

CIGNA CORPORATION

FIRST QUARTER 2013 INVESTOR TELECONFERENCE
THURSDAY, MAY 2, 2013

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 2013 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. health care reform legislation, as well as additional changes in state or federal 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;
2. adverse changes in state, federal and international laws and regulations, including increased medical, administrative, technology or other costs resulting from new legislative and regulatory requirements imposed on the Company’s businesses;
3. 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, including the possibility that the acquired HealthSpring business may be adversely affected by potential changes in risk adjustment data validation audit and payment adjustment methodology;
4. challenges and risks associated with implementing 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 members and health care professionals using effective technology solutions, and (vi) lowering administrative costs;
5. the unique political, legal, operational, regulatory and other challenges associated with expanding our business globally;
6. challenges and risks associated with the successful management of the Company’s outsourcing projects or key vendors;
7. the ability of the Company to execute its growth plans by successfully leveraging capabilities and integrating acquired businesses, including the HealthSpring businesses by, among other things, operating Medicare Advantage plans and HealthSpring’s prescription drug plan, retaining and growing the customer base, realizing revenue, expense and other synergies, renewing contracts on competitive terms or maintaining performance under Medicare contracts,

- successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel;
8. risks associated with security or interruption of information systems, that could, among other things, cause operational disruption;
 9. risks associated with the Company's information technology strategy, including that the failure to make effective investments or execute improvements may impede the Company's ability to deliver services efficiently;
 10. the failure to maintain effective prevention, detection and control systems for regulatory compliance and detection of fraud and abuse;
 11. risks associated with the Company's mail order pharmacy business that, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
 12. liability associated with the Company's operations of onsite clinics and medical facilities, including the health care centers operated by the HealthSpring business;
 13. heightened competition, particularly price competition, that could reduce product margins and constrain growth in the Company's businesses, primarily the Global Health Care business;
 14. significant stock market declines, that could, among other things, impact the Company's pension plans in future periods as well as the recognition of additional pension obligations;
 15. significant changes in market interest rates or sustained deterioration in the commercial real estate markets that could reduce the value of the Company's investment assets;
 16. 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 or limit the subsidiaries' ability to dividend capital to the parent company, resulting in changes in statutory reserve or capital requirements or other financial constraints;
 17. significant deterioration in global market economic conditions and market volatility, that could have an adverse effect on the Company's investments, liquidity and access to capital markets;
 18. unfavorable developments in economic conditions, that could, among other things, have an adverse effect on the impact on the businesses of our customers (including the amount and type of health care services provided to their workforce, loss in workforce and ability to pay their obligations), the businesses of hospitals and other providers (including increased medical costs) or state and federal budgets for programs, such as Medicare or social security, resulting in a negative impact to the Company's revenues or results of operations;
 19. risks associated with the Company's reinsurance arrangements for the run-off retirement benefits, life insurance and annuity business, variable annuity death benefits and guaranteed minimum income benefits businesses, including but not limited to, failure by the reinsurer to meet its reinsurance obligations or that the reinsurance does not otherwise provide adequate protection; or
 20. 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.

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 am Ted Detrick, Vice President of Investor Relations. 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 2013 results and how our broad portfolio of differentiated customer solutions provides us with many avenues for growth in 2013 and beyond.

Next, Ralph will review the financial results for the first quarter and provide an update on Cigna's financial outlook for 2013.

We will then open the lines for your questions. 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 according to Generally Accepted Accounting Principles, or GAAP, when describing its financial results. Specifically, we use the term labeled "adjusted income from operations," and earnings per share on the same basis, as the principal measures of performance for Cigna and our operating segments.

Any 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.

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, and those risk factors are discussed in today's earnings release.

Before I turn the call over to David, I will cover a few items pertaining to our 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 \$507 million, or \$1.75 per share, related to our previously announced exit of the Run-off Reinsurance businesses, which was effective February 4, 2013. The second special item was an after-tax charge of \$51 million, or 18 cents per share, related to a regulatory matter within our Disability business.

I would remind you that the special items are excluded from adjusted income from operations in today's discussion of our first quarter 2013 results as well as our full year 2013 outlook.

Relative to our Run-off Reinsurance operations, our first quarter shareholders' net income included an after-tax non-cash gain of \$25 million, or 9 cents per share, related to the Guaranteed Minimum Income Benefits business, otherwise known as GMIB. As a reminder, the results of our GMIB business are excluded from adjusted income from operations and, therefore, also excluded in today's discussion of our first quarter results as well as our full year 2013 outlook.

Regarding our disclosures, our GAAP cash flow statement explicitly discloses, in cash flows from operating activities, the amount paid in the quarter to Berkshire Hathaway in connection with our exit of the Run-off Reinsurance businesses. Adjusting for this one-time payment, which we view as a cost to dispose of the Run-off businesses, operating cash flows for our ongoing businesses were \$670 million in the quarter, representing 1.3 times our adjusted income from operations.

Also, please note that when we discuss our full year 2013 outlook it will be on a basis of adjusted income from operations, which again excludes realized gains and losses on investment results, as well as special items, and it also excludes the effects of future capital deployment.

With that I'll turn it over to David.

David Cordani (President and Chief Executive Officer):

Thanks, Ted. Thank you, everyone, for joining us this morning. Today I'll briefly touch on our first quarter performance.

I'll address how Cigna's strategy continues to create value for our clients, customers and shareholders in a dynamic and disrupted environment. I'll also highlight how our global mix of businesses, differentiating capabilities and emphasis on our customers position Cigna to continue to grow going forward. Finally, I'll provide some brief comments on our expectations for the balance of 2013 and beyond.

Following my remarks, Ralph will discuss our financial performance in a bit more detail, and then we'll take your questions.

We are pleased with our first quarter results, which demonstrate a strong start to the year for Cigna. Our performance was the direct result of continued effective execution of our strategy and the strength of our diverse portfolio of businesses.

Our first quarter performance was driven by our Commercial HealthCare and Global Supplemental businesses.

In Commercial HealthCare, we continued growing in our target markets by achieving strong customer retention, expanding our existing customer relationships and adding new customers. We've posted another quarter of high quality medical outcomes and competitively attractive medical costs for the benefit of our customers and clients. In our Global Supplemental Benefits business, we delivered a healthy increase in revenue and earnings, reflecting solid customer growth, effective cost management and contributions from recent acquisitions.

Our Seniors business performed well, demonstrating the quality of our physician partnerships and the value we deliver to our customers. The results in our Disability and Life business reflect the challenging economic and interest rate environment we operate in.

Moving on to the specific financial results, our first quarter consolidated revenues increased by 21%, to \$8.2 billion.

We grew our global medical customer base by 277,000 people, or 2%, to more than 14.3 million medical customers worldwide.

We reported adjusted income from operations of \$497 million, or \$1.72 per share, which reflects a per share increase of 39% over the first quarter of 2012.

During the quarter, we further enhanced our financial flexibility through the exit of our Run-off Reinsurance business.

Our first quarter results are indicative of our leading employer, individual and seniors solutions and capabilities, which drove 17% compounded annual revenue growth and 15% per share growth over the last three calendar years.

Looking ahead, companies and individuals alike will continue to demand health, well being and security solutions that are of high quality and affordable.

We will also see ongoing changes in the way customers access health care and wellness solutions, whether through the evolving individual, employer and government based channels or emerging changes in public and private exchange models.

At the same time, the needs of customers will keep evolving. As populations age, chronic diseases become more prevalent, middle classes continue to grow and customers become increasingly engaged and well informed.

Cigna's sustained strategic investments and continued expansion of our portfolio of employer, individual, and seniors solutions and capabilities position us to continue to deliver differentiated value to our customers and clients in this dynamic global environment.

I'll now comment briefly on initiatives and investments we are driving for the benefit of our employer clients, individual customers and physician partners.

From an employer standpoint, Cigna recently helped to convene the first-of-its-kind Global Healthy Workplace Summit, where executives from nearly 30 countries participated in a dialogue of best practices for healthy, productive workplaces.

An example of a shared learning is that we are beginning to see best practices emerge globally, as employees in countries such as China and Indonesia extend the healthy habits they learn in the workplace to their communities and homes. Additionally, it is clear that employers continue to play a meaningful role in the health and productivity of their employees.

From a solution standpoint, our consumer-driven health plans, which leverage choice and transparency, continue to grow and deliver attractive returns. Our clients have lowered their costs by an average of 13% in the first year by choosing a CDHP, while simultaneously improving the overall health profile of their employees. Cigna's customer base for these offerings increased by 26% in 2012.

For Individuals, we further strengthened our individual market position and consumer engagement capabilities last quarter through initiatives such as launching new, first-to-market products for dementia in Taiwan and new critical illness programs in Korea. In Turkey, we introduced new products to allow individuals to protect their own sense of security by helping them better save for health care and retirement needs.

We also launched the myCigna app, which gives our customers instant access wherever they are to personalized health care information to help them find a doctor, view their account balances and deductibles and research drug prices at 60,000 pharmacies, just to name a few examples.

We also continue to strengthen our partnership with physicians and health care professionals through our ongoing expansion of our Collaborative Accountable Care, or CAC, initiatives. We are now engaged in 58 CACs that cover 24 states, reflecting more than 10 new CAC relationships in the first quarter alone.

When taken together with HealthSpring's proven physician engagement strategies, these programs create a sustainable model to improve health, access to care, affordability and patient experience. We believe that this type of enhanced care coordination, anchored by strong physician partnerships, has -- as demonstrated by HealthSpring -- and will continue to yield superior results.

To further fuel our growth in this space, we continue to invest in our programs, which now support nearly one million Cigna customers across our Commercial and Seniors business, and we are collaborating with more than 23,000 doctors.

In summary, we've invested wisely in a portfolio of capabilities that enables us to effectively anticipate our customers' and clients' evolving needs and successfully manage the enterprise in an evolving, dynamic global marketplace.

Looking ahead, for the balance of 2013, we will continue to build on our sustained track record of success, advancing our strategy to create differentiated value for our clients and customers as well as our shareholders.

We are pleased with our first quarter results, and the strength of those results gives me confidence that we will achieve our increased 2013 earnings outlook.

Turning to 2014, there is no doubt that the finalization of the CMS guidance for Medicare Advantage for 2014 introduces significant changes that will cause customer, market and earnings disruptions. Having said that, our goal is to leverage our diverse well-positioned portfolio of businesses to continue to drive competitively attractive revenue and earnings performance for 2014 and over the long term.

As you know, we continue to target earnings per share growth of 10% to 13%, on average, over the next three to five years.

Now, to summarize before turning you over to Ralph, our first quarter results are strong and represent sustained success in executing a clear, focused strategy.

At Cigna, we continue to succeed in a dynamic global environment, building on our strong track record of attractive financial results dating back to the introduction of our "Go Deep, Go Global, Go Individual" strategy in 2009.

Our company remains grounded in customer-centricity, with a commitment to putting the customer at the center of all that we do.

Our team of 35,000 strong across the globe continues to bring our differentiated value proposition to life each and every day for the benefit of our customers and clients.

Lastly, the combination of our clear strategy, consistent execution and sustained investment positions us for continued competitively attractive results as we look to the future.

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

Ralph Nicoletti (Chief Financial Officer):

Thanks, David. Good morning, everyone. Today I will review Cigna's first quarter 2013 results and our increased outlook for 2013.

We've had a very strong start to the year, demonstrating the strong fundamentals of our businesses as we continue to build upon our excellent track record.

I'd like to highlight several key accomplishments, specifically: another quarter of strong top line and customer growth; quarterly earnings per share of \$1.72, representing growth of 39% over first quarter 2012; and strengthening our financial flexibility through the successful exit of our Run-off Reinsurance businesses.

The strength of our first quarter performance provides us with solid momentum for the balance of this year and confidence in our increased outlook.

First quarter consolidated revenues grew 21%, to \$8.2 billion, driven by growth in our targeted markets as well as an additional month of HealthSpring revenues.

First quarter consolidated earnings were \$497 million, representing 38% growth over first quarter 2012.

Regarding the segments, I'll first comment on our Global Health Care segment. Overall, Global HealthCare results were strong, particularly for our Commercial business.

First quarter premiums and fees for Global HealthCare grew 20%, to \$5.8 billion, reflecting strong contribution from both our Commercial and Seniors businesses.

We ended first quarter 2013 with 14.3 million global medical customers, growing by 277,000 customers, or 2% over year end, with solid growth in Commercial and Seniors.

First quarter earnings grew 44%, to \$427 million, and were driven by revenue growth, primarily due to strong ASO customer growth, specialty penetration, and an improved operating expense ratio.

Turning now to medical costs, we continue to improve the health outcomes for the benefit of our customers, driven by our effective engagement with physicians and delivering value based solutions for our clients and customers. Our Commercial medical trends are among the lowest in the industry, and given that nearly 85% of our U.S. Commercial customers are in ASO funding arrangements, our clients directly benefit from these favorable medical cost results.

Regarding medical care ratios, in our U.S. Commercial Guaranteed Cost business, our first quarter 2013 medical care ratio, or MCR, was 77.6% on a reported basis, or 80.3% excluding prior year reserve development.

In our Seniors business, our first quarter MCR for Medicare Advantage was 84.3% on a reported basis, or 84.7% excluding prior year reserve development. The flu season resulted in elevated medical and pharmacy costs for our seniors population and impacted our Medicare Advantage MCR by approximately 100 basis points.

Across our Commercial and Seniors risk books of business, our first quarter earnings included favorable prior year reserve development of \$48 million after tax, compared to \$41 million after tax in the first quarter of 2012.

Moving to operating expenses, for the first quarter the total Global Healthcare operating expense ratio is 20.7%, which is a significant improvement over the first quarter 2012 expense ratio. This reflects leverage associated with our continued customer and revenue growth, realization of benefits of cost saving initiatives and timing of investments in new capabilities in the quarter.

We would not anticipate this operating expense favorability to carry through the full year, as we expect our investment related spending to ramp up over the first quarter levels over the remainder of the year. To recap, we had a strong start to 2013 in our Global HealthCare business on all key metrics.

Now I will discuss the results of our Global Supplemental Benefits business, which continues to deliver attractive growth and profitability.

Premiums and fees grew 36% quarter over quarter, driven by strong customer retention and new customer growth as well as contributions from our recent acquisitions, most notably Great American Supplemental Benefits.

First quarter earnings in our Global Supplemental Benefits business were \$55 million, representing a 28% increase over first quarter 2012, and reflect business growth, favorable operating expenses, product mix and favorable claims experience.

Relative to operating expenses, it's important to highlight that we continue to invest in product, distribution and geographic expansion within this segment.

For Group Disability and Life, first quarter results reflect the impact of a challenging economic environment. First quarter earnings in our Group business were \$49 million, which were primarily impacted by unfavorable claims experience in the Disability business.

Results for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, total to an after-tax loss of \$34 million for the first quarter of 2013, consistent with our expectations.

Turning to our investment portfolio, we are pleased with our results in the first quarter. We recognized net realized investment gains of \$93 million after tax, coupled with a strong net investment income result. These net realized investment gains were primarily related to disposition of investment assets associated with our exit of the Run-off Reinsurance business.

Overall, as a result of the continued effective execution of our strategy, our first quarter results reflect strong revenue and earnings contributions from our ongoing businesses as well as significant free cash flow.

Now I'll discuss our outlook for 2013. We expect to continue to deliver strong financial performance based on focused execution, leveraging our diversified portfolio of businesses with multiple sources of growth and continued effective capital deployment.

We continue to expect consolidated revenues to grow in the range of 8% to 12% over 2012. We have increased our outlook for the full year 2013 consolidated adjusted income from operations to be in the range of approximately \$1.74 billion to \$1.87 billion, or \$6.00 to \$6.45 per share. This represents an increase of \$0.15 cents per share over our previous expectations.

Consistent with prior practices, our outlook excludes any contribution from additional capital deployment and any additional prior year reserve development for the balance of the year.

I will now discuss the components of our 2013 outlook, starting with Global HealthCare. We now expect full year Global HealthCare earnings in the range of approximately \$1.47 billion to \$1.56 billion, an increase of \$35 million. This increased outlook for Global HealthCare primarily reflects the first quarter favorable prior year reserve development and continued effective execution.

Additionally, I would note a variety of items that partially offset this favorability in our full year forecast, including the expected increase in strategic spending in the second half of the year as well as the impact of sequestration.

I will now summarize some of the key assumptions reflected in our Global HealthCare earnings outlook for 2013, starting with our customer base.

Regarding Global medical customers, we continue to expect 2013 customer growth of approximately 1% to 2%.

Relative to medical costs for our total U.S. Commercial book of business, we continue to expect full year medical cost trend to be in the range of 6% to 7%, which reflects an expectation for an increase in medical services utilization during 2013.

We now expect the 2013 medical care ratio to be in the range of 82.5% to 83.5% for our U.S. Commercial Guaranteed Cost book of business, which is 100 basis points lower than our previous expectations, driven by favorable reserve development in the first quarter.

For our Seniors business, our Medicare Advantage MCR for 2013 continues to be in the range of 82% to 83%.

Regarding operating expenses, for 2013 we continue to expect our total Global HealthCare operating expense ratio to improve by at least 50 basis points over 2012's full year ratio of 22.6%, recognizing that the balance of the year has an increased level of investments in growth initiatives and enhanced capabilities relative to the first quarter.

Now, moving to the other components of our outlook.

For our Global Supplemental Benefits business we continue to expect strong top line growth and earnings in the range of \$160 million to \$180 million. I would note that the first quarter earnings are elevated relative to the remainder of the year due to the timing of operating expenses related to ongoing investments in our growth initiatives and better than expected claims experience, which we expect to normalize over the balance of the year.

Regarding the Group Disability and Life business, we continue to expect full year 2013 earnings in the range of \$270 million to \$290 million.

Regarding our remaining operations -- that is, Other Operations and Corporate -- we continue to expect a loss of \$160 million for 2013.

So all in, for full year 2013 we have increased our outlook for consolidated adjusted income from operations to a range of approximately \$1.74 billion to \$1.87 billion, or \$6.00 to \$6.45 per share. This represents an attractive outlook coming off a very strong 2012.

Now, moving to our 2013 capital management position and outlook. Overall, we continue to have good financial flexibility. Our subsidiaries remain well capitalized and are generating significant free cash flow to the parent, with strong return on capital in each of our ongoing businesses.

We ended the quarter with parent company cash of approximately \$620 million. During the first quarter, we repurchased 1.6 million shares of Cigna common stock, and we subsequently repurchased an additional 2.3 million shares through May 1. Year to date, we have repurchased 3.9 million shares of stock for approximately \$250 million.

Additionally, as of April 18, 2013, we completed the payment of the reinsurance premium to Berkshire Hathaway in connection with our transaction to exit the Run-off Reinsurance businesses.

After considering all sources and uses of parent company cash, we now expect to have approximately \$1 billion to \$1.1 billion available for deployment during the balance of the year.

Overall our capital position and updated outlook are strong and our capital deployment strategy and priorities are unchanged.

Now to recap, our first quarter 2013 consolidated results reflect the strength of our differentiated portfolio of global businesses and the continued track record of effective execution of our focused strategy, with strong growth in our targeted customer segments.

The fundamentals in our businesses remain strong, as evidenced by: our first quarter results, which reflected attractive growth in revenue, customers and earnings, with the opportunity for excess cash

deployment; the successful exit of our VADBe and GMIB businesses and the completion of payments to Berkshire Hathaway; and continued targeted strategic investments which will enable sustained growth into the future.

Based on the strength of these results, we are confident in our ability to achieve our increased full year 2013 outlook.

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

Scott Fidel (Deutsche Bank):

Thanks.

First question: I wanted to follow up on Medicare and see if you can give us your estimated all in rate impact for 2014, then the final rates, including the industry fee, and then talk about the effects of the risk adjustment model changes that you're expecting on HealthSpring and if you can flag any particular markets where you expect to see more impact from that.

David Cordani (President and Chief Executive Officer):

Scott, good morning. It's David. A backdrop comment and then I'll address the rates specifically, because I think it comes into your risk adjustment point.

—First, as noted in our prepared remarks, the 2014 rate adjustments are disruptive and will be disruptive to the marketplace.

Specific to our model, broadly, we believe that the HealthSpring model continues to be a winning approach in the marketplace and is positioned for ongoing success largely due to the ability to partner effectively with physicians and work around health engagement and care coordination on a go forward basis.

We think this improvement is the only sustainable way to improve health and lower health care costs and generate levels of affordability.

So now to put that in context of the rate impact and your question about risk adjusters. For us, as you would imagine, the rate impact varies by market--you could think about the average of that being the mid-single digits. That excludes the industry tax.

On a prospective basis, when you think about the capabilities we have, we have two sets of capabilities.

One, we have, on average, a richer or more comprehensive benefit offering in our respective markets that we target, because of the efficiency of our portfolio, so a little bit more latitude to work with in those benefits, make adjustments and still have the competitively differentiated benefit. Two, the physician partnership -- to work with those physicians to get to the best efficiency and quality outcome for the benefit of their patients, our customers, as we work forward.

Scott Fidel (Deutsche Bank):

Okay. David, just to confirm, so the variability that you're citing with mid-single digit down first let's say industry peers ex the industry tax that may be more like 3% or so is that variability mostly off of the risk adjustment model impact?

David Cordani (President and Chief Executive Officer):

Scott, time will tell, obviously, as the final rates convert to benefit offerings in the market. But I would say again, my numbers are mid-single digit on average. Our view of the peer marketplace is in more of the 4 to 5. So you might argue there is a point plus of difference. I would not benchmark to your notion of a 2-1/2 point or 2 plus point difference.

You could argue that that is largely the result of both geographic variability and then secondly the efficiency of our program effectiveness around the risk adjusters having a little bit larger bite out of it.

Scott Fidel (Deutsche Bank):

Got it. Then my final question: I wanted to shift gears and ask about the outlook for ASO conversions in 2014, hearing a lot of market feedback about increased interest in converting to ASO. Particularly in the Select segment, what type of growth pipeline do you expect to see as a result of this since that's a particular area of the market where we're hearing a lot of interest in ASO for 2014?

David Cordani (President and Chief Executive Officer):

Scott, specifically to ASO or self-funded, as you know, the bulk of our U.S. business is self-funded -- 80% to 85% of the business each day.

As it relates to broad themes, we see a continuation of the broad theme from the last three or four years to continued openness in a positive appetite for ASOs. So we don't see it as a sea change, by any stretch of the imagination.

In the Select segment, to your specific point, which we define as employers with 51 to 250 employees, we've seen continued positive appetite there as well, so positive momentum, with strong portfolio capabilities and increased openness and receptivity in the market for.

If you look back to our growth results, our Regional segment and our Select segment results continue to be outstanding from the perspective of retention, business expansion and new business growth. We would expect that to continue.

Scott Fidel (Deutsche Bank):

Okay, thanks.

Justin Lake (J.P. Morgan Chase):

Thanks. Good morning.

First question on 2014: in your prepared remarks, you talked about your confidence and being able to grow at attractive rates over the next several years. But, specifically, you had previously communicated confidence in the ability to grow earnings next year. I'm curious if you can give us an update on your thoughts here?

David Cordani (President and Chief Executive Officer):

Sure Justin. Good morning. As you commented, in my prepared remarks I said we feel as though the positioning of our diverse businesses will enable us to deliver competitively superior both revenue and earnings in 2014 and beyond. We remain committed to our long-term EPS growth objectives of 10% to 13%, on average, per year. As you know, we've been able to deliver that over the prior years.

Specific to 2014, given the disruption that the Medicare rate environment has introduced and our need to see how those rates convert to offerings in the market through the second quarter, and then the offerings going into the third quarter, we think it's early to comment relative to 2014 outlook.

But I think the most important headline is we're confident that we are positioned to deliver competitively superior results in 2014.

Justin Lake (J.P. Morgan Chase):

So if Medicare Advantage is clearly the area of disruption, can you delineate what you're thinking in terms of membership growth versus margins?

David Cordani (President and Chief Executive Officer):

Specific to MA, Justin?

Justin Lake (J.P. Morgan Chase):

Yes.

David Cordani (President and Chief Executive Officer):

I'll be careful in terms of my comments because the competitive realities will play out over the next several months. But let's step back and use a little context here.

As we've discussed in the past, whether you look at HealthSpring's history or Cigna's history, both organizations have been disciplined in terms of focus in geographies as well as discipline for sustainable growth.

So within that environment, you should assume that there's a bias toward sustainability, so there's a bias toward a balanced margin outcome.

Having said that, in the disruptive environment we're going to be in, we think 2014 -- arguably 2015 -- is going to present some meaningful organic and inorganic growth opportunities. We remain open to the positive growth story because the HealthSpring platform is positively positioned both today and into the future.

Justin Lake (J.P. Morgan Chase):

Okay, great. If I could ask my follow-up again on Medicare Advantage, more specifically around this new risk score model, there've been discussions that in certain markets the rate decline is going to be much more significant than mid-single digits because of the risk score model.

Can you talk about how that flows through to your capitated physician groups in terms of, and the ability to, cut benefits versus your taking margin declines, and then the capitated group getting a percentage of premium, how much of it does the capitated group take there and how does that affect their view on the Medicare managed business?

David Cordani (President and Chief Executive Officer):

Okay, Justin. A moment of backdrop, then on the risk coding and then a little bit of direction on how our model works there.

First, to put it in context, we should think about the risk coding as indicative of the level of both physician engagement with their patients and then active care coordination.

So said otherwise, the more effective either a care coordination or accountable care organization would be, you'd have a more engaged, a more actively managed product for the chronic population and the risk coding would be higher.

And that's a dimension of success, right? You have a much more actively managed organization.

To put that in context of what might transpire, take a diabetic, which is quite prevalent in the case of seniors. In a fee-for-service model the doctor's really not incented to do all the preventative care measures, to do all the care coordination, etc., so it tends to be more uneven.

In a coordinated model like we have, you have active monitoring of the diabetic patient's blood sugar levels, proactive exams relative to retinal exams, LDL cholesterol and assessing kidney functionality.

As a result, you get to a much better quality of life for the individual, a better physician-patient outcome to work through and a better overall cost profile. So that's the backdrop.

Specific to your question in the model we have, we have a group partnership model with physicians to make sure that we get the right sustainable costs and the right sustainable value outcome in our respective markets.

In the body of work we're going through right now, what you'd expect is to ensure that our net benefit positioning and cost positioning for 2014 has an eye not only towards 2014, but 2015 and 2016.

So that last scenario we're pleased with, because we're working with our physician partners to get that outcome. We're not working against physicians in a contracting way, but we're working a very transparent way. That process is unfolding as we sit here today.

Justin Lake (J.P. Morgan Chase):

Got it. Thanks.

Josh Raskin (Barclays):

Thanks. Good morning. I'm not seeing here a PBM discussion or update where I think you guys have been talking about first half, so two months to go. Any color there?

David Cordani (President and Chief Executive Officer):

Sure Josh. Good morning. Maybe we're just waiting for your question on PBM, and certainly there's a lot of interest.

As you know, we've chatted in the past that this business continues to perform well. We talk about that, the service proposition, the clinical quality proposition, the medical trend outcomes that it's delivering and, of course, the earnings for us.

As we talked about before, the scale addition presented by HealthSpring presented us an opportunity to evaluate a variety of alternatives.

To make sure we have the right context, those alternatives are all focused on either maintaining or further enhancing our service proposition, maintaining or further enhancing our clinical quality outcomes and strengthening our positioning for ongoing innovation, because the constant here is an environment of

change and then further improving both affordability and value for our clients and customers and earnings for ourselves.

The specific update I give you is our team is making very good progress and we're on track relative to our internal timelines to work through our body of work here.

Josh Raskin (Barclays):

That timeline as you expressed earlier was by midyear, right? Is that fair?

David Cordani (President and Chief Executive Officer):

Correct.

Josh Raskin (Barclays):

Okay, so no change there. Then as I look at the guidance, you took the numbers up slightly less than what the favorable development in the Health Care Segment was.

You bought back a little bit of stock. So there's probably some offset to that.

I'm curious -- is it just around discretionary investment spending, or is there any sort of quantification of other items that you are expecting to be headwind?

And I think you said sequestration now is in guidance. I thought that was previously in guidance but want to make sure I got that right.

Ralph Nicoletti (Chief Financial Officer):

Hi Josh. It's Ralph. Yes to your point, we feel good about our outlook. It primarily reflects the benefit of the prior year development that we experienced in the quarter.

We clearly had planned investments supporting capabilities and further growth in the balance of the year, which did not come through in the first quarter as we expected. But we do see them coming through the balance of the year. So our guidance reflects that.

To your latter question on sequestration, as we went into the year and talked about our guidance we did contemplate it within the outlook range that we provided. Our current guidance also contemplates the impact of sequestration as opposed to starting in the second quarter.

Josh Raskin (Barclays):

Is there a way to size those investments? Are they higher than what you have found three months ago?

Ralph Nicoletti (Chief Financial Officer):

No, I would say not higher than what we thought three months ago. If you step back on our operating expenses overall, it's important to point out we've consistently improved our operating expense ratio while continuing to invest in the business behind growth.

As I noted in my remarks, we expect to improve our ratio by at least 50 basis points off of the 22.6% that we ended with in 2012. So nothing unusual there. We're marching to the plan that we had going into the year.

Josh Raskin (Barclays):

Okay, perfect. Thank you.

Matthew Borsch (Goldman Sachs):

Could you talk about the outlook for '14 not specifically? If we think about outside of the Medicare Advantage business, should we think about 2014 being a normal year given that you don't really have impact on your existing business from the Commercial and Medicaid side of health reform, or are there other angles that we should be thinking about ahead of that?

David Cordani (President and Chief Executive Officer):

Matthew, good morning. It's David. So relative to '14, again, most importantly, we believe that we will continue to deliver competitively attractive, both top line and bottom line results.

I think broadly the way you frame it is a healthy way to frame it.

When you think about our business portfolio, and you look at the sustained successful example in our U.S. Commercial business around the Regional and the Select segments, and that's the sustained power that could be used to drive our results, our Global Individual business, the strength of our cash flow and improved financial flexibility that is built over the last three years and further enhanced by the successful exit of our Reinsurance business, all those are positives. And you highlight the number one disruptor or headwind.

So I think the way you are framing it is a very healthy way.

Matthew Borsch (Goldman Sachs):

As my follow-up, if I can ask about your U.S. Disability business and frame the outlook there in light of the first quarter negative claims experience you had.

Ralph Nicoletti (Chief Financial Officer):

Sure, Matt. It's Ralph.

Again, overall we continue to be pleased with the segment in terms of the margins and returns in a difficult economic environment. We are on track to reach the guidance range.

We did see some claims volatility in terms of size of claims in the first quarter, which we expect would normalize over the remainder of the year.

We're also expecting to continue to see operating improvements which we've been doing over the last several years. That's factored into our outlook as well.

Matthew Borsch (Goldman Sachs):

Okay, great. Thank you.

Ralph Giacobbe (Credit Suisse):

Thanks. Good morning. Going back to MA, can you give us a sense of what percentage of earnings MA represents at this point for the company?

Ralph Nicoletti (Chief Financial Officer):

Ralph, it's about 15%.

Ralph Giacobbe (Credit Suisse):

Okay. Then in terms of follow up, maybe talk a little bit about cost trends you saw in the quarter. It sounds like flu had more significant impact on your Seniors book. Any impact on the Commercial side, and can you talk generally about utilization, what you're saying within specific categories and cost trend relative to that 6% to 7% that you mentioned for the quarter? Thanks.

Ralph Nicoletti (Chief Financial Officer):

Sure, Ralph. There are a few questions in there. First, let me start on the Commercial side and then I'll come back on the Senior side.

Overall, the quarter came in in line with our expectations -- certainly on the Commercial piece, a little bit more elevated on the Senior side because of the flu impact in the first quarter -- but in line with our expectations.

Our trend projection does reflect a slight uptick from the first quarter where we were more on the lower end of that range of 6% to 7%, but we project a slight uptick as we move to the balance of the year.

In terms of the kind of pieces there, I would say no -- no real changes to the historical mix of the different utilization patterns within the trend.

Then on the Medicare Advantage side, as I'd mentioned, we did have an impact from the flu in the first quarter. Some of that was partially offset by prior year development that we did see in the quarter.

I think it's important to note that as we entered the year, we expected to move our loss ratios up a little bit and to position ourselves to the new MLR guidelines in '14.

Ralph Giacobbe (Credit Suisse):

Okay, great. If I could squeeze one more in, can you give an update on where you stand with exchanges, how much you think you'll participate at this point, how your rate negotiations are going with providers and what rate you expect? Thank you.

David Cordani (President and Chief Executive Officer):

Ralph, it's David. I think your question really gets toward the 2014 public exchange environment.

As you know, we do not have an under 50 life employer block of business to protect, and we don't have a material Individual block of business. As such, we're able to look at this market through a fresh lens. We've been running pilots in a finite number of markets over the last three years to learn and be prepared for this change.

Looking into 2014, we have a bias to participate. We've done the work and continue to do the work to participate. That bias to participate is quite sharply focused on a limited number of markets.

When we think about markets, we think about MSAs. Obviously, you're state engaged, but we think about MSAs within the states because of localization.

Finally, to the notion of your question, when we think about rates we're also orienting our offerings against those markets where we both deem an attractive environment exists and we have our most innovative collaborative accountable care relationships, because we think the better way to win on a more sustainable basis is working with the physicians as opposed to pounding back and forth on our rates.

So, limited number of markets, bias to action, highly focused work being done, and in those MSAs where our most sophisticated or innovative collaborative relationships are in place today.

Ralph Giacobbe (Credit Suisse):

Okay, thank you.

Christine Arnold (Cowen):

Good morning. Thanks for the question.

You said many times that you feel you have a lot of financial flexibility. And I heard organic and inorganic Medicare Advantage opportunities, hinting at potential for acquisitions in the MA. As you look at your portfolio, where do you see compelling opportunities from an MA perspective, recognizing they're probably smaller tuck-in acquisitions?

David Cordani (President and Chief Executive Officer):

Christine, good morning. It's David. As to what I referenced before, you're correct. Our financial flexibility is quite strong. Ralph noted in his prepared remarks in excess of \$1 billion -- \$1 billion to \$1.1 billion.

We meaningfully improved our financial flexibility post the Berkshire transaction. So you're correct from that standpoint.

We indicated that we believe that this CMS rate environment will create meaningful disruption in the marketplace in 2014 and 2015. That will create disruptive opportunity for growth, both organically and inorganically.

On the organic side, it is important to note we are on track relative to our organic market expansion activities that started in earnest as soon as we closed the HealthSpring transaction. We've had good planning, good execution, etc., and that's on target.

Also, we're indicating that we have a go to platform that we could integrate as you put acquisitions in too.

We have the financial flexibility and we have a model that has been proven successful in its ability to integrate. Beyond that, you should not read anything more in my comments.

Christine Arnold (Cowen):

Okay. Then finally, on exchanges, how are you viewing private exchanges for the large and midsized employers? Do you see them getting traction? Are you interested in participating or do you view them as a threat to the shift to the ASO that we've been seeing?

David Cordani (President and Chief Executive Officer):

Christine, it's David again. Relative to private exchanges, first let's have a little shared context here.

There's a lot of early movement in the space, so we're early in the cycle. Within that, private exchanges are coming up to serve a variety of purposes.

For example, having an improved retail purchasing experience for individual customers -- we think that's a positive. Elevating the level of engagement and transparency related purchases -- we think that's a positive on an individual level.

There are some that are actually moving forward to share more economic burden or risk with individual consumers, potentially orienting against the defined contribution model. We think that could be a winning strategy so long as the individual is engaged and participative and understands what they're getting involved in.

So number one is: early in the cycle and a lot of different models unfolding.

The second point is you should think about us as having a lot of experience dealing in an environment of choice.

When you think about our larger case size business, we're used to dealing in a choice environment and the industry would typically call it slice where you have a B2B to C relationship and you're needing to market and present your offering for an individual choice.

We are participating, and expect to continue to participate, in some of the offerings that are in the market.

As we have been in the past, we'll be quite focused in terms of those offerings where we believe they are designed to be sustainable and where we could add value and win on a go forward basis.

Christine Arnold (Cowen):

Okay, a clarifying question on the last comment you made on Individual. Are you able to compete in just MSAs or do you have to compete statewide? What's the risk that you get members in areas where you don't have the competitive cost structure?

David Cordani (President and Chief Executive Officer):

Christine, I think your question is now bouncing back to the public exchanges.

Christine Arnold (Cowen):

Yes.

David Cordani (President and Chief Executive Officer):

First and foremost, we have demonstrated over the last almost four years that in our chosen Go Deep markets we have a fully competitive cost structure. Our medical trends have been outstanding. Our client and customer retention rates have been very, very strong. So we feel good about that.

Secondly, health care is local. Health care is extraordinarily local. In the Individual market it will be even more localized.

So we believe our ability to focus on key MSAs in key markets is going to be a winning strategy on a go forward basis.

Christine Arnold (Cowen):

Okay.

Kevin Fischbeck (Bank of America Merrill Lynch):

Great. I wanted to go back to MA rates. You have previously outlined a plan of entering two to three new markets per year. I wanted to see what, if any, impact this MA rate had on those plans either for 2014 or for out years?

David Cordani (President and Chief Executive Officer):

Good morning, Kevin. It's David. You're correct. We had outlined as part of the acquisition both the opportunity and potential for entering new markets.

I referenced earlier that body of work is on track. The team has done an extraordinarily good job in terms of prioritizing markets.

Good news is there's ample market opportunity by focusing on the markets where we think we have the biggest opportunity to go forward.

There is no doubt, as I said before in prepared comments, the 2014 rate environment changes the profile across the board, whether you're looking at a new market entry or an existing market.

Having said that, we believe our model of partnering with physicians presents an opportunity for sustainability, and we're looking at this journey more than a 2014 environment. So we're on track relative to our activity there.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay. Then on the share repurchase side, I think it's interesting that it looks like the average share price is about 64, which implies that you were buying your stock back after the final MA rate.

Obviously it creates some headwinds to 2014. But I don't know if we should be taking that as a signal as far as your optimism and your outlook going forward hasn't changed a whole lot, or whether the decision of share repurchases is more a reflection of other uses of cash available as far as deals don't look like they're in that short term. So we shouldn't be reading too much into that. I don't know if you have a perspective or comment there?

Ralph Nicoletti (Chief Financial Officer):

Kevin, it's Ralph. First, obviously, we feel very good about our position and our ability to grow the business over the long term.

Then as we look at our capital management priorities, they've essentially remained unchanged.

As we look at the window of time here in the short term, we felt that deploying some of the excess capital to share repurchase was in the best interest of shareholders.

Kevin Fischbeck (Bank of America Merrill Lynch):

All right, thanks.

Ana Gupte (Dowling & Partners):

Thanks. Good morning. My question is about your two portfolios in the Seniors business and the competitive disruption that you talked about, specifically on Medicare Advantage and Medicare Supplement.

Are the segments that buy into each of these products distinct and separate, based on either income level or age or other demographic characteristics that services and fluidity cross?

And in light of the 2014 rate headwinds, is the disruption likely to be limited to share shifting among MA players or would you see some reversion back to Med Supp despite the significantly higher monthly premium on that?

David Cordani (President and Chief Executive Officer):

Good morning, it's David. Relative to your first question in terms of -- I think you're looking at the demographic economic profile and buying pattern profile of Med Supp relative to Medicare Advantage. I am going to make a macro statement -- but averages are dangerous -- and then try to sharpen it down.

Macro average statement: the answer is yes. Then you've got to cut it down to local markets. I think, as you know, what you'd see is that your MA penetration is dramatically higher and more mature in urban and suburban areas with broader delivery system configurations.

So you have two things. One, you have a little different demographic profile between your typical MA and your Med Supp buyer. Two, you have a market bias where MA is more vibrant in geographies. Therefore, in other geographies Med Supp is, largely speaking, the only alternative for individuals to fill in against the fee-for-service offering.

Fast forward that to your secondary question, the simple answer is time will tell. Time will tell relative to the value propositions that are put on the table in the competitive landscape as relates to benefit richness and the comprehensive net benefits.

Now it's important to note as you think about MA, stepping back broadly, this is not a Cigna statement, but broadly, MA participants -- about 14 million seniors today -- tend to be highly satisfied if you look at national satisfaction data -- extremely highly satisfied relative to the programs, relative to alternatives.

Secondly, MA participants on average have a bit lower income level than MA in totality. So you have a highly satisfied population, and they're going to be looking at the level of disruption that's presented to them.

Time will tell whether the level of benefit offering, and the richness, will be a meaningful determiner in terms of whether or not people will view a shift of fee-for-service and buying Med Supp makes sense. But you have a highly satisfied population.

Then finally, from a Cigna standpoint, we have deep blocks of business and key geographies where there are deep relationships with physicians and a lot of coordination with individuals. We would expect to have less than average disruption because of that depth of relationship.

Ana Gupte (Dowling & Partners):

I'll take that to mean that based on the satisfaction and the income level which is slightly lower in the market specific references, that there's likely to be much less disruption than say the BBA, compared to what we've seen for 2014.

Then a follow-up on that is: No one is really talking about it too much, but there is discussion around the budget deal in Congress and the need to put in a long-term fee fix solution, maybe get rid of the sequester. I think the Administration has a proposal around a Med Supp or reducing or combining the Part A and B into combined deductible and putting a surcharge into Med Supp.

So let's just say, first, are you having such discussions or any dialogue with D.C. on that?

Secondly, let's just say this happens in the fall, then what are the ramifications of that?

David Cordani (President and Chief Executive Officer):

I'm going to answer the first part of your question, and I'm not going to answer the second part of your question.

On the first part of your question, we have been, we are and we will continue to be, very actively engaged in D.C. on both sides of the aisle relative to sustained program design, etc. We feel passionate about sustained evolution of programs -- be they commercial, be they exchanges, be they Medicare, be they dual, etc. It is an important part of what we regard our responsibilities are. So we are, and we will be, actively engaged in the dialogue -- as you referenced -- relative to the potential for an A-B combined deductible.

Having said that, I don't think it's healthy to speculate what the possibility of outcomes is given the inner-workings of Washington. I'll leave that to your speculation and your debate in terms of the potential and the timing of that.

Ana Gupte (Dowling & Partners):

Thanks, David. I appreciate the perspective.

A.J. Rice (UBS):

My first question relates to the comments about operating expense ratio improvement to 50 basis points. Obviously, you can get that improvement through just leverage in the business, or there can be specific initiatives that are designed to get that. And I would assume that you have investments that you're making, as others are talking about, in preparation for 2014, but maybe not as much as some of the others.

But can you comment on those three factors and how they play into your objective to get to 50 basis points improvement?

David Cordani (President and Chief Executive Officer):

Good morning, A.J., it's David. I think you frame it nicely.

First, if you look back over the last several years, we have committed to and we have delivered consistent improvements to our expense ratio, and we're pleased with that. In addition to that, we've committed to and we've executed continued, highly focused strategic investments.

So you're not seeing a big change in our strategic investment profile, for example, in advance of the public exchanges or otherwise. We continue to target investments within the organization. Obviously to your point, as we successfully grow the franchise, there are revenue leverage opportunities that present themselves.

I'll end with an example. For example, last year we talked to the investor community about a series of target investments we were incurring in the earlier portion of 2012 that would yield substantive benefits through increased penetration in the second half. Those were technology related initiatives and vendor specific. Those were very targeted.

Beyond that, you'd see ongoing efficiency exercise to help us get the productivity gains we need to be able to reinvest going forward. You should expect us to continue to generate that on a forward-looking basis as we invest back in ourselves.

A.J. Rice (UBS):

Okay, and then my other question would be related to International -- sort of open-ended. In your prepared remarks, you mentioned a few areas of strong performance. I know in the press release you cite particularly South Korea.

Can you comment on any areas that were particularly strong and any areas that might be challenges, at least worth highlighting?

David Cordani (President and Chief Executive Officer):

It's David again. With the International operation, you think about our global footprint. There are a couple of portfolios of business there.

One that both Ralph and I highlighted is that the Global Individual Supplemental business is performing extremely well. Within that portfolio, I wouldn't highlight any one area. I would reinforce the fact that within the delivery of those results, we're continuing to invest in product and in distribution channel innovation. We'll continue to invest in new market entries such as Turkey, which is up and running, as well as India. So that's one section of the portfolio.

The second section of the portfolio which is part of our Global Healthcare Business really focuses on the globally mobile population needs. That performed in line with our expectations in the first quarter, so I wouldn't highlight anything there.

A.J. Rice (UBS):

Okay, thanks a lot.

Dave Windley (Jefferies & Company):

Thanks for taking the question. Following on A.J.'s last one, in the earlier days of evaluation ACA, Cigna talked about its ability to import some of the distribution innovation internationally into the U.S. for the Individual market, say direct distribution, and coming at that market -- that exchange market -- in a slightly different way.

Is that still the thinking? I haven't heard you talk about that.

David Cordani (President and Chief Executive Officer):

Sure, David. It's David Cordani. Thank you.

The simple answer is yes. When you think about our Global Individual Supplemental Business, that business is a direct individual distribution infrastructure where we sell direct to individuals targeted offerings based on sub-segmentation and needs based on life status.

We deliver those products or solutions through a variety of distribution channels, historically telemarketing and today, telemarketing, Internet, direct response TV, bank assurance or other affinity channel delivery.

It's fueled by a large cadre of marketing statisticians, product and distribution resources. We have been, and continue to, leverage those resources within the company.

Lastly, the pilots I referenced earlier in a prior question -- we've run three years of pilots back here in the United States manifesting our number is 200,000 individual primary lives. Those are driven, aided by these distribution resources outside the United States as we're trying to leverage those learnings, and we think that gives us a nice advantage as we look to our target markets going forward.

Dave Windley (Jefferies & Company):

Okay, and switching gears to your network development or physician partnering strategy. You've got your HealthSpring capabilities and then you had, prior to HealthSpring, already been embarked on your CAC strategy.

I'm wondering how those have melded together, and if you can provide us any metrics or any milestone or signpost to how many markets you've expanded to beyond the HealthSpring markets, what your target is and over what time frame.

David Cordani (President and Chief Executive Officer):

Sure, Dave. Cigna started down this path in or around 2008. We started collaborative, different models with the objective to learn. By the way, you continue to learn as you go forward.

Fast forward to today, we have just shy of 60 up and running. They've been in approximately 23 to 24 states, touching 23,000 physicians. Between the HealthSpring Senior lives and the Commercial lives, we're approaching a million lives that are touched, so significant growth.

The exciting part is you're seeing coming out of collaborative, a lot of what HealthSpring was able to improve in the seniors population: higher level of engagement, higher level of clinical coordination, higher level of medication compliance for chronics, etc. and as a result, higher satisfaction for both the patient or customer as well as the physician, and then improved costs.

So we believe that there is a tremendous opportunity here as we go forward, looking to the future. I think we profiled this a little bit at our Investor Day. We have essentially a map of the country, and by MSAs, and our objective is that over the course of the next year, you're going to see another significant tranche of growth in the pipelines, and the collaborative is rather rich there in front of us today.

Dave Windley (Jefferies & Company):

Embedded in that question, your approach has not included owning that primary care physician in any way. Does that continue to be your expectation or strategy?

David Cordani (President and Chief Executive Officer):

Dave, I appreciate that. To be clear, we have some ownership positions today. But our preferred approach, to your point, is to partner. Then in markets that are critical where we don't believe we can have the right partnership opportunities, we are both willing and capable of owning, so that's the way you can look at us.

Dave Windley (Jefferies & Company):

Okay. Thank you.

Peter Costa (Wells Fargo):

Thanks for taking the question. Your fastest growing business was actually Medicaid this quarter, and I believe that's held out from HealthSpring and one of the targeted areas that they had.

Do you expect to continue to focus on growing the Medicaid business going forward, particularly given your strong financial flexibility that you have right now?

David Cordani (President and Chief Executive Officer):

Peter, it's David. Mathematically, I'm sure you're correct. But you're doing a percent change off of a diminished base.

Peter Costa (Wells Fargo):

Sure.

David Cordani (President and Chief Executive Officer):

To go to another number, there's a large percentage change. Stepping back to the broader frame that you put forward, we've been really clear relative to Medicaid.

Base Medicaid, if you will, is not an area, broadly from a national footprint, that we deem to be a strategic priority. In our focus Go Deep-markets, where we believe we have an opportunity to differentiate value is around the care coordination for the highest population. We could deem those are the dual eligibles, high-risk population cohorts, etc., where the care coordination, the care management/physician partnership models work.

There is an initiative underway with early traction in Texas relative to that. But we need to look at all of these as early generation initiatives where we need to partner with the states to deliver value as well as an early win in Illinois for us on a very targeted basis.

You should look at that as a small nucleus within our company -- a highly focused nucleus today, however -- an openness to grow in areas and in key geographies where we can focus on the high-risk population.

Peter Costa (Wells Fargo):

Okay, great. Then looking at your balance sheet for a moment, you have a very large real estate portfolio. With the reinsurance business relatively gone from your forecasting here in terms of going forward, do you think you'll be taking down that real estate assets based on the duration of those relative to the duration of the rest of your portfolio?

Ralph Nicoletti (Chief Financial Officer):

Peter, it's Ralph. To the question on a broader basis, we'll always look at our investment portfolio relative to our liabilities and ensure that we're matching our assets and liabilities and durations. So as the portfolio mix changes, we'll make adjustments. Not necessarily in one asset class, but we'll take a look on a broader basis across all asset classes.

So I think over time you could see the overall investment portfolio mix shift, but it would be in line with managing our overall liability.

David Cordani (President and Chief Executive Officer):

Peter, I would add to that. It's important to put Ralph's comments, which are absolutely correct, in the context of a little bit of Cigna history here. We have a deep expertise in this area that is providing tremendous returns and tremendous sustainabilities to the returns. So you have a core competency there within our organization.

To Ralph's point, there is funds availability, but we should think about that as a level of expertise that has delivered the same results year in, year out, decade in, decade out, in areas of head winds and areas of tail winds, which is why it's an important aspect that Ralph points to, we'll use within our portfolio.

Peter Costa (Wells Fargo):

Terrific. Thank you.

Sarah James (Wedbush):

Thank you. One of your peers recently talked of a slow multiyear ramp for the exchanges, where year one might be more Medicaid and Medicaid-like than commercial for the industry as a whole.

How do you think about the pace of your growth opportunity in the public exchanges? While on that topic, how prevalent would narrow network products be in your strategy? How is that influencing where you ended up in the spectrum of pricing with providers?

David Cordani (President and Chief Executive Officer):

Good morning, Sarah. It's David. We're in for an environment in this country that is going to be disrupted in a variety of ways, and exchanges is one of those. It's just the nature of dealing with change.

From a Cigna perspective, our message has been very clear. Again, as you know, we don't have a book of business that we need to protect here. We have new opportunities to focus on. We intend to act and we've taken discrete actions with the company. We intend to be highly focused, and from a business standpoint, you should expect us to have kind of a controlled ramp as the level of market change unfolds.

So we're in a position to deliver on the promises for the new customers we'll be serving, learn from that and innovate off the base of it.

I'm not sure, to be blunt with you, whether or not it's going to be Medicaid bias or not. You can make an argument that there's a good value proposition there because the size and shape of the federal subsidies gets meaningful once you go below 250% of federal poverty level.

But the buying behavior for somebody at 250% of federal poverty level is probably going to be a bit different than somebody at 150% of poverty level. That's where the localization and the customer analysis come into play.

As it relates to narrow network I think the whole notion of transparency and choice is going to mission critical. We don't think about it as a narrow network for narrow network sake. We think about it as how do you get the highest value of network configuration for the sub -segment you're going after?

And what's factored into our bias, Sarah, very importantly here are our collaborative accountable care relationships. Think about it as the Cigna or the HealthSpring model most mature, and how can you use those partnerships locked arm-in-arm with the physicians to get the best value propositions for individuals.

So yes, you can argue that the network will be a little bit more narrow, but it won't be a traditional narrow network picking based on price. It will be picked based upon collaboration and total cost outcome and total value.

Sarah James (Wedbush):

So, we can think about the markets that you do go into being built off of the areas where you do have those collaborative care models.

David Cordani (President and Chief Executive Officer):

Absolutely correct.

Sarah James (Wedbush):

Then the follow-up question here is on clarification on the one-time items in the quarter. Could you quantify any impact from sequestration delay and discuss what the \$51 million regulatory matter was on the Disability books?

Ralph Nicoletti (Chief Financial Officer):

Sarah, it's Ralph. First, on the sequestration impact, that isn't reflected in our special items. That's in our ongoing results, and as I mentioned previously, that was contemplated in our outlook range that we have and remains there. So that's outside of special items.

Regarding the \$51 million after-tax special item, that is related to our Disability business and a regulatory review that we underwent regarding claims handling procedures. We reached an agreement in principle on handling long-term disability practices. As a result, we took a \$51 million charge that's retrospective in terms of its impact.

Then going forward prospectively, we expect the effect of these claims processes and practices not to have an impact on our margins over time as the industry adopts the new procedures.

Sarah James (Wedbush):

To clarify on sequestration, you had built in the fact that there was sequestration or that there was a delay expected in the guidance? I'm trying to understand if there was any difference in how the timing was.

Ralph Nicoletti (Chief Financial Officer):

Sarah, to be clear, we factored in our original guidance and our current guidance a range of outcomes within sequestration within our outlook range. What we're seeing is a result of the actual sequestration coming in at the lower end of the range that we contemplated given the timing.

Sarah James (Wedbush):

Thank you.

Chris Rigg (Susquehanna Financial Group):

Good morning. Thanks everybody. I wanted to come back to the cost trend -- where you had net favorable development in the current quarter. Where did the actual trend for 2012 shake out? Can you remind us how things progressed last year? The heart of what I'm trying to get to is just how much of an

acceleration you are actually expecting in utilization at this point over the latter three quarters of the year relative to where you are right now.

Ralph Nicoletti (Chief Financial Officer):

Sure, Chris. It's Ralph. First, let me start with 2012.

Largely, what we saw is, and you saw this in prior year development, we finished close to about 5% on an overall trend for the year. The shape of that was largely somewhat favorable in the first quarter. We did see some escalation in the second quarter, and that began to moderate over the balance of the year.

As we move into this year and look at our first quarter and our trend projections, we've guided to 6-7%. We're on the lower end of that range in the first quarter. We're expecting a slight uptick from there overall as we move to the balance of the year. That's why we're holding our projection at 6-7%.

Chris Rigg (Susquehanna Financial Group):

Okay. Then one last one on the PDP MLR on the quarter. All things being equal, I would have thought by adding in HealthSpring for an additional month that would have exerted upward pressure on the ratio, but it actually came down.

Is there anything notable there, whether it's with regard to just the quarter or to benefit designs? Any color there would be helpful.

Ralph Nicoletti (Chief Financial Officer):

Chris, I would say, nothing unusual there at all. It's just that there is a seasonable pattern there to PDP, and we recorded a higher loss ratio in the early part of the year, and that's essentially what you're seeing.

Chris Rigg (Susquehanna Financial Group):

Okay, I'll follow up off line. Thanks.

David Cordani (President and Chief Executive Officer):

Thank you. In closing, let me emphasize a few highlights from our discussion today.

We are pleased with our first quarter results, which demonstrate a strong start to the year for Cigna. Our performance was a direct result of the effective execution of our strategy and the strength of our diverse portfolio of businesses.

Looking ahead, we believe companies and individuals alike will continue to demand health, well being and sense of security solutions that are both high quality and affordable. Cigna's sustained strategic investments and continued expansion of our portfolio of employer, individual and seniors solutions and capabilities, position us to continue to serve our customers and clients in this dynamic global environment.

Lastly, the strength of our first quarter results has positioned us to increase our 2013 earnings outlook.

We thank you for joining us and for your continued interest in Cigna, and we look forward to our future discussions.

END