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Q3 2018 Cigna Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 01, 2018 / 12:30PM GMT

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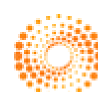

CORPORATE PARTICIPANTS

David Michael Cordani *Cigna Corporation - President, CEO & Director*
Eric Paul Palmer *Cigna Corporation - Executive VP & CFO*
William McDowell *Cigna Corporation - VP of IR*

CONFERENCE CALL PARTICIPANTS

Albert J. William Rice *Crédit Suisse AG, Research Division - Research Analyst*
Anagha A. Gupte *Leerink Partners LLC, Research Division - MD of Healthcare Services & Senior Research Analyst*
Charles Rhyee *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*
David Anthony Styblo *Jefferies LLC, Research Division - Equity Analyst*
Gary Paul Taylor *JP Morgan Chase & Co, Research Division - Analyst*
Joshua Richard Raskin *Nephron Research LLC - Research Analyst*
Justin Lake *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*
Kevin Mark Fischbeck *BofA Merrill Lynch, Research Division - MD in Equity Research*
Matthew Richard Borsch *BMO Capital Markets Equity Research - Managed Care and Providers Analyst*
Peter Heinz Costa *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*
Ralph Giacobbe *Citigroup Inc, Research Division - Director*
Sarah Elizabeth James *Piper Jaffray Companies, Research Division - Senior Research Analyst*
Stephen Vartan Tanal *Goldman Sachs Group Inc., Research Division - Equity Analyst*
Steven J. James Valiquette *Barclays Bank PLC, Research Division - Research Analyst*
Zachary William Sopcak *Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's Third Quarter 2018 Results Review. (Operator Instructions) As a reminder, ladies and gentlemen, this conference, including the question-and-answer session, is being recorded.

We'll begin by turning the conference over to Mr. Will McDowell. Please go ahead, Mr. McDowell.

William 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. With me this morning are David Cordani, our President and Chief Executive Officer; and Eric Palmer, Cigna's Chief Financial Officer.

In our remarks today, David and Eric will cover a number of topics, including Cigna's third quarter 2018 financial results as well as an update on our financial outlook for 2018.

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 term labeled adjusted income from operations and earnings per share on the same basis as our principal measures of financial performance. A reconciliation of these measures to the most directly comparable GAAP measure, shareholders net income, 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 2018 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.

Regarding our results, I note that in the third quarter, we recorded special items totaling to a charge of $138 million or $0.56 per share primarily to reflect the impact of merger-related transaction costs and a litigation matter. As described in today's earnings release, special items are excluded from adjusted income from operations in our discussion of financial results.

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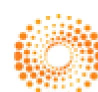

Also consistent with past practices, when we make any prospective comments on earnings or EPS outlook, we will do so on a basis that excludes the impact of any future capital deployment or prior year development of medical costs. Finally, our outlook for 2018 does not reflect the impact of Cigna's combination with Express Scripts, which we continue to expect to close by the end of 2018.

With that, I will turn the call over to David.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Thanks, Will, and good morning, everyone. Thank you for joining our call. Today, I'll begin by highlighting Cigna's outstanding third quarter 2018 financial results, which reflects substantial revenue and earnings growth and strength across each of our business segments. Next, I'll discuss how our ongoing effective execution of our strategy continues to drive Cigna's ability to deliver differentiated value for our customers and clients and how we will strengthen, broaden and accelerate our path forward through our combination with Express Scripts. Regarding our combination, I'll also provide a brief update on where we stand relative to the state regulatory approval process and our continued progress on integration planning. Finally, I'll share some initial thoughts regarding our expectations for 2019 before turning the call over to Eric, who will discuss our third quarter results in more detail. Following Q&A, I'll conclude the call with a few closing remarks.

Turning to the third quarter, we once again delivered strong operating results with substantial revenue and earnings growth, strong retention, expansion and addition of new customer and client relationships and continued industry-leading medical cost trend. In the third quarter, our consolidated revenue grew by 9% to $11.5 billion and our earnings per share increased by 36% to $3.84. We had strong performance across our businesses with Global Health Care delivering sustained strong revenue growth and exceptionally strong earnings growth. Global Supplemental Benefits delivered consistent revenue growth and solid earnings, and Group Disability and Life delivered meaningful earnings expansion over the third quarter 2017. Cigna's continued momentum across our portfolio of businesses through the first 3 quarters of 2018 gives us confidence we will achieve our increased 2018 outlook.

Looking more broadly at our performance. The marketplace continues to demand greater value through the right balance of affordability and personalization. At Cigna, we continue to be guided by our Go Deeper, Go Local and Go Beyond strategy to deliver differentiated value and invest in ongoing innovation. A demonstration of our success to date is captured by our industry-leading medical cost trend, our outstanding customer and client retention, continued strong increases in Net Promoter Score results across our businesses, exceptional employee engagement levels and our ongoing commitment to community impact, exemplified through our leadership in opioid use reduction and safety as well as overdose prevention.

Further and consistent with our strategy at Cigna, we continue to innovate and invest for sustained value creation for the benefit of our customers, clients, partners and communities. We view innovation as a set of capabilities that puts the customer first, recognizes and values a crucial role of our partners such as our health care professional partners and seeks to apply technologies, which when coordinated, can truly change lives. Our diabetes prevention program is just one recent example of this. This program, in collaboration with Omada Health, delivers an expanded suite of personalized digital health tools to help prevent the onset of diabetes as well as other chronic conditions. Participants in Cigna and Omada pilot programs have achieved improved health, quality of life and affordability in part by reaching their weight management targets. As a result, employers realize both improved affordability and coworker productivity.

This program is fueled by Cigna Ventures, our corporate venture fund, which invests in innovative early-stage companies with the potential to bring improved quality, affordability, choice and simplicity to the market. Key to our sustained success is our #1 strategic imperative, which is to be the undisputed partner of choice. The results of our commitment to innovation and investment help us realize this goal. For example, we have focused on building strong collaborative physician partnerships, resulting in the independent research firm, Black Book, rating Cigna #1 overall for customer experience in its annual survey of physician networks, medical practices and companies providing value-based solutions for physicians.

In the Medicare Advantage space, which we continue to view as a very attractive growth opportunity for us, Cigna-HealthSpring was recently recognized for driving differentiated care quality and customer satisfaction, placing in the top 3 out of 10 national competitors in the latest J.D. Power customer satisfaction rankings. And with strong underlying performance in HEDIS clinical quality and CAHPSs customer satisfaction measures, our overall corporate stars rating rose to 4.5 stars for 2020. In addition, I would remind you that 76% of

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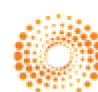

our Medicare Advantage customers will be in plans with 4 Star or higher in 2020. Each of these examples speaks to Cigna's ongoing innovation and investment to deliver differentiated value and to drive sustained growth.

Looking ahead, through our combination with Express Scripts, we will accelerate our ability to improve affordability and choice, expand our distribution reach in addressable markets, and further strengthen predictability for our customers, clients and partners. Additionally, given the rapidly changing and dynamic marketplace, we will be well positioned strategically, aided by outstanding financial flexibility. Relative to strategic flexibility, our open architected model, which emphasizes capital-light partnerships and broad choice for customers and clients, strengthens our delivery system relationships, encourages innovation and leverages synergies across our commercial, government, health services and international businesses, all in a capital-efficient manner. As a result, Cigna will be even better positioned to deliver differentiated value for our customers, our commercial and health plan clients and governmental agencies. We will also leverage the strength of our combined company to deliver a medical cost trend that is in line with the Consumer Price Index by 2021, a level we believe is sustainable for society.

Now, I'd like to provide you with some specific regulatory and integration planning updates regarding our pending combination with Express Scripts. In September, we secured permanent financing for our combination and the U.S. Department of Justice cleared our transaction. At a state level, we continue to make very good progress, achieving 23 approvals with 6 approvals remaining, and we continue to expect to close the transaction by the end of the year. Relative to integration, our planning teams continue to work collaboratively and are making strong progress in actively preparing our combined company to deliver on our promises to the marketplace in 2019. Each of our 11 integration streams are on track and our combined team of approximately 1,000 coworkers continues to collaborate and drive our plans forward, keeping a keen eye on our customer and the value for our customers and clients.

In September, we announced our enterprise leadership team for the combined company. I have tremendous confidence in these highly accomplished leaders who are poised to advance our strategy and serve as champions for our customers, clients, coworkers and communities. Upon closing, our combined company will operate from a position of considerable strength as we move forward with 4 well-positioned growth platforms, comprising our commercial, government, health service and international businesses.

Turning our attention briefly to our initial outlook for 2019. We expect once again to deliver attractive financial performance and are excited by the opportunities that are in front of us. We expect continued organic growth of revenue, earnings and customers over our increased 2018 outlook driven by our well-positioned commercial, government and international businesses. As we step into 2019, there were 2 headwinds I'd like to call out. First, we have delivered particularly strong performance this year in our U.S. individual business, with margins in excess of our target levels. In 2019, we expect to achieve margins more in line with our long-term expectations for this business. This represents an approximate $100 million after-tax earnings headwind as we step into 2019. And second, while we have recognized significant favorable prior year development in 2018, for planning purposes and consistent with our past practice, we do not expect this to occur in 2019. We expect to more than offset these 2 headwinds with a number of tailwinds such as continued growth in our customer base including Medicare Advantage; further expansion of relationships through our specialty products; and continued growth in our International and Group Disability and Life business. We also expect to achieve step function growth in revenue and earnings through our combination with Express Scripts.

As a combined company, we expect to continue to drive strong margins and free cash flows, enabling us to rapidly reduce debt levels and continue reinvesting in capabilities, all while having additional capital available for deployment. All in, we are very well positioned for an attractive 2019 from both a revenue and EPS growth standpoint and remain on track to deliver our 2021 EPS commitment of $20 to $21 per share.

Now to summarize a few key points before I turn the call over to Eric. Cigna once again delivered outstanding results in the third quarter with substantial customer, revenue and earnings growth and strong execution across our business segments. Taken together, our continued momentum gives us confidence we will achieve our increased 2018 outlook. Looking ahead to 2019 and beyond, we are well positioned to continue to deliver attractive financial performance, and this will be further accelerated through our combination with Express Scripts for the benefit of our customers, clients and shareholders.

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

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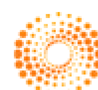

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Thanks, David. Good morning, everyone. In my remarks today, I will review key aspects of Cigna's third quarter 2018 results and provide an update to our full year outlook. I will also discuss our capital position and free cash flow generation, which remain very strong and will be meaningfully enhanced through our pending combination with Express Scripts.

Key financial highlights in the quarter are consolidated revenue growth of 9% to $11.5 billion; consolidated earnings growth of 32% to $945 million; quarterly earnings per share growth of 36% to $3.84; and continued strong free cash flow and financial flexibility. Our results this quarter and year-to-date reflect effective execution of our focused strategy and underscore strong fundamentals across our businesses.

Regarding our business segments, I'll first comment on Global Health Care. Third quarter operating revenues in Global Health Care grew 12% to $9.1 billion, driven by commercial customer growth and expansion of specialty relationships as well as premium growth, reflecting underlying cost trends. We ended third quarter 2018 with 16.3 million global medical customers, an organic increase of 363,000 lives year-to-date, led by growth in our Select, Middle Market, Individual segments. We continue to win in the marketplace, growing in both risk and ASO funding arrangements as our industry-leading trend results continue to resonate with the market.

Third quarter earnings increased 40% to $804 million, reflecting growth in Medical and Specialty customers, continued effective medical cost management, favorability in our U.S. Individual business and a lower tax rate compared to 2017.

Turning to our medical care ratios. Our third quarter 2018 total commercial medical care ratio, or MCR, of 76.3% reflects ongoing strong performance of our Commercial business, which delivers highly customized and fully integrated solutions that enable better management of total medical costs, better-than-expected results in our U.S. Individual business and the pricing effect of the resumption of the health insurance tax. Our third quarter 2018 total Government MCR of 80.7% reflects strong execution in Medicare Advantage. Third quarter 2018 Global Health Care earnings included favorable prior year reserve development of $19 million after-tax.

Moving to operating expenses. For third quarter 2018, our total Global Health Care operating expense ratio was 23%, which reflects ongoing investments in growth and innovation, continued effective expense management and the impact of the return of the industry tax. Overall, our Global Health Care business delivered very strong results in the third quarter.

Turning to our Global Supplemental Benefits business. Operating revenues grew 11% to $1.1 billion. Third quarter 2018 earnings were $93 million, reflecting continued strong margins and ongoing disciplined operating expense management, partially offset by some unfavorable claims experience. For our Group Disability and Life segment, third quarter operating revenues grew to $1.1 billion. Third quarter earnings in our group business grew 37% to $100 million, reflecting continued solid performance in both Disability and Life and a lower tax rate. Overall, as a result of the continued effective execution of our strategy, our third quarter results reflect strength across each of our business segments as we delivered strong revenue and earnings growth.

Now I'll turn to our outlook for 2018. For full year 2018, we now expect consolidated revenues to grow approximately 8.5% over 2017, an improvement of 50 basis points versus our prior expectations. Our outlook for full year 2018 consolidated adjusted income from operations is now in the range of approximately $3.49 billion to $3.54 billion or $14.20 to $14.40 per share. This reflects an increase of $0.50 to $0.60 per share over our previous expectations and represents per share growth of 36% to 38% over 2017.

I'll now comment on the components of our increased full year 2018 outlook, starting with Global Health Care. We now expect full year Global Health Care earnings in the range of $2.97 billion to $3 billion, reflecting continued strength in both our Commercial and Government businesses. Key assumptions reflected in our Global Health Care earnings outlook for 2018 include the following: regarding global medical customers, we continue to expect an increase in the range of 400,000 to 500,000 lives over year-end 2017, reflecting the strong growth we've seen across our commercial market segments.

Turning to medical costs. For our total U.S. Commercial Employer book of business, we now expect full year medical cost trend to be in the range of 3% to 4%, an improvement of 50 basis points versus our previous expectations. I would remind you, this is the second time

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this year that we have lowered our already industry-leading medical cost trend outlook for 2018.

Now moving to our medical care ratio outlook. For our total Commercial book of business, we now expect the 2018 MCR to be approximately 77%, an improvement of 50 basis points versus the midpoint of our previous expectations. For our total government book of business, we now expect the 2018 MCR to be approximately 82.5%, an improvement of 100 basis points versus the midpoint of our previous expectations.

Regarding operating expenses, we now expect our 2018 Global Health Care operating expense ratio to be approximately 23%, consistent with the midpoint of our previous range of expectations. For our Global Supplemental Benefits business, we continue to expect strong top line growth and now expect earnings in the range of $400 million to $410 million. Regarding the Group Disability and Life business, we now expect full year 2018 earnings in the range of $340 million to $350 million.

And regarding our remaining operations, that is Other Operations and Corporate, we continue to expect a loss of $220 million for 2018. So all in, for full year 2018, we now expect consolidated adjusted income from operations of $3.49 billion to $3.54 billion or $14.20 to $14.40 per share. This represents an increase of $0.50 to $0.60 per share over our previous expectations. This increased outlook reflects consistent ongoing execution of our strategy across our businesses. As David discussed, this is driven by a relentless focus on customer needs and the key levers of affordability and personalization, and by our ongoing innovation and investment for sustained future value creation. I'd also remind you that our outlook continues to exclude the impact of additional prior year reserve development or any future capital deployment.

Now moving to our 2018 capital management position and outlook. 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. In September, we completed our debt offering to finance the proposed combination with Express Scripts, resulting in $19.9 billion in net proceeds. Excluding those proceeds, we ended the third quarter of 2018 with parent company cash of $1.3 billion. After considering all sources and uses of parent company cash and excluding the debt issuance proceeds, we now expect capital available for deployment to be approximately $3 billion in 2018.

As a reminder, in the first quarter of this year, we deployed approximately $130 million of parent company cash to repay current maturities of long-term debt, and we repurchased 1.3 million shares of stock for approximately $275 million. As previously discussed, we do not expect to conduct additional share repurchases prior to the closing of the Express Scripts transaction. Looking ahead, our pending combination with Express Scripts greatly enhances our strategic and financial strength and flexibility, enabling us to accelerate our ongoing investments in market-leading capabilities and to deploy capital to drive additional growth and value creation.

Additionally, as David noted, we are making good progress in our planning for the integration with Express Scripts, and our work to date has reinforced our confidence in achieving the targets we have set for the combined company. We're excited for the capabilities our combined company will have to enhance affordability and predictability for our customers and clients and to create differentiated value for our shareholders. As communicated previously, following the closing of the combination with Express Scripts, our top capital priority will be to reduce leverage to a debt-to-capital ratio in the upper 30s within 18 to 24 months. Even during that period, we anticipate having meaningful additional capital available for ongoing investment in innovation as well as capacity for strategic M&A and/or returning capital to shareholders.

Now to recap. Our third quarter 2018 consolidated results reflect strength and momentum in our diversified portfolio of global businesses and continued effective execution of our strategy. The strong fundamentals of our business continue to drive these results, which reflect strong revenue and earnings contributions from each of our business segments, innovative solutions and differentiated capabilities that create value for our customers, clients, health care partners and communities, industry-leading medical cost trend and high clinical quality and continued strong free cash flow.

Based on the strength of these results, we are confident in our ability to achieve our increased full year 2018 earnings outlook, and we are well positioned to continue to drive innovation, growth and value in 2019. We look forward to accelerating our growth strategy and expanding our capabilities through the Express Scripts combination and delivering on the very attractive financial commitments we have

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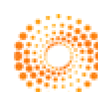

established for the combined company.

And with that, we'll turn it over to the operator for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Steve Tanal with Goldman Sachs.

Stephen Vartan Tanal ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

I just wanted to ask (inaudible) we're probably mostly if not all the way through, kind of the commercial selling season, how you guys fared and if that's sort of embedded in the comments around growing enrollment into '19. Thinking about both group ASO as well as the rest kind of commercial side primarily.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Steve, good morning, it's David. So relative to 2018, generally speaking, correct. We're through the '18 selling season, I would note that for one of our critical growth segments, Select, it's busy season until December 31. So there is activity throughout the course of the year and additionally, obviously, we're deep and almost complete through the national account selling season for January 1, 2019. Big picture, we feel great about the results we delivered for 2018. Our results are first driven by outstanding client retention levels, our continued ability to deepen our relationships with our proven specialty services portfolio and then sustain new business wins, and we expect that will continue into 2019 based on what we're seeing more broadly for our portfolio, and we've not seen any major change in trend from what we're realizing in 2018 versus the early look to 2019.

Stephen Vartan Tanal ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Great. That's helpful. And just noticing your results kind of since the deal was announced, obviously, really strong numbers from you guys. Solid numbers from Express as well. So I'm curious if you can give us sort of your latest thoughts on where debt-to-cap ends at the end of the transaction and the cash generation that you're now thinking about post-close relative to your initial expectations, and maybe just as a follow-up to that, how are you all thinking about most recently kind of the use of those proceeds? What I mean by that is the run rate going forward, when your cash generation kind of steps up pretty meaningfully. Should we be thinking about buyback over M&A? Or any sort of latest thoughts on where you might look next to grow the business?

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Steve, it's Eric. Just a couple of comments. So overall, in terms of at the closing, we expect the debt-to-cap ratio to be around 50% or a little bit favorable to that, 49% in terms of at the point of closing and consistent with our prior comments, we'd expect to use capital to deleverage the organization over the first 18 to 24 months. Really no change in terms of approach. As you noted, we're delighted with the strength of the Cigna results and nothing has changed in terms of our thinking as it relates to the Express Scripts results and how we'll use the strength of those results in the first couple of years in the transaction. Let me -- maybe I'll ask David to comment on just any other broader comments from a strategic deployment over the longer term.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Steve, our priorities remain the same relative to capital deployment above and beyond. So I'll remind you what they are, the priority to ensure the business is properly capitalized for both growth and the regulated entities as well as capex for ongoing innovation, and we have a strong track record of doing so, pursuing strategic and financially attractive M&A, and then returning excess capital to shareholders historically predominantly through share repurchase. And as Eric noted in his prepared remarks, additionally, I would just highlight the fact that we're well positioned for '19 and '20 during that rapid debt pay-down to be able to achieve the debt pay-down as well as serve the business needs and have additional capital available for deployment. And then to the tone of your question, a significant step-up in 2021 free cash flow, which is just a tremendous shareholder value creation accelerator for us.

Operator

Our next question comes from Zack Sopcak with Morgan Stanley.

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Zachary William Sopcak ***Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team***

So I wanted to ask, Express last week put out a new benefit design for one of the coalitions that -- which allowed transparency, pay for performance. Sounds like something that aligns well with Cigna's customer base. Just curious your thoughts on that and how you think about the opportunity of that product is going forward.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Zack, good morning. It's David. Express has a very good track record of ongoing innovation and I think you should look at that as an indication of evolving capabilities based upon current and projected market needs and indicative of what we'll be doing more together because the notion of transparency, value-based performance, aligned incentives and then further integration of programs that leverage the whole person through the pharmacy, behavioral, clinical programs. But I think it's an exciting step forward and indicative of a really powerful set of capabilities that Express has on a stand-alone basis so it'll just be further augmented when we're together to drive further transparency, further value-based relationships and targeted integration.

Zachary William Sopcak ***Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team***

Got you. And then just quickly on your Stars improvement. What do you think were the main factors that were driving that improvement? And I guess, how do you think the opportunity to continue to improve those ratings going forward?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

So Zack, thanks. First, we're really pleased, well positioned for '19 with the Stars positioning well in excess of 70%, step up further in '20 to 76%, 4 plus. The corporate rating of 4.5 stars is critical for 2020, as you know, that represents the Stars rating that will be used for new market openings, and we have great opportunity from that standpoint. There's not one driver that I would point to as I noted in my prepared remarks. There's really strong balanced performance both in the clinical quality performance as well as the customer satisfaction and service quality. I think if you were to intersect the 2, our sustained execution, coupled with our deep partnership relationships with health care professionals, is helping to demonstrate just sustained delivery as well as continued improvement, and we couldn't be more excited about our '19 and '20 positioning.

Operator

Our next question comes from A.J. Rice with Crédit Suisse.

Albert J. William Rice ***Crédit Suisse AG, Research Division - Research Analyst***

First question about the reduction in the expectation around cost trend and obviously that had some implications for the MLR guide as well. You already, as you mentioned, have one of the -- have the lowest expectation around cost trend you're reducing. Again, what did you see in the last quarter or so that brings you to a reduction? Is there any particular blockades that are -- you're seeing in the outperformance there? Is it market, or is it -- your initiatives that you think are driving this?

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

A.J., it's Eric. Our trend results, I'd say at a macro-level, reflect the power of the integrated model and the effectiveness we have of aligning incentives across our clients, our customers and health care professionals, and that's been consistent for some time. I would remind you that we've got 85% of our commercial -- U.S. Commercial customers in self-funded arrangements, so this cost trend really directly benefits them and ultimately, it's their dollars and that we're able to manage well for them. Relative to the specific categories, I know each of inpatient, outpatient, professional, pharmacy, each one of those are lining up to be somewhere in the, I'll say the 2% to 4% range this year, so each one of those categories in that range is not one category, I'd call out has particularly changed, they're driving the results. But overall, the total package and the total strength of our offerings bring it back to that 3% to 4% trend result that we talked about and just continued strong execution there.

Albert J. William Rice ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. I know in the prepared remarks, I think, in terms of talking about tailwinds you said that you expect to see growth in MA next year. CMS came out and said that they thought the overall market might grow as much as 11.5%. Is there any way to sort of bracket, if you think you'd grow more in line with the market, whether you think it's 11.5% or not? Or should we see acceleration in performance, I guess, next year? Can you put any brackets around that? And I guess, also part of that is, I'm surprised when you talk about the tailwinds for

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next year, the HIF as particularly in MA but maybe also in timing the HIF more, I would have thought that was a tailwind. Do you not think that's a tailwind?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

A.J., it's David. So 2 questions. Let me take the second question first. A small tailwind is what we look at it relative to the book of business, order of magnitude about $50 million for the enterprise on an after-tax basis. And as you know, our -- the impact and the HIF to our portfolio versus some of our peers based on the mix of our businesses is different. Specific to MA, we're excited about the outlook for 2019. I would remind you that our strategic goal for MA is to grow that book of business in the high single-digit revenue range. Also remind you that as we compete and deliver significant value in the individual MA marketplace, not in the group MA marketplace. So we're very excited about the growth opportunity as we look forward for 2019. And as I noted to a prior question, we're really well positioned for 2020 as well with further step-up in Stars from our current point of strength about 72% to 76% and a corporate Star rating of 4.5 Stars for new market entrée. So very attractive positioning for '19 and '20, and our team is excited about that.

Operator

Your next question comes from Kevin Fischbeck with Bank of America Merrill Lynch.

Kevin Mark Fischbeck ***BofA Merrill Lynch, Research Division - MD in Equity Research***

Just wanted to get a sense from you, how your customers and brokers are thinking about the combination with Express. Are you getting the early feedback about whether the right composition that you guys articulated to The Street is starting to resonate at all with the customer base?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Kevin, it's David. Obviously, the marketplace is -- will always be in a wait-and-see mode. But the tone I would give you relative to our clients and our book of relationships is, indeed, a positive one. So it's off of a base in an environment whereas Eric referenced, we have a sustained track record of delivering market-leading medical cost trend. Pharmacy is a contributing factor to that as he just referenced in 2018, all of our cost categories are in the 2% to 4% range including pharmacy. The marketplace sees this combination positively because of the ability for us to further strengthen that value proposition for the benefit of, in that case, our integrated proposition for our clients and customers is very positive. For example, tapping into Express' market-leading and differentiated specialty capabilities is an outstanding opportunity, high value to our clients and customers and I might add, high value to our Collaborative Accountable Care relationships. So we're excited to step into '19 with the expanded capabilities and our clients are optimistic that we'll see a further step-up off the strength that we're already realizing today.

Kevin Mark Fischbeck ***BofA Merrill Lynch, Research Division - MD in Equity Research***

Okay. I guess, maybe going back to the capital deployment question. Is there something, I guess, structurally because obviously, this is a huge transaction for you guys where you say you would be out of large M&A for a certain period of time before you'd be ready to get in and how long do you think that it takes to integrate Express before you think about doing the next deal of size?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

So, Kevin, it's David. I'm not going to give you a time frame, I'm not going to give you a date certain in terms of when we will or will not act or transact. The company has a very clear track record of being quite disciplined in terms of being, first, an appropriate capital steward as well as making very deliberate decisions that are on strategy, clear, and are financially attractive on a go-forward basis. Over the immediate term as they're articulated, our capital priorities are quite clear, ensure our business is positioned for continued growth. We're very well positioned from that standpoint. Two, aggressively pay down our debt levels in the first 18 to 24 months. Our free cash flows will be well positioned for that, and we have capacity even within that for further deployment as we look beyond that window, we're going to have tremendous capital flexibility and the business will be well positioned to be on our toes obviously from a large-scale standpoint as we look forward to further conversations on that matter as we go forward with you.

Operator

Your next question comes from Justin Lake with Wolfe Research.

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Justin Lake ***Wolfe Research, LLC - MD & Senior Healthcare Services Analyst***

First question is, I want to circle back, David, on your 2019 commentary. So you gave us some headwinds on the exchanges, in PYD, the tailwind on the HIF kind of outside the norm. And then, if we exclude all those, is it reasonable to expect that the company will deliver earnings growth in the 7% to 9% long-term target range that you kind of highlighted at this time last year?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Justin, good morning. We're obviously not providing detailed guidance for 2019. Look forward to doing so as you know and what you articulated, that's our strategic goal and our strategic target on average over time, and we have a great track record of delivering that. I think the big picture message that I'd ask you to take in and with the summary points you made is, we're delivering an outstanding 2018 even with the headwinds noted that we can adjust the baseline for, it's an outstanding 2018. We'll carry momentum into '19 on the core, and we'll have a tremendously accretive result with the Express combination. So I'd suggest stay tuned for more, but we feel really good about our positioning for 2019.

Justin Lake ***Wolfe Research, LLC - MD & Senior Healthcare Services Analyst***

Okay. And then on the individual business, I want to make sure I understand the headwind there. So I was hoping you could share a couple of things. One, first, I've got your premiums at about $2 billion, is that correct? And then after the reset that you're talking about here, can you tell us what the target range is for 2019 on margins? If I remember correctly, I think you said longer term, you expect this to be a mid-single-digit pretax business.

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Kevin, it's Eric -- or Justin, sorry, it's Eric. With respect to the premium level, it's actually a little higher than that, probably closer to $2.5 billion in terms of our total expected premium levels for 2018. And you're correct in your recollection with the margin we've said mid-single digits has been our target for this business over time.

Operator

Your next question comes from David Windley with Jefferies.

David Anthony Styblo ***Jefferies LLC, Research Division - Equity Analyst***

It's Dave Styblo in for Dave Windley. I want to take a look back at your 2021 EPS target of $20 to $21. I'm curious if you have an updated view on that from here. I guess, since announcing Express Scripts, you've raised 2018 guidance by over $1.60. So wondering if you see upside of the $21. Or alternatively, where would you propose to invest the $1.60 of outperformance over the next 3 years?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

It's David. Appreciate your question, I appreciate the optimism. As I noted in my prepared remarks, we feel confident and strong relative to $20 to $21 of EPS, which, when you step back and look at it from a jump-off standpoint, represents a growth trajectory that's at or above the high end of our commitment of 10% to 13% compounded over a period of time. I'd say stay tuned for more. We recognize the fact that the core Cigna business had this tremendous outperformance for this year, and we're proud of that. There's not a detailed plan to "reinvest" that number and as we go forward, we'll look forward to updating our outlook but for right now, the $20 to $21 remains our commitment, our target, and we're fully focused on delivering that for 2021.

David Anthony Styblo ***Jefferies LLC, Research Division - Equity Analyst***

Okay. And a follow-up just on the individual book. Can you update us on your 2019 exchange plans? At some point, I think during the second quarter, you'd talked about evaluating some of the regulatory changes that were happening and how that might affect your footprint and strategy. Curious what the updated view is for your expansion plans or not in '19 as well as why mid-single-digit margins is sort of the right target there, we're seeing some peers deliver above that seemingly on a sustainable basis. So why is mid-single digit versus something like a higher single-digit margin not the right level to think about?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

So it's David. Two questions there. First, relative to '19, we will carry strength out of 2018 as I noted before, we're in 6 states for 2019. We had evaluated our footprint in totality as you noted. We concluded to remain in those 6 states plus an additional state, that specifically is

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Arizona. Additionally, our view is that the marketplace for the individual exchange business is more competitive in 2019 than it had been in '17 or '18. As you look at the environment, there's more competitors entering the space, hence, we will be well positioned in those 7 states, but we're actually projecting for a little compression in our overall number of lives that we're serving in 2019, and we're projecting that we will deliver toward the higher end of our strategic range, which as articulated is mid-single-digit margins. We think that's a responsible margin, a sustainable margin, great value proposition back to our customers. We're working very closely with our value-based providers in terms of overall clinical quality and having a responsible return from a shareholder perspective. So we think that the mid-single-digit margin is a responsible margin and capital-friendly margin but also sustainable margin and margins above that are not sustainable.

Operator

Your next question comes from Josh Raskin with Nephron Research.

Joshua Richard Raskin ***Nephron Research LLC - Research Analyst***

Question on MA growth for 2019 just looking at some of the CMS filings, it looks like there's relatively modest county expansion. And understand that you guys have gone through some sanctions and other changes, et cetera, but is that really just a function of the model, the deeply integrated clinic-based model that you guys use for most of your markets in Medicare Advantage? Just being a little bit more difficult to grow very, very quickly, right? You got to be much more targeted or is it just where we are in time and expect a bigger sort of jumping off point or bigger expansion in 2020? And then just a follow-up on the cash flow. It looks like there was some timing issues. I was wondering, maybe, Eric, you could just lay out any of the puts and takes understanding that the full year number is still very strong, but the third quarter number was a little bit lower than we were looking for.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Josh, it's David. And to your point, I'll take the first question, I'll ask Eric to take the cash flow question. I think you hit the nail on the head. So I appreciate the way you framed the question. It's more of the latter not the former, specifically, tremendous focus on that business. You can see the tremendous focus resulting in the outstanding Stars performance as well as public recognition for the performance of that business in the top 3 of the J.D. Power survey among our financial competitors, so we feel great about that. It was targeted and very disciplined in terms of expansion, in terms of some adjacent counties and one new market for 2019 with a view and the positioning that there will be a larger expansion in 2020. So we view it as disciplined, view it as ramping and view it as we love the strength of what we're carrying into this in terms of sustained execution, Stars rating in the existing markets, corporate Stars rating of 4.5 Stars to be able to carry forward so building momentum going into 2020. Eric, on cash flow?

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Yes. The cash flow, Josh, really is just the timing of the receipt of the government reimbursement and such, actually, I think this quarter played out the same as the third quarter last year in terms of overall kind of timing payment that we recognized in the fourth quarter versus the third quarter. But really nothing else to call out there.

Joshua Richard Raskin ***Nephron Research LLC - Research Analyst***

So it will reverse in the fourth quarter, 4Q will be sort of abnormally high, is that the way to think about it?

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

All else equal, we're not giving specific guidance in the fourth quarter cash flow. It's always ebbs and flows and such there, but all else equal, yes.

Operator

Our next question comes from Ana Gupte with Leerink Partners.

Anagha A. Gupte ***Leerink Partners LLC, Research Division - MD of Healthcare Services & Senior Research Analyst***

So with the DOJ approval of the 2 deals and the states looking pretty good as well. The Select ending in December 31, can you give us a sense of the timing that you might be facing in the administrative savings in '19? And as you're going through the selling season for Select, are you actually positioning this go to market with Express with your pricing and messaging to drive cross-selling right now for '19?

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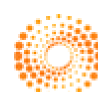

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Ana, it's David. First, we expect, to be clear, we expect and are planning to and on track to close this year. Second, as it relates to the synergy capture for the benefit of the shareholder part of the proposition, as Eric has articulated in the past, that $600 million before tax is planned to be realized over a 4-year period of time somewhat ratably, so we would assume that '19 is our first year. It's a ratable attribution of that benefit from a shareholder standpoint. As it relates to our go-to-market proposition, our #1 strategic imperative guiding our integration planning is to ensure that both companies remain in position and are on their toes relative to delivering on the 2019 promises and well positioned for 2020. So you should take that as it's a business as usual intense focus and execution for the benefit of both existing clients and new clients that are being added by both franchises. And as we augment through the year, there will be enhancements of the value proposition that will take place on a phased notion. And lastly, I appreciate you asking equivalence of Select because, per your inference, everyday is busy season there so as we ramp in some of the value creation, the value capture for the benefit of clients and customers, we'll be able to represent that in part through that segment on a go-forward basis. But January 2019 looks a lot like January of 2018 with intense focus and value delivery for clients and customers for both companies.

Anagha A. Gupte ***Leerink Partners LLC, Research Division - MD of Healthcare Services & Senior Research Analyst***

And just to follow up on that, what are your competitors doing? Either the nationals or the blues in terms of their messaging on integrated medical and pharmacies that's getting louder? And are they possibly coming in more aggressively with self-insured post-op loss to compete in Select?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Ana, I think as it relates to the value proposition, clearly, that's a question for you to probe competitor by competitor and then submarket by submarket. But more broadly, it is very clear in the marketplace through whether you look at governmental-led pilots through the Medicare alliance whether you look at through the successful value-based care relationships that exist or whether you look at it in terms of the evolving demand of employer clients from a more integrated approach, which is not a cross-sold or a bundled approach but a more integrated approach that addresses the whole person, understands the need of the whole person and connects the mind and body, the behavior, the lifestyle, the clinical, and partner up with the health care professional, that is a more winning proposition day in, day out, that yields a better cost outcome but it's a better cost outcome from a better quality outcome. So I'd say a more consistent mantra relative to that in the marketplace. As it relates to ASO, there's been a consistent trend for years now as it relates to the marketplace, embracing more transparency and demanding more transparency through a variety of lenses and ASO is a mechanism to do so. And as you know from prior conversations, one of the reasons why we've been so passionate about ASO is transparency presents an opportunity for alignment, alignment presents an opportunity for speed of shared execution, which is what's necessary. So those trends are consistent but just to amplify it, yet again, integration is different than bundling or cross-selling, it's truly integrating around the whole person, the information flows, the incentives, the benefit designs with the clinicians and we see that continuing to grow, and we're well positioned there.

Operator

Your next question comes from Ralph Giacobbe with Citigroup.

Ralph Giacobbe ***Citigroup Inc, Research Division - Director***

Maybe just an update on penetration of the specialty book. I think you mentioned the expansion of that kind of this quarter. So I was hoping you can give some more details there. And then are there still service lines that you're not in that you can provide additional opportunity? Or are there offerings largely set across specialty?

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Ralph, it's Eric. I'll start on the penetration. The overall, I think the headlines here are just consistent execution in terms of us continuing to both innovate additional offerings and touchpoints within our specialty programs and increase the penetration rate of our specialty programs across all of our segments. Again, each market segment has a little bit different set of needs, and so we have to be focused in how we develop those solutions across the market. But again consistent execution in terms of innovation and then continuing to penetrate the market segments with those, again, I think, we've had a nice track record of that and continue to have opportunity to progress in that space. David, maybe he'll take the other part of your question.

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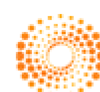

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

And, Ralph, as I heard you correctly, when you said service lines, you call it back to the specialty programs, so I appreciate that. The way that -- as you think about that is, I would not think about it through the lens of 3 to 5 product offerings. That chapter is long since gone in the past. When you think about it today in the existing Cigna portfolio of 20 to 25 different programs or service offerings that our client management or clinical staff could offer for a client based upon their unique needs, health burdens, change objectives, et cetera, and we would see that has continued to evolve and expand and further accelerate, candidly, with the addition of Express Scripts and eviCore to the Cigna portfolio. So we see an evolution through sustained innovation. There's not any one item where we say, we're gapped by any stretch of the imagination but you continue to evolve some programs and services and that's in part as we've articulated before, how we were able to deliver industry-leading medical cost trends 6 years in a row now.

Ralph Giacobbe ***Citigroup Inc, Research Division - Director***

Okay, that's helpful. And then just a follow-up. You announced some management changes including the departure of Chris Hocevar and bringing back Matt Manders. So I was hoping you could talk about the change in structure in the organization kind of past the Express deal. And then in your prepared remarks, you mentioned 4 segments. Just hoping you could flesh that out in terms of, is that a reorder or how do we think about that on a go-forward basis?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

So Ralph, on the second question first on the 4 segments, stay tuned for more. It's not a reorder, it's a positioning of 4 platforms and the respective capability based upon go-to-market, client needs and diversified -- focus with diversified value propositions so stay tuned for more as we complete the combination, the way we'll bring forward our reporting visibility and dialogue with you would be centered from that standpoint. As it relates to the leadership team, we're delighted to announce the enterprise leadership team as the inevitable closure to the transaction drew closer, the positioning of that leadership team has very focused go-to-market P&L leaders, has a large strategy and solutions organization that services capabilities across all of our operating segments and then has functional leaders in support of the corporation. We're also delighted with the fact that we're able to not only previously announce that Tim is staying on with the corporation but Dr. Miller from Express Scripts is the Chief Clinical Officer for the combined corporation. And then lastly, I would note is, we were able to announce about a week ago, Tim's leadership team for his business portfolio, which will have tremendous continuity of proven business leaders for the benefit of that business. From Everett Neville; to Dave Queller; to Brian, he runs the specialty business; to Glen, who is the Chief Innovation Officer; et cetera, et cetera. So we could not be more excited with the leadership in place at the enterprise level and for the key business units on a go-forward basis. And we're ready to close and get on with execution.

Operator

Your next question comes from Gary Taylor with JP Morgan.

Gary Paul Taylor ***JP Morgan Chase & Co, Research Division - Analyst***

Two-part question. The first one is kind of a victim-of-your-own-success question and you've covered a little bit of this in terms of year-to-date outperformance and how that might impact some of the forward guidance you've already given. But the question is this, when we think about 2018, your guidance now is 12% to 15% better than at the beginning of the year. And it looks like roughly half of that is a little bit of repurchase, the PYD and then some of this individual market outperformance. And I'm just wondering, is there anything else besides just broad outperformance or general outperformance on utilization management and cost trend that you would attribute the other portion of the year-to-date upside to, or something you want to call out a little more?

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Gary, it's Eric. You have really hit the headlines there in terms of the things that we'd call out. I would just note, we've got really strong performance in each one of our business segments and ahead of expectations in each one of the business segments driven by fundamentally solid execution and better cost management both in terms of medical costs as well as continued disciplined expense management and such. But again, just overall really strong execution.

Gary Paul Taylor ***JP Morgan Chase & Co, Research Division - Analyst***

Okay. If I could just follow up. We've heard more about, at the state level, Medicaid plans, carving in behavioral. And when we look at your enrollment, you've got 16 million medical, 27 million behavioral, I guess I was under the impression most of your behavioral business

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was with your commercial customers or other commercial players obviously, you have a small Medicaid book but -- so the question is, is this trend towards carve-in by the Medicaid HMOs... - does that have any measurable impact on your outlook for your behavioral specialty enrollment that resides outside of Cigna?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Gary, it's David. The simple answer is, we believe, yes. The marketplace by the day is seeing that the broader definition of behavioral services in terms of the health and well-being, broader definition inclusive of the core in terms of core behavioral health, mental health, substance abuse issues, the demand for those services continues to grow. The proof points relative to societal and individual value creation continues to grow and then the opportunity to drive targeted integration of clinical programs and outreach programs with individuals, along with physicians continues to grow. So appreciate you calling out the numbers. We have a significantly larger behavioral book than we do medical book and both through market forces as well as the combination we have with a broader health service platform in the corporation we see tremendous growth opportunities here over time.

Operator

(Operator Instructions) Our next question comes from Steven Valiquette with Barclays.

Steven J. James Valiquette ***Barclays Bank PLC, Research Division - Research Analyst***

So I guess, over the past few months, it's been fairly obvious that the investor sentiment around the pending Express Scripts merger changed dramatically for the better once the Express Scripts' dollar amount of drug rebate retention was disclosed. So it might be a little bit preliminary to ask this question. I guess, I'm just curious if you're at least considering disclosing the overall Cigna Express combined retained drug rebate dollars maybe on a more regular basis going forward once the merger's complete, just given that transparency in this metric seems to drive better valuations just to investor sentiment.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

It's David. Appreciate your comment. Number one, we always challenge ourselves to re-look at disclosure transparency, et cetera, and we're pleased and proud with the amount of transparency Cigna delivers as part of our ongoing communications with you, our shareholders. Just one item I would point out specific to the Cigna stand-alone portfolio today, as you know, our orientation is a highly integrated orientation. So our clients purchase a package of goods and a package of services and hold us accountable for delivering in integrated outcome that delivers tremendous value to them. And we're able to dynamically manage medical programs, behavioral programs, pharmacy programs, wellness programs, incentive-based behavior modification programs on behalf of our clients and customers. So as we continue to challenge ourselves over time, find it a little bit more difficult to parse any one subcomponent out because we've truly worked to drive that integrated proposition. Having said that, we always challenge ourselves in terms of how do we get the optimal level of constructive transparency and as we look into 2019, stay tuned for more.

Operator

Our next question comes from Matthew Borsch with BMO Capital Markets.

Matthew Richard Borsch ***BMO Capital Markets Equity Research - Managed Care and Providers Analyst***

My question is on your target, your pledge to reduce medical trend. I think you said to CPI, the general CPI level. So my question about that, how can you fix to that target when much of that is out of your control because the self-insured employer customers are making the decisions about how to change benefits, and maybe which medical management programs to apply and how aggressively?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Matthew, it's David. First, nice to bring your attention back to that, that strategic goal, pledge and objective. Number one, as you've seen, we've been successful relentlessly working to reduce the rate of medical cost growth while simultaneously managing and helping to coordinate outstanding clinical quality and service quality results. 2017, our medical cost trend was below 3% as Eric articulated, we're in the 3% to 4% medical cost range right now and we see further opportunity going forward. Secondly, as noted in my prepared remarks, we believe that, that is a society sustainable level, and we need to work every angle to be able to achieve that with the appropriate clinical quality and service quality. Lastly, to your point but take a little different angle, with commercial clients, working hand in glove now on a consultative basis with commercial clients is how it's achieved, how we've achieved what we've delivered to date is not by

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delivering a product and hoping for the best, it's working client-by-client, hand in glove, trying to get the benefit design, the network design, the clinical programs, the incentive design, the engagement programs designed properly for those clients and dynamically managing them in the year and then augmenting that with the same approach relative to the collaborative value-based physician relationships and given our progress to date, we believe that, that is the right strategic objective to have ourselves to push us to drive continued innovation, and we think it's the right objective to have societally.

Matthew Richard Borsch ***BMO Capital Markets Equity Research - Managed Care and Providers Analyst***

Just one follow-up, if I could. There's obviously a lot of validation for your capabilities from your customer base and the response. But we look to some competitors that maybe don't agree with your claim to have the industry-best trend. Is there any independent validation since that's a lot of that's in the self-insured bucket that we can point to on that front?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Matthew, it's David. Appreciate the tone of caution. We recognize that we operate in a competitive environment. I'd give you 3 items to consider. One, 6 years in a row of sustained delivery of the lowest medical cost trend; two, it's augmented with outstanding client retention levels. Remember 85% of our clients are ASO. They see the medical cost trends every month candidly the large ones, will see it weekly in terms of what plays through and our ability to work arm in arm, shoulder to shoulder to deliver this result is what demonstrates that. When you step back and think it through from that standpoint, the sustained results we've been able to deliver in our guaranteed cost business, albeit smaller, whether it's employer or individual base also reinforce that. And then lastly, just tactically coming back to, as Eric articulated in his prepared remarks in the Seniors business, we were able to systematically further improve our medical cost, our MLR, this year in large part driven by cost discipline, medical cost discipline but it's augmented with outstanding clinical and service quality. So we like our track record, we like the consistency in results and our ASO clients are the direct beneficiaries day in, day out of that.

Operator

Your next question comes from Sarah James with Piper Jaffray.

Sarah Elizabeth James ***Piper Jaffray Companies, Research Division - Senior Research Analyst***

So I'm going to stick on commercial cost trends here. I appreciate given Cigna's mix why you're reporting the blended ASO and risk book. I think the challenge is Cigna's only large insurer not to break out commercial risk cost trend alone. So maybe can you help us understand what the difference is in costs trends from accounts that you've held for a long time versus the first year or 2? And the order of magnitude of difference that you could experience between cost trends on a risk versus an ASO book.

Eric Paul Palmer ***Cigna Corporation - Executive VP & CFO***

Sarah, it's Eric. So as you think about the ASO versus insurer book of business, what we really tend to manage our medical cost the same across each one of the segments. And so I wouldn't call out over an extended period of time any difference in terms of the underlying cost trends in terms of our employers who choose an insured funding arrangement versus our employers who choose a self-funding arrangement again overall across the entire book of business, I wouldn't call it anything that's meaningfully different. There are programs that are effective in both of those funding arrangements and are attractive, and that's why we've been able to grow both of those funding arrangements. In terms of looking at kind of over time or newer clients versus those types of things, you tend to see, we build our effectiveness as we deepen our relationships and have additional specialty programs and things along those lines come into play. So as we work through the first couple of years of building relationships with clients, we tend to see our effectiveness pick up. But again, that probably will be the only other dynamic I'd call out in terms of differences and the kind of trend by different sizes of the book of business.

Sarah Elizabeth James ***Piper Jaffray Companies, Research Division - Senior Research Analyst***

Maybe I could look at it another way. You talked earlier about the ASO clients tending to want more transparency and that, that could lead to benefit design choices and consumers. And so maybe you could talk about it in that framework of how much potential to lower cost trend there is if your book would behave more like those ASO clients that are enhancing transparency and consumer.

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David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Sarah, it's David. As you think about in our employer guaranteed cost or in our employer experience rated book of business, we tend to take the same approach. Not only as Eric articulated very importantly from the way we coordinate clinical care, access, et cetera, as well as the way we've tried to seek to influence the benefit design. We're not passive in the risk dialogue and active in the ASO dialogue. We try to be active in the dialogue across the board because we want the best-sustained value for the employer clients. And I would remind you that historically, we've not competed in the legacy small employer book of business from a guaranteed cost standpoint that under 50 or -- and some say it's under 100 guaranteed costs. That has not been a backbone for the corporation where you might have more routine product design and rigidity to come forward. Rather even in the guaranteed cost standpoint or the experience rated the employers are multi-hundred like employers on average and hence, we have had active engagement from that standpoint. So I'd ask you to take that active dynamic into all the employer engagements, obviously varied employer by employer.

Operator

(Operator Instructions) Our next question comes from Peter Costa with Wells Fargo Securities.

Peter Heinz Costa ***Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst***

Just want to hear your views on what you think is smaller accounts, in your Select accounts that are going to be doing with the changes from the government regarding association health plans and regarding health reimbursement accounts as we get closer to 2020?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Peter, it's David. Yes, generally speaking, the small employers we're servicing through our legacy Select segment are employers that have 1 to 2 and therefore, see the value from their engagement with us to have a more actively engaged dynamically managed benefit design, clinical program design,engagement programs, et cetera. Hence, on average, they would be less desirous of going into an association health plan and losing control of the benefit design, their incentive design, their communication strategies and the transparency they benefited from. So the general direction rule of thumb. HRA expansion we call them the savings-based programs. That may create opportunity over time for further expansion in that market as part of the dialogue today and the further enhancements of those programs only slightly will somewhat enhance their value proposition on a go-forward basis, but I say client-by-client call. So I'd ask you to think about the kind of selection bias that exists within our portfolio of activated employer, embracing transparency, embracing communication, embracing incentive alignment with our employees will lend itself to more active dynamic management on a go-forward basis and less attraction to be in a pool where they lose some of that control, for example, an association health plan. Hope that helps.

Operator

Our final question comes from Charles Rhyee with Cowen.

Charles Rhyee ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Maybe I'll just switch gears a little bit. For -- David, in your prepared comments, you talked about Cigna Ventures and its pilot with Omada Health, and it's interesting to hear you along with your peers, talk about sort of digital capabilities. But, I guess, my question really is, first, with Omada, like how many employees are actually piloting this for you? And really how much interest are you getting from clients for these type of capabilities really making much of a differentiation in actual RFP activity and bidding and winning new business?

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Charles, it's David. Appreciate you coming back to that. We called out an example in the prepared remarks, so I would ask you to think that there are multiple examples and similar to a prior question that was asked in terms of the specialty services where I said, don't think about 3 or 4 specialty product categories, think about 20 to 25 service programs that we make available to our clients depending on what could deliver the best value for them and getting the right constellations of those. Specific to your comment here, I don't have the number front of mind, if you'd like the number, you can follow up and we'll give you how many are in the Omada pilot at the current course and speed. I can tell you it's growing and there is significant demand from clients. Secondly, that drives us to expand, for example, the Cigna Ventures program because it could accelerate on a targeted basis some of our innovation and since we are a partner of choice organization, we are open to partnering and working with others to create accelerated value. In some cases, it is a differentiator, so some of these types of services are differentiators as it relates to RFPs and demonstration of not theoretical value creation through digitization

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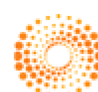

or innovation, but tangible value through digitization and innovation on a go-forward basis. And you should expect just to see more through a constant drumbeat of sustained innovation, we put the customer front and center, our willingness to partner, smart use of technology and align partnership with commissions on a go-forward basis and what we called out today in the prepared remarks is one very powerful example of that. Hope that helps.

Operator

At this time, I'm going to turn the call back over to David Cordani for closing remarks.

David Michael Cordani ***Cigna Corporation - President, CEO & Director***

Thank you. So as we wrap up our call today, I just want to reiterate some important points. First, Cigna delivered outstanding third quarter financial results, reflecting strong performance across each of our business segments. We generated substantial revenue and earnings growth, strong retention, expansion and addition of new customer relationships and continued industry-leading medical cost trend. Cigna's continued momentum across our portfolio of businesses through the first 3 quarters of 2018 gives us confidence we will achieve our increased 2018 outlook. At Cigna, we continue to be guided by our Go Deeper, Go Local and Go Beyond strategy to deliver differentiated value and to invest in ongoing innovation.

Looking ahead to our combination with Express Scripts, we will accelerate our ability to further improve affordability and choice, expand our distribution reach and addressable markets and further strengthen predictability for our customers, clients and partners. Additionally, given the rapidly changing and dynamic marketplace, we will be well positioned strategically aided by outstanding financial flexibility. As a result, we will be even better positioned to deliver differentiated value for our customers, our commercial and health plan clients and governmental agencies.

Before wrapping up, I want to acknowledge Cigna's more than 45,000 coworkers around the world who have remained focused and who have continued to deliver outstanding results as we have pursued our combination with Express Scripts. We also look forward to welcoming our new colleagues from Express Scripts once we close our transaction, which again we expect to occur by the end of this year. I thank you for joining our call today, and we look forward to our future discussions.

Operator

Ladies and gentlemen, this concludes Cigna's Third Quarter 2018 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 (866) 485-0032 or (203) 369-1606. Thank you for participating. We will now disconnect.

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