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CI - Q4 2014 Cigna Earnings Conference Call

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OVERVIEW:

Co. reported 2014 consolidated revenue of $35b and adjusted earnings from operations of $2b or $7.43 per share. Expects 2015 consolidated adjusted income from operations to be $2.1-2.2b and consolidated adjusted income from operations per share to be $8.00-8.40.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's fourth quarter and full year 2014 results review.

(Operator Instructions)

As a reminder, ladies and gentlemen, this conference, including the Q&A session, is being recorded. We will begin by turning the conference over to Mr. Will McDowell. Please go ahead, Mr. McDowell.

Will McDowell - *Cigna Corporation - VP of IR*

Good morning, everyone, and thank you for joining today's call. I am Will McDowell, Vice President of Investor Relations. Joining me this morning are David Cordani, our President and Chief Executive Officer; and Tom McCarthy, Cigna's Chief Financial Officer. In our remarks today, David and Tom will cover a number of topics including Cigna's full year 2014 financial results, as well as our financial outlook for 2015.

As noted in our earnings release, when describing our financial results, Cigna uses certain financial measures which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP. Specifically, we use the terms labeled adjusted income from operations and earnings per share on this same basis as the principal measures of performance for Cigna and our business 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.

In our remarks today, we will be making some forward-looking statements, including statements regarding our outlook for 2015 and future performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations. A description of these risks and uncertainties is contained in the cautionary note to today's earnings release and in our most recent reports filed with the SEC.

Before turning the call over to David, I will cover a few items pertaining to our financial results and disclosures. First, please note that when we discuss the number of covered lives for our global medical customers, we will be doing so on a basis that excludes those individuals that were previously covered under limited benefit plans. As a reminder, we exited the limited benefits business as of December 31, 2013 as required by the Affordable Care Act regulation.

Second, please note that our definition of adjusted income from operations will change for 2015 reporting in that we will now exclude acquisition related amortization expense from this operating measure. When we discuss our earnings outlook for 2015 today, it will be on the basis of adjusted income from operations that excludes acquisition-related amortization expense.

This is a change compared to the basis on which 2014 results are reported and how we have previously provided our 2014 outlook. In 2015, the impact of excluding acquisition-related amortization expense is approximately $100 million after-tax, or $0.40 per share.

Third, beginning in 2015, we have simplified our guidance and disclosures for our medical care ratios, or MCRs, by reporting them on a basis of total commercial and total government. The total commercial ratio encompasses all of our commercial risk products including medical, pharmacy, dental, stop-loss, and behavioral products provided through guaranteed cost or experience-rated funding arrangements in both the United States and international.

The total government ratio includes our Medicare Advantage, Medicare Part D, and Medicaid businesses. To ease the transition, we have provided historical medical care ratios on these bases within our quarterly financial supplement that was posted in the investor relations section of cigna.com this morning.

Lastly, consistent with past practices, when we make any prospective comments on earnings or EPS outlook, we will do so on a basis that excludes the impact of any future capital deployment or prior year development of medical costs. Our outlook also excludes the impact from our recently announced acquisition of QualCare which we do not expect will have a material impact to our financial results in 2015. And with that, I will turn the call over to David.

David Cordani - *Cigna Corporation - President & CEO*

Thanks, Will. Good morning, everyone, and thank you for joining our call today. To begin, I will review highlights of our full year 2014 financial results and our 2015 outlook. I will then discuss how we will continue to create value for our customers, clients and shareholders in the future. I will also illustrate more specifically how we are creating value in our Seniors business and leveraging our experience and success of that business to drive long-term growth.

Then Tom will address our fourth quarter and full year 2014 financial performance in more detail, as well as provide the specifics for our outlook for 2015 before we take your questions. And following the Q&A session, I'll wrap up the call with a few closing remarks. We will start with some highlights from the year.

Cigna's strong 2014 performance represents the fifth consecutive year of competitively attractive financial results. This outstanding track record of results is driven by the disciplined execution of our growth strategy, all while we continue to invest in new capabilities, expand our offerings and our geographic footprint.

Over the past several years, in the face of a particularly challenging and dynamic environment, we have been focused and disciplined with targeted yet meaningful investments to drive innovation, including new clinical programs, aligned incentives for customers, expanded technologies and programs for healthcare professionals. We have done all of this while delivering competitively differentiated results year in and year out.

Our full year 2014 consolidated revenues increased 8% to $35 billion, with each business segment delivering strong growth over 2013. We reported adjusted income from operations for the full year of $2 billion, or $7.43 per share, which represents a per share increase of 9% over 2013.

Our revenue and earnings performance reflect growth in all of our businesses over the course of the year, a year in which we also grew to more than 85 million customer relationships worldwide and where we continue to generate strong margins and significant free cash flow for the benefit of shareholders.

These results position us to once again deliver competitively attractive revenue and earnings growth in 2015. For 2015, our outlook of 8% to 10% revenue growth and 5% to 10% EPS growth, excluding reserve development recognized in 2014, as well as future capital deployment, reflects the focus and clarity of our strategy and continued strong performance of our team around the world. Tom will walk you through more specifics regarding our outlook later on the call.

Now I'd like to talk about how our guiding framework, global strategy and multiple avenues for growth have enabled our long track record of success and will drive ongoing future value creation. Across our business, we operate in an ever-changing market landscape with diverse needs across customers, employers, healthcare professionals and governments.

To win in this market, we are meeting and exceeding the expectations of our customers and clients around the world by delivering affordable and personalized solutions. As we look to the future, we have built a growth framework to create ongoing value, leverage our differentiated capabilities, for the benefit of our customers. There are three components to this framework.

First, there is leveraging our well-positioned existing portfolio of businesses to continue to generate attractive value for our customers and clients. We expect to double the size of our Company over the next seven to eight years. This will result in an average annual revenue growth rate of 8% to 10%, largely driven by our existing portfolio and focused execution. This continues a track record that we have demonstrated over the last five years, and our 2015 outlook of 8% to 10% revenue growth is consistent with this goal.

The second component is targeted and effective capital deployment to create ongoing shareholder value. I would note that over the past five years we have effectively deployed capital through a balance of investments in our business portfolio, strategic M&A, and share repurchase. A good recent example of this is our agreement to purchase QualCare Alliance Networks. This acquisition is directly aligned with our Go Deep and our physician partnership strategies.

Our businesses are generating high margins and are capital efficient, allowing us to both fund attractive organic growth and generate significant free cash flow. This free cash flow provides us with financial flexibility and the opportunity to deploy capital to create additional value for our shareholders. And given the health of our balance sheet and underlying capitalization level of our subsidiaries, we expect to have $1.8 billion of capital available for deployment in 2015.

The third component of our framework where we seek to drive additional value for our shareholders is through new and emerging opportunities. These opportunities include new distribution marketplaces, such as public and private exchanges, geographic expansion, such as new Medicare Advantage markets in international opportunities, and new buying segments in service expansion, such as medical service organization offerings for the benefit of integrated healthcare professionals.

We are well-positioned to pursue each of these potentially attractive future growth opportunities that are aligned with our strategy. As such, we have dedicated resources to fuel future expansion in these areas.

To illustrate how we are leveraging this framework to create value, I will highlight how this framework applies to our Seniors business. This market segment includes a population with a variety of complex needs requiring customer engagement and incentive-based clinical resources and programs to drive ongoing success.

Our Seniors business pioneered successful physician engagement models, including aligned incentives and collaborative relationships to drive high quality and a more affordable healthcare experience for both customers, as well as physicians. As we continue to leverage our core physician engagement capabilities across all of our health services businesses, we are focused on key investments that improve affordability, enhance personalized services and drive better clinical outcomes.

For example, the strategic investments we are making to enhance our physician insight and data tools will enable our clinical data to be accessible in a real-time fashion for more of our physician partners, as well as our service team. Enabled by our physician engagement model, Seniors continue to find our Cigna-HealthSpring benefit offerings increasing compelling, and we expect to have 6% to 8% Medicare Advantage customer growth in 2015.

As for positioning, we continue be among the top three players in market share for all of our established markets and we are posting attractive growth in our newer markets. In 2014, we expanded our Seniors business into Georgia and the Carolinas where we successfully leveraged existing Cigna commercial networks to develop and implement engaged physician relationships for seniors.

Importantly, the quality of care delivered through our engaged physician groups is reflected in our stars ratings where we increased our membership in four-star or higher plans from approximately 40% to nearly 60% in 2016. Looking to 2017, we again expect to deliver an increase in this result. These improvements in star ratings have allowed us to enhance our benefit offerings and position our Seniors business to be an earnings accelerant in 2016 and beyond.

Relative to our expanded opportunities, we currently operate Medicaid in dual-eligible plans in Texas and in the Illinois markets. Here we are leveraging our care coordination capabilities to serve the dual-eligible population within our Medicaid platform. Focusing our growth efforts on improving care for the underserved, including the dual-eligible and aged, blind and disabled populations, complements our proven experience with complex care coordination, differentiated clinical outcomes, and affordability focus.

While our Illinois plan is relatively new, having just begun in 2014, our Texas plan has been in operation since 2011 and has a track record of delivering affordable care and better health outcomes. In a testament of our commitment to servicing these customers, our Texas plan recently was acknowledged by the Medicaid Health Plans of America for our cutting edge, intensive behavioral health program.

We are well-positioned and have the capital flexibility to pursue these accelerated geographic and market segment expansion opportunities, either organically or through M&A as seniors remain a strategic growth priority for us. As a global company, our efforts to leverage these capabilities have also expended across key markets beyond the United States.

In Korea, for example, where the aged population is seeking new solutions to meet their emerging needs, we developed an innovative and new health membership program targeting seniors known as Hey Day. This organically built affinity program delivers value added services directly to seniors in Korea, and while only a year into this expansion, we now serve more than 300,000 Korean seniors.

Overall, we have a clear strategy and the capabilities to deliver value and improve the health and well-being of senior customers today and into the future. Whether in our Seniors businesses we've discussed today, or other growth businesses we have addressed in previous calls, we will continue to deliver attractive growth, produce and deploy capital effectively, and invest and position ourselves to win in new and emerging markets and segments.

Now to summarize my comments before Tom offers more detail on our 2014 results and expectations for 2015. Cigna's strong 2014 financial performance extends a multi-year track record of delivering competitively attractive revenue, earnings and free cash flow. Continued execution of our growth strategy is creating value for our customers and clients, complemented by our differentiated capabilities and innovative physician and customer engagement solutions.

As a rapidly changing industry and the economic environment continues to unfold and new challenges arise, we are positioned to capitalize on new growth opportunities while we continue to leverage our core businesses for growth. And by embracing change, we continue to position our Company for success while investing in the future, preparing for a significant new opportunities, such as those we have shared this morning for our Senior segment, including in existing programs and markets, new market expansion, new offerings for healthcare professionals through our medical service organization solutions, new segments such as dual-eligibles and new affinity programs such as Hey Day in Korea.

We expect to meet our growth objectives of 8% to 10% on average, doubling the size of our Company again over the next seven to eight years. And based on our focused strategy, strong market positioning and ability to leverage capital, as well as further opportunities we have for growth, we expect to continue to deliver competitively attractive and sustained long-term EPS growth of 10% to 13% on average, all while continuing to invest back in our Company. And with that, I'll turn the call over to Tom.

Tom McCarthy *- Cigna Corporation - CFO*

Thanks, David. Good morning, everyone. In my remarks today, I will review Cigna's 2014 results and provide our outlook for 2015. We had another strong year in 2014 with revenue growth of 8% and industry leading earnings per share growth of 9% over 2013 results. 2014 represents our fifth consecutive year of consistently strong revenue, earnings, and EPS growth and attractive results, both on an absolute and competitive basis.

In addition, we continued to generate strong free cash flow in 2014 which resulted in approximately $1.6 billion being returned to shareholders through share repurchase. The strength of our 2014 performance provides us with a solid foundation for growth in 2015. Now moving to operating results.

Our full year consolidated revenues grew 8% to $35 billion driven by growth in each of our business segments and in our targeted markets. Earnings grew 3% to $2 billion and earnings per share grew 9% to $7.43 in 2014. Our ability to grow revenue, earnings, and EPS in a challenging operating environment reflects the strength of our underlying businesses and focused execution.

Regarding the segments, I will first comment on our Global Health Care segment. Overall, Global Health Care delivered another good year. 2014 premiums and fees grew 7% to $24.5 billion, reflecting growth in all of our Global Health Care businesses, including ongoing growth in our self-funded programs and specialty products.

We ended 2014 with 14.5 million global medical customers, growing by approximately 380,000 customers or 3% for the year. Full-year earnings were $1.65 billion, reflecting business growth, specialty contributions, operating expense efficiency, and effective medical cost management.

Turning to medical costs, we continue to deliver medical costs that reflect better health outcomes and strong clinical excellence for our customers and clients as a result of our deep collaborative relationships with physicians and our focus on personalization of care. For our total U.S. Commercial book of business, full year medical cost trend was slightly less than the low end of our previous range of 4.5% to 5.5% for 2014.

Our commercial medical trend result continues our multi-year track record of industry leading performance, and given that over 85% of our U.S. Commercial customers are in transparent ASO funding arrangements, our clients directly benefit from these favorable medical costs.

Regarding medical care ratios, in our U.S. Commercial Guaranteed Cost business, our full-year 2014 medical care ratio, or MCR, was 81.8% on a reported basis, or 82.7% excluding prior year reserve development. Consistent with our expectation, our fourth quarter 2014 Guaranteed Cost MCR of 86.6% reflects an increased seasonal impact from the growing share of high deductible plans in our Employer Group and Individual businesses. We also expected and saw this increased seasonal impact across most of our Commercial business, including our Stop Loss and Experience-Rated business.

Overall, our employer risk businesses continued to deliver solid results in the quarter and throughout the year, reflecting strong pricing, disciplined underwriting, and continued effective medical management and physician engagement. Results in our Individual business, while still below long-term expectations, continued to improve in the fourth quarter.

In our Government business, our full year 2014 MCR for Medicare Advantage was 83.5% on a reported basis, or 84% excluding prior year reserve development, reflecting the impact of medical cost improvement initiatives implemented during 2014.

Moving to operating expenses, for 2014, our total Global Health Care operating expense ratio was 22%. This includes the impact of health reform-related taxes which added 110 basis points to the expense ratio for the year. Overall, we had another strong year in our Global Health Care business.

Now I will discuss the results of our Global Supplemental Benefits business which continues to deliver attractive growth and profitability. Premiums and fees grew 14% year-over-year in Global Supplemental. 2014 earnings in our Global Supplemental Benefits business were $230 million reflecting attractive operating margins, continued strategic investments to drive future growth, and non-recurring favorable tax items of $21 million after-tax recorded in the third quarter.

Fourth quarter earnings of $33 million reflect claims seasonality, our funding of long-term strategic investments, and the impact from the strengthening of the U.S. dollar. For Group Disability and Life, full-year results reflect premium and fee increases of 6% over 2013. 2014 earnings in our Group business were $317 million and reflect favorable claims experience in our Life business and a lower operating expense ratio.

For our Corporate and Other Operations, results totaled to an after-tax loss of $197 million for full year 2014. Overall, our 2014 results reflect revenue and earnings growth from each of our business segments and significant free cash flow as a result of the continued effective execution of our strategy.

Turning to our investment portfolio, for 2014 we reported net realized investment gains of $106 million after-tax coupled with a strong net investment income result. The high quality and diversification of our investment portfolio continued to drive our overall investment results.

Now I will discuss our outlook for 2015. In 2015, we expect to continue to deliver strong financial performance for our shareholders by leveraging our differentiated capabilities to meet and exceed the expectations of our customers and clients by delivering affordable and personalized solutions, effectively deploying capital, and targeting new and emerging opportunities where we will seek to drive additional value for our shareholders.

For full year 2015, we expect consolidated revenues to grow in the range of 8% to 10% over 2014, with continued growth across our targeted market segments. We expect full year 2015 consolidated adjusted income from operations to be in the range of $2.1 billion to $2.2 billion, or $8 to $8.40 per share. As Will noted earlier, our full year 2015 consolidated and business segment adjusted income from operations, as well as earnings per share estimates, now exclude acquisition-related amortization expense.

In 2015, the impact of excluding acquisition-related amortization expense is approximately $0.40 per share, or $100 million after-tax, including $85 million in our Global Health Care business and $15 million in Global Supplemental Benefits. Lastly, consistent with prior practice, our outlook excludes any contribution from additional capital deployment, as well as any prior year claim development, which in 2014 totaled $53 million after-tax.

Putting our 2015 outlook and our 2014 actual results on a comparable basis, that is adjusting for the reserve development reported in our 2014 results and adjusting to a consistent basis for reporting deal amortization, our outlook for operating earnings in 2015 reflects 3% to 8% growth over 2014, and our outlook for EPS growth is 5% to 10% before considering the impact of additional capital deployment.

I will now discuss the components of our 2015 outlook starting with Global Health Care. We expect full year Global Health Care earnings in the range of approximately $1.73 billion to $1.79 billion. This outlook reflects continued benefits from organic revenue growth, specialty contribution, effective medical cost management and operating expense efficiency. This also includes our updated view of the annual enrollment period results for both Medicare and the public exchange business.

I will now summarize some of the key assumptions reflected in our Global Health Care earnings outlook for 2015, starting with our customer base. Regarding global medical customers, we expect 2015 customer growth of 1% to 3%. This growth is driven by expected ongoing growth in our

Commercial employer business, led by continued double-digit customer growth in our Select business, as well as mid- to upper-single-digit growth in our Medicare Advantage customers, with some expected reduction in our non-ACA compliant Individual customers.

Turning to medical cost, our 2015 outlook assumes some increase in medical utilization versus current levels, and this increase has been reflected in our pricing. For our total U.S. Commercial book of business, we expect full year medical cost trend to be in the range of 5% to 6%.

As Will noted earlier, we are changing the basis on which we provide guidance for MCRs to total Commercial and total Government. We believe this basis will provide better insight into our ability to effectively manage medical cost for our Commercial and Seniors customers.

For our total Commercial book of business, we expect the 2015 medical care ratio to be in the range of 78% to 79%. This compares to our full year 2014 total Commercial MCR of 78.9% on an operating basis. For our total Government book of business, we expect the 2015 medical care ratio to be in the range of 84.5% to 85.5%. This compares to our full year 2014 total Government MCR of 84.7% on an operating basis.

Regarding operating expenses, our 2015 Global Health Care operating expense ratio is expected to be in the range of [21% to 22%] (corrected by company after the call). Overall, we expect full year 2015 Global Health Care earnings to be approximately $1.73 billion to $1.79 billion. We believe this is a competitively attractive result reflecting our focus on growing segments of the healthcare market and continued strong execution of our business strategy.

Now, moving to the other components of our outlook. For our Global Supplemental Benefits business, we continue to expect strong top line growth. We expect earnings in the range of $230 million to $250 million. This represents earnings growth of 3% to 12% after adjusting for $21 million of non-recurring favorable tax items recognized in this segment in 2014.

Regarding the Group Disability and Life business, we expect full year 2015 earnings in the range of $320 million to $340 million. Regarding our remaining operations, that is Other operations and Corporate, we expect a loss of $180 million for 2015. So all in for full year 2015, we expect consolidated adjusted income from operations of $2.1 billion to $2.2 billion, or $8 to $8.40 per share. Our outlook continues to exclude the impact of prior year claim development or any future capital deployment.

While we did not anticipate the impact of future capital deployment in our EPS outlook, we do expect the additional free cash flow that we generate will be deployed for the benefit of shareholders either through value creating acquisitions or share repurchase. Overall, these results represent a competitively attractive outlook and underscore the benefit of our diverse and differentiated portfolio of businesses. I would also note that due to the timing of some strategic investments, as well as the growth of our Medicare Part D business, which traditionally reports low first quarter earnings, we expect our first quarter 2015 earnings will be lower than first quarter of 2014.

Now, moving to our 2015 capital management position and outlook. Overall, we continue to have excellent financial flexibility. Our subsidiaries remain well capitalized and are generating significant free cash flow to the parent with a strong return on capital in each of our business segments.

Our capital deployment strategy and priorities have not changed. These priorities are providing the capital necessary to support the growth of our ongoing operations, pursuing M&A activity with a focus on acquiring capabilities and scale to further grow in our targeted areas of focus, and after considering these first two items, we would return capital to shareholders primarily through share repurchase.

Regarding free cash flow, during 2014 we repurchased 18.5 million shares of stock for approximately $1.6 billion, and we ended the year with parent Company cash of approximately $400 million. For full year 2015, we expect subsidiary dividends of approximately $1.7 billion driven by strong performance in each of our business segments. After considering all sources and uses of parent Company cash, including the funding of our recently announced acquisition of QualCare, this outlook implies we would have approximately $1.8 billion available for capital deployment in 2015, including approximately $115 million we deployed to repurchase 1.1 million shares from January 1 through February 4.

Our free cash flow outlook reflects the industry-leading margins and return on capital in our businesses and a high level of capital efficiency, particularly from our fee-based businesses. This capital efficiency allows us to fund attractive organic growth while continuing to generate significant free cash flow to be deployed for the benefit of shareholders.

Now to recap, our full year 2014 consolidated results reflect the strength of our diversified portfolio of global businesses and a continued track record of effective execution of our focus strategy. The fundamentals of our business remain strong as evidenced by strong growth in revenue and earnings, industry-leading medical cost and quality outcomes, and continued strong free cash flow.

Based on the strength of these results, we are confident in our ability to achieve our full year 2015 earnings outlook. And with that, we will turn it over to the operator for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Justin Lake with JPMorgan.

Justin Lake - *JPMorgan - Analyst*

Thanks, good morning. First question, David, can you walk us through your view of initial 2015 guidance from the lens of a growth perspective versus your typical targets, and maybe talk about some of the key headwinds, tailwinds, investment spending, et cetera, that you see in 2015?

David Cordani - *Cigna Corporation - President & CEO*

Sure, Justin, good morning. First the headlines, we're pleased with the 8% to 10% revenue outlook and continued growth of our well-positioned businesses. As Tom noted, we have 3% to 8% earnings growth on a same-store basis and the underlying 5% to 10% EPS growth on a same-store basis, and as we have done in the past, we will continue to make ongoing investments in our Company while seeking to generate an attractive and competitively differentiated outcome for our business.

Also, very importantly, all the numbers I just referenced exclude the impact of the $1.8 billion of deployable capital we will have for 2015. As it relates to tailwinds, you can think about several tailwinds for us. Clearly, the revenue and customer base growth, number one. Two, expense leverage, as we have a track record of continuing to generate efficiency gains and expense leverage, some of which we redeploy for the benefit of innovation. Third, ongoing specialty penetration - we have a good track record of driving further specialty penetration. And fourth, some improvement in the performance of our Individual business.

As it relates to headwinds, you can think about a few. As we have discussed before, the impact of specialty pharma on the overall medical cost trend and, specifically, for example, it's impact on the Seniors portfolio of businesses. Two, another step up in the industry tax - our assumptions are it will not pass through fully in the Medicare arena. And thirdly, for us, given our global nature, some FX impact into 2015.

But taken as a whole, we feel good about the 2015 impact that we will be able to generate here with revenue growth, earnings and EPS growth, and capital positioning. And then finally, Justin, the positioning that gives us for 2016 as we would expect to have further earnings accelerants off of the positioning we've taken relative to our Seniors business in that portfolio. So taking it as a whole, we're pleased with the outlook for 2015.

Justin Lake - *JPMorgan - Analyst*

And then, David, you mentioned the capital deployment not being in the numbers. Every one of your peers now includes share repurchase in their guidance. I am just curious if you could tell us, give us an update on your strategy around not including any benefit from that $1.8 billion in the guidance going forward? Thanks.

David Cordani - *Cigna Corporation - President & CEO*

Sure, Justin. We have always been quite transparent in providing you updates each quarter, so stepping back, our capital deployment priorities are clear and unchanged. To serve the existing needs of the corporation and support the underlying growth in investments. Two, targeted and strategically attractive M&A. Three, return to shareholders, and to your point, our track record demonstrates our preferred approach there relative to share repurchase.

Our objective is to provide you the transparency of what the free capital available for deployment is and allow you to draw your judgments in terms of how you want to look at that. The headline here is a really strong and well-performing balance sheet, really strong and well-positioned operating subsidiaries, and an underlying capitalization level that provides the $1.8 billion available for deployment. And I would suggest you look at our track record relative to how effectively and how efficiently we've deployed that, and we will provide updates each quarter.

Justin Lake - *JPMorgan - Analyst*

Great, thanks.

Operator

Matthew Borsch with Goldman Sachs.

Matthew Borsch - *Goldman Sachs - Analyst*

Yes, hi, good morning. Could you talk to the drivers in your outlook for the Global Supplemental business? It seems like the growth rate, and maybe some of that is the impact of foreign currency, is lower than we might have expected for a typical year.

Tom McCarthy - *Cigna Corporation - CFO*

Thanks, Matt, it is Tom. Our Global Supplemental Benefits business has a track record of delivering strong revenue and earnings growth, and it is focused by leveraging the broad and innovative distribution and strong analytic and customer insight capabilities. We saw that result in 2014 and we're really seeing that result in 2015 also.

There are a number of layers to the 2015 result though. Our outlook for 2015 earnings of $230 million to $250 million reflects continued strong operating margins, the continued funding of growth initiatives, and continued currency pressure, as you have suggested, of about $10 million to $15 million after-tax. If you adjust for the $21 million one-time tax benefit reported in 2014, the deal amortization change, and the impact of the currency pressure, the underlying growth for Global Supplemental is in the 8% to 18% range.

Matthew Borsch - *Goldman Sachs - Analyst*

Okay, okay, that makes more sense. I am sorry, did you give a revenue outlook on Global Supplemental for 2015?

Tom McCarthy - *Cigna Corporation - CFO*

We don't tend to provide revenue outlook by business segment, but we are expecting continued strong revenue growth in Global Supplemental.

Matthew Borsch - *Goldman Sachs - Analyst*

All right, thank you.

Operator

Joshua Raskin with Barclays.

Joshua Raskin - *Barclays Capital - Analyst*

Hi, thanks. I wanted to talk a little bit about the public exchanges and the impact on the Commercial business. I guess, first, if you could help us size what the revenues were in public exchanges this year, and maybe what the impact on the overall Commercial MLR was? And then, as a part of that, what assumptions you've made regarding the 3Rs?

David Cordani - *Cigna Corporation - President & CEO*

Josh, good morning, it is David. I will give you some context relative to size and scope of that business in terms of revenue. I will ask Tom to give you a little bit of color relative to the MCRs, as well as our position and growth for the 3Rs. Consistent with our prior conversations, we have positioned this book of business for 2014, as well as for 2015, and our expectations is that it will be a small portion of our overall franchise.

Think of it in order of magnitude, as we've talked before, about 3% of the overall franchise revenue in terms of 2014, and we would expect it to be in a similar range in 2015 with some puts and takes in terms of the runoff of the grandfathered business and some growth on the on-exchange business. I think the headline here that is quite important is a small percentage of the overall portfolio that we've been seeking to manage in the context of the performance of the franchise. Tom, could you put a little more color on the MCR?

Tom McCarthy - *Cigna Corporation - CFO*

Sure. So, Josh, the MCR dynamics in Individual have been improving over the course of the year and also reflecting, of course, increased seasonality in the fourth quarter. It just basically has been improving from our initial expectations in the year, still a little higher than where we would like to be.

That improvement has been driven by both a better assessment of the early part of the year claims as they have developed a little favorably, and a little bit of an improvement in the run rate, and, as you kind of suggested, the 3Rs. Just a couple of minutes on the 3Rs. Our year-end accrual for 3Rs now totals about $200 million after-tax.

The majority of the accrual continues to be related to the reinsurance element of the 3R program with risk adjustment representing the higher amount of the remaining balance and a smaller amount for risk corridor recovery. I will give you some more specific color on our approach. We have accrued reinsurance at the 80% co-insurance level consistent with the design of the program.

We have not accrued any risk adjustment impact for our Texas business due to the current lack of industry data, and we accrued amounts under the risk corridor because we're comfortable with the statute and the administrative guidelines that support that program. As you know, there's some interplay among each of these program elements, but overall we are very comfortable with our total accrual.

Joshua Raskin - *Barclays Capital - Analyst*

I guess more specifically, the thing about it, I know it's a small portion, but, obviously, the MLR is elevated. I'm just trying to figure out the Commercial MLR for 2015 with the understanding that you guys had moved the buckets around a little bit, but I am assuming there's an assumption of the public exchanges getting a little bit better. You have got industry tax uptick, which assuming you priced for it, is actually a little bit of a tailwind as well, and the guidance is for a 40-basis-point of improvement at the midpoint.

I'm just trying to think if there are any other moving parts, and my guess is you've got a little bit of a benefit on the Hep C, and specialty pharmacy from the new Gilead relationship announced yesterday. Is there anything underlying -- are you guys just basically assuming apples-to-apples on your total, on your Commercial book flat type of MLRs with a couple of these moving parts helping you a couple of basis points?

Tom McCarthy - *Cigna Corporation - CFO*

Well, Josh, I think you've got the moving parts pretty well nailed. Again, our MCR outlook for commercial in 2015 is 78% to 79% compared to 78.9% on an operating basis in 2014, and it is driven by the items you mentioned that reflect the continued good performance in our employer group business, some benefit from pricing for the incremental industry fee in 2015, and some improvements in Individual. And that essentially summarizes the major moving pieces.

Joshua Raskin - *Barclays Capital - Analyst*

Okay, and I'm sorry, did you guys quantify the FX headwind in the fourth quarter?

Tom McCarthy - *Cigna Corporation - CFO*

The fourth quarter, with some things moving around, I'd say is low-single-digit million dollars impact. So I didn't before, but that is about the quantity.

Joshua Raskin - *Barclays Capital - Analyst*

Okay, thank you.

Operator

A.J. Rice with UBS.

A.J. Rice - *UBS - Analyst*

Thanks, hi, everyone. Maybe first, I would just ask you, if you don't mind, about the private exchange dynamic. I know that was a hot topic about a year ago. It doesn't seem like we're hearing as much about it, but in your ASO book of business did you see much attrition and can you just sort of comment on the state of plays from your perspective in private exchanges at this point?

David Cordani - *Cigna Corporation - President & CEO*

A.J., good morning, it is David. So a little color on our positioning and then our results. First, and most importantly, we continue to view that the private exchanges may create a sustainable attractive long-term market. As such, we've positioned ourselves in just about all of the various private exchanges that are in the marketplace today.

In addition to that, we have our own proprietary exchange and a dedicated leadership team managing the overall exchange activities. As it relates to outcomes, to your point, there has been a lot of conversation in the market as we expected. But consistent with our prior dialogue, we did not expect to see a significant amount of movement in the overall landscape in the marketplace in 2014 or 2015 and that is what manifested for both the industry as a whole, as well as for ourselves.

Specific to Cigna, some movement in both directions, but it all nets out to a de minimis amount of activity. Lastly, as we look to 2016, as I noted, we're well-positioned in the respective exchanges. We will be actively engaged with target clients that we believe align very well with our value proposition presenting good growth opportunities, but slow activity thus far, in line with our expectations.

A.J. Rice - *UBS - Analyst*

Okay, and maybe for the follow-up, you mentioned in the prepared remarks MA is an area you would look to for potential capital deployment opportunities and acquisitions. In thinking about that, are you looking, what would be an attractive opportunity for you, something that just broadens your geography, or are you looking for something that you think you could run better than it is currently being run? Maybe some color on what would be attractive there?

David Cordani - *Cigna Corporation - President & CEO*

Sure, A.J. We have been very consistent relative to MA, as over the long term, it is a very attractive growth opportunity. And our view is that a sustainable MA program has two major dimensions, effective consumer engagement and personalization capabilities, and then, strong clinical partnership and physician engagement capabilities with a value-based reimbursement structure which is what our model is.

As it relates to capital deployment, you hit the nail on the head. We see both organic geographic expansion opportunities, as well as inorganic geographic expansion opportunities. So that would be one - targeted geographies that are inorganically attractive.

Second would be, if you expand it a little more broadly relative to Seniors and the broader chronic population, additional capabilities or opportunities to serve the Medicare/Medicaid duals or other parts of the population we think are underserved. As I noted in my prepared remarks, we've seen good success in Texas, emerging success in Illinois, and we're going to seek to grow those programs. So those would be the two areas for capital deployment, geographic, as well as what we would call segment expansion.

A.J. Rice - *UBS - Analyst*

Okay, great. Thanks a lot.

Operator

Scott Fidel with Deutsche Bank.

Scott Fidel - *Deutsche Bank - Analyst*

Thanks. First question just -- can you hear me?

Operator

Sir, we can hear you.

Scott Fidel - *Deutsche Bank - Analyst*

Thank you. First question, just wondering if you could drill into the Select growth and it looks like the trajectory is still intact there, double-digit growth. Can you maybe just talk a bit about how much is being driven by continued market shift downstream and to ASO, in terms of how much increased ASO market penetration you are seeing, and then as compared to some of the market share gains that you may be driving in that segment?

David Cordani - *Cigna Corporation - President & CEO*

Sure, Scott, good morning, it is David. First relative to Select. We define Select as employers with 51 to 250 employees, so that is our Select segment. To your point, it has been and continues to be a very attractive growth segment for us, continues to drive double-digit customer base growth for us, and something we're quite pleased with.

Our approach to this space is somewhat different than the marketplace. It is to be consultative and work with employers to design the right consumer engagement and benefit designs and network structures, and then offer multiple funding alternatives, one of which is, as you referenced, an ASO proposition that gives them much more transparency and tighter alignment.

As you know, the overall employer landscape in the US is not growing, but a shrinking market, and a little bit of growth down market. So there is a little bit of growth, but net/net we're taking share in this space and we tend to take share in this space from more traditionally designed financing alternatives for healthcare to more progressively designed health engagement programs, incentive aligned programs that have a high degree of transparency and the outlook there is very positive.

Scott Fidel - *Deutsche Bank - Analyst*

Okay, and on the follow-up question, it would be helpful if you could just walk us through your thoughts on the cost components for cost trend relative the overall 5% to 6%, and then, just within Rx what type of impact year-over-year you think that the new preferred partnership with Gilead for Harvoni could benefit?

Tom McCarthy - *Cigna Corporation - CFO*

Scott, it is Tom. We're really pleased with our medical trend results. And just to repeat, we improved our outlook for medical cost trends throughout the year and we ended up delivering a cost trend below the 4.5% low end of our improved range and building on a very strong trend result we reported for several years.

Our outlook for 2015 of 5% to 6% reflects some uptick in utilization and some increase in pharmacy trends, especially drug costs, and, of course, some impact from the flu. Components are generally in the mid-single-digit range with maybe pharmacy in the double-digit range.

David Cordani - *Cigna Corporation - President & CEO*

Scott, the add-on relative to your question relative to the specialty item, you are correct, we will see some impact, positive impact, but per prior discussions, our team is effectively managing the specialty drug component and specifically the Hep-C specialty component in 2014. We're pleased with the recent announcement we have with Gilead. Importantly, I would note that both organizations have committed to innovating a performance-based and an outcome-based component to the ongoing activities.

We're pleased with the overall development that has transpired, but also the commitment of both organizations to collaborate on an outcome-based program for the benefit of customers, as well.

Scott Fidel - *Deutsche Bank - Analyst*

Okay, thanks.

Operator

Kevin Fischbeck with Bank of America Merrill Lynch.

Kevin Fischbeck - *BofA Merrill Lynch - Analyst*

Okay, great, thanks. Just wanted to drill into the Government MLR a little bit. I guess, when you say operationally that the MLR was 84.7%, that's ex-development, right? So you're basically saying MLR should be relatively flat to up in 2015 versus 2014? And I guess, when I think about PDP coming in worse, I thought that you guys probably would have made some progress there next year, and then, MA, obviously, you've got a funding gap, but it seemed like there was a lot that you were doing in 2014 to try to offset that. So just trying to understand how you think about the margins?

Tom McCarthy - *Cigna Corporation - CFO*

Kevin, it is Tom. You've got the dynamics right. We have got an outlook of 84.5% to 85.5% compared to the 84.7% operating basis result delivered in 2014, and as you say, that excludes the prior year development we reported in 2014.

The picture, I think is, generally like this. We're generally expecting stable Medicare MCRs between Medicare Advantage and PDP with some mix impact actually driving the dynamic here. And we are growing some of the higher MCR Medicaid business we have as a portion of the portfolio. Again, all on the margin, but that is generally the result, and I think the outlook calls generally for a stable result.

Kevin Fischbeck - *BofA Merrill Lynch - Analyst*

Okay. And then, I guess, when you talk about accelerating the MA, sorry, the Government business in 2016 and beyond, is it an accelerant from a revenue perspective off the 6% to 8% that you are looking for this year on a membership basis, or is it margins, is it both, how do we think about that?

David Cordani - *Cigna Corporation - President & CEO*

Kevin, it's David. Again, I think you had the right levers. One, we're pleased with the outlook we have for 2015 from a growth standpoint. As Tom noted, generally speaking, stable MCRs. As we look to 2016, we would expect to be able to grow both revenue as well as margin.

As I noted in my prepared remarks, we expect to see further improvement in the stars ratings, for example, and the positioning we took in 2015 was to position products in key markets with an expectation for a step up in 2016 stars. So we will see both revenue contribution going into 2016, as well as margin expansion contribution in 2016, and therefore, an earnings accelerant.

Kevin Fischbeck - *BofA Merrill Lynch - Analyst*

All right, great, thanks.

Operator

Christine Arnold with Cowen.

Christine Arnold - *Cowen and Company - Analyst*

Good morning. A couple nits and nats, the CRomnibus exempted the expatriate businesses from the health insurance fee. Is there a quantifiable impact there?

David Cordani - *Cigna Corporation - President & CEO*

Christine, good morning, it is David. First and foremost, there had been a variety of administrative relief that took place post the passage of the bill back in 2012 and up to, as you referenced, the CRomnibus, because the administration recognized that there was an unintended consequence to that business.

We're pleased with the outcome from the CRomnibus, legislatively rectifying that for the benefit of global employers. And I would suggest the biggest impact here is taking away the administrative complexity - applying the ACA to the global employers expatriate benefit business would create a burden on that business portfolio that we were managing through. That is the biggest benefit. There is a small economic benefit, but that is, if you will, the byline. The bigger piece is it cleans it up for purposes of global employers not to be exposed to that.

Christine Arnold - *Cowen and Company - Analyst*

Okay. And then, can you talk about why first quarter 2015 will be lower than first quarter 2014 and give us some kind of order of magnitude on the factors? And then, do you think you need Medicaid in order to serve the duals, or are you still of the view that you've got the portfolio you need for those duals?

Tom McCarthy - *Cigna Corporation - CFO*

Christine, it is Tom. First, I will address the first quarter. Of course, just to reiterate, we're expecting first quarter 2015 earnings to be lower than the first quarter of 2014. And we attributed two things, strategic investments and the growth of our Part D business in the fourth quarter. On the strategic investment side, I would think about additional start-up cost in Medicaid expansions and increased brand spend in 2015, and the Part D impact reflects the first quarter pressure typical in Part D given the benefit structure. We all know that Part D first quarter results tend to be low, including the impact of the drug transition requirements for new customers. All-in on a comparable basis we're expecting first quarter 2015 to be lower than first quarter of 2014.

David Cordani - *Cigna Corporation - President & CEO*

Christine, it is David. On your second part, and pretty efficient working in multiple questions here. At a headline level, as we have discussed before and I noted, duals, A.B.D. et cetera, in targeted geographies continue to present an attractive opportunity for us because we believe they are underserved as it relates to clinical care coordination, and our clinical programs actually play quite effectively there, as noted in our Texas program.

We're going to seek to grow those activities organically and then opportunistically, as we noted in our M&A priorities. Opportunistically, we look for geographic density and we will also look to dual capabilities from an M&A standpoint. I would view that as both organic and inorganic opportunities for us.

Operator

Andy Schenker with Morgan Stanley.

Andy Schenker - *Morgan Stanley - Analyst*

Thanks, good morning. So just to tie into one of the earlier questions here, for PDP specifically, last quarter you highlighted some pressures around specialty drugs and the higher brand mix, and maybe just how did that continue to play out or evolve in the fourth quarter? And then relate it to how you saw pretty strong annual enrollment, growth in the annual enrollment period, about 200,000-plus lives, so what are your expectations on those costs continuing into next year?

Tom McCarthy - *Cigna Corporation - CFO*

Andy, it is Tom. I'll start and then David will address some of the growth issues. As you pointed out, our PDP results do reflect higher drug costs in the fourth quarter and the full year. That includes some impact from the mix in channel and drug purchases and some impact from specialty drug, so both.

We've taken action to try and improve results here. We made network and formulary adjustments when we merged the HealthSpring and Cigna Part D plans for 2015. So that resulted in a leaner formulary and expanded utilization management for the merged plans which we expect will improve costs. As you pointed out, we also expect a favorable impact from our recent agreement with Gilead on Hep-C drugs, but we have factored some ongoing pressure in Part D into our 2015 outlook.

David Cordani - *Cigna Corporation - President & CEO*

Relative to growth, as Tom noted, we merged the HealthSpring and the legacy Cigna programs and sought to take the best of both organizations. For our 2015 growth efforts, we're targeting the chooser population and we saw very good traction in our sales efforts there. I would note that our early results through January from a utilization and performance standpoint for the new population are in line with our expectation for that chooser population, meaning both the aggregate utilization levels, and importantly, the mix of utilization by generic and otherwise.

And as Tom noted, we expect, generally speaking, stable MCRs going forward from 2014 to 2015 for this portfolio. And, again, it presents an opportunity for a further earnings expansion looking into 2016.

Andy Schenker - *Morgan Stanley - Analyst*

Great. And just, maybe changing gears a little bit, follow-up question here. A little bit early, but for the national account selling season, anything to highlight for us as you start really heading into it, how much business do you guys have up for renewal this year maybe versus an average year? And any opportunities out there that you guys are really looking to target? Thanks.

David Cordani - *Cigna Corporation - President & CEO*

Sure, Andy. As you noted, it is early in the cycle, but I'll give you some color, and, again, when I give you color, we will define what we talk about in national accounts. So Commercial employers with 5,000 or more employees that are multi-state. We're actually seeing a pretty robust pipeline of new opportunities unfold, so it is unfolding, both meaningful scale, but early in the cycle.

So we are seeing a robust pipeline beginning to unfold early in the cycle and with a further elevation in intensity looking for what we call engagement incentive-based programs, exploring a lot of the value-based network configurations and the like which play very well to our strategy. As it relates to the last part of your question, the percent of our book that is out to bid, we see a smaller percentage of our book that is out to bid for 2016 than we did the prior year, and that is consistent with what we had last year.

We indicated that we had an elevated percentage based on procurement cycle. So we managed through that queue pretty well for 2015 and now looking to 2016, we will have a smaller percentage of our book of business out to bid, and, again, we are seeing a pretty nice, robust pipeline beginning to unfold early in the cycle.

Andy Schenker - *Morgan Stanley - Analyst*

Thanks.

Operator

Ralph Giacobbe with Credit Suisse.

Ralph Giacobbe - *Credit Suisse - Analyst*

Thanks, good morning. Can you give us a little more sense of expectations for ASO membership growth versus maybe risk for 2015? And you guys have talked a lot about the Select segment, but just interested in thoughts maybe more broadly, as well, since there seems to be more movement within the ASO segment amongst peers?

David Cordani - *Cigna Corporation - President & CEO*

Ralph, good morning, it is David. As you know, the vast majority of our Commercial business, U.S. Commercial business is ASO, so as we are able to grow our portfolio, the preponderance of that is ASO oriented. I would also note that our expectation is that as the results unfold, and in line with the guidance that Tom provided, the 1% to 3% customer growth, which excludes our QualCare network acquisition, we would expect that our Guaranteed Cost life or our risk life would decrease because of the runoff of the Individual non-ACA compliant lives. So very important as we get into the year, we will provide you more detail as that manifests itself. But net/net, you should think about our growth as being predominantly ASO oriented and that transcends through Select, the Regional segment, et cetera, and you see good traction there.

Ralph Giacobbe - *Credit Suisse - Analyst*

Okay, and then, just in terms of the competitive environment for ASO broadly?

David Cordani - *Cigna Corporation - President & CEO*

The competitive environment, maybe I'll flip it around a little bit the other way and then try to answer your competitive environment. The buying environment, so the client portfolio, and we call employers clients. Clients continue to seek what we call, what you might call alternative funding, what we call transparent funding, so the demand for more transparent funding continues to grow as employers are seeking to get alignment of incentives and better visibility to how their funds are being deployed and they align the incentives for their employees, our customers.

And so that trend continues, so hence, the competitive environment, competitors are seeing more ASO activity, as well. For Cigna, that is good for us because we're extremely well-positioned in that environment, from benefit design, the consultative nature, and very importantly, the employer reporting and insights that go along with that monthly, quarterly and annually, to provide the guidance in terms of what is transpiring. Yes, elevation, but it is elevation because of the client demand, not competitive activity, and client demand continues to go up.

Ralph Giacobbe - *Credit Suisse - Analyst*

Okay, that's fair. And then, second question, can you talk about the accretion you have captured from the Catamaran deal in 2014 and maybe what you expect incremental for 2015? And then, your specialty is separate from that deal. Is there any timeline or decision on whether you want to keep it that way or if you are exploring options at this point? Thanks.

David Cordani - *Cigna Corporation - President & CEO*

Ralph, I will try to be responsive. Again, real efficient at getting a bunch of questions in here. For pharmacy, more broadly, we have a wholly-owned pharmacy organization that we continue to invest in. It is performing well as evidenced by our strong clinical outcomes, continued customer growth, and strong earnings performance, and we continue to invest in that.

So relative to your latter question, specialty, we run our own specialty operations within the organization. It is performing well and our team continues to look to further expand and strengthen that either through collaboration or otherwise, but we're investing and continue to run that on our own.

As for results, and per prior conversations, for 2014, our results tracked in line with our expectations. In fact, they tracked a little bit ahead of our expectations, largely because of actions we took around rate and pace of investments, the timing of that and inherent levels. We actually are a little bit ahead of our track record for 2014, and for 2015, our overall targets for our pharmacy business are in line with our expectations, maybe slightly favorable for the overall franchise.

Operator

Ana Gupte with Leerink Partners.

Ana Gupte - *Leerink Partners - Analyst*

Yes, thanks, good morning. I just wanted to follow up on the Select and the ASO mix shift from a stop-loss perspective. I'm trying to understand first whether the companies that are just stop-loss are competing on a bundled or unbundled basis with all of you, and it looks like United and Aetna have started to play a bigger role here?

David Cordani - *Cigna Corporation - President & CEO*

Ana, good morning, it is David. First and foremost is that we have talked now for multiple years around the Select space and ASO stop-loss, and a variety of funding mechanisms. We believe, and it is proven out, we believe that there will be increasing demand. We believe that the result will be increasing competitive activity, and we believe to be successful, we would have to continue to innovate. And that is what is transpiring in the marketplace.

As it relates to standalone, if you will, stop-loss players in the space, I don't see that as a primary competitive disruptor, largely because of the impact of integration here. If you step back, what makes these programs work is not a stop-loss program, what makes these programs work is getting the benefit alignment laid out with the right incentives, the network configuration appropriate, the clinical programs aligned.

For example, we have the ability, and we do on-site biometrics training, on-site coaching for a 100-life employer. That is a new model, to be able to do that and bring that on board for a client and identify the one, two or three high risk individuals who are not incurring costs today, but we need to engage clinically with.

And integrating all of that with the ASO funding mechanism and stop-loss when it makes sense for that employer, as well as the reporting, that is the core of our value proposition and we continue to see strong demand for that today and into the future. And we would expect, again, competitors to step into this space because there is a significant amount of demand. Key to us is the results we're delivering in ongoing innovation.

Ana Gupte - *Leerink Partners - Analyst*

And does that mean then, David, that because of your integration, you can keep your pricing more steady and the 65% loss ratios that you used to disclose a while ago still hold?

Tom McCarthy - *Cigna Corporation - CFO*

Yes, Ana, it is Tom. I would think about the standalone stop-loss segment as a totally different market than the market we're serving. Again, our approach focuses on the integrated benefits of actually more effectively managing medical cost. And the standalone stop-loss carriers typically don't have that feature.

In addition, we do have some built-in advantages versus them. We already have this customer in our sights, so we have one set of acquisition costs. They have to pay incremental acquisition costs to secure this customer. And we have a lot better insight into the underlying claims data. So our ability to effectively manage the programs is very superior, so we don't really find ourselves in what sometimes can be a hyper-competitive standalone stop-loss market. It's not really a market we're competing in. We don't sell stop-loss unless we write the underlying program, and when we're selling stop-loss, it is part of an integrated package. So the competitive dynamics for the standalone market are very different than the competitive dynamics we see.

Operator

Peter Costa with Wells Fargo Securities.

Peter Costa - *Wells Fargo Securities, LLC - Analyst*

Hi, my question is also on the stop-loss business. Is that business included in the Commercial MLR that you're giving us now, in the total Commercial MLR?

David Cordani - *Cigna Corporation - President & CEO*

Yes.

Tom McCarthy - *Cigna Corporation - CFO*

Total Commercial MLR will include all of our risk businesses in Commercial.

Peter Costa - *Wells Fargo Securities, LLC - Analyst*

So just by the growing mix of that in your Commercial MLR it should be pulling the loss ratio down by maybe 100 basis points, is that a fair number? So does that mean, or is it rising in loss ratio on that book of business so that it is not pulling it down as much going forward?

Tom McCarthy - *Cigna Corporation - CFO*

Peter, I have to tell you, I have not done that calculation but, obviously, we're not seeing it in the results, so I think you might be missing something there. But just a couple things. First, the loss ratio on stop-loss is lower than the average overall loss ratio, but the premium density for the other businesses is pretty high. I'd be surprised if there was a 1-point impact but we will do that math.

Second, on stop-loss we actually would expect some modest increase in the stop-loss ratio as we continue to sell disproportionately in the lower end, and those customers tend to have more premium density, so less of an expense factor in the result, and a higher MCR. Again, very attractive MCR, so it's not like it is worse profitability. The bottom line margin is still very attractive for the stop-loss business, but the dynamics in the MLR are a little higher so I would expect there is marginal impact probably from this change, but I will do a little more careful look at that.

Peter Costa - *Wells Fargo Securities, LLC - Analyst*

Okay, thanks.

Operator

Chris Rigg with Susquehanna Financial Group.

Chris Rigg - *Susquehanna Financial Group / SIG - Analyst*

Just wanted to come back to capital deployment again, and I heard your comments on Medicare Advantage and things generally, but when we think about opportunities sort of broadly here, do you think opportunities are better at this point domestically or do you still think international is a better opportunity? Thanks.

David Cordani - *Cigna Corporation - President & CEO*

Chris, it is David. As it relates to inorganic capital deployment, we have four priorities and the four priorities have remained the same. These are not in order, but these are the four priorities. Further our global footprint, Medicare Advantage and dual capabilities, further our retail-based capabilities, and then what we call "Go Deep" bolt-on capabilities for our portfolio.

I wouldn't separate international as more than or less than domestic for 2015 versus the last year. It is within our portfolio and when we have been opportunistic and focused in terms of opportunities outside the U.S., as well as inside the U.S.

Chris Rigg - *Susquehanna Financial Group / SIG - Analyst*

Okay. And then my follow-up is just on overall growth to the Company and specifically in the Health Care segment. I am just trying to figure out, you are growing your revenues 8% to 10%, obviously, the bottom line isn't growing in line with that. Obviously, PPD is having an impact. But can you give us a sense for when you think you will at least start to get some more leverage down the P&L, is 2015 the last truly difficult year and we should start to see some leverage next year? I know you are not going to give guidance but, again, big picture-wise, just trying to figure out the trajectory of growth. Thanks.

David Cordani - *Cigna Corporation - President & CEO*

The direct answer to your question and then a little more color is, yes. Little more color is, as we have talked about the 2015 outlook, we're pleased with it, with the 8% to 10% revenue growth outlook. And then the 3% to 8% earnings growth outlook on a same-store basis and the 5% to 10% EPS growth outlook without capital deployment.

As we said, looking to 2016, we see margin expansion opportunities within the healthcare business, margin expansion opportunity specifically in the senior space, both for MA, as well as PDP. We see further margin expansion opportunities within our Individual block of business where we have seen some improvement moving from 2014 to 2015. And then we'll see further scale leverage beyond the ongoing fundamentals of our strong performing employer business. Margin expansion opportunities exist in 2016 and 2017 and beyond and we are quite excited about that.

Chris Rigg - *Susquehanna Financial Group / SIG - Analyst*

Great. Thanks a lot.

Operator

Brian Wright with Sterne Agee.

Brian Wright - *Sterne, Agee & Leach - Analyst*

Thanks, good morning, and I apologize if I missed this, but did you give some color on the number of PDP lives to be added in 2015?

David Cordani - *Cigna Corporation - President & CEO*

We didn't, Brian. It's about -- we ended up 1/1 enrollment period with about 250,000 more lives than we had at the end of the year.

Brian Wright - *Sterne, Agee & Leach - Analyst*

Okay. And then, just one follow-up, first of all, thanks for the consolidated Commercial MLR, we have been waiting for a decade, so thrilled to have that. But the conspiracy theorist in me looks at how you're reporting now, and you have another peer that's been very vocal about kind of large scale acquisition in the space and your reporting segments align very nicely that would make consolidating two models pretty easily, so just any comments on that?

David Cordani - *Cigna Corporation - President & CEO*

Brian, I think you may be able to work for the NSA if you are going to try to connect those dots. But really what you have is a continued refinement and responsiveness. We actually chose to provide two MCRs versus one because there are different attributes within the Government portfolio of business versus the Commercial business. And while we had alternatives, we believe that that was more customer friendly and provided the transparency to drive the dialogue on a go-forward basis.

And as we have in the past, and as we will on a go-forward basis, we will try to give you as much color as possible in terms of the underlying drivers of the overall business portfolio. But this was an attempt to be, again, responsive to the market, but also maintain an appropriate amount of transparency and not go to a single loss ratio, but provide two loss ratios for the domestic health business.

Operator

Dave Windley with Jefferies.

David Windley - *Jefferies & Company - Analyst*

Hi, thanks for taking the questions. My question is on Medicare Advantage. David, wondering if through the AEP here and your changes in the mid-Atlantic market, specifically, if your view is that those changes to network, and to the extent they were benefit designed as well, are complete and set you up for a more normal contribution from that market in 2016?

David Cordani - *Cigna Corporation - President & CEO*

And your comments, Dave, were pointed toward 2016, so to put MA back in context, we're pleased in aggregate with the MA outlook for 2015 from a customer growth, with 6% to 8% customer growth. You are correct, you draw attention back to a market that we sought to do some repositioning in, and we're feeling the final impact of that, or the final meaningful impact to that repositioning in 2015, in terms of both the lack of life growth, so even in the 6% to 8%, the lack of life growth in that market is fully contemplated in the 6% to 8% and we would expect as we step into 2016 an opportunity to see improvement in performance there. That is a contributor as we look to the future, but part of that repositioning is being felt in 2015.

David Windley - *Jefferies & Company - Analyst*

Thanks for that. And then, sticking with that, is that also something that you think can have another positive impact to stars ratings when they come out later this year?

David Cordani - *Cigna Corporation - President & CEO*

Well, our organization has demonstrated significant improvements in stars, as I noted, going from 40 to 60 for 2016. We were pleased with that outcome, it was in line with our expectations. And as I noted previously, we would expect to see a further improvement going from 2016 to 2017.

I'm not going to comment on individual market activities, but more importantly, our organization is highly focused on the intricacies of the stars program and, importantly, making sure we're giving the right service experience and clinical experience for both medical and pharmacy for the benefit of our customers and doing so in a way to move the stars rating up in 2017 to another step function off of the very attractive movement we made going into 2016.

David Windley - *Jefferies & Company - Analyst*

Very good, thank you.

Operator

Michael Baker with Raymond James.

Michael Baker - *Raymond James & Associates, Inc. - Analyst*

Thanks a lot. David, I was wondering if you could give us some color on how you are positioning your proprietary exchange offering? I know at this point private exchanges has been pretty de minimis to the business, but just curious, is really differentiation around enhanced engagement and strength in guarantees as well as some ben admin element that increases stickiness?

David Cordani - *Cigna Corporation - President & CEO*

Michael, so relative to our proprietary exchange capabilities, as you would expect, those capabilities are largely focused down market. So think about Select segment and a portion of the Regional employer portfolio. It's a single carrier, as you would expect, exchange alternative. It's a value prop, so it is going to the value prop. The value prop is primarily to enable a further retail experience for individuals to get them more actively engaged in the selection of their personal benefits.

And we know that when that transpires, whether through a private exchange or other mechanism, because we do this every day without private exchanges, you get a higher level of awareness, a higher level of engagement, a higher level of ownership of the individual and their benefits and their understanding of what is there. That is the primary mechanism. And then you are able to drive the appropriate personalization or efficiency that works for them. So using your term consumer engagement or personalization, there is a primary attribute there. As I noted previously, though, we have expected this marketplace more broadly to unfold slowly and it is.

Our team has seen some success and we have a dedicated team of resources that will continue to focus on this, but we have not banked on, nor are we banking on a significant step function in revenue, customer life or earnings growth there. Rather we have positioned ourselves to have smart optionality to the extent this market moves forward very positively.

Michael Baker - *Raymond James & Associates, Inc. - Analyst*

Thanks.

Operator

I will now turn the call over to David Cordani for closing remarks.

David Cordani - *Cigna Corporation - President & CEO*

Thank you. To conclude, I just want to offer some points from our morning discussion. Cigna's strong fourth quarter and full-year results reflect solid revenue and earnings contributions from each of our business segments. As an organization, we have over 35,000 talented colleagues around the globe whose work exemplifies our mission of improving health, well-being and a sense of security for the people we serve every day.

The momentum we generated off of another strong year in 2014 combined with our attractive growth opportunities gives us confidence we will achieve our full year 2015 outlook. We plan to continue to leverage our proven business and core capabilities to drive meaningful growth in attractive new markets and segments resulting in doubling of our revenue over the next seven to eight years, and we remain committed to achieving on average our annual EPS growth objective of 10% to 13% over the long term. We thank you for joining the call today and your continued interest in Cigna, and we look forward to continuing our conversations.

Operator

Ladies and gentlemen, this concludes Cigna's fourth quarter and full year 2014 results review. Cigna Investor Relations will be available to respond to additional questions shortly. A recording of this conference will be available for 10 business days following this call.

You may access the recorded conference by dialing 1-800-945-4244, or 203-369-3501. No passcode is required for the replay. Thank you for participating, we will now disconnect.
