our first quarter 2012 results included the one-time benefit of $8 million after tax related to the implementation of a capital management strategy.

In our Group Disability and Life segment, premiums and fees increased 8% over the first quarter 2011. First quarter earnings in the Group business were $65 million. We continue to deliver value for our clients and customers through our market leading disability and productivity management programs.

Results for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, totaled to an after-tax loss of $48 million for first quarter 2012. These results include a reserve strengthening of $11 million after tax related to our Run–off VADBe book of business. The reserve strengthening is a result of our continuing review of assumptions and primarily relates to the impacts of expected changes to our long-term lapse assumptions on a segment of the business.

Our capital position in Arbor, the legal entity dedicated to the Run-off Reinsurance business has continued to be strong and consistent with year
end. As a result, the reserve strengthening has no impact on our outlook for cash available for deployment.

Overall, our first quarter results reflect solid revenue and earnings contributions from each of our ongoing businesses, which continue to generate significant free cash flow.

Turning to our investment portfolio, we are pleased with our results in the first quarter. We recognize net realized investment gains of $12 million after tax, coupled with a strong net investment income result and our commercial mortgage loan portfolio is performing well in a challenging economic environment. Overall, we continue to be pleased with the quality and diversification of our investment portfolio. Our strong investment management capabilities and disciplined approach to risk management continue to deliver solid results.

Now turning to our outlook.

Based on the strength of our first quarter results, we are confident in our ability to achieve our increased full year outlook. We now expect consolidated adjusted income from operations in the range of $1.52 billion to $1.63 billion, and consolidated earnings per share of $5.20 to $5.55 per share, reflecting continued strong underlying results in each of our ongoing businesses. This increased outlook represents an increase of $0.15 to $0.20 per share over our previous expectations. I would remind you that consistent with prior practices, our outlook excludes any contribution from additional prior year reserve development or capital deployment.

I will now discuss the components of our 2012 outlook, starting with Health Care.

We now expect full year Health Care earnings in the range of $1.19 billion to $1.26 billion, which is an improvement of $70 million from our previous expectations. This increased outlook for Health Care reflects three items: the impact of higher than expected full year customer growth, the first quarter favorable prior year claim development and a reduction in amortization expense related to the HealthSpring acquisition.

I do want to highlight that our quarterly earnings patterns will be different than prior years, as we expect earnings for 2012 will be more heavily weighted to the back end of the year than our historical patterns, as a result of a few things: the seasonal earnings patterns of our expanded Medicare PDP book of business, operating expense efficiencies expected in the second half of the year resulting from investments we are making in the first half which I alluded to earlier, additional expected specialty earnings contributions from our ASO block of business, and reporting only two months of HealthSpring contributions in the first quarter.

Relative to medical customers, we now expect full year 2012 growth of approximately 1.2 million people, of which 800,000 is in our Commercial book of business, and is 300,000 higher than our prior expectations. This year's growth is essentially all in our highly transparent ASO funding arrangements and across all of our targeted market segments, including National Account, Middle Market and Select size employers. We have delivered additional growth in sales to larger clients. As you know, new sales to these clients tend to have less product penetration initially. We expect to provide additional value to our larger clients by expanding our suite of solutions over time, which will drive increased revenue and earnings for these relationships. Overall, we are pleased that employers of various sizes are attracted to our consultative approach and differentiated value proposition.

Turning to medical costs, our outlook continues to assume a modest increase in medical services utilization during 2012. For our total Commercial book of business, we continue to expect full year medical cost trend to be in the 6% to 7% range. These expected medical costs have been reflected in our pricing for 2012. We now expect the full year MCR to be in the range of 80.0% to 81.0% for our commercial guaranteed cost book of business, which is 100 basis points lower than our previous expectations, the majority of which is driven by favorable medical trend development. Our expectation relative to Medicare Advantage MCR for the full year continues to be in the range of 81.5% to 82.5%.

Our operating expense ratio for the full year is expected to be in the range of 22.5% to 23.5%, which is consistent with our prior expectations and reflects the benefit of operating expense efficiencies in the second half of 2012.

Now, moving to the other components of our outlook.

For our International business, we expect continued strong top line growth and continued expected earnings in the range of $265 million to $285 million, which represents earnings growth of 19% to 28% versus full year 2011.

Regarding the Group Disability and Life business, we continue to expect full year 2012 earnings in the range of $260 million to $280 million.

Regarding our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, our outlook is now an expected loss of $195 million for 2012, reflecting the first quarter Run-off VADBe reserve strengthening. This outlook assumes breakeven results for the remainder of 2012 for VADBe.

So all in, for full year 2012, we now expect consolidated adjusted income from operations of $1.52 billion to $1.63 billion and consolidated EPS in the range of $5.20 to $5.55 per share.

I will now discuss our updated capital management position and outlook.

Overall, we continue to have good financial flexibility as our subsidiaries remain well capitalized and are generating significant free cash flow to the parent, reflecting the strong return on capital in each of our ongoing businesses. We ended the quarter with parent company cash of approximately $520 million. For the full year 2012, after considering expected sources and uses, we now expect to have approximately $1 billion in parent company cash by the end of 2012, with approximately $550 million available for capital deployment. This represents a $100 million increase compared to our previous capital outlook, primarily reflecting the increase in our earnings outlook. Overall, our capital position and updated outlook remains strong, and our capital deployment strategy and priorities remain unchanged.

So,now to recap. Our first quarter 2012 consolidated results reflect the strength of our global differentiated portfolio of businesses and effective execution of our focused strategy with solid growth in our targeted customer segments. Our first quarter results were better than our expectations, reflecting good progress on the integration of HealthSpring and strong organic revenue and customer growth, which are expected to deliver $0.15 to $0.20 higher earnings per share, an addition $100 million in capital available for deployment, and targeted strategic investments to provide sustainable growth in revenues, earnings and EPS into the future.

Based on the strength of our results, we are confident in our ability to achieve our increased full year 2012 earnings outlook.

With that, we will turn it over to the operator for the Q&A portion of the call.

Matthew Borsch (Goldman Sachs):

Good morning. Could you talk a little bit more about what you're seeing on the utilization and cost trend side? Did it come in below your expectations in terms of utilization trends in the first quarter? Was it up modestly from last year, or are you just expecting that going forward? And any differentiation you can make between Commercial and Medicare would be interesting.

David Cordani (President and Chief Executive Officer):

Good morning. I'll start and ask Ralph to expand on whether there is any difference between Commercial and Medicare.

First, as indicated by our favorable prior development, results continue to develop favorable to our expectations. Secondly, in my prepared remarks, we noted that we did not see a meaningful uptick in utilization in the first quarter. I would note that within our expectations coming into the year, we planned for an increase in utilization, but for it to ramp throughout the course of the year. So we weren't projecting a large step function in the first quarter, and we did not see that. So overall results continue to be somewhat muted from utilization acceleration.

On a final note before I turn it over to Ralph, as we noted in our prepared comments, we continue to see targeted increases in certain prevention, wellness and diagnostic procedures, as well as higher medication compliance around evidence-based care for people in chronic programs, which is more of the right utilization happening, which benefits our clients and customers.

Ralph Nicoletti (Chief Financial Officer):

The only thing I'd add to David's point is on the Medicare side. Essentially the trends are the same, so we haven't really seen a change on the Medicare side of the business either.

Matthew Borsch (Goldman Sachs):

One followup on the commercial pricing side. As nearly all of your membership gain is coming from the ASO segment, how are you seeing the risk pricing environment develop at this point relative to the fairly competitive environment that I think you saw last year or at the later part of last year that caused you to step away from that market?

David Cordani (President and Chief Executive Officer):

From a macro standpoint, your recollection is correct. As you'll see in our results, we didn't post growth in the risk portfolio. As we look to our outlook for 2012, we're expecting to see some additional pressure there. So maybe a little dampening in the risk volumes, offset by the continued success in ASO.

It's a competitive landscape out there. We're not saying uniquely competitive, but a competitive landscape. We're picking our spots and maintaining our pricing and underwriting discipline, which is showing through in our MCR. It's showing through in our medical cost trends. And, it's showing through in our continued ASO growth.

Matthew Borsch (Goldman Sachs):

Great. Thank you.

Charles Boorady (Credit Suisse):

Good morning. The acquisition of HealthSpring looks especially timely in light of where the Commercial business is headed and how well Medicare Advantage continues to do. But that said, you seem to be doing really well holding your own in the Commercial side despite some of the noise we heard last year on pricing, so congrats on that. I want to ask about HealthSpring as a company that is sort of best in class at the vertical integration, and how they're able to achieve a high star rating, notwithstanding the government moving the goalposts on them last year a little bit. With the RADV rules now defined, what have you been able to do to assess how the new RADV definition would impact the business either positively or negatively, and have you accrued anything for RADV in the quarter?

David Cordani (President and Chief Executive Officer):

Charles, good morning. We appreciate your comments.

Just one item relative to the Commercial side before I get to HealthSpring - we continue to be pleased that the marketplace buyers across a variety of segments continue to increasingly look for what we call health improvement, engagement and incentive-based programs which are not all consumer directed. It's about how to get more engagement with the individuals within an employer's base. How do you align the incentives? And then how do you bridge that across to the physician engagement, which carries us across to HealthSpring?

Broadly speaking, as you noted, HealthSpring has been innovating for over a decade. The innovation is heavily focused on integrating with physicians, aligning incentives, using information, and then integrating care coordination, et cetera. The objective is to get the highest possible evidence-based care compliance.

So when you pierce through it all with the star ratings, RADV audits, et cetera, the macro objective is to get to the highest level of engagement with the physician and individual, and highest level of evidence-based care compliance. You can look at the national averages, for example, within MA. You'll see national averages in the high 30% to 40% range in terms of compliance with evidence-based care. You'll see in the most mature HealthSpring markets, percentages approaching the high 80s - so about twice the national average.

So to your concluding point, we expect that approach will continue to perform well through the evolving Star system, as well as the RADV environment.

Charles Boorady (Credit Suisse):

Can you scale that across to your commercial lives? How much of that is technology based that can be rolled out versus just know-how in the marketplace that might take longer to transfer those skill sets to other markets?

David Cordani (President and Chief Executive Officer):

I appreciate your framing of it. First and foremost, a part of our acquisition strategy here was that we believe that we can indeed leverage, or you used the term scale. I'd say leverage the capabilities.

I would suggest to you, Charles, it starts before you get to technology, and it starts with an attitudinal orientation. The HealthSpring team, philosophically and fundamentally, believes that by partnering with physicians, putting the customer front and center, and using information on a targeted basis you could yield a better result. And it's an environment of continuous improvement. They've been able to demonstrate that in a variety of markets. So it's not just in a single market like certain other models might be. It's not solely in the most developed, integrated care systems like in Southern California. They've been successful in a variety of markets and have it functioning in 12 to 15 major cities.

I would compare that across to our experience in 2009 in Collaborative Accountable Care, where we've been able to see traction for commercial customers.

So that was a long way of answering your question. Yes, we believe we could scale it because we've seen success in our Commercial business. It's not an overnight. It's market by market, and it’s collaboration with the targeted physician groups. HealthSpring has been able to successfully expand that to a variety of geographies, and we’re excited because the marketplace is evolving in that direction.

Josh Raskin (Barclays Capital):

Hi, thanks. Before I ask my real question, just one quick question on the $8 million capital management change in International. What does that mean?

Ralph Nicoletti (Chief Financial Officer):

We took some steps to increase our flexibility around cash management outside the U.S., and that also enables us to lower our effective tax rates over time. So in the process of doing that, there was a one-time favorable benefit of $8 million after tax.

Josh Raskin (Barclays Capital):

Okay. So clearly one time and we can't expect that to recur?

Ralph Nicoletti (Chief Financial Officer):

Yes. Over time we’ll get the benefit of the flexibility around capital deployment, as well as lower tax rates, but in terms of how you think about it from the modeling standpoint, it would be one time.

Josh Raskin (Barclays Capital):

Okay that is perfect. My real question is around as you are preparing now about a month or so before the 2013 MA bids are going to be submitted, how are you managing that process? I think it's probably a little bit new to the Cigna organization. Obviously, HealthSpring’s been doing this for a long, long time. And then, as you think about your goals and your targets for 2013, would you say margin maintenance is most important or do you think continuing to grow those members and owning a longer lifetime value of the member is more important?

David Cordani (President and Chief Executive Officer):

Good morning, Josh. First and foremost you're correct - at this scale, MA is new to Cigna. Cigna historically only operated MA in Arizona. I would note that we've operated a pretty meaningful PDP book, and when we put the two companies together, the PDP book doubles.

More specifically to how we’re running the process, the HealthSpring business unit and the leadership is broadly intact. That leadership team continues to run the HealthSpring business unit, as well as the legacy Cigna Medicare Advantage business. We actually view that as a positive that there is continuity, as well as the ability to leverage that expertise for the legacy Cigna Medicare book of business.

As it relates to philosophy, if you look back at the HealthSpring philosophy it has been a very disciplined approach to the marketplace - trying to create value for the customers in terms of the benefit design and partnership with the physician, good financial discipline and the commitment to maintain financial discipline and integrity. Over time, they haven’t generated wild swings in their membership base. Instead, they’ve generated disciplined membership growth and disciplined earnings growth to go along with it. You should expect that to continue from us.

On a final note, we do look at the long-term value of customer relationships, and as we're able to expand the portfolio of services, there are additional programs and services we could offer, but that is an add-on.

So no change in philosophy, continuing the HealthSpring philosophy of sustained profitable growth by delivering good value, and we'll leverage their expertise for the legacy Cigna book.

Josh Raskin (Barclays Capital):

Just a last point on that - HealthSpring had run MLRs that were very impressive. We talked about care coordination, and I think the reasons for that are pretty clear. As you think about the minimum MLRs in 2014, and I believe Herb and his team have spoken about that in the past, would you expect some natural margin compression just due to the minimum MLRs as you get there, or is that a 2014 event for you?

David Cordani (President and Chief Executive Officer):

Broadly think of it in the out years, number one. Secondly, as you know, as the MLRs are reconciled, there are a variety of services that are provided both by the physician, as well as the health service or health insurance company, that all has to get washed through. But to your point, they've run very strong MLRs, and we expect that they'll continue to run very strong MLRs.

Some of the costs of doing the care coordination service and complementary services will go through some adjustment to the MLRs, and we expect to see some clarity as the regs get finalized as you look out to 2014.

Josh Raskin (Barclays Capital):

Okay, thanks.

Doug Simpson (Morgan Stanley):

Good morning, and I appreciate all the color around HealthSpring.

Maybe if you could touch a little bit on what you're hearing from large customers on the Commercial side in terms of their view of benefits - their commitment to health insurance. Has that conversation changed in any way as we're getting closer to 2014? How do you think the uncertainty around the Supreme Court is potentially affecting their thought process as they're thinking about their benefits and maybe perhaps moving to more of a defined contribution model over time?

David Cordani (President and Chief Executive Officer):

Good morning, Doug. There are a variety of moving parts to your macro point on how are employers thinking about their benefit strategies currently.

Theme one is that there has been an increasing intensity and drumbeat over the last two years around employers, large, medium and increasingly small, wanting incentive-based health improvement by engaging individuals. If you move across that continuum you end on defined-benefit, which I'll come to in a minute, or defined contribution. You see employers moving to get the incentives a bit more aligned with their employees. Secondly, employers are obviously watching what transpires in the regulatory landscape and know that as the rules are currently structured for 2014, there'll be a new marketplace out there, including state and federal-based exchanges for small employers. Third, we do not see a large drumbeat or momentum from employers preparing to aggressively shift over to the exchanges. And, on a final note, we do see some employers beginning to explore how they might move to the next generation of incentive alignment, which is a bit more of a defined contribution model.

Back to Cigna, we're working toward orientating our business model around the individual consumer engagement and physician engagement, as we believe those two models are going to be mission critical whether you're in the current model, whether you're into more of a defined contribution model, or evolving onto the fringe of the exchanges.

Doug Simpson (Morgan Stanley):

Okay, great. That is helpful. And I'm not sure how to tie this into that question, but anything new or different on VADBe and what should we be watching for there in terms of your efforts to potentially do something strategic there?

Ralph Nicoletti (Chief Financial Officer):

Importantly, we continue to look at options to further reduce or eliminate the liability and we're very active in that area. The structure that we did put in place regarding the separate legal entity is well capitalized, coupled with enhancing some of the hedging strategies, is proving to be effective. You'll continue to see us work at that.

Doug Simpson (Morgan Stanley):

Okay, great. Thanks.

Ana Gupte (Sanford Bernstein):

Thanks, and good morning. Following up on the last question, David, and your commentary on the Select market instead of the Small Group market, you talked about defined benefit or defined contribution. Can you comment on what is going on with the fully insured to self-insured mix shift, how much that is contributing to your growth and to what extent you think that'll impact the competitive environment in the fully insured market and the stop loss attachments? Then the recent regulatory push-back from the insurance commissioners on the stop loss attachment points for self-insureds and where do you think that may go?

David Cordani (President and Chief Executive Officer):

Good morning, Ana. You're correct. We run a part of our business called the Select segment to ground everybody. That is employers with, broadly speaking, between 50 and 250 employees.

By way of backdrop, over the last couple of years you should think about our new business Select sales vacillating around 50/50 between guaranteed cost and ASO with stop loss. It ticked up above 50%, but you should think right around 50/50. What we find quite interesting in this segment is that when you bring that ASO with stop loss product to market what you offer in that buying segment is a new product and service that has higher level of transparency, more choice on benefit design and configuration and, very importantly, the ability to align the incentives with the employer, the individual, and the health service company. The result we see in the Select segment for employers that have ASO and stop loss is higher preventative services, higher wellness services, better overall cost, and better overall productivity.

To the specifics of your comment around the regulatory landscape, we're obviously very engaged. We understand that there is dialogue amongst insurance commissioners around the configuration of stop loss programs. Broadly to date, that conversation is focused on the two to 50 life employer segment, and as you'll recall, that is a relatively small portion of our overall portfolio. We're still actively engaged with insurance commissioners, both at a national level and a local level, because we want to make sure that they understand all the facts in terms of how the programs work and the benefits to employers and individuals of getting that transparency, choice and incentive alignment.

Ana Gupte (Sanford Bernstein):

Got it. I believe the Blues in California are beginning to offer some of these stop loss products. Do you think that might change the competitive landscape at all? Is that likely to drive price competition in the fully insured and in the stop loss markets?

David Cordani (President and Chief Executive Officer):

Yes, Ana. As we started growing this segment of our portfolio meaningfully post the Great-West acquisition and successful integration, we said we expect to see increasing competitive movement around these lines of business because this segment historically had only been a guaranteed cost or risk block of business, so we anticipated that and you could see activities. You could see product filings, et cetera. In a way, Ana, there is a positive byproduct of that because it creates more visibility to a unique product in the marketplace and over the short-term creates more of a buzz and more demand. Over the intermediate to long term, like any other offering, it comes down to differentiation and innovation on our part. We have a good head start on that product portfolio and intend to keep our lead in that product portfolio as the market changes.

Ana Gupte (Sanford Bernstein):

Just one final question on HIPAA 5010. Is that part of your prior period development, and did you see any acceleration in claims in the fourth quarter? A couple of your competitors are reporting negative development here.

David Cordani (President and Chief Executive Officer):

We didn’t hear the first portion of your question. Can we ask you to repeat that?

Ana Gupte (Sanford Bernstein):

Related to HIPAA 5010, both HealthNet and Humana had some negative development. I'm just curious whether that is part of your favorable PPD and do you see that despite this headwind?

David Cordani (President and Chief Executive Officer):

Broadly speaking on HIPAA 5010 or other activities, there is a lot of regulatory compliance activity underway as a result of the new laws and regulations. We've got programs in place. We've made good progress. There are a lot of moving parts. The key to managing these activities is having good communication, good connectivity and good visibility with your trading partners. We've been able to secure that and, as such, have been able to mute any unique impact tied to 5010 thus far.

I would say our prior period development speaks to fundamentals. What you have is continued positive fundamental improvement in the overall medical costs environment for the benefit of our clients and customers.

Ana Gupte (Sanford Bernstein):

Thanks very much.

Christine Arnold (Cowen and Company):

Hi there. Thanks for telling us where the development was so I don't have to ask. On the ASO fees, it looks like the PMPM came down about 5%, but I'm not sure I did the math right. If the PMPM did come down, could you tell us why that would be?

Then, I understand you have 60,000 duals with HealthSpring. Can you confirm that? How are you thinking about potential vulnerability with respect to those members excluding the opportunity of course to gain members?

David Cordani (President and Chief Executive Officer):

Christine, good morning. Very efficient question, you worked in a lot of components.

First relative to the fees, as you'll note we had meaningful growth in the first quarter, and we're very pleased with that - essentially all ASO growth. I'd point to a couple of things. One is the growth this year is toward the higher average case size. So when you look at our book of business, the higher the average case size, the lower the fees per life, or the nature of the economics in the book of business. The fees we were able to secure on the cases we added are in line with our historical averages. The second piece, which is why you will see a little bit of a different pattern, is it's very important for you to know we do not have a full quarter's run rate of revenue in the first quarter. That is for a variety of points, but the most important point is we added ASO lives throughout the entire quarter. So we added January 1 business, February 1 business, and March 1 business. So while you see the net membership, you're converting it back to a revenue base that is a little understated, and the second quarter will get you closer to a run rate revenue base.

Christine Arnold (Cowen and Company):

That helps.

David Cordani (President and Chief Executive Officer):

As it relates to duals, your number is approximately correct. As it relates to approach, strategically we're approaching the dual population, as we indicated earlier, we believe if we secured a leading set of clinical Seniors capabilities that in our targeted geographies we could pursue Medicaid, ABD, Medicaid/ Medicare dual population, et cetera. So we see that as an opportunity going forward, and we'll pursue that on a state-by-state basis tied to our Go Deep strategy. We'll leverage the organic capabilities that HealthSpring has, both their leading Medicare capabilities as well as their Medicaid capabilities.

Finally Christine, in targeted geographies we will evaluate partnership opportunities where we can bring best in class Medicare and clinical capabilities that HealthSpring brings with an appropriate, from a targeted standpoint, leading Medicaid player.

Christine Arnold (Cowen and Company):

Okay that is helpful. Are there regions where you view the 60,000 duals you have as vulnerable? If you don't get a partner, what portion of that are you at risk of losing over the next, say, two years, 18 months?

David Cordani (President and Chief Executive Officer):

Christine, I wouldn't flag any unique geography or dynamic. The HealthSpring business model is deployed in about 15 major markets, and there are duals in a variety of those markets. There is a lot of active engagement with regulators and legislative leaders locally, as well as nationally. It's very important to put the beneficiary front and center, and these are beneficiaries who are getting a very positive service experience today and that have continuity with their physicians. So I wouldn't highlight any geography or immediacy of threat currently.

Christine Arnold (Cowen and Company):

Thank you.

Kevin Fischbeck (Bank of America Merrill Lynch):

A couple questions on HealthSpring. You mentioned that there was a benefit from a change in the amortization assumption. How much was that?

Ralph Nicoletti (Chief Financial Officer):

Hi, Kevin. It's about $16 million after tax for the full year, so you could prorate that for the two months in the first quarter.

Kevin Fischbeck (Bank of America Merrill Lynch):

Is it the same thought process about future changes in amortization down 10% to 15% from this level into next year, offset by the fact that you have one more month?

Ralph Nicoletti (Chief Financial Officer):

Essentially you could think of this change as an update to the guidance we gave you last time, which was a preliminary estimate. Now it's been refined and finalized. We still expect the shape of the amortization curve over time to be an annual reduction in that 10% to 15% range. It will be on the lower end of that going into next year because we're going to pick up 12 months of HealthSpring earnings as opposed to the shorter period this year, but that is the right way to look at it.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay, good. That number is more in line with what we were initially thinking. So just another question, and you addressed this a little bit in regards to Josh's earlier question, but just wanted to flush it out a little bit more. You mentioned a couple of times that you're excited about expanding HealthSpring's offerings beyond its existing footprint and with the 2013 rates out, is that a 2013 opportunity, or do you feel like 2013 is still about integration and it's more 2014 that you're really going to be able to see the expanding of the footprint?

David Cordani (President and Chief Executive Officer):

Kevin, good morning. Think about it through two dimensions, and maybe let me restate the base.

Job one is to make sure that the fundamentals of the business and the momentum in the business remain strong, and there is good strong fundamental organic growth and early progress there. So now you do the add-on. The add-on is two-fold. One is in targeted geographies leveraging the HealthSpring unique physician relationships and engagement relationships for new commercial solutions in existing HealthSpring markets. Second is the expansion of the HealthSpring model for Medicare Advantage in new geographies. Think about the opportunity to get some movement in the commercial category in 2013. Think about the Medicare Advantage, because of the contractual cycle, being more of a 2014 environment, and obviously both of them carrying on a go forward basis.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay, that makes sense. Thanks.

Dave Styblo (Jefferies & Company):

Good morning. Thanks for taking my questions. I'm in for David Windley right now.

I had two questions for you. The first one was on the spending in the Health Care segment that you had flagged of being about $30 million. Could you elaborate more on if that spending is done, or is that going to carry over into other quarters? And then, how should we think about the benefit in the back half of this year as well as for 2013?

The second question is on your International outlook. You had a benefit, I think it was $8 million, in the first quarter that didn't seem to flow through into the guidance as that stayed the same. Can you tell me about the dynamics, if something is offsetting that, or what is going on in that regard?

David Cordani (President and Chief Executive Officer):

Good morning, David. I'll start on the spending and I'll turn it over to Ralph to shape it a little bit for you in terms of how to think about it for the year, and then I'll ask Ralph to give it back to me to talk about International because that is a different topic.

Relative to the spending, we had some planned targeted investments in our technology infrastructure on a couple of discrete programs to garner efficiency gains on a go forward basis. We expected the bulk of the spending in the first quarter, while some of it continues into the second quarter. They're tied to two discrete programs where we'll be moving some technology platforms. One is around the telecom and data network. The second is around some support technology and infrastructure for staff facing functions. They are both tied to discrete vendors and contractual terms, which is why we're flagging the efficiency gains as we go into the second half of the year.

I'll ask Ralph to give you a little bit more color to shape how the pattern is going to unfold.

Ralph Nicoletti (Chief Financial Officer):

Thanks, David. The expense ratio in the quarter was 24.3%, and we guided to further reduction for full year 2012. There are a lot of moving parts with the mix of revenues within the businesses, but you should expect to see some of the step-down in Q2, although as David mentioned, we are still spending against some of these cost efficiency opportunities into the second quarter. Then you'll see us in the back half of 2012 step down further as the cost efficiencies take hold.

So for our overall expense ratio, from the first quarter there will be some reduction. The second quarter is a combination of a slightly lower pace of spend, as well as picking up three months of HealthSpring, which just from a mix standpoint brings the average down. Then the benefits in the back half of the year will further shape the operating expense ratio.

Dave Styblo (Jefferies & Company):

Got it.

David Cordani (President and Chief Executive Officer):

David, on the International piece you're correct that the capital deployment strategy there is a one-time benefit. There's also a run rate benefit.

To your macro point, first, the International business continues to perform extremely well, with very attractive top line growth, strong margins, and good bottom line contributions. The program that was referenced in terms of the capital deployment strategy is part of our planned initiatives. So we planned for this. We've worked this. We delivered it.

It's important to think about these as opportunities for future value creation because we're creating a more efficient environment. For an asset that is growing at the rate that this asset is growing, it'll create some meaningful contributions looking forward.

As it relates to the earnings outlook for the International segment, there is no change in our expectations other than we continue to believe that the asset is going to deliver 20% to 30% growth, which we're quite pleased with in this environment.

Dave Styblo (Jefferies & Company):

So on International it's more of a function that it was already reflected in your guidance? So it wasn't something that was a surprise?

David Cordani (President and Chief Executive Officer):

Absolutely. It was planned and a deliberate activity on our part.

Dave Styblo (Jefferies & Company):

Okay. Thanks for the color guys. Appreciate it.

Brian Wright (Monness, Crespi, Hardt &Co.):

Thanks, good morning. Did the guaranteed cost MCR in the quarter benefit at all from the release of 2011 minimum MLR rebate accruals?

Ralph Nicoletti (Chief Financial Officer):

No.

Brian Wright (Monness, Crespi, Hardt &Co.):

No material or none at all?

Ralph Nicoletti (Chief Financial Officer):

Really none at all actually.

Brian Wright (Monness, Crespi, Hardt &Co.):

None at all, okay. Lastly, can you size the magnitude of the second half versus first half of weighting on the earnings that you had mentioned just to fine-tune some modeling?

David Cordani (President and Chief Executive Officer):

Let me start at a macro level. We'll try to give you some of the earnings drivers as you think about it on a go forward basis, and Ralph highlighted some of these in his prepared remarks. But at a macro level, one is from a health care standpoint the PDP business is a highly seasonal business. Our PDP book is now doubled with the acquisition of HealthSpring. Secondly, Ralph just walked through very clearly the operating expense ratio pattern - what's in the first quarter and how it's going to shape throughout the course of the year. Third is our ASO block of business, as we referenced in the prior question, will get some additional revenue leverage because the first quarter does not have a full quarter's contribution of the revenue, and we'll get some additional specialty contribution as we run throughout the course of the year. On a final note, there'll be a little bit of an offset to this as you think about your modeling, as we've flagged that we believe that there may be a little bit of pressure in the risk book of business as it relates to volumes, and finally there's some seasonality to that MLR.

So those would be the five levers I'd ask you to think about - PDP pattern, the operating expenses that Ralph walked through very clearly, some ramping in the ASO contribution driven by revenue leverage as well as specialty contribution, offset somewhat by the volume of the risk business and the seasonality in the risk business.

Brian Wright (Monness, Crespi, Hardt &Co.):

Okay. I'm not exactly sure what we're talking for magnitude so it's still a little vague, but maybe we can talk off line a little bit.

Scott Fidel (Deutsche Bank):

Thanks. For the first question, I wanted to see if you can highlight a bit your strategy for growth in the public sector part of the Commercial marketplace. I know you had some wins there recently.

Maybe first just talk about how much of the 800,000 adds in Commercial are coming from the public sector market and sort of how much more opportunity you have there and what you think is driving some of the growth in that market for you?

David Cordani (President and Chief Executive Officer):

Good morning Scott. To ensure we get a common definition, when I hear public sector and Commercial the way we think about it is states, cities, counties, and other governmental agencies. So that's how I'm going to address the point.

We lead and manage that business as a part of our Middle Market, or Regional, segment. The reason why we do that, which is different than some of our competitors, is because we believe it's a highly localized and very locally intimate event. Over the last several years we've had meaningful success in that space, specifically tied to two things. One, our Go Deep approach, so targeting specific geographies, not just states, but MSAs. Then secondly, identifying public sector employers who are looking for a different solution. They're looking for health engagement. They're looking for health improvement. They're looking for productivity programs. That doesn't mean they're buying a CDHP program. It may or may not, but they're looking for a different solution.

We see increased demand from that standpoint and increased focus and traction from our standpoint in that area. We continue to be pleased that we're yielding results from our Go Deep approach and our local intimacy, and buyers are evolving around the value proposition.

Directionally, if we added 800,000 lives, think about 20% to 25% of that is in the range contributed by these diverse buyers. Don't just think states, think states, cities, counties and other derivatives of municipalities, and very importantly in targeted geographies where we're seeking to grow the broader portfolio.

Scott Fidel (Deutsche Bank):

Okay, and then I have one followup. Can you help us think about your thought process on the buy back program given that you improved the view on parent company deployable cash for the year?

Ralph Nicoletti (Chief Financial Officer):

Sure, Scott. Our overall capital deployment priorities haven't changed. Focus on first, the core operations of the business. Second, we look at M&A opportunities, particularly to expand our capabilities and geographies in the Seniors, Individual and Retail side. So those are our priority areas and we continue to focus there. As I think our track record shows over time, we'll deploy cash for those priorities as well as returning to shareholders through buy back.

It's a dynamic process, and it's always based on the outlook that we have on the prospects of those priorities and where we need to deploy the funds.

Scott Fidel (Deutsche Bank):

Okay, thank you.

David Cordani (President and Chief Executive Officer):

First, thank you for your questions today and your continued interest in Cigna. In closing, I want to emphasize a few key points from our discussion.

Our first quarter results exceeded our expectations in earnings and in medical customer growth, resulting in a stronger capital position at the end of the quarter.

We also accelerated investments in our technology infrastructure, which we expect to start to yield efficiency gains in the second half of this year and ongoing into 2013 and beyond.

Our integration with HealthSpring is progressing well.

Based on the strength of our first quarter results, we are increasing our full year outlook for earnings and customer growth.

Our business model is built to thrive in today's dynamic business environment.

Finally, I'm confident in our ability to achieve our full year 2012 strategic financial and operating goals.

With that, we thank you again for joining today's call, and we look forward to our future discussions.

END