CIGNA CORPORATION

SECOND QUARTER 2009 INVESTOR TELECONFERENCE
PHILADELPHIA, PA
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H. EDWARD HANWAY – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

DAVID M. CORDANI – PRESIDENT AND CHIEF OPERATING 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

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 in the health care operations, and the outlook for the Company's full year 2009 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) offering products that meet emerging market needs, (ii) strengthening underwriting and pricing effectiveness, (iii) strengthening medical cost and medical membership results, (iv) delivering quality member and provider service using effective technology solutions, (v) lowering administrative costs and (vi) 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, 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;
9. 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;
10. 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);
11. 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;

12. 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;
13. 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 plan in future periods as well as the recognition of additional pension obligations;
14. 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;
15. 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;
16. 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 healthcare services provided to their workforce, loss in workforce and our customers' ability to pay receivables) and our vendors (including their ability to provide services);
17. changes in public policy and in the political environment, which could affect state and federal law, including legislative and regulatory proposals related to health care issues, which could increase cost and affect the market for the Company's health care products and services; and amendments to income tax laws, which could affect the taxation of employer provided benefits and certain insurance products such as corporate owned-life insurance;
18. potential public health epidemics 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;
19. risks associated with security or interruption of information systems, which could, among other things, cause operational disruption;
20. 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;
21. the ability to successfully integrate and operate the businesses acquired from Great-West by, among other things, renewing insurance and administrative services contracts on competitive terms, retaining and growing membership, realizing revenue, expense and other synergies, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel; and
22. the ability of the Company to execute its growth plans by successfully managing Great-West Healthcare's outsourcing projects and leveraging the Company's capabilities and those of the business acquired from Great-West to further 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 quarters ended March 31, 2009, June 30, 2009, and other documents filed with the Securities and Exchange Commission include both expanded discussion of these factors and additional risk factors and uncertainties that could preclude the Company from realizing the forward-looking statements. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Ted Detrick (Vice President, Investor Relations):
Good morning, everyone, and thank you for joining today's call. I am Ted Detrick, Vice President of Investor Relations. With me this morning are Ed Hanway, CIGNA's Chairman and CEO; David Cordani, President and Chief Operating Officer; Annmarie Hagan, CIGNA's Chief Financial Officer.

In our remarks today, Ed Hanway will begin by briefly commenting on CIGNA's second quarter results. David Cordani will provide his perspective on the second quarter and the full year outlook for CIGNA's ongoing businesses. He will also provide an update on our cost reduction initiatives.

Annmarie Hagan will then review the financial details for the quarter and provide the financial outlook for full year 2009. Ed will then conclude with an update on the topic of healthcare reform before we open the lines for your questions.

As noted in our earnings release, CIGNA uses certain financial measures which are not determined in accordance with generally accepted accounting principles, or GAAP, when describing its financial results. Specifically, we use the term labeled "adjusted income from operations" as the principal measure of performance for CIGNA and our operating segments. Adjusted income from operations is defined as shareholders' income from continuing operations excluding realized investment results, special items, and the results of our Guaranteed Minimum Income Benefits (GMIB) business.

A reconciliation of adjusted income from operations to shareholders' income from continuing operations, which is 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 and Exchange Commission and is also 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 Ed, I will cover a few items pertaining to our second quarter results and disclosures. I note that we recorded two special items in the quarter. The first is a $30 million after-tax benefit related to the decision to freeze our pension plans. The second special item is a $9 million after-tax charge related to CIGNA's previously announced cost reduction plan. I would remind you that these special items are excluded from adjusted income from operations in today's discussion of both our second quarter results and our full year 2009 outlook.

Our second quarter 10-Q will provide expanded disclosures resulting from our decision to freeze the pension plans.

Relative to our Run-off Reinsurance operations, our second quarter shareholders' net income included after-tax income of $110 million, or $0.40 per share, related to the GMIB business. I would remind you that the impact of Statement 157 reporting on our GMIB results is for GAAP accounting purposes only. We believe that the application of this statement does not represent management's expectations of the ultimate liability payout.

Because of Statement 157, CIGNA's future results for the GMIB business will be more volatile as any future change in the exit value of GMIB's assets and liabilities will be recorded in shareholders' net income.

CIGNA's 2009 earnings outlook, which Annmarie will discuss in a few moments, excludes the results of the GMIB business, and therefore any potential volatility related to the prospective application of Statement 157.

One last item, I would like to remind you that CIGNA will be hosting its annual Investor Day this year on November 20th in New York City.

With that, I'm going to turn it over to Ed.

Ed Hanway (Chairman and CEO):
Thanks, Ted. Good morning, everyone.

Our second quarter 2009 adjusted income from operations was $313 million, or $1.14 per share. These second quarter consolidated results reflect solid earnings contributions from each of our ongoing operations, and in this challenging economic environment demonstrate the benefit of our diversified portfolio of businesses.

In fact, each of our ongoing businesses, that is, Health Care, Group Disability and Life, and our International operations, delivered meaningful earnings growth compared with our first quarter results.

For Health Care, earnings were $177 million in the second quarter, representing a $23 million improvement over the first quarter of 2009. This earnings result reflects good execution on the performance improvement initiatives that we mentioned last quarter, including our cost reduction activities. The results are also consistent with the growth trajectory we expected in order to achieve our full year Health Care earnings target.

For our Group Disability and Life business, we had earnings of $90 million and continued to achieve competitively strong margins, which is evidence that our value proposition related to our superior disability management programs continues to resonate well in the marketplace.

Second quarter earnings in our International segment were $63 million and reflected solid margins in both the Life, Accident and Health, and Expatriate benefits businesses. While International's results include the impact of unfavorable currency movements, we continue to be quite pleased with both the top-line growth and earnings contributions of this segment.

Overall, our investment portfolio continues to perform well relative to the market condition, which we believe is a direct result of our disciplined approach to investing. In addition, our capital position remains strong, and we continue to maintain the financial flexibility to weather potential challenges in the capital markets.

Regarding the full year 2009 outlook, we now expect that earnings per share will be in the range of $3.80 to $4.00 per share. This outlook is modestly higher than our previous expectation, reflecting the strength of our second quarter results and assumes breakeven results for VADBe for the remainder of the year. I also note that the earnings outlook for our Health Care business remains unchanged.

Overall, I'm confident in our ability to achieve our 2009 operating goals and earnings estimates, thereby creating value for our shareholders while continuing to improve the health, well-being and sense of security of the people we serve.

After David and Annmarie's remarks, I will be making some concluding comments, including observations regarding healthcare reform.

With that, I'm going to turn the call over to David.

David Cordani (President and Chief Operating Officer):
Thanks, Ed, and good morning, everyone. Today, I will review second quarter results of our ongoing operations, provide an update on our operating cost reduction initiatives, offer some perspective on the current conditions in the health benefits marketplace, comment on the full year 2009 outlook, and discuss growth opportunities as we look to 2010 and beyond.

I'll start by reviewing the second quarter 2009 earnings. Second quarter Health Care earnings reflect favorable operating expenses, continued strong contribution from the specialty businesses, and improved net investment income results, which was tempered by pressure on the guaranteed cost medical loss ratio (MLR) and lower medical membership.

Operating expenses declined sequentially by 3%, as a result of the cost reduction actions we have taken to date. I would highlight that we continue to balance strong service and clinical program delivery and ongoing technology investment with these expense reductions.

Our Great-West book of business continues to benefit from the progress we're making on improving the total medical cost for our customers. For this book, we are on track to achieve over 90% of the total medical cost improvement to be completed by year end 2009. For our overall book of business, the medical cost trend continues to be in a range of 7% to 8%, and the components of this trend remain unchanged.

Medical membership declined sequentially by approximately 1.5%, primarily due to higher levels of disenrollment. Overall, approximately 80% of our year-to-date membership decline is due to disenrollment. The level of sales and account retention continues to be in line with our expectations, and we continue to exhibit good pricing and underwriting discipline.

I would highlight that our strong client retention rates validate that our capabilities and value proposition continue to resonate well in the marketplace and that our service and clinical delivery programs were strong and consistent as we continue to deliver good results to our clients, customers, doctors, hospitals, and producers.

Overall, our second quarter Health Care results reflect good execution of the fundamentals and we remain on track to achieve our full year expected earnings.

Turning to Group Disability and Life, earnings in the quarter reflect strong results from our disability management programs and attractive margins. The strong second quarter results reinforce that our disability management and return to work programs continue to perform very well and deliver a real value for our customers and shareholders. Overall, our Group Disability and Life results are strong and continue to be competitively attractive.

For our International business, earnings in the quarter reflect solid margins in the Life, Accident and Supplemental Health insurance, as well as our Expatriate benefits businesses. In the marketplace, we continue to see good demand for our supplemental health insurance and expatriate products, and, as such, new business sales continue at a reasonably strong pace.

I'll now provide an update on our cost reduction plan. In regards to the cost reduction charge we took in the fourth quarter of 2008, we are on track to achieve our targeted savings. As I noted previously, this was a clear and important first step to a disciplined operating expense reduction initiative.

In this quarter we made another installment regarding our cost reduction plan and recorded a special item charge related to reducing our workforce by an additional 465 positions. We expect this second installment of expense reduction actions to yield annualized pre-tax benefits of approximately $25 million, with essentially all the benefits being realized in our Health Care business.

Beyond the cost reduction initiatives that we have already implemented, we recognize that there is more to do. Based on our most current assessment, our per-member operating expenses are approximately 10% above that of key managed care competitors.

As an enterprise, we are targeting a meaningful reduction to this gap. Through our multi-year expense strategy, we see further improvements in five key areas: first, seeking further opportunities for employment-related cost reduction savings; second, achieving procurement related savings including vendor consolidation; third, delivering additional administrative efficiencies through effective use of technology; fourth, outsourcing of certain operating functions that do not leverage our core competencies; and fifth, optimizing our fixed cost infrastructure, with emphasis on reducing our real estate footprint.

While we continue to seek opportunities to further reduce expenses, we remain committed to maintaining our service levels and commitment to clinical excellence for the benefit of our customers and investing prudently in technology.

In summary, we are making progress on improving our operating expense run rate and will continue our process of identifying actions that will further reduce operating expenses.

Now let me provide some perspective on the current conditions in the health benefit marketplace. The pricing environment remains competitive, and our strategy is to continue our discipline of balancing growth and profitability. Clients today are looking for solutions to help them manage their medical and disability related costs, while improving health and the productivity of their employees.

Recently, we have seen increased interest in consumer engagement and consumer directed programs, as well as supporting capabilities including on-site clinical delivery and web-based coaching and care delivery.

In this environment, we are well-positioned to meet customers' needs. Our approach is one of leveraging the knowledge of our clients and their employees to design benefit plans that align incentives and drive engagement of customers. To accomplish this, we offer customers leading decision support and navigation tools, as well as clinical capabilities through online assessments, personal health records, and onsite clinics.

We integrate our clinical programs with primary care and health coaching to improve health and productivity. We have seen some powerful results for clients and customers when health improvement programs are effectively delivered.

Two good examples are our recent wins to service a large Northeast electrical service company and a prominent university in the Midwest, both effective January 2010.

Overall, our industry-leading clinical capabilities and focus on long-term health improvement programs are resonating well.

I'll now provide an overview of our full year 2009 outlook for each of our ongoing businesses, starting with Health Care.

We continue to expect full year 2009 Health Care earnings to be in a range of $700 to $760 million. We expect Health Care earnings to increase meaningfully in the second half due to a number of expense related actions and other profit drivers, which Annmarie will discuss in more detail in a moment.

From a membership perspective, while our sales and account retention results are generally in line with our expectations, we are seeing additional disenrollment pressure due to the elevated unemployment levels. We are now assuming that unemployment levels will rise to approximately 10.5% to 11% by year end, driving further membership disenrollment. As a result, we now expect total medical membership to decline by approximately 5% to 5.5% for full year 2009.

Turning to Group Disability and Life, our second quarter results were strong and better than expected. As a result, we are increasing our full year 2009 outlook compared to our previous estimate. We expect the impact from the economic downturn on our Group Disability and Life results to be manageable. However, we will continue to closely monitor emerging indicators.

Turning to International, we are increasing our outlook for the year. In the marketplace we continue to experience good demand for our products despite the global recession.

Considering the impact of our Group Disability and Life in International businesses, we are increasing our full year outlook for our operating businesses by $20 million after-tax. Annmarie will cover this in more detail in a few moments.

Before I wrap up my comments, I'll provide some insights on key actions that we will be driving to grow our business in 2010 and beyond.

As a backdrop, we fully recognize 2010 will be a challenging year given the state of the economy and the uncertainty that healthcare reform represents. Forces include: ongoing challenges with employment levels and medical cost pressure for the industry, the need to continue to invest prudently in technology for both increased regulatory compliance and market-facing capabilities, and the fact that investment yields are unlikely to improve meaningfully over the near term. Each of these forces will create challenging headwinds for our business.

To deal with these challenges, we will be driving several key actions to profitably grow CIGNA over the intermediate term. Here in the U.S., we see several good opportunities to profitably grow our business.

Relative to medical and specialty businesses for the middle market employers, which represent a competitive strength for us, we have seen good performance here and we expect further improvement as we look to the future. Select segment employers offer attractive opportunities for us as we build on our successful Great-West acquisition. We also see targeted opportunities for national account clients specifically those who value our innovative and leading engagement and consumer directed programs.

Additionally, we see very good opportunities to continue to grow and further accelerate growth of our disability programs for employers. This will be further enabled as we expand our disability capabilities to employers in the select segment.

Outside of the U.S., we see very attractive growth opportunities as well. I'll briefly highlight two. First, further expanding our life, accident and supplemental health presence, with particular focus in Asia. Here we will further leverage our diverse product portfolio and expand our distribution channels. Second, for expatriates, we see good growth opportunities as we seek to leverage our global footprint and deliver network to deliver programs for both global and inter-regional expatriates.

Stepping back, we've benefited from our diverse product and geographic portfolio. As we look forward, there are three key themes that tie our most attractive opportunities together. They are: first, our clear focus on and understanding of our targeted customers and distribution channels; second differentiated service experience for both our customers and distribution partners; and third our ability to secure long-term relationships that are built on a foundation of multiple products and services. The combination of these themes delivers differentiated value for our customers and, as a result, stronger returns for our shareholders.

In addition, we will drive further margin expansion by improving our operating expense position. We remain committed, as I noted earlier, to deliver meaningful and sustainable improvements to our expense levels over the coming years.

I'll now wrap up my prepared comments. Our second quarter results were solid and reflect sound execution of the fundamentals. We remain committed to consistent and effective service and clinical results as we seek to provide cost effective solutions for our clients and the customers we serve. Each of our ongoing businesses has earnings growth opportunities as we look to the future. For 2009, we remain committed to delivering our earnings outlook.

At this point, I'll turn the call over to Annmarie.

Annmarie Hagan (Chief Financial Officer):
Thanks, David. Good morning, everyone. In my remarks today I will review CIGNA's second quarter 2009 results. I will also 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 $313 million, or $1.14 per share, compared to $303 million, or $1.07 per share, in 2008. Our consolidated second quarter 2009 earnings improved relative to first quarter, primarily reflecting increased earnings in each of our ongoing businesses, that is, Health Care, Group Disability and Life, and International.

I will now review each of the segments beginning with Health Care. Second quarter Health Care earnings were $177 million, an improvement from $154 million in the first quarter. The sequential improvement primarily reflected reduced operating expenses, which more than offset declines in membership, improved net investment income, and a higher guaranteed cost loss ratio. Health Care results also reflected increased contributions from our specialty businesses.

I will now discuss our Health Care results by major components. Guaranteed cost earnings declined sequentially, mainly reflecting a higher than expected loss ratio and lower membership. I would remind you that our guaranteed cost book now has fewer than 800,000 lives. Given the size of this block, results tend to vary from quarter to quarter. Accordingly, I would focus on the year-to-date results.

Our guaranteed cost loss ratio for the first half of 2009 was 84.8%, excluding our voluntary business. This came in higher than expected, driven primarily by unfavorable prior year claim development and a modestly higher than expected level of flu-related claims. Fundamentally, our year-to-date guaranteed cost results reflect solid underwriting execution as we continue to achieve pricing yields that exceed medical cost trend.

Experience-rated results improved sequentially largely due to favorable operating expenses. Results through the first half of 2009 reflect continued solid underwriting execution.

Our ASO results increased from the first quarter, driven by favorable operating expenses and continued strong contributions from our specialty businesses. This includes the benefit from continued implementation of our total medical cost improvement initiatives on the Great-West book of business, and these actions are progressing well.

Overall, operating expenses decreased 3% sequentially, reflecting the impact of cost reduction actions taken to date.

Health Care membership declined by 180,000 lives, or approximately 1.5%, in the quarter. While net new sales and customer retention results were generally as expected, the membership decline reflects higher than expected disenrollment.

Health Care premiums and fees decreased 2% sequentially, which was generally in line with the lower medical membership. Now I will discuss the results of our other segments.

Second quarter 2009 earnings in our Group Disability and Life segment were $90 million, reflecting competitively attractive overall margins. In addition, earnings reflect strong results from our disability management programs, which also contributed a net benefit of $20 million after tax related to a reserve study. While disability results to date have been strong, we are continuing to monitor them closely for potential impacts of the economy.

In our International segment, second quarter 2009 earnings were $63 million. This result includes a $14 million favorable adjustment related to the implementation of a tax strategy which will also reduce our effective tax rate going forward. Second quarter results also include an unfavorable $7 million after tax impact from foreign currency changes compared to the same period last year. This is primarily due to adverse currency movement in South Korea, CIGNA’s largest non-U.S. market.

Overall, segment results continued to reflect competitively attractive margins in our Life, Accident and Supplement health and Expatriate benefits businesses.

Earnings for our remaining operations, including Run-off Reinsurance, Other operations, and Corporate, totaled to a loss of $17 million for the quarter. Second quarter results in the Run-off Reinsurance segments was a net gain of $2 million and include the favorable impact of settlement activity. It is important to note that VADBe results were a loss of only $1 million in the quarter.

I will now comment on our investment portfolio and results. Overall, our investment portfolio continues to perform well. Our second quarter net realized investment losses totaled $9 million after tax, reflecting credit impairments related to real estate equity funds, partially offset by gains primarily on asset sales. We view this as a strong result given the current market conditions.

Now, regarding our commercial mortgage loan portfolio of $3.6 billion, second quarter performance remained strong and problem loans continue to be manageable. Given current market conditions, we accelerated the completion of our annual comprehensive commercial mortgage loan review.

For the total portfolio, the loan to value ratio is now estimated at 78%, which is an increase over the 64% ratio from last year's review, reflecting the significant decline in commercial real estate values.

Our loans remain well collateralized, and our borrowers still have meaningful equity at stake in front of our mortgage loans.

Relative to our commercial mortgage loan portfolio, I will highlight two key areas: first, an update on the $59 million problem loan we discussed at the first quarter; and second, an update on our current estimates of problem and potential problem loans.

First, regarding the $59 million non-performing loan that we previously discussed, we have completed foreclosure proceedings on this property. We did not record any impairment on this loan, as the fair market value of the property continues to exceed the loan value. We are now managing this property as an asset within our directly-owned real estate portfolio, an area in which we have considerable experience and have demonstrated success in managing these properties and recognizing the economic value.

Second, we now have a combined 18 loans in our problem and potential problem loan categories, totaling approximately $320 million, or 9% of our $3.6 billion mortgage loan portfolio. Of this total, we have two problem loans totaling $66 million, or approximately 2% of the portfolio, and 16 potential problem loans totaling $255 million, or 7% of the portfolio. To date, we have not taken any impairments on these loans, as all but three are fully performing and the market values of the properties continue to exceed our loan values.

The increases in both the problem and potential problem loan categories were not surprising given the challenging economy and the resulting decline in commercial real estate fundamentals and values. Overall, we continue to be pleased with our investment management results relative to the current market conditions, and we believe our problem and potential problem investment assets are manageable.

I will now discuss CIGNA's capital management position and outlook, including a summary of our subsidiary capital and our parent company liquidities. Overall, we continue to have a strong balance sheet and good financial flexibility. As of June 30, the overall level of surplus remains far in excess of regulatory minimums.

We have made good progress towards our capital management goals in the first half of the year, and we expect that our position will continue to improve in the second half of the year. Consistent with our previous discussion, we are managing our 2009 subsidiary dividends to increase our subsidiary capital to a level that is closer to our long-term target of approximately 600% of the Authorized Control Level.

Now I will review our parent company liquidity. We ended the second quarter with cash and short-term investments at the parent of approximately $180 million, including outstanding commercial paper borrowing of approximately $100 million. For the full year, we expect approximately $275 million in parent company cash, which is an improvement from our expectation at first quarter of $200 million. The increase is driven primarily by higher net debt proceeds of $150 million, an increase in subsidiary dividends of $20 million, and a decline due to increased pension funding at the parent worth $95 million.

I will now provide the details of our parent company liquidity outlook for the full year. We began the year with approximately $90 million in parent company cash. For the full year, we now expect subsidiary dividends of approximately $540 million. An additional source of parent company cash for the full year is $150 million in net debt proceeds. In the second quarter, we issued $350 million of 10-year debt. In addition, we repaid $200 million of our outstanding commercial paper. The result was net debt proceeds of $150 million.

Relative to our pension plan funding, our total enterprise contribution for the full year remains at $410 million before tax. We now expect the pension plan funding to result in a net after tax use of parent company cash of approximately $225 million for the full year, which is higher than the $130 million we provided in May, primarily as a result of freezing the pension plans. All other sources and uses of cash for the full year are still expected to be a net use of approximately $280 million.

Putting all the pieces together, we now expect our year end 2009 parent company cash to be approximately $275 million, including outstanding commercial paper of $100 million. I would remind you that we do not anticipate having capacity for share repurchase in 2009. I would also remind you that we have no long-term debt maturing until 2011.

Overall, our current capital outlook remains positive. Based on our progress in 2009, we expect to be in a position to resume our normal capital deployment strategy in 2010.

I will now review our earnings outlook. For full year 2009, we now expect consolidated adjusted income from operations of $1.04 billion to $1.1 billion, which is $20 million higher than our previous range of $1.02 to $1.08 billion. We also now expect full year earnings per share in a range of $3.80 to $4.00, compared to our previous estimate of $3.70 to $3.90 per share.

The increase in our consolidated earnings range reflects a higher earnings outlook for both the Disability and Life and International segments due to the strength of the second quarter results in these businesses. I would also note that our updated earnings outlook assumes that VADBe results are breakeven for the remainder of the year since we believe that our current reserve assumptions are appropriate.

I will discuss the components of our 2009 outlook, starting with Health Care. We continue to expect Health Care earnings in a range of $700 to $760 million for the full year. While this range is consistent with our previous estimates, the components have changed. We now expect lower operating expenses and improved specialty earnings, offset by additional pressure on our medical membership and a slightly higher guaranteed cost loss ratio.

Now let me provide some color on the moving pieces. Relative to operating expenses, the improvement in the full year outlook reflects our strong year-to-date results and continued commitment to our cost reduction initiatives. Specific to membership, we are now assuming that unemployment levels will rise to approximately 10.5% to 11% by year end 2009, driving further membership disenrollment. As a result, we now expect total medical membership to decline by approximately 5% to 5.5% for full year 2009.

Relative to our guaranteed cost book of business, we now expect our full year loss ratio, excluding voluntary, to be in the range of 84% to 85%. This revised outlook is an increase versus our previous range of 84% to 84.5%, driven primarily by the impacts of prior year claim development and flu-related claims experienced in the second quarter.

We continue to expect full year medical cost trends for our total book of business to be in the range of 7% to 8%, and the components of this trend remain unchanged. I would also note that for our risk book, we have achieved pricing yields that exceed medical cost trends, and we expect that to continue for the balance of the year.

Regarding the Health Care earnings progression for the balance of the year, we continue to expect an increase in earnings in the second half of 2009. The year-to-date Health Care earnings results of $331 million would run rate to approximately $660 million for the full year. Our full year outlook reflects an increase of approximately $40 to $100 million after tax compared to this run rate.

We expect this improvement to be driven primarily by operating expenses, including a $30 million after tax benefit of freezing our pension plans, as well as a $25 million after tax benefit of lower transformation amortization expenses in the second half of the year. The balance of the net improvement is expected to be driven by the combined impact of the seasonality related to Medicare Part D and higher net investment income, tempered by lower medical membership.

In total, we continue to expect that Health Care earnings will improve in the second half of 2009, yielding full year earnings in a range of $700 to $760 million.

I will now discuss the outlook for our other businesses. We expect our remaining operations to contribute approximately $340 million in earnings for the full year. We expect our Group, Disability and Life and International businesses to continue to grow revenue while maintaining competitively strong margins.

Specifically, we now expect our 2009 Group Disability and Life earnings to be approximately $10 million after tax higher than our previous estimate. The increase in the outlook is primarily driven by the favorable second quarter results which underscore the strength and value of our disability management programs.

We now expect earnings in our International business to grow by high single digits in 2009. This updated outlook includes the one-time and ongoing benefits of the tax strategy which was implemented in the second quarter.

All in, we expect consolidated earnings per share to be in a range of $3.80 to $4.00, and this assumes that VADBe results are breakeven for the balance of the year.

Now to recap, earnings in the second quarter improved relative to the first quarter in each of our ongoing businesses. Based on the strength of our results in the first half of the year and the continued impact of operating expense improvement, we remain confident in our ability to achieve our full year 2009 earnings outlook.

And finally, our capital position and our investment management results remain strong relative to current market conditions. With that, I'll turn it back over to Ed.

Ed Hanway:
Thanks, Annmarie. I'm now going to comment on healthcare reform and conclude with a few overall observations. Regarding healthcare reform, I'll start by noting that CIGNA continues to be active in the debate around the future of our healthcare system. At the same time, we are also working to enhance our capabilities and position CIGNA for success under various reform scenarios.

We are encouraged that efforts to date are gaining traction to engage and inform the members of Congress regarding the need to address not just the issue of access but the cost and quality of healthcare as well.

At CIGNA, we believe that every American should have access to affordable quality healthcare. We believe the employer-based system, through which more than 160 million Americans gain access to a choice of innovative health plans and benefits, should remain the primary source of coverage for working individuals and their families.

We also believe that a coordinated public and private partnership of all healthcare stakeholders is critical to creating a value-driven market and for healthcare reform to have a meaningful impact, it needs to address the true drivers of higher medical costs, including the need for a strong focus on health improvement and wellness.

Relative to the outlook for reform, just a couple of thoughts. While it is not possible to definitively predict what reform will ultimately look like, I think some potential themes are emerging. First, future Medicare Advantage reimbursement rate cuts are very likely as these cuts are viewed as a means to finance healthcare reform. Second, we are likely to see reform that will provide access to affordable healthcare for some portion of the 45-plus million uninsured, likely including individual and employer requirements to purchase or contribute to coverage and subsidies for lower wage workers. Third, the obvious challenge is how to pay for the expansion of coverage.

Proposals for tax increases on individuals, on benefits, on employers, and on the insurance industry are all being discussed as possible solutions. These are quite contentious issues, and none of these proposals address the real issue of lowering healthcare costs and improving access and quality.

It is clear that certain key groups in both the House and Senate are very concerned with the cost of reform and its impact on federal deficit, and as such are advocating for a very close review of proposed legislation.

While the ultimate outcome of reform is pretty difficult to predict, we feel that CIGNA is positioned to adapt to and capitalize on any potential opportunities from the evolution of healthcare in the U.S. Specifically, our risk relative to Medicare Advantage rate reductions is limited due to our small exposure to Medicare membership. In addition, we believe our growing capabilities to provide individual coverage makes some aspect of reform, such as the improved access for the uninsured, a potential opportunity for us.

And finally, specific to reform that may focus on health outcomes, I would note that the notion of improving health and wellness to bend the medical cost trend curve aligns very well with CIGNA's strategy and business model. In working with many employers, we have demonstrated the positive impact our engagement programs can have when supported by actionable health and wellness information, as measured by improved cost and quality outcomes. Our ability to effectively integrate our broad array of capabilities in behavioral, pharmacy, disability, and health coaching creates real value for both employers and our members.

Before we take your questions, I want to provide our current thinking on our Pharmacy Benefit Manager (PBM) given the interest it has generated. Our work to date has confirmed both the relative strength of our PBM's earnings as well as its value proposition for our customers. Accordingly, this asset remains a key component of our strategic direction. However, as always, we continue to explore options to maximize the value of our assets for our customers and our shareholders.

So let me recap. Results from each of our ongoing businesses in the quarter were solid, and each business delivered meaningful earnings growth compared with the first quarter. Second, our capital position is strong, and our investment portfolio is of high quality and well managed. Finally, as we look to the future, CIGNA has a well diversified, competitively attractive portfolio of businesses with solid earnings growth opportunities.

In conclusion, we are confident in our ability to achieve our full year earnings target for our ongoing businesses and continue to improve our competitive position, thereby creating value for the benefit of both customers and shareholders.

We would now be glad to take your questions.

Matthew Borsch (Goldman Sachs):
I was wondering if I can start with a question on the commercial mortgage portfolio update that you gave. Could you walk us through the criteria that are used to identify the category of 18 commercial mortgage loans, of which 2 are problem loans and 16 are potential problems loans, and how you will handle those going forward?

And then a related question, if you could also address under what circumstances would we expect to see you update the loan to value ratio on a quarterly basis versus a year from now when you do your next review?

Annmarie Hagan:
Relative to our overall commercial mortgage loan portfolio, the $3.6 billion is made up of 180 individually underwritten loans that are very diversified by property type, location, and borrower.

During our annual loan review we look at a variety of inputs. We do a physical inspection of the property. We look at rent rolls, vacancy, and the area the property is located in. We also look at the borrower's financial capabilities. All this is reviewed and analyzed by independent auditors.

Those mortgage loans that we actually put into the potential or problem category are those where we have some early warning sign or concern that the borrower may default on at some point in time. I'll remind you that all but three of the loans are fully performing. All of the borrowers today, other than those three, are actually meeting their contractual cash obligations.

As it relates to the loan to value ratio, as you know we do a comprehensive review on an annual basis. On a quarterly basis we do review each of our loans regularly to understand if there were any significant changes in the marketplace, status of the borrower, or other inputs that were analyzed during the annual review.

We would take an impairment, if required, if the borrower was not able to ultimately meet their cash obligation and the outstanding loan amount was over the book value. We would take those impairments on a real-time current basis.

Matthew Borsch:
On your RBC ratio, I think I heard you mention the 600% figure again. Is that still your year end target or did you imply that you are there already?

Annmarie Hagan:
To clarify, it is our year end target and we remain on track to achieving the target of 600% of the Authorized Control Level.

Ana Gupte (Sanford Bernstein):
My question is about the guaranteed cost loss ratio. You mentioned that you're achieving spreads that are positive between premium yield and trend. When I look at first quarter relative to second quarter, it seems to be at least narrowing if not becoming slightly negative. I was wondering if you had any prior period development built in there?

And then on the individual book that you're trying to grow, do you include that now in your guaranteed cost line item?

Annmarie Hagan:
Relative to guaranteed cost medical loss ratio, we are continuing to achieve premium yields in excess of medical cost trends. Yields are in the 8% to 9% with overall trend in the 7% to 8%.

As to your point of spreads narrowing in the quarter, there was some prior year development that we identified in the quarter. If you take the reported 84.8% year-to-date guaranteed cost medical loss ratio and adjust it for the prior year claim development you'd be at about 84%. Having said that, we continue to feel very good about the overall guaranteed cost results and the fact that we've been consistently able to, over the past several years, price in excess of medical trend really results in a good competitive position for us.

As it relates to your specific question on the individual, the individual members are included in the guaranteed cost medical loss ratio.

Ana Gupte:
A couple of your competitors have been talking about adverse selection. As you are thinking about pricing and going into the 2010 pricing cycle, what is your estimate for a medical cost trend and the spread between yield and trend that you're targeting? Are you becoming more conservative in light of some of these reports?

Annmarie Hagan:
As it relates to 2010, you know we're not in a position yet to give specific outlook or guidance. Having said that, it is still our plan to continue to price in excess of trend.

Justin Lake (UBS):
A couple questions, first on cash flow. You mentioned that the pension contribution this year is going up a little bit. I'm just curious if you could talk to us about what you expect to deploy there for 2010 and has that changed given the fact that you are talking about getting back to share repurchase next year?

Annmarie Hagan:
In fact, from an enterprise perspective, the pension contribution number of $410 million before tax has not changed. There has been a change in the mix between what is happening between our subsidiaries and our parent company as a result of freezing our pension plans. Just to be clear, in aggregate the number remains the same.

As we move into 2010, we'll provide more guidance in the third quarter call. But those numbers, I believe, are in the $300 to $350 million range before tax and they have not changed from our previous estimate.

Justin Lake:
And that would be a similar kind of mix between parent and subsidiary?

Annmarie Hagan:
At this point it will be about the same with probably more coming from the parent as we've changed the process of how we allocate back and forth between the subsidiaries and parent as a result of freezing the pension plans.

Justin Lake:
Just one quick question on the experience-rated book. It looked like the margins there might have been a little better in the quarter. I'm just curious does that book actually benefit from in-group attrition given that you're setting a high watermark for medical cost target? And then is that done on a per-member-per-month basis or is that done on a gross basis?

David Cordani:
I would say that the book does not benefit disproportionately from in-group attrition. As we've talked before we don't look at the medical loss ratio in aggregate for this book. It's a case-by-case performance level.

Relative to your comment in terms of slight improvement in the results, we're pleased with that and it's a result of two things. Very good underwriting execution coupled with strong medical cost results that continue to be in line with our expectation. But to your point, no unique pattern for disenrollment is moving that number.

John Rex (JP Morgan):
Just coming back to the commentary you had on 2010. Given the top-line pressures that you have going into 2010 with the attrition in your book, is it realistic to think about being able to grow earnings in the Health Care segment next year, excluding benefit in 2010 from the lower amortization expenses from transformation projects?

David Cordani:
It's quite early to give you a 2010 outlook. We'll provide that in the third quarter. But let me try to help out and give you a little color in terms of considerations as we look to 2010.

First for the enterprise, the diversity of our portfolio has always been attractive. I might submit it's even more attractive in these market conditions, broadly in terms of Health Care, Group, and then the diverse and rapidly growing International portfolio.

Within Health Care we have no dependence on any one funding mechanism and have a diverse captive specialty asset portfolio. What I think about and feel good about is the successful integration of the Great-West acquisition and our ability to build on that. As I noted in my prepared remarks, it is really performing well, and we are on track to have about 90% of the total medical cost improvement opportunity secured by the end of 2009. So that's something we feel good about as we look towards 2010.

Third, as we noted in the prepared comments as well, we understand and see the expense improvement opportunity that exists. From an earnings growth standpoint, we would expect that to contribute as well as we look into 2010. So those are just a few items of consideration, and obviously we'll provide much more granularity in the third quarter relative to the 2010 outlook.

John Rex:
I'm not asking for specific guidance but just kind of bias or degree of confidence on the ability for the Health Care segment to grow next year excluding transformation amortization. Are you at the point where you have a view as to whether or not you think you can grow in Health Care segment?

Ed Hanway:
We're not going to provide guidance here. I think David did a good job of outlining some of the things that we do feel good about relative to both growth and also the ongoing expense reduction commitment. In aggregate we believe the portfolio provides us with some competitive advantage relative to overall earnings growth.

John Rex:
Some insurers have mentioned seeing some rising utilization late in the second quarter. Have you noticed this in your book? Do you see anything coming late out of the quarter that looks different?

Annmarie Hagan:
In our overall book of business we continue to feel very comfortable with trend between 7% and 8%. There is no change in the components: inpatient in the high single digits, outpatient in the high single digits, professional mid single, and pharmacy in the mid to high single digits.

In regards to second quarter specifically, there was some minor uptick in the pharmacy and outpatient utilization due to flu-related claims, which I mentioned earlier in my prepared remarks had an impact of 20 basis points on our guaranteed cost medical loss ratio.

Scott Fidel (Deutsche Bank):
Can you break out the exact dollar amount of the negative reserve development in the second quarter?

Annmarie Hagan:
The negative development in the second quarter was due to some isolated claims in the guaranteed cost book, which was primarily related to some inpatient claim development from the fourth quarter of 2008. It was about $5 to $7 million after tax or 80 basis points on the year-to-date guaranteed cost medical loss ratio.

Scott Fidel:
What's the new tax rate that we should think about for International? And then relative to the increase in International guidance, how would you say that splits out between lower taxes in second quarter and then going forward as compared to higher operating earnings outlook?

Annmarie Hagan:
International's effective tax rate has been 35% and going forward you can think of it in the 31% to 32% range. It is largely driven by our Korean operations, which generates approximately 40% of International's earnings, and the effective tax rate could change as the mix of Korean earnings changes over time. As we move forward, we'd expect about a 4% or so improvement in the effective tax rate.

Charles Boorady (Citigroup):
First I'd like to congratulate Annmarie on your new role. You talked about continued pricing ahead of medical cost trend. I'm wondering if you can reconcile that with the medical loss ratio erosion in the quarter. Was that all due to the negative prior-period development that you referred to from the end of 2008?

Annmarie Hagan:
Our guaranteed cost book of business is small and there is some variability that occurs quarter to quarter. You'll remember that in the first quarter we had a very low loss ratio in guaranteed cost book and in the second it was a little bit higher.

On aggregate, the year-to-date guaranteed cost loss ratio of 84.8% was slightly up due to the prior year claim development, and flu-related claims. The deterioration in spread between pricing and trend in the quarter was largely driven by prior year claim development. Overall, we continue to feel very good about the underwriting and pricing execution on the guaranteed cost book of business.

Charles Boorady:
In terms of your expense reduction initiatives, which appear to be going very well, can you just summarize for us the total improvement in your expenses adjusted for lower enrollment, if you could? I can see the dollar amounts in the financial statements but if you sort of adjust for enrollment mix and other things that we can't do, what's the dollar benefit or EPS benefit in 2009 versus 2008 from transformation, Great-West and other major expense reduction initiatives?

Annmarie Hagan:
I'll take a stab at it and if you need more details you can follow up with Ted after the call. If you look at the quarterly statistical supplement through 6 months and adjust for Great-West, our operating expenses in aggregate are down about 3% compared to membership being down 4% during the same period. So we realize we are not exactly where we need to be yet in regards to operating expense run rate.

We are continuing to make sure we invest prudently in information technology and customer-facing capabilities as well as maintain our service levels and clinical programs. As we go through the balance of the year, we're continuing to focus on aligning the expenses to be more in line with the decline in membership.

Having said that, we will not be 100% there in 2009, and we'll continue, as David mentioned earlier, to focus on further cost reductions as we move into 2010.

Josh Raskin (Barclay's Capital):
First, question on outlook for 2010 national accounts. We're getting started in the season, in terms of expectations of new accounts and based on the economy where do you think you'll come out January 1?

David Cordani:
I'll give you a little bit of color in terms of what we're seeing so far. As you would expect, the national account season is still active, but we're meaningfully into the process.

First, Request For Proposals (RFPs) regarding inbound opportunities, that is looking at new growth opportunities, the volume on a weighted membership basis is actually up a bit this year. On outbound RFPs, that is percentage of our book of business that's out to bid, was up a bit this year as well.

So point one is that the looks at new opportunities versus the percentage of our businesses out to bid, while both up a tad, are in pattern with one another. Second, we've seen progress to date in terms of new business sales. The pattern that we've seen thus far in the new business sale side of the house tends to be national account employers who are looking for high engagement, high health improvement programs that are typically packaged with multiple solutions.

We have some new innovative products for 2009 and 2010 that are being received quite well in the marketplace. In those pieces of businesses that we either have not secured or potentially lost, the pattern we've seen there are employers who are seeking more traditional benefit programs and alternatives. To date, as we look at the marketplace right now our expectation would be that for 2010 our client retention rates in the national accounts base will be about what we experienced in 2009.

Last comment I'd give you for national accounts is that we define the sector as commercial employers, multi-state over 5,000 employees. In many cases the marketplace or our competition includes large single side business, municipalities, universities, etc. We have seen and continue to see good traction in that subsegment as well. And that's rather attractive for us as we target key markets.

Josh Raskin:
The second question is around capital and potential needs. Did the pension freeze change your obligations in terms of cash contribution going forward?

And then specifically for commercial mortgages, I just want to understand the process here. As we look at the fourth quarter, and I think you had 2% of your loans at or above 90% loan to value. That was basically unchanged in the first quarter at 3% and now it's jumped to 28%. Is that number going to stay stagnant in your statistical supplement? I can't imagine everything deteriorated. It seems like it was just a process of going through the annual review. How do we think about those numbers in terms of quarterly updates?

Annmarie Hagan:
Relative to your first question on capital commitment, over the near term the freeze in the pension plans does not change the capital commitment required to continue to fund the pension plan obligation. Over time obviously that changes as we've eliminated benefits moving forward. But no major change in near term.

Relative to the commercial mortgage portfolio, yes, what you have seen impact us in the quarter is the annual review that we performed. I mentioned earlier that on a quarterly basis we will continue to look at each of the loans to make sure that there's no significant change in their asset worthiness. There would be some minor change, but we would not expect a wholesale change in that categorization during the near term and are committed to again performing the annual comprehensive review and updating that at the same time next year.

Christine Arnold (Cowen):
Could you help us understand what's embedded in your Health Care earnings assumptions for the rest of this year with respect to COBRA and the flu?

Annmarie Hagan:
COBRA is a very small portion of our total book. We have about 135,000 COBRA members overall and they mirror the same distribution as our aggregate medical membership, so about 80% of those 135,000 members are self-insured. The small portion of risk related COBRA membership does not have a significant impact and we would not expect it to on the guaranteed cost medical loss ratio.

Relative to the flu, if we think about the guaranteed cost loss ratio, 84.8% through 6 months, which would be about 84% excluding prior claim development, moving from the first half to the second half we do expect to continue to achieve rate action in excess of our medical cost trend and have contemplated say 40 basis points from June through the end of the year relative to the combination of the seasonality related to our deductibles as well as uptick for the flu.

Christine Arnold:
Here is what I'm struggling with. Within your guaranteed cost book I would assume most are eligible for COBRA retroactive. Then, with the acquisition of Great-West plus the stop-loss reinsurance business that you have, $1.2 billion, some of those folks who will get their insurance cards, say, July/August, may have had a catastrophic event all the way back to March that you're going to have to cover. Are you saying you're including nothing for that?

David Cordani:
Maybe one way to think about the COBRA piece is that we have about 135,000 COBRA lives. That's up from about 100,000 on a normal run rate basis.

Second, the pattern of coverages for the COBRA business mirrors our overall book of business. So if you think about the fact that I have less than 10% of my business in guaranteed cost then the year-to-date change I have in COBRA related to guaranteed cost is 3,000 or 4,000 lives at most.

Is it possible what you're identifying? Sure, it's possible. But when you boil it down to such a finite amount of lives, we don't see that as an acute driver of either our loss ratio to date or our loss ratio going forward.

The final comment I'll make is, as noted previously, we in the industry believe that COBRA loss ratio is indeed materially higher than that of a traditional book of business, but for us it is a very small portion of our overall block of business.

Christine Arnold:
So just to ask it kind of more pointedly, are you expecting zero impact on the $1.2 billion of stop-loss reinsurance where you're on the hook for catastrophic claims?

David Cordani:
No, that's not the case Christine, and it's a fair and pointed question. Our stop-loss book of business is large. To your point, it grew with the Great-West acquisition. Our total medical cost management programs are critical overall as well as for the stop-loss business. And, to your point, can there be an impact to stop-loss from some of this? Yes. We've not seen it to date. We've not seen it in the acute level, and on an overall basis, for both our core historic CIGNA stop-loss book of business and the Great-West block of business. We're actually pleased with the overall performance of stop-loss.

Carl McDonald (Oppenheimer):
Summarizing all the comments on operating expenses, should we anticipate the actual dollar spent on operating expenses in 2010 to be higher or lower than 2009 with the reductions offset by the investments and other items?

Annmarie Hagan:
I think overall we would expect a slight uptick in the overall operating expenses from 2008 to 2009 for a couple of reasons. We have added the Great-West book of business, so when you're looking year-over-year you have 9 months of last year and a full year in 2009, so a slight uptick related to that. We are taking the operating expense cost out of the system but not as quickly as we'd like. We'll continue to focus on getting the operating expense to where it needs to be over the long-term. I'd expect on apples-to-apples basis a slight uptick in the full year operating expenses from 2008 to 2009.

Carl McDonald:
Secondly, in the guaranteed cost book, how should we think about the enrollment and decline in the first half of this year between you pricing above trend and the competitive environment relative to in-group attrition?

David Cordani:
So for the guaranteed cost book, first and foremost, our new business sales are off both from our historical levels as well as from soft pressure in the marketplace as we maintain pricing and underwriting discipline.

Second point is on disenrollment. During the early portion of the year we saw an earlier uptick on the disenrollment pressure for the lower end of the employer segment and therefore specifically for the guaranteed cost book of business. That's showing a little bit of signs of moderation as we get through the middle part of the year. As we look to the second half of the year, we actually expect to see some reasonably good performance for the guaranteed cost book as we launch some of the new products that we have referenced previously. These products are in effect for July 1 and thereafter sales as we look forward.

So pressure on sales side from the pricing and underwriting discipline, and a little bit of disproportionate pressure on disenrollment in the first half of the year from the lower end of the employer segment.

Peter Costa (FTN Equity Markets):
The Medicare Part D business lost you money this quarter again and I imagine your Medicare Advantage business isn't doing a whole lot of good for you either. Can you talk about what you're going to do there over the longer-term and what your plan is? It's sort of a gnat to you guys, and we would like to see some performance out of it. What's going to happen there?

David Cordani:
Specifically to Medicare Part D, just to remind you, the earnings pattern is extraordinarily volatile quarter-to-quarter. We always talk about it in context of first half versus second half of the year. First quarter is a loss, second quarter is a loss but less than first quarter in pattern and then ramps up in the second half of the year.

To your macro point, Medicare Part D or Medicare Advantage is not a critical part of our business strategy today. We have not bet on a significant amount of earnings growth on that portfolio of businesses. Rather, what we've said is, we want to ensure that we have the right senior solutions for our employer customers to ensure that we are delivering the effective solutions they need for either their pre-Medicare retirees or post-Medicare retirees.

So outside of Medicare Advantage, we have a series of programs vis a vis a wrap to supplement Medicare coordination programs that we have in force today that are running and servicing the employers well. We also have what you might think of as a modified Consumer Directed Health Plan program for employers' needs for employees in the 55 to 64-year-old range that is actually playing pretty well in the marketplace.

As we look to the near-term future, you should not expect to see significant growth out of the Medicare Part D or Medicare Advantage businesses outside of our Arizona operation where we have a unique value proposition because of our delivery system and program there.

Greg Nersessian (Credit Suisse):
On the Health Care segment earnings, I think I heard you say that all the pension benefit in the second half of the year is in the Health Care segment. Why is it fully allocated to Health Care? I'm assuming this was not included in your previous Health Care earnings guidance, is that correct?

Annmarie Hagan:
What I mentioned in my prepared remarks was relative to the Health Care segment only. We'd see a benefit in the second half of the year of about $30 million after tax. I did not comment on the other businesses, and, in fact, there will be some underlying improvement there. About 80% to 85% of pension benefit ends up in Health Care because that's where majority of our people are. There is some small benefit in our other businesses.

Greg Nersessian:
And pension was not in the guidance previously, right? The same guidance range did not include the pension previously in Health Care?

Annmarie Hagan:
The previous guidance did include an expectation that we would be freezing our pension plans and did assume some of the savings.

Greg Nersessian:
I noticed the Medicare revenue ticked higher slightly. Was there a risk adjustment payment this quarter or anything going on that line?

Annmarie Hagan:
Yes in our Medicare Advantage book of business there was a risk adjustment payment that was received this quarter, which had an impact of approximately $5 million.

Doug Simpson (Morgan Stanley):
CIGNA has a much different portfolio of assets than the other companies predominantly focused on health insurance. You mentioned the PBM in your prepared remarks, but if you think through the entire book, is this the ideal mix of business, at this point, for CIGNA?

And just stepping back, can you talk about how you see the link between the different businesses and whether, at some point, you might think about conducting a broader strategic review of the interaction of the businesses?

Ed Hanway:
First of all, we are pretty pleased with the portfolio of businesses we have. You can be assured that the review that you mentioned is something we do on an ongoing basis. The linkage between the businesses is actually pretty significant. David referenced a couple of things that tie growth opportunities together. If you look at disability and at health care, the increasing integration of those capabilities is very attractive to us. We're a leading disability carrier in our own right, and, when you merge the capabilities there with what we do in health care, it provides a very attractive, seamless set of packaging of products for the employer.

The international operations, interestingly, are themselves predominantly health related, whether it's on the expatriate side where, in the U.S., you're carving individuals out of domestic U.S. programs and providing them with significant service on a global basis, or, increasingly, when you're looking at expatriate third-country nationals outside of the U.S. and what their needs are, particularly if they're coming to the U.S., the linkages between the business there, the quality of the service provided, the information that's provided to those individuals are very leveragable between the domestic operation and the international operation.

Increasingly, one of the areas within the International operation that is gaining a lot of interest on our part is more traditional medical products. We do a very good job on the supplemental side, and some of those supplemental products now are becoming more consistent with some of the U.S. products. So there's good opportunity as well to take expertise from the U.S. and apply it to some of those international opportunities. Given that we have such a substantial footprint there and have been at it for as long as we have the knowledge base allows us to really tailor products pretty effectively for use on the international side. We do believe the portfolio of products, at this point, is both unique and pretty attractive from a shareholder perspective. David, do you want to add?

David Cordani:
First, within the Health Care portfolio, our specialty capabilities are critical, as I referenced early on, for the wins around customer engagement and health improvement. Broadly speaking, we actually like that portfolio. As Ed referenced in his prepared remarks, we will continue to evaluate the portfolio for the right mix.

Secondly, when you take the disability and health care capabilities together, we've proven the early signs of being able to demonstrate improved productivity for the benefit of the employer and the individuals we serve through earlier interventions by coordinating healthcare and disability clinicians.

Lastly, to be very specific on the International side, if you're just looking at the expatriate portfolio, there is high leverage both in terms of the delivery system either here in the U.S. or as we look more seamlessly outside the U.S. as well as for the clinical programs, especially when the most acute events transpire for an expatriate to be able to manage those services. Broadly speaking, we like the collection of assets we have, but we will continue in a disciplined fashion to review it over time.

Doug Simpson:
You didn't mention the Run-off Reinsurance non-core businesses in those comments. How actively do you think about what you can do to shed those businesses to either structure something along the lines of a reinsurance agreement or just outright give it to someone else in the market? Is there a way to just give us a sense of the urgency on that? Is that something you think about all the time, or is it sort of part of an annual review process?

Ed Hanway:
The solutions that you suggested are all solutions that we constantly are reviewing and, I would say, are constantly in the marketplace assessing whether or not there are options for us that would be economic.

To the extent that we found one, we would certainly take advantage of it. That has not been the case at this point in time, but you can rest assured that we are very motivated to find a permanent solution for those businesses.

Having said that, I do think the risk management programs we've put in place there between the hedge programs and so forth are not only very appropriate but have worked very consistently with the way they were intended to work, but we are very motivated to find a permanent solution.

END