CIGNA CORPORATION
SECOND QUARTER 2010 INVESTOR TELECONFERENCE
PHILADELPHIA, PA
THURSDAY, AUGUST 5, 2010

DAVID M. CORDANI – PRESIDENT AND
CHIEF EXECUTIVE OFFICER

ANNMARIE T. HAGAN – EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

EDWIN J. DETRICK – VICE PRESIDENT,
INVESTOR RELATIONS

NOTE: CIGNA has made editorial changes to this transcript.

As used herein, “CIGNA” refers to CIGNA Corporation and/or its consolidated subsidiaries
CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

CIGNA Corporation and its subsidiaries (the “Company”) and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company’s filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management’s beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include but are not limited to the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends and, in particular, the Company’s productivity initiatives, litigation and other legal matters, operational improvement initiatives in the health care operations, and the outlook for the Company’s full year 2010 and beyond results. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe”, “expect”, “plan”, “intend”, “anticipate”, “estimate”, “predict”, “potential”, “may”, “should” or similar expressions.

You should not place undue reliance on these forward-looking statements. The Company cautions that actual results could differ materially from those that management expects, depending on the outcome of certain factors. Some factors that could cause actual results to differ materially from the forward-looking statements include:

1. increased medical costs that are higher than anticipated in establishing premium rates in the Company’s Health Care operations, including increased use and costs of medical services;
2. increased medical, administrative, technology or other costs resulting from new legislative and regulatory requirements imposed on the Company’s employee benefits businesses;
3. challenges and risks associated with implementing operational improvement initiatives and strategic actions in the ongoing operations of the businesses, including those related to: (i) growth in targeted geographies, product lines, buying segments and distribution channels, (ii) offering products that meet emerging market needs, (iii) strengthening underwriting and pricing effectiveness, (iv) strengthening medical cost and medical membership results, (v) delivering quality member and provider service using effective technology solutions, (vi) lowering administrative costs and (vii) transitioning to an integrated operating company model, including operating efficiencies related to the transition;
4. risks associated with pending and potential state and federal class action lawsuits, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging the Company’s businesses, including disputes related to payments to providers, government investigations and proceedings, and tax audits and related litigation;
5. heightened competition, particularly price competition, which could reduce product margins and constrain growth in the Company’s businesses, primarily the Health Care business;
6. risks associated with the Company’s mail order pharmacy business which, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
7. significant changes in interest rates and deterioration in the loan to value ratios of commercial real estate investments for a sustained period of time;
8. downgrades in the financial strength ratings of the Company’s insurance subsidiaries, which could, among other things, adversely affect new sales, retention of current business as well as a downgrade in financial strength ratings of reinsurers which could result in increased statutory reserve or capital requirements;
limitations on the ability of the Company’s insurance subsidiaries to dividend capital to the parent company as a result of downgrades in the subsidiaries’ financial strength ratings, changes in statutory reserve or capital requirements or other financial constraints;

inability of the program adopted by the Company to substantially reduce equity market risks for reinsurance contracts that guarantee minimum death benefits under certain variable annuities (including possible market difficulties in entering into appropriate futures contracts and in matching such contracts to the underlying equity risk);

adjustments to the reserve assumptions (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating the Company’s liabilities for reinsurance contracts covering guaranteed minimum death benefits under certain variable annuities;

adjustments to the assumptions (including annuity election rates and amounts collectible from reinsurers) used in estimating the Company’s assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits under certain variable annuities;

significant stock market declines, which could, among other things, result in increased expenses for guaranteed minimum income benefit contracts, guaranteed minimum death benefit contracts and the Company’s pension plans in future periods as well as the recognition of additional pension obligations;

unfavorable claims experience related to workers’ compensation and personal accident exposures of the run-off reinsurance business, including losses attributable to the inability to recover claims from retrocessionaires;

significant deterioration in economic conditions and significant market volatility, which could have an adverse effect on the Company’s operations, investments, liquidity and access to capital markets;

significant deterioration in economic conditions and significant market volatility, which could have an adverse effect on the businesses of our customers (including the amount and type of health care services provided to their workforce, loss in workforce and our customers’ ability to pay receivables) and our vendors (including their ability to provide services);

adverse changes in state and federal laws and regulations, including health care reform legislation and regulation which could, among other items, affect the way the Company does business, increase cost, limit the ability to effectively estimate, price for and manage medical costs, and affect the Company’s health care products, services, technology and processes;

amendments to income tax laws, which could affect the taxation of employer provided benefits, the taxation of certain insurance products such as corporate-owned life insurance, or the financial decisions of individuals whose variable annuities are covered under reinsurance contracts issued by the Company;

potential public health epidemics, pandemics and bio-terrorist activity, which could, among other things, cause the Company’s covered medical and disability expenses, pharmacy costs and mortality experience to rise significantly, and cause operational disruption, depending on the severity of the event and number of individuals affected;

risks associated with security or interruption of information systems, which could, among other things, cause operational disruption;

challenges and risks associated with the successful management of the Company’s outsourcing projects or key vendors, including the agreement with IBM for provision of technology infrastructure and related services; and

the ability to successfully complete the integration of the businesses acquired from Great-West by, among other things, effectively leveraging the information technology platforms and other capabilities of the acquired business to enhance the combined organization’s network access position, underwriting effectiveness, delivery of quality member and provider service, and increased penetration of its membership base with differentiated product offerings.

This list of important factors is not intended to be exhaustive. Other sections of the Company’s most recent Annual Report on Form 10-K, including the “Risk Factors” section, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and other documents filed with the Securities and Exchange Commission include both expanded discussion of these factors and additional risk factors and uncertainties that could preclude the Company from realizing the forward-looking statements. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.
Ted Detrick (Vice President, Investor Relations):
Good morning, everyone, and thank you for joining today’s call. I am Ted Detrick, Vice President of Investor Relations, and with me this morning are David Cordani, our President and CEO, and Annmarie Hagan, CIGNA’s Chief Financial Officer.

In our remarks today, David will begin by briefly commenting on CIGNA’s second quarter results and discussing the progress we have made to date with our growth strategy. He will also provide an update on the company’s actions regarding health care reform. He will conclude his remarks by providing an overview of our International operations, which is a key component of our global portfolio of businesses.

Annmarie will provide a detailed review of the financial results for the quarter and will discuss the full year 2010 financial outlook. She will also provide an update on our expense reduction activities, capital management goals, and our growth strategy.

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

As noted in our earnings release, CIGNA uses certain non-GAAP financial measures when describing its financial results. A reconciliation of these measures to the most directly comparable GAAP measure is contained in today’s earnings release, which was filed this morning on Form 8-K with the Securities & Exchange Commission and is posted in the Investor Relations section of cigna.com.

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

Before turning the call over to David, I will cover one item pertaining to our second quarter results.

Relative to our Run-Off Reinsurance operations, our second quarter shareholders’ net income included an after-tax non-cash loss of $104 million, or 37 cents per share, related to the Guaranteed Minimum Income Benefits business, otherwise known as GMIB.

I would remind you that the impact of the Financial Accounting Standards Board’s fair value disclosure and measurement guidance on our GMIB results is for GAAP accounting purposes only.

We believe that the application of this guidance is not reflective of the underlying economics, as it does not represent management’s expectation of the ultimate liability payout. Because of application of this accounting guidance, CIGNA’s future results for the GMIB business will be volatile as any future change in the exit value of GMIB’s assets and liabilities will be recorded in shareholders’ net income.

CIGNA’s 2010 earnings outlook, which we will discuss in a few moments, excludes the results of the GMIB business, and therefore any potential volatility related to the prospective application of this accounting guidance.

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

David Cordani (President and Chief Executive Officer):
Thanks, Ted, and good morning, everyone.

Before Annmarie reviews our second quarter results and full year outlook, I'll take a few minutes to cover three topics. First, I'll put our results in context with our growth strategy. I'll also highlight key points of differentiation and priorities to further enhance our effectiveness. Second, I'll provide our perspective on U.S. health care reform and what you can expect from CIGNA. Third, I'll provide a profile of our rapidly growing International operations.
So let’s get started.

Relative to our second quarter, I’m pleased with our earnings of $1.38 per share because it affirms the strength of our diversified global portfolio of businesses.

We delivered strong results from each of our ongoing businesses – International, Group Disability and Life and Health Care.

Our second quarter results validate how we are delivering on our strategy. I’ll briefly revisit the three components of the “How.”

First is “Go Deep.” It’s all about focus, targeted market leadership and expansion – be it geographic, product or targeted buyer segments. This is evidenced by strong membership growth in our Middle Market and Select segments, double-digit premium growth in our Health, Life and Accident business, and very attractive Expatriate and Disability business growth.

Second is “Go Global.” Here we capitalize on and leverage our established global footprint and capabilities in order to expand into geographies with product lines and distribution channels that position us for additional profitable growth over the next three to five years.

Third is “Go Individual.” This is a buyer segment and also the way we run our business – by focusing on the individuals we serve.

We’re leveraging and learning from outside the U.S., where we currently have approximately 5.5 million individual policies in force. We’re positioning for growth in the U.S. individual markets.

Across our businesses we’re providing differentiated value to our customers. That’s best supported by our strong retention rates, our multi-program relationships and clinical quality results.

Take, for example, our U.S. Health Care business. We have a sharp focus on delivering high levels of service and choice for our customers, for example: providing a diverse suite of offerings from funding options to clinical and productivity management, lifestyle management and wellness programs.

We also provide a high level of transparency into the medical costs through extensive reporting for our self-funded and experience-rated customers.

In order to continue to meet our objectives as a leading health service company, we’re building on two key enablers: people and information. I’ll comment briefly on people.

We’ve been building a strong team from our sales organization, our award-winning customer service team, our caring clinicians, our support functions and our leadership team.

On a targeted basis, we’ve continued to add to our leadership team both in the U.S. and abroad. Our recent additions underscore the diverse and deep experience required to continue our momentum. Let me preface this by something I’ve discussed with many of you in the past.

This is a continuous process to add leaders on a targeted basis, when and where we need them, to drive our business.

Said otherwise, we’re never completely finished, and we’ll continue our journey of expanding roles and adding key leaders on a targeted basis.

I’ll highlight a key addition in the U.S., and then in a few minutes I’ll highlight some of our key additions on the International side.
We recently announced the addition of Bert Scott in the new position of U.S. Commercial President. The creation of this role was enabled by our deep and highly tenured team of Health Care business leaders.

Bert brings over 30 years of success driving growth for health and financial services companies, with particular focus on customer experience. This is obviously a fit for how we’ve focused our business and where we’re headed.

To sum up our year-to-date 2010 results, they represent meaningful progress toward achieving our full year and long-term strategic, operating and financial objectives.

Let’s turn to the topic that represents substantial change in the environment in the marketplace: U.S. health care reform. Although it’s early days, I’ll highlight some of what you should expect from CIGNA looking forward.

At CIGNA, we have a dedicated team of individuals who are focused on three areas: first, being compliant with the law of the land; second, in working proactively with state and federal agencies to convert the legislation to sustainable regulation; and third, identifying and pursuing opportunities created by this rapidly changing market.

We’re working hard to make sure the U.S. health care system changes are sustainable. We recognize the legislation that passed earlier this year did a good job at improving access. However, to be sustainable, we also need a health care system that improves quality while reducing costs. These are the keys to sustainability.

This is achievable, but only if we shift the focus from just sick care to also focusing on keeping people healthy in the first place.

As we see it, there’s a recipe for success, and this is what we’re advocating for and delivering in the marketplace each and every day. From our view, the next generation of health and wellness programs in the U.S. and around the world must link quality and cost in order to be sustainable.

The creation of awareness on health issues, health risks and what individuals can do about them is a critical first step.

Once awareness is elevated, we must align incentives for individuals and physicians to promote positive behaviors such as individual accountability, focus on prevention and wellness, and changes in the reimbursement for doctors, facilities and other health care professionals to focus on the quality of outcomes rather than only the quantity of services.

These must be supported by two critical items: first, actionable information about treatment options and alternatives, the cost of care and expected quality outcomes; and second, providing assistance from trained health care professionals who help individuals improve their health and navigate the complex health care system.

Today we are delivering meaningful value for customers where we apply this recipe. For example, we have demonstrated that customers can achieve 26% lower medical costs over four years, all while levels of engagement go up, health compliance goes up, and overall health care quality improves.

We’re also using awareness and incentives in our onsite and retail care delivery, biometric screening and health coaching capabilities.

The environment we operate in is nothing if not dynamic, and you can expect CIGNA to continue to innovate.
For example, we’re accelerating the rate of partnering with physicians and hospitals to incent them on quality outcomes. This is happening today with our patient centered Medical Home and Accountable Care programs.

Regarding the impact of U.S. health care reform, obviously much more is needed to convert the legislation to sustainable regulation. Although those effects are not totally clear, based on progress to date, we continue to believe that the direct impact of reform to CIGNA is manageable.

As we've previously discussed, this rapidly changing marketplace creates opportunities for CIGNA.

Relative to the direct impact of health care reform, our Group Disability and Life and International operations represent about 40% of CIGNA’s year-to-date earnings from operations and are essentially outside of the scope of U.S. health care reform.

Specific to our Health Care operations, over 90% of our medical membership is in self-funded or experience-rated business, which already have a high degree of transparency of medical costs for employers, with medical cost improvements directly benefiting employers.

Our individual and small group membership represents approximately 1% of our total membership.

We see opportunity in the fact that we can take a fresh look at these markets rather than protect the past model.

Specific to the opportunities we see, we believe our diversified product portfolio and global geographic footprint provide us with new and attractive opportunities for expansion both inside and outside the U.S.

We are well positioned philosophically with the goals of health care reform – those being transparency, choice and individual responsibility. Strategically, we continue to invest in capabilities that are in line with these market shifts.

With that, I'm going to give you a deeper profile of our International operation before I turn the call over to Annmarie.

To state the obvious, the global marketplace is diverse, complex and rapidly growing, but with each country having its own culture, growth opportunities and barriers to entry.

We've established focused business models that are responsive to the needs of the individuals and businesses that we serve.

Today, our International operation includes a workforce of over 9,000 and generates over $2 billion in revenues. It has historically delivered double-digit revenue growth and double-digit earnings growth, with very attractive margins and capital efficiency. We expect this trend to continue.

This growth and earnings power is significant by any standard of measure.

Our International operation currently includes four lines of business: two that are large and well established – our Health, Life and Accident business and our Expatriate business; one that is established and smaller, but growing – our health care benefits business, primarily focused in Spain and the U.K.; and an emerging business focused on Individual Private Medical Insurance.

Today, I'll discuss the two larger businesses in more detail.

These businesses have locally licensed insurance companies in 27 global jurisdictions. They are led by dedicated local management teams, supported by dedicated product development and marketing teams. They distribute products and services through differentiated and diverse channels.
These capabilities, coupled with ongoing innovation, are critical drivers of our success.

Our largest and fastest growing business is our Health, Life and Accident business, which is now led by the addition of Jason Sadler, a prominent leader of large, multi-product Asia-based businesses. With our focus on the rapidly growing markets in Asia, he is headquartered in Hong Kong.

The addition of Jason enabled us to move our prior Health, Life and Accident head, David Skinner (also Asia-based), to focus solely on China, which is a huge opportunity for us given its current size and rapid growth rate.

In our Health, Life and Accident business, we serve individuals by providing low premium short-term supplemental health with security-related coverage. Our operations are in the Asia-Pacific and European regions, and we continue to systematically expand our footprint to position for sustained growth in the future.

The second largest business in the International segment is our Expatriate business, which serves expatriates in virtually every country throughout the world. This business is run by Andrew Kielty, who joined CIGNA after a number of executive leadership positions around the globe.

In this business, we offer multi-national organizations medical benefits for their employees on long- and short-term international assignments.

We provide global access to quality health care through our global network of health care professionals. We support this with a world-class multi-lingual, multi-cultural service model.

In addition to the attractiveness of the revenue and earnings contributions from these businesses individually, we’re taking the decades of international experience of servicing individuals and providing supplemental health care coverage and leveraging that knowledge to continue our global expansion to new geographies, including the U.S.

We see the global economy fast becoming borderless, and at CIGNA we have a terrific and established foothold in this rapidly growing market.

We’re providing the thought and market leadership to move along with it and shape what that future looks like.

In closing, I’m pleased with the progress we have achieved in our global growth strategy and our 2010 financial and operating objectives. Our second quarter results are strong and reflect the strength of each of our ongoing businesses.

I’m confident in our ability to continue to execute on the fundamentals and achieve our full year goals. We continue to invest to position ourselves for continued success beyond 2010.

Finally, as we continue to execute our global growth strategy, I’m fortunate to have such a talented and dedicated team with me at CIGNA.

With that, I’ll turn the call over to Annmarie.

**Annmarie Hagan (Executive Vice President and Chief Financial Officer):**

Thanks, David. Good morning, everyone. In my remarks today, I will review CIGNA’s second quarter 2010 results as well as provide an update to our full year outlook.

In my review of consolidated and segment results, I will comment on adjusted income from operations. This is shareholders’ income from continuing operations excluding realized investment results, GMIB results and special items. This is also the basis on which I will provide our earnings outlook.
Our second quarter consolidated earnings were $384 million, or $1.38 per share, compared to $313 million, or $1.14 per share, in the second quarter of 2009. This reflects very strong results from each of our ongoing operations – that is, International, Disability and Life, and Health Care. We continue to leverage this diversified portfolio of businesses to deliver value for the benefit of our customers and our shareholders.

I will now review each of the segment results, beginning with Health Care.

Second quarter 2010 Health Care earnings were $247 million. This result reflects lower medical costs, the impact of targeted membership growth, strong contributions from specialty businesses and ongoing operating expense improvements.

Specific to our strategy execution, we are consistently achieving strong customer retention and new sales in targeted segments and geographies.

Overall, Health Care membership was up slightly versus the first quarter of 2010. This result reflects continued growth in our guaranteed cost and our experience-rated products, offset by disenrollment in our National Account ASO business.

The growth in our commercial risk businesses came primarily in our targeted markets and customer segments, including Middle Market, Select and Individual.

Health Care premiums and fees grew 15% on a quarter-over-quarter basis. This increase reflects net membership growth and a change in membership mix, which includes a higher percentage of commercial and Medicare-related risk business.

Turning now to our medical costs, results in the quarter demonstrate strong clinical quality and competitively attractive medical costs for all of our customers, of which the majority – over 80% – are served through self-funded relationships.

Specific to earnings, our second quarter results include favorable prior period claim development of $40 million after-tax across our risk book of business. Of this amount, $14 million is related to prior years, and $26 million is related to the first quarter.

Our medical results reflect lower than expected utilization levels, including the absence of flu-related claims.

We also saw lower medical costs in the first half of the year due to a greater percentage of business in high deductible plans. It is typical for these plans to have seasonally-low claims in the earlier part of the year, followed by higher claim levels in the latter part of the year.

Specific to our guaranteed cost book of business, second quarter results include $11 million after-tax of favorable prior year claim development, which is part of the overall $14 million I referred to earlier.

Given the relative small size of this book of business and the fact that results tend to bounce around from quarter to quarter, we suggest it is more meaningful to focus on the year-to-date results.

Our guaranteed cost medical care ratio, or MCR, for the first half of 2010 was 82.3%, excluding prior year claim development.

Regarding our experience-rated product, we continue to see good growth in this business at attractive margins. Results in the quarter also benefited from favorable prior period claim development, again reflecting lower utilization and the impact of an increase in the mix of high deductible products.
Relative to new business in our experience-rated and guaranteed cost products, while we are still only six months into the year, results to date continue to support our pricing targets and reflect good pricing and underwriting discipline.

ASO earnings were favorable overall, driven primarily by strong contributions related to our specialty businesses and lower operating expenses.

Year-to-date core medical operating expenses were lower compared to the same period last year, driven by cost reduction actions taken in 2009.

We have maintained our strong clinical delivery and service models during these cost reduction efforts. As we pursue additional operating efficiencies, we will continue to make appropriate tradeoff decisions regarding strategic investments and the potential impact of health care reform.

Now I'll discuss the results of our other segments.

Second quarter earnings in our Group, Disability and Life segment were $89 million. This reflects continued operating excellence in our disability management programs, which also contributed to a net benefit of $29 million after-tax related to reserve studies.

Through our expertise in disability management, we are able to help employees return to work faster, which increases productivity and drives cost savings for our customers.

Results in the quarter were strong overall, and this business segment continues to deliver attractive margins.

Second quarter earnings in our International segment were $64 million. Our Health, Life and Accident business benefited from good persistency and strong new sales in our targeted growth countries.

We also saw strong renewal rate actions and lower claim levels in our Expatriate benefits business.

Overall, results in the second quarter demonstrate good execution of our growth strategy and the value we provide to our customers and shareholders by leveraging the capabilities of our diversified portfolio of businesses.

Earnings for our remaining operations, including Run-Off Reinsurance, Other Operations and Corporate, totaled to a loss of $16 million for the second quarter.

Relative to our run-off VADBe book of business, results were break-even.

Turning now to our strategy, second quarter results demonstrate continued, consistent execution of our global growth strategy.

Through the first half of 2010, we achieved solid growth in each of the business areas of focus – specifically in our Middle Market, our Select segment, Disability and our Global product offerings.

Medical membership in the Middle Market segment is up 7% versus year-end 2009, reflecting good customer retention and new sales.

Customers within this segment generally purchase both medical and specialty coverages, which allows us to more effectively manage the overall health and wellness of the individuals we serve.

Medical membership in the Select segment is up 6% versus year-end 2009, reflecting stronger retention rates and new sales, due in part to the success of the benefit programs that we rolled out in the second half of 2009.
In our National Account segment, we continue to focus on those employers who value engagement and incentive-based products offered on an integrated basis. We have had success in winning new business and further penetrating existing accounts that are aligned with this value proposition.

Regarding our Disability business, we have demonstrated solid premium growth in the first half of this year, which further supports our position as an industry leader in this space.

Finally, relative to our Global businesses, we continue to see strong Health, Life and Accident sales and good persistency, as I noted previously. We also see good revenue growth in our Expatriate benefits business.

Overall, we are pleased with the progress we have made to date in executing on our strategic, operational and financial goals. This execution has resulted not only in enhanced customer access but also improvements in service and clinical quality.

Now I would like to provide a brief update on our efforts to reduce our medical operating expense base.

We remain committed to reducing our medical operating expense base and to making meaningful progress in closing our competitive gap, while maintaining service excellence and making prudent investments to fuel growth in our strategic areas of focus.

Medical operating expenses, which directly correlate to our competitive expense position and provide for the most meaningful expansion opportunity, were down 4% versus the first half of 2009, while both membership and revenue have increased.

Specifically, medical operating expenses were approximately $1.3 billion in the first half, which is lower than the first half of 2009 by $63 million pre-tax.

This year-over-year improvement is largely due to the impact of the cost reduction actions taken in 2009, while we continue to grow and invest.

We continue to expect to reduce our medical operating expense base in 2010, but to a lesser extent than we previously communicated.

This change is due to targeted and strategic increases in spending in the second half of the year for three main reasons: first, in volume-related expenses as we expect to increase our level of spending on customer service and other areas in response to our growth in risk membership; second, we’ve contemplated incremental technology-specific items, including spend for supporting compliance with health care reform as well as accelerated spend related to HIPAA 5010; and third, in discretionary spend as we invest in targeted areas to further support execution of our growth strategy.

Beyond 2010, we will continue to pursue additional medical operating expense savings while ensuring continued service excellence and strong clinical delivery. We will continue to make the appropriate trade-off decisions as we target closing our competitive operating expense gaps while supporting strategic investments and health care reform.

Turning now to our investment portfolio, results continue to be strong relative to the challenging economic conditions. We recognized net realized investment gains of $14 million after-tax in the second quarter, which was net of a $3 million after-tax impairment on our commercial mortgage loan portfolio.

In the second quarter, we completed our comprehensive annual review of each of the commercial mortgage loans in our $3.4 billion portfolio. The average loan to value ratio of the portfolio was essentially unchanged, improving modestly to 76%, compared to our most recent estimate of 77%.

Market conditions remain challenging, but there are growing signs of stabilization and increased demand. Overall, we view the results of our annual mortgage loan review as positive, and while we continue to
believe our portfolio is comprised of high quality, stable properties, we will continue to aggressively manage all aspects of the portfolio and respond appropriately to emerging information.

We continue to be quite pleased with the high quality and diversification of our overall investment portfolio, and we believe our problem investment exposure is manageable.

I will now discuss our capital management position and outlook, including a summary of our subsidiary capital and our parent company liquidity.

Overall, we continue to have a strong balance sheet and good financial flexibility. Our subsidiaries remain well capitalized, with statutory surplus well in excess of regulatory minimums. We repurchased approximately 6.2 million shares of CIGNA’s common stock through August 4th for $200 million.

Regarding parent company liquidity, we ended the quarter with cash and short-term investments at the parent of approximately $720 million. This includes outstanding commercial paper borrowing of approximately $100 million, as well as $300 million of long-term debt issued in May.

Turning now to our full year 2010 capital management outlook, we started the year with $475 million of cash at the parent. We continue to expect full year subsidiary dividends of $1 billion. We issued $300 million of long-term debt in May. While this increases our parent company liquidity in 2010, we are committing $225 million of these proceeds to the repayment of long-term debt maturing in January 2011.

We continue to expect the full year net after-tax impact of the pension plan funding to be a net use of $150 million, which we have completed in the first half of the year.

As I mentioned previously, we used $200 million for share repurchase through August 4th. We now expect full year other net uses of $250 million.

Putting all the pieces together, we expect to end 2010 with parent company cash of approximately $1.175 billion.

Given the uncertainty of the equity markets and economic conditions, as well as the potential impact of health care reform, we are now targeting $400 million of cash at the parent company.

Considering this increased parent company cash target of $400 million, and commitments of $225 million for long-term debt and $100 million for commercial paper maturities, our outlook implies that we would have approximately $450 million available for capital deployment for the balance of 2010.

Our capital deployment strategy remains the same. This strategy prioritizes the use of capital resources to first provide capital necessary to support growth and maintain or improve the financial strength ratings of our subsidiaries. This includes evaluating potential solutions for our Run-Off Reinsurance businesses and our pension funding obligations.

Second in our capital deployment strategy, we would consider M&A activity with a focus on acquiring capabilities and scale.

Finally, after considering these first two items, we would return capital to investors through share repurchase.

Overall, our capital outlook for 2010 remains quite positive.

I will now review our earnings outlook. Overall, we have increased our consolidated full year 2010 earnings outlook, reflecting the strength of our second quarter results from each of our ongoing businesses. For full year 2010, we now expect consolidated adjusted income from operations of $1.13 billion to $1.21 billion. This is $60 million to $80 million higher than our previous outlook.
Regarding our run-off VADBe book, this outlook reflects approximately breakeven results for full year 2010. This assumes that actual experience, including capital market performance, will be consistent with the long-term reserve assumptions. If the current environment of sustained equity market volatility and low levels of interest rates persist, we may increase our reserves, which could result in losses in the second half of 2010.

We now expect full year earnings per share in the range of $4.10 to $4.40 per share, which is an improvement of 25 cents to 35 cents per share over our previous outlook. Our earnings per share outlook reflects the share repurchase activity through August 4th and does not include any future share repurchase activity.

Regarding the impact of health care reform legislation, our 2010 outlook contemplates the benefit coverage requirements effective this year, certain operating expense items, and limitations on the future tax deductibility of certain retiree benefit programs and other compensation.

I will now discuss the components of our 2010 outlook, starting with Health Care.

We now expect full year Health Care earnings in the range of $765 million to $825 million, which is an improvement of $35 million to $45 million from our previous outlook.

This improved outlook is largely due to lower medical costs driven by prior year claim development and lower claim utilization. In addition, more favorable specialty results will be essentially offset by targeted investments in capabilities and additional investments related to accelerated compliance spend for health care reform.

Relative to medical membership, we now expect full year 2010 membership growth of approximately 3%, which is at the high end of our previous outlook of 2% to 3%. This modest improvement reflects strong customer retention and sales execution. I would also reinforce that new business pricing and the renewal rate actions we are obtaining are consistent with our expectations.

Turning to medical costs, for our guaranteed cost book of business we now expect the full year MCR to be approximately 83%. This reflects the favorable impact of prior year claim development and the benefit of the lower-than-expected utilization levels in the first half of 2010.

Our outlook for the second half of the year assumes that claim utilization returns to historical levels, including an assumption that flu-related claims will be consistent with the third and fourth quarters of 2009. Our second half MCR also contemplates a higher level of claims due to typical seasonality on the portion of our business in high deductible plans.

As a result of the lower claim utilization levels experienced in the first half of the year, we have reduced our total book medical cost trend expectation by 50 basis points. We now expect full year medical cost trend for our total book of business to be approximately 8%.

Regarding Medicare Advantage Private Fee for Service, we continue to assume a breakeven result for this business in our full year outlook.

Moving to our Group Disability and Life and International operations, we now expect Group and International to contribute full year 2010 earnings of $510 million to $530 million. This is a $25 million to $35 million improvement over our previous expectations, primarily reflecting the strength of our second quarter results. These two businesses consistently deliver differentiated value for our customers, and as a result, competitively strong growth and margins.

All in, we now expect consolidated earnings per share to be in the range of $4.10 to $4.40 per share.
To recap, our second quarter 2010 consolidated results reflect the strength of our global diversified portfolio of businesses. We’ve also demonstrated effective execution of our global growth strategy with year-to-date membership and revenue growth in our targeted areas of focus.

Our current capital outlook is quite strong, and our investment portfolio is of high quality.

Finally, we are confident in our ability to achieve our full year 2010 earnings outlook, which represents competitively attractive earnings growth.

With that, we will now take your questions.

**Matthew Borsch (Goldman Sachs):**
Good morning. My first question is on your Expatriate business. Last quarter you had said the claims development was $5 million favorable. Could you update what that figure was for this quarter?

And then more broadly, with the NAIC leaving to HHS the question of whether the MLR rules will apply to Expat, but laying out a recommendation for how the rules should work if in fact it is applicable, can you comment on what range of impact you might see?

**Annmarie Hagan (Executive Vice President and Chief Financial Officer):**
Good morning, Matt. I will take the first part of the question on the Expatriate claims, and then I will ask David to comment on the impact of reform on the Expatriate business.

You are right. Last quarter we talked about a $5 million better-than-expected run rate on the claims. When I look at the total International operation – so including Health Care and Health, Life and Accident, as well as the Expatriate benefits – through the first six months of 2010, we probably had about $15 million to $20 million after-tax of better-than-expected claim results, primarily as it relates to some seasonality.

As we look first half to second half, there was approximately $15 million after-tax, primarily in the Expatriate business, that we would not expect to repeat in the balance of the year.

**David Cordani (President and Chief Executive Officer):**
Matthew, good morning. On the second point, first by way of backdrop, whether it’s Expatriate or other issues, we continue to work very closely with HHS, the White House staff, and the NAIC, and as you know, things continue to evolve. Let me give you just a minute of background on the Expatriate business, and then I will directionally answer your question.

Our Expatriate portfolio is large and broad. What I mean by that is there is both insured and ASO coverage. There’s coverage for U.S.-domiciled employers and non-U.S. domiciled employers. Therefore, there’s a variety of services being consumed both in the U.S. as well as outside the U.S.

Additionally, as I believe you know, it’s a pretty complex offering with a different administrative service profile, so the breadth of the global network 24/7/365, the multi-lingual service including evacuation services, prevents a very different type of offering than a traditional commercial employer offering.

The reason why I provide that background is that’s a lot of the conversation that’s been happening with White House staff, HHS, and the NAIC to make sure they understand the overall design of the programs, how they are consumed, who they are targeted for, et cetera.

It’s early to draw a conclusion, but as we said in our prepared remarks, at this point, we believe the direct impact of finalization of health care reform is manageable for our business, and we will obviously stay quite transparent and open with you as it comes to closure.
Matthew Borsch (Goldman Sachs):
Okay, if I could just ask one followup on a different topic. As you touched on VADBe, can you give an update of the market sensitivity relative to S&P levels? If the S&P drops by a certain level, what would be the impact to VADBe results?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
Relative to our VADBe results, as we discussed before, these results have been in the breakeven range over the last four to five quarters. As we noted in our prepared remarks and in our press release, if the market levels continue to have that low level of sustained interest rates as well as the volatility that we’ve experienced in the S&P, we’ve indicated that we could have a charge in the second half of 2010.

To put that in perspective to get to your specific question, we do disclose our sensitivities. Relative to the S&P, it closed at around 1,120 to 1,125 at the end of June. A 10% change in that S&P level would hit the reserves by about $10 million to $15 million after-tax.

In addition, relative to our interest rate environment, we have seen sustained low levels of interest rates. I’ll put some perspective around that, because this is the second of the two sensitivities that are most important for you to think about.

As you know, our assumed long-term growth rate is about 5%. In the critical accounting estimates in our 10-K, we would indicate that a 50 basis point change in interest rates would be about $15 million to $20 million after-tax.

The only other thing I’d put an exclamation point on is that our interest rate is a long-term growth rate assumption. I wouldn’t think of that sensitivity as it relates to the short-term rates that we’re hearing today in the 0.4% to 0.5% range. Relative to VADBe, when I think about interest rates, the seven- to ten-year treasury rate is in the 3.5% range, and even that is not necessarily a strong proxy for the sensitivity that we have as it relates to our VADBe reserves.

So, order of magnitude, the impact of a change in interest rates could be in the $10 million to $15 million after-tax range potentially. This is probably more than you asked for, but I thought it would be a helpful discussion to talk about those two sensitivities that we have out there.

Matthew Borsch (Goldman Sachs):
Fantastic. Thank you.

Josh Raskin (Barclays Capital):
Thanks. Good morning. The first question is on Medicare Advantage. I know you talked about the expectations of still expecting Private Fee for Service at breakeven for the full year. Can we read into that a suggestion that claims are coming in as expected? I know sometimes the lag on these are a bit longer. And then could you share an expectation for 2011 now that your bids are submitted, i.e., would you expect that business to be profitable, or smaller, or both?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
Relative to Private Fee for Service, what we’ve talked about is that during the year we had more Individual Private Fee for Service membership than we had expected, so I assume that’s the question you’re really going at.

Through six months, our paid claim levels are about as we expected, and as I noted in my prepared remarks, we are continuing to assume that for the full year, this business will be breakeven. To date, we’ve received no additional information that would make us change our expectations around the health of the population, compared to what we discussed after the first quarter. So we feel pretty good through six months, albeit you know as well as I do that the lag with this type of individual claim reporting is a little bit longer. So we will continue to update that as we go into the third and fourth quarters.
Relative to your specific question around 2011, on the individual piece, we have indicated that we have not filed for Individual Private Fee for Service whether it be on a network basis or a non-network basis. I'm sure you are aware of our new Humana relationship on the group side, which I'd ask David to comment on for you.

David Cordani (President and Chief Executive Officer):
Good morning, Josh. On the group network base program, we’re delighted to have the relationship we secured with Humana as both a distribution and service alliance. For our employer customers, we’ve been able to secure a best-in-class network service and clinical offering to be coordinated up against our commercial offering, and we will coordinate that service along with Humana as we go into 2011.

Josh Raskin (Barclays Capital):
Okay, yes, that’s helpful. And then on the National Account selling season, I know it’s a little bit early and it seems like there’s a little delay in the market, but I’m curious what you are seeing and how we should think about expectations for the ASO business going into 2011.

David Cordani (President and Chief Executive Officer):
Josh, just a few themes -- and as you referenced, it’s early -- just by way of color context. Over the past couple of years we’ve referenced that the decision making cycle has been pushed off, and I think that’s attributed to the size, complexity, and magnitude of these decisions as being more critical decisions than ever.

Having said that, I will give you a few points. One, as we sit here today, our pipeline for National Accounts, in terms of breadth and quality, is about the same as it was last year. At this point last year, we felt good about our 2010 pipeline, which was contextually in line with our 2009 pipeline. So as it relates to looks at opportunities, volume, breadth and quality, we feel pretty good about what we’re seeing in the marketplace. However, because of that decision making cycle being longer, a high percentage of those programs are currently in RFP or finalist stage right now. So that’s thing number one.

Thing number two is that the preponderance of those RFPs, or requests, or finalist meetings are intensely focused on what we call engagement and incentive-based programs. These could be CDHP, could be highly sophisticated coinsurance programs, could be using zero-fund account balance programs to deposit incentives back in, but all feature a high use of incentives.

When we talk about engagement-based programs, we have a program called our Integrated Personal Health Team that looks at the whole person as opposed to individual modules of service delivery. The demand for those types of services is rather high, and we’re pleased to see that.

Finally, if we look at our book of business in terms of what’s out to bid, adjusting for one large piece of business that was on-cycle that we knew about that’s large and lower margin, that’s also in pattern with what we’ve seen in the last year. So overall, while it’s still early, our National Account selling season is in line with our early expectations and our strategic forecasts.

Josh Raskin (Barclays Capital):
Did you imply there that there’s one large account? Is that one that’s going to lapse or that’s just now currently out for bid?

David Cordani (President and Chief Executive Officer):
It’s a large account on-cycle and out for bid for partial movement, and because of its size and breadth, it tends to be lower margin and we’ve known about it for quite some time. It’s a part of managing our large, broad portfolio.

The important headline, Josh, is the balance of opportunities in sales – known finalist opportunities in house today, coupled up against business that’s out for bid. It’s really in line with our expectations right now both in terms of quality and depth, which we feel good about.
Josh Raskin (Barclays Capital):  
Okay, thanks.

Christine Arnold (Cowen and Company):  
Hi, there. A couple of questions. On Medicare Advantage, you said that you are expecting breakeven result for the full year. Does that mean it has been breakeven thus far? I’m sensing that the loss ratios are in the 97% to 97.5% range in the quarter. Is my math off?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):  
There is seasonality in this business, and as with any new business, we do include provisions for adverse deviation in the loss reserves that we put up. There’s also some timing relative to the expense recognition on Private Fee for Service. So if you think about the pattern, it’s almost like a Part D pattern. From the first quarter you have losses, and in the second quarter you have some profits coming through to bring the six-month result to a low single-digit loss. Then, through the balance of the year, you have a slight uptick so that the full year is breakeven, but there is seasonality relative to the recognition of our provisions for adverse deviation as well as our expense recognition.

Christine Arnold (Cowen and Company):  
Okay, so losses first half, profit second half.

Annmarie Hagan (Executive Vice President and Chief Financial Officer):  
That’s correct.

Christine Arnold (Cowen and Company):  
And then on the prior year claim development, $11 million of the $14 million after-tax was related to guaranteed cost. Can I presume the vast majority of the $26 million after-tax related to the first quarter was also guaranteed cost, so that I can adjust for seasonality?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):  
Christine, relative to the $26 million, it was around $20 million in guaranteed cost, with the balance of it primarily in our share returns product.

Christine Arnold (Cowen and Company):  
And then can you tell us how much of your Expatriate revenue is in insured U.S.-domiciled companies, not short term and therefore might be subject to the MLR floor?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):  
At this point in time, we’re not prepared to provide the actual split. As David mentioned in his earlier comments, as we get more clarity around the MLR floor calculations, we will be as transparent with you as possible.

John Rex (JP Morgan):  
Thanks. Could you give us a little more color on some of the drivers of the utilization decline you’ve seen? Can you categorize for us, in the four major buckets, where you’re seeing the most weakness and what you attribute that to?

And then how is this impacting your pricing decisions as you think about renewals and how much of that are you going to bake into your expectations?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):  
Thanks, John. Relative to the lower utilization, remember overall that for the guaranteed cost product, you’re talking about a small book of business, and that the lower utilization attributed about $10 million after-tax to the results in the second quarter.
In addition, I will remind you that for our overall book of business, we decreased our medical cost trend outlook by about 50 basis points, and so the lower utilization is good news. I might not necessarily say “weak,” but instead would say good news there.

A lot of the favorability is due to the flu, and therefore we’re seeing it come through in bits and pieces across inpatient, pharmacy, and professional, but, order of magnitude, we have not materially changed our trend number. The only thing that really changed in the trend number was a slightly different view of pharmacy, which we previously had cited as high single-digit, and now I would say mid- to high-single digit.

As it relates to that, given that it’s not a material move we don’t expect a material price change. As we go into 2011, we’ll obviously be considering all the components of what’s going on with health care reform as well as our trend perspective. I’m not trying to forecast 2011 at this point, but our typical process is to price at about trend.

John Rex (JP Morgan):
And are your bed days running positive or running negative, as you think about bed days per thousand members?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
Yes, I’d say they’re about breakeven from a trend perspective. Typically it might be +/-0.5%. They’re about breakeven.

John Rex (JP Morgan):
Okay, and I just want to come back to VADBe quickly to make sure I understood your commentary. If we assume that interest rates stay where they are right now for the balance of the second half, and market volatility is consistent with what we saw in the first half, what would be the size of the reserve you would need to take in the second half for that book?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
There are two parts of the many moving parts within the VADBe liability. There are two important ones, but I don’t want to pretend that it’s as simple as saying that we could project what will happen.

I would remind you again that at June, we feel good about our long-term reserve assumptions and feel good about the breakeven expectation for the full year. The flag that I had out there was around the uncertainty in the interest rates. Relative to the interest rates, I wouldn’t look exactly at the low level of the short-term rate that we see today, because that’s not necessarily representative of what we expect to happen over the long-term.

I’d use something like the seven- to ten-year treasury rate as a proxy, but even that is not necessarily indicative of what we pick as a long-term rate. If I had to be boxed into a number, I would say the potential impact for VADBe in the second half could be up to $50 million after-tax. However, there are a lot of moving parts, and we will stay tuned and watch the other levers for which we have outlined some sensitivities. But, again, the equity market movement and interest rates are just two of the moving parts. Other things could move favorably to offset that as well.

John Rex (JP Morgan):
So to be clear, if the seven- to ten-year treasury stays where it is now, you think it could be up to $50 million reserve addition?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
My main message here, John, is that at the end of the day this is not catastrophic or huge. It’s a manageable number that we might expect.

John Rex (JP Morgan):
And if market volatility is like it was in the first half, is that up to $50 million also?
Annmarie Hagan (Executive Vice President and Chief Financial Officer):
No, I wouldn’t add those together, John. I would consider the net impact of all the moving parts.

John Rex (JP Morgan):
I see. Okay great. Thank you.

Ana Gupte (Sanford Bernstein):
Thanks. Good morning. I had a question first on your captive PBM. Can you give us your views on the recent Aetna outsourcing arrangement with regards to getting better discounts, which is probably offset to some degree with the vertically integrated value proposition to your Middle Market customers?

David Cordani (President and Chief Executive Officer):
Good morning. We expect the PBM space – both narrow and broad – to continue to be pretty dynamic, with a lot of growth and a lot of changes both in classic pharmaceutical delivery as well as specialty pharmaceutical delivery.

So we expect to see a lot of movement and change in the marketplace. In the context of our PBM, as you referenced, we continue to believe our PBM is currently delivering a significant amount of integrated value for the benefit of our customers.

As you go back to our growth strategy, our focus is on Middle Market employers, Select segment employers and those National Account employers who value engagement and incentives which tend to be highly integrated. There’s a strong proposition there.

The second piece I would add is that a PBM is not one unit. There are a variety of components that exist in a PBM, from formulary management to clinical program management through mail order. As we’ve said in the past, we concluded that it was most prudent to retain the asset on an integrated basis. However, like all the assets we have in our portfolio, we’ll continue to consider whether or not there are alternatives to looking at parts of the asset or the whole of the asset to create more value.

As it stands today, the PBM remains a very important part of delivering good, integrated clinical quality and total cost quality for our customers, especially because of the target segments we’re going after. However, as always we’ll continue to consider strategic options that are in the best interests of the Company, customers and shareholders.

Ana Gupte (Sanford Bernstein):
Wrapping up on the PBM, did you have turnover in your leadership there? And then, a different question on M&A. You said that is one of your top priorities over share repurchase. Would you look at strengthening your health benefits portfolio to possibly get more local and national scale? Or are you looking more at adjacencies like International or, as some of your competitors are doing, moving into health services to a large degree?

David Cordani (President and Chief Executive Officer):
Relative to the leadership you might be referencing, the former President of our PBM actually went to be the CEO of a captive PBM which is actually quite a good outcome. He was an individual that CIGNA has known for a long period of time, and this move matched rather nicely to his career plans and career objectives.

We had built succession into the organization so that there was a seamless transition of responsibilities, and the prior President of our PBM had that as a responsibility, and he built a strong team that is currently running the business. It’s both a blessing and a curse of having a strong leadership team, with potential turnover of leadership. The important message is a seamless leadership transition within the company, and the strategy is continuing to be executed.
Specific to your M&A question, yes, M&A is an important part of our strategy but by no means the sole part. We need to demonstrate that we can grow organically, as we are in our targeted business areas of focus. Specific to your question, we see opportunities, broadly speaking, from an M&A space as long as it’s strategically aligned and financially prudent.

We wouldn’t limit ourselves to one capital deployment strategy or the other. We would use the strategy as our guidepost, and our strategy speaks to "Go Deep," "Go Global," and "Go Individual." So my broad answer to your question as you put categories around that is yes, but we use that strategy as our specific guidepost to identify whether there are any “Go Deep” opportunities or are they broad in the opportunities that present themselves.

Ana Gupte (Sanford Bernstein):
Okay, thanks for taking the question.

Doug Simpson (Morgan Stanley):
Good morning, everyone. I certainly appreciate the color on the VADBe book and the discussion around the number for the second half of the year.

If we just connect the dots back to 2008 and prior, there have been a number of true-ups, generally to the downside, on the reserves for that book. What type of charge would you have to take to give a very high level of confidence that we wouldn’t have to take any future reserve hits on that line of business?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
To clarify what you said, prior to the debacle of a market environment in 2008, we had been pretty much breakeven results for VADBe for quite some time. I want to be clear that there weren’t a lot of charges that were happening before that.

Relative to your specific question on what level of charge would we have to take to be done with it, that’s a hard question to answer. Having said that, we as a management team are very focused on continuing to identify solutions to either mitigate further or ultimately eliminate the VADBe exposure. We specifically cover this in our capital deployment strategy.

Relative to a specific number, I’m not in a position to give you that at this point in time.

Doug Simpson (Morgan Stanley):
You touched on potential impact of interest rates on that piece. How should we be thinking about the pension discount and return rate assumptions, given where the markets are now? I know it’s mid-year and that assessment will be done at year-end, but can you provide a directional sense?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
You’re right that we do a pension review at year-end. Relative to the returns, we feel good about the overall returns on our portfolio through six months. They’re generally in line with our long-term assumption of around 8%.

As you might recall, we did adjust the discount rate at the end of last year, and your guess is as good as mine as to what’s going to specifically happen relative to interest rates as we move into the latter part of the year and select our discount rate. But we did go to a lower number as we closed 2009.

Doug Simpson (Morgan Stanley):
Okay, great. Thank you.

Carl McDonald (Citi):
Thanks. You pointed out that the guidance for the Other segment, so excluding Health Care, Disability, Life and International, a loss of $145 million. It looks like the first half loss was closer to $45 million. Is the incremental loss related to all the investments and additional spending you talked about, or is there anything else to call out there?
Annmarie Hagan (Executive Vice President and Chief Financial Officer):
As we move ahead through the balance of the year, the Other segment does have some number contemplated in there for health care reform, the interest rate on the debt, et cetera. I would not necessarily run-rate the $45 million that we have seen through the first half.

The $145 million is our best estimate at this point in time as to what we think the second half will be.

Carl McDonald (Citi):
On the Private Fee for Service, now that you’ve made the decision to exit that business, how quickly do you think you can eliminate the associated SG&A there? And what’s a reasonable SG&A ratio to think about on that product?

David Cordani (President and Chief Executive Officer):
Carl, good morning. You should expect a pretty orderly wind-down period with this business. Think about a run-out curve that would transpire over the first couple of quarters of 2011 with a pretty expeditious wind-down too.

The service model for this business has some variable labor and some outsourced relationships and partners, and so we have a good opportunity to match the wind-down of administrative costs in the first half of the year. We don’t think we’re going to have any stranded overhead or issues that go along with that, if that’s what you’re looking for.

Carl McDonald (Citi):
And a reasonable SG&A ratio on that product?

David Cordani (President and Chief Executive Officer):
It’s somewhat irrelevant because we’re exiting the Private Fee for Service book of business. But to answer your question, the expense ratio is around 8%.

Carl McDonald (Citi):
Okay, thank you.

Scott Fidel (Deutsche Bank):
Thanks. First question is if you have an updated estimate of what you think your all-in health reform-related costs will be this year. In the first quarter, you had cited a number around $10 million, but at that point it was primarily related to the change in the deductibility of taxes on Medicare Part D. Now that we know about a few other elements, do you have an updated figure for that?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
You’re correct. We did talk in the first quarter of a $10 million after-tax impact related primarily to the retiree medical benefits and other compensation.

As I mentioned in my prepared remarks, we do expect to spend a little bit more in the second half relative to health care reform. Our expectation for the full year impact of health care reform across the entire enterprise is approximately $20 million after-tax.

Scott Fidel (Deutsche Bank):
One followup for David. Are your views on Medicaid evolving at this point, given the coverage expansion and the fact that Medicaid is expected to grow over the next few years? CIGNA has historically kept that market at arm’s length, but any thoughts on changing that approach?
David Cordani (President and Chief Executive Officer):
Good morning, Scott. As you referenced, CIGNA has not focused on Medicaid in the past. It's not necessarily because we view it as a bad or unattractive business. Rather, we view it as less leveragable against our domestic capabilities.

As we sit here today and look to future market opportunities, consistent with the strategy overview we provided at Investor Day, we look at the individual market – broadly defined – as being very attractive. We would also look at some components of the governmental marketplace as being attractive.

I believe you’re referencing a blurring of the line between what the individual and the classic Medicaid market looks like. We’re spending a lot of time looking at that. But for the traditional Medicaid marketplace, we still have a similar view. The emerging Medicaid marketplace, as it blurs with the individual market, we view as attractive over the long term.

Scott Fidel (Deutsche Bank):
So more around the hybrid market with the subsidized products, and that balance into the exchanges?

David Cordani (President and Chief Executive Officer):
That's a great example to bridge my comments.

Scott Fidel (Deutsche Bank):
Okay, thank you.

Peter Costa (Wells Fargo):
Can you talk about how your conversations have been going with companies or customers regarding the experience-rated product that you have? As we go into 2011, there're going to be rebates in all health insurance business. How are customers reacting to that when you’re talking about your experience-rated product versus traditional products?

David Cordani (President and Chief Executive Officer):
Peter, good morning. Relative to the experience-rated, or shared returns product and how it functions, it’s interesting because the whole notion of rebating employers based upon their experience or books of business is a fundamental component of what underlies a shared returns or an experience-rated product.

If anything, there’s a heightened degree of interest in key markets where we’re educating and investing in brokers in the marketplace. We view more opportunity versus less over time, but we’ve continued to view that product as a bit more of a niche product, not a product that’s a solution for everybody.

The important part to underscore is transparency. The employer sees their medical costs and we share in the benefits of effective clinical quality and medical cost delivery, or deficits that are created. In an environment of increased transparency, be they rebates or otherwise, we would see more demand versus less.

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
The only thing I’d add onto that, Peter, as I noted in my prepared remarks, we are seeing good growth in 2010 as it relates to the experience-rated products, and as David said, we see further opportunity as we move ahead.

Peter Costa (Wells Fargo):
So you’re guaranteeing higher MLR rebates, or is there something else that separates that product from what would be traditional products going forward?

David Cordani (President and Chief Executive Officer):
I would not think about guaranteeing higher rebates. Think about employer by employer by employer. An estimate is done of underlying medical costs. A lot of transparency around that estimate takes place, and
so it’s not a veil. There’s an understanding of product design, the clinical programs and the incentives that are put in place.

At a minimum, on a quarterly basis there’s good transparency around how the results are running, and surpluses get credited into their premium stabilization account. Deficits get aggregated and earned back going forward.

So I would not think about it as guarantees attaching to it. I would think about transparency, high visibility and more of a shared responsibility of the employer working in conjunction with us to optimize the outcome for their employees.

Peter Costa (Wells Fargo):
Okay, and going forward, will you be combining those two businesses in reporting your MLR, instead of just giving an MLR for the guaranteed cost business?

David Cordani (President and Chief Executive Officer):
Peter, could you repeat the question in terms of our intent going forward?

Peter Costa (Wells Fargo):
Right now you just provide the MLR for the guaranteed business. Will you eventually be providing that for the experience-rated and the guaranteed cost business combined, considering the two businesses are getting more similar?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
We talk about the guaranteed cost MLR quite honestly given that it’s a fully insured risk business. However, when you go to our statistical supplement, you can derive the total MLR as well.

I don’t think that there’s any necessity to break out anything different as we move forward. The only thing I’d add to David’s comments is relative to the shared returns product. I would think of it along the continuum just to clarify what you were saying about guarantees.

The guaranteed cost product is your traditional, full risk business. Then you have your ASO product where the large employers want to benefit from their own experience, and they sometimes supplement that with some catastrophic coverage.

The experience-rated product is that which falls in between. It’s targeted for that mid-size employer who wants to be rated and priced based on his own experience, but isn’t exactly ready yet to make that transition up to the full ASO product. That’s the way I would look at it along the continuum. To David’s point, the key is providing transparency to their own experience, and the rating is consistent with this transparency.

Peter Costa (Wells Fargo):
Okay, thank you.

Justin Lake (UBS):
Thanks. Good morning. First question on the SG&A, can you quantify for us the higher spend in the second half versus the current run-rate?

And also, can you give us an update on your target of $150 million to $200 million for 2011 and 2012 on SG&A reductions? And any color on timing there for identified cuts?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
Relative to quantifying what we see as additional spending in the second half as it relates to health care, I’ll speak to the core medical operating expense line that you’ll see in the quarterly statistical supplement.
As I noted in my prepared remarks, that is a strategic investment that we think is prudent given what’s going on relative to our growth strategy. We also expect some acceleration because we think it’s prudent to advance the compliance expenses.

Order of magnitude, I think of the second half increase in spend as about $10 million to $15 million after-tax. Relative to the $150 million to $200 million, I would remind you that we are committed to continuing to identify opportunities to improve our operating efficiencies.

As we talked before, we didn’t give any specific timing or quantification of how that would fall into 2011 and 2012. We are still committed to making the right balances and trade-offs and identifying operating efficiencies. We will continue to invest smartly to ensure that we’re well positioned for the opportunities around health care reform, and also to ensure that we’re well positioned relative to compliance.

The final thing I’ll say is that we are going through our process as we speak, and we’re not in a position yet to give out 2011 guidance, but as we get closer to that we’ll give you more visibility into those numbers for 2011 and beyond.

Justin Lake (UBS):
One follow-up on 2011: given the company’s business momentum and your relative lack of exposure to health care reform, is there any reason we should think you wouldn’t be targeting positive operating earnings growth next year? Without getting specific on numbers, do you expect earnings to be up or down?

David Cordani (President and Chief Executive Officer):
Justin, as Annmarie said, it’s early to talk about 2011, especially given the unique marketplace. Having said that, when we think about the diversity of our portfolio – our non-U.S. businesses, our Disability, Life and Accident business, our service-related health care business and our specialty portfolio – and our momentum, as we said in our prepared remarks, we feel good about 2010 and the opportunity from an outlook standpoint.

So we’re not going to guide you to a number, but rather take you back to the core of our business and what we’re focused on right now. We would speak to the diversification of the business, both domestically and abroad, as well as the target of our strategy. And both Annmarie and I said we feel good about opportunities as we look to the future.

Justin Lake (UBS):
Great. Can I ask a quick followup on VADBe? Just to be clear, in 2008 the market volatility drove reserve increases and actual dollars having to be inserted there from a capital perspective. If I remember correctly, in 2009 you actually had some gains there and you didn’t actually have positive capital from that business.

So as you take losses here, are you talking about book losses, or are you talking about capital losses?

Annmarie Hagan (Executive Vice President and Chief Financial Officer):
To put it in perspective, I don’t need to remind you that the turbulent types of capital markets from 2008 are not what we’re thinking about as we move through the balance of the year.

If you’ll recall, the S&P has to go down pretty far for it to impact our dividend-paying capability. I would think that in the near-term, if we had any charge in the second half, it would be manageable from both standpoints of a dividend capability from the sub as well as potential earnings impact.

Justin Lake (UBS):
Okay, so you wouldn’t see any change to the dividends if you took a $50 million or $100 million loss from that standpoint?
Annmarie Hagan (Executive Vice President and Chief Financial Officer):
Not at that point in time, but I do want to emphasize that we do not have a known $50 million to $100 million after-tax exposure in VADBe. We’re just flagging that there could be some charge in the second half, and I’ve given an order of magnitude impact of up to $50 million after-tax. This is meant to convey that we don’t think it’s a catastrophic risk.

Justin Lake (UBS):
Perfect. Thanks a lot.

David Cordani (President and Chief Executive Officer):
In closing, we hope you take away a few conclusions about our business as we navigate and help shape this dynamic marketplace.

Second quarter 2010 results are strong, which reflects the value we’re delivering to our customers, the strength of our diversified portfolio of businesses and effective execution of our global growth strategy.

We’re also making significant progress towards the creation of strategic and financial flexibility through the continued strengthening of our capital position and effective management of operating and medical costs for the benefit of our clients.

We’re actively involved with the implementation of sustainable health care programs that focus on health and prevention while effectively addressing access, cost and quality. We see this as natural for us given our long-standing mission predicated on helping individuals improve their health, well-being and sense of security.

We see this approach as more important then ever, specifically making sure our company is aligned with and compliant with the new law. We’ll continue to work with regulators to create a sustainable health care system. We’re also identifying additional growth opportunities for CIGNA to pursue in this rapidly changing market.

Finally, CIGNA is well positioned as a global health service company with a diversified global portfolio of businesses. I’m confident that our global footprint will enable us to achieve our 2010 strategic and financial objectives and deliver meaningful value for the benefit of our customers and shareholders as we look to the future. Thanks again for joining us for today’s call.

END