CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

CIGNA Corporation and its subsidiaries (the “Company”) and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company’s filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management’s beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include but are not limited to the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends and, in particular, the Company’s strategic initiatives, litigation and other legal matters, operational improvement initiatives in the health care operations, and the outlook for the Company’s full year 2011 and beyond results. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe”, “expect”, “plan”, “intend”, “anticipate”, “estimate”, “predict”, “potential”, “may”, “should” or similar expressions.

By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as a result of a variety of factors. Some factors that could cause actual results to differ materially from the forward-looking statements include:

1. 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 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 service to members and health care professionals 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 health care professionals, 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 or sustained deterioration in the commercial real estate markets;
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 hedge programs adopted by the Company to substantially reduce equity market and interest rate risks in the run-off reinsurance operations;
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 plans in future periods as well as the recognition of additional pension
obligations;
14. 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;
15. 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);
16. adverse changes in state, federal and international 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 products, services, market segments, technology and processes;
17. 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;
18. 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;
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 vendors, including the agreement with IBM for provision of technology infrastructure and
related services;
21. the ability to successfully complete the integration of acquired businesses; and
22. the political, legal, operational, regulatory and other challenges associated with expanding our
business globally.

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 Reports on Form
10-Q for the quarters ended March 31, 2011 and June 30, 2011, 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 is David Cordani, our President and Chief Executive Officer. In addition, I am pleased to introduce Ralph Nicoletti as CIGNA’s Chief Financial Officer. Ralph has been in the CFO role since late June, and we welcome him to the CIGNA team.

In our remarks today, David will begin by briefly commenting on CIGNA’s second quarter results. He will also discuss our results in the context of our growth strategy. In addition, David will explain how our focused strategy, coupled with our diversified portfolio of businesses, positions CIGNA to deliver revenue and earnings growth on a sustained basis.

Next, Ralph will review the financial results for the second quarter and provide an update on CIGNA’s financial outlook for full year 2011. We will then open the line 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 and 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, and 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 and disclosures.

Relative to our Run-off Reinsurance operations, our second quarter shareholders’ net income included an after-tax non-cash loss of $21 million, or 7 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 measuring 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 expectations of the ultimate liability payout. Because of the 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 2011 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.

With that, I’ll turn it over to David.

David Cordani (President and Chief Executive Officer):

Thanks, Ted, and good morning, everyone. I’ll start by welcoming Ralph to our team. This is his first quarterly earnings release. He’s been with us for nearly six weeks, and I couldn’t be more excited to have him here. He brings a significant amount of experience to CIGNA. His customer focus and global background will be instrumental as we continue to execute our growth strategy and become a more customer centric company.

Today he’ll walk through our financial results and outlook, but before that, I’ll take a few minutes to briefly comment on our quarterly performance. Then I’ll spend some time highlighting the differentiation of our business strategy and how it’s driving sustainable operating results. More specifically, I’ll outline how our focus and the synergies across our ongoing businesses position us for sustained profitable growth.
So let's dive in.

Overall, we've delivered another very strong quarter. Through continued effective execution of our growth strategy, we delivered strong results in 2010 and we've maintained that momentum through the first half of 2011, with organic revenue growth across all our key areas of focus and double digit earnings growth from our ongoing businesses. For the second quarter of 2011, we reported consolidated adjusted income of $418 million, or $1.53 per share, with revenue growth of approximately 7% and strong earnings from each of our ongoing businesses.

By delivering on our Go Deep, Go Global, Go Individual strategy, we've grown our business well, demonstrating an ongoing commitment to improve the health, well-being and sense of security of the people we serve. Our approach delivers differentiated value for our customers, clients and shareholders.

We are achieving our business growth by maintaining intense focus as we execute our strategy and by effectively leveraging our diversified portfolio of businesses. Our ability to capitalize on these key strengths gives me confidence that CIGNA is positioned for sustained profitable growth.

I'll now spend a few minutes on each of these components -- first the focus element and then diversification.

Since we introduced our growth strategy two years ago, we've delivered very attractive growth coupled with strong margins. At CIGNA, we don't seek to be all things to all people. Rather, we continue to grow our business on a targeted basis. This means making thoughtful strategic choices and using our Go Deep strategy to guide our actions in geographies, customer segments, products and distribution channels -- always focusing where we can deliver differentiated value and, as a result, build on our success.

For key areas of our business, we've delivered very compelling growth through the first half of the year. Specifically in our U.S. business, we've grown our middle market segment, which we define as clients with 251 to 5,000 employees plus large single site employers, medical customer base by 3%. In our Select segment, which represents clients with 51 to 250 employees, we've grown our medical customer base by 10% and in our Disability business we've delivered top-line growth of 12%. In our International businesses, including our Expatriate and Health, Life and Accident businesses, we've delivered outstanding top-line growth of 34% on a year-to-date basis, while delivering strong earnings.

I would note, very importantly, that we're growing while continuing to execute on the fundamentals of our business, including maintaining pricing discipline and providing strong clinical service excellence. This clinical and service excellence is resonating both in the U.S. and abroad, with recognition from third parties including J.D. Powers, NCQA, the American Medical Association and service excellence authorities throughout Asia, just to name a few.

In short, intense focus in targeted areas will continue to be a cornerstone of how we deliver value.

The second element that drives sustainability of our results is diversification of our ongoing businesses. We are leveraging our core capabilities within the U.S. and our businesses around the globe.

I view diversification of our portfolio as critical for our future success. It's a position of strength for CIGNA because our core businesses not only provide differentiated growth opportunities but also a common thread that we will leverage across our segment as the marketplace continues to evolve. That is, all of our ongoing businesses deliver value by improving health, well-being and productivity. This moves beyond the financing of sick care and disabilities. By delivering programs and services that achieve better health and productivity, we are creating sustainability for our customers and employer clients.

At CIGNA, diversification is not new for us. It's not a trend, and it's not a defensive action to a rapidly changing market. It's a key component of our strategy.

Let me take a minute to expand on how our global health services businesses are related and, therefore, creating leverage.
In our U.S. Health Care business, the focus is on health and productivity, and that is at our core.

We offer programs and services designed to improve engagement among all key stakeholders across the delivery system: our customers, or the individuals who use those services, the health care professionals who provide the health services, and our employer clients.

We work closely with these stakeholders, using targeted information to develop proprietary analysis and algorithms to determine which of our solutions can best meet their individual needs. That’s our consultative engagement and selling approach. We’ve demonstrated that our focus on health and engagement, and the use of incentive programs, deliver results. We previously discussed the results of our consumer-driven health plans, and these results continue to be quite compelling.

In fact, while 2011 is shaping up to be another good year for us, as we look to 2012, demand continues to grow. Why? Because we’ve been able to demonstrate compelling returns. A 26% cost savings over a five-year period while, very importantly, improving engagement, medication compliance rates and reducing unnecessary care.

In our Disability business, we measure success by our ability to help customers regain their health and get back to work. How do we achieve this success? One key element is our unique ability to leverage the expertise of our Health Care business, both information and clinical, with our leading disability management programs. After all, when you think about it, a medical event is most often the root cause of a disability claim -- be it a slip and fall, a mental health issue or a maternity leave.

We are not just talking about cross-selling our disability programs to our Health Care clients. That is certainly an opportunity for us, but what I’m referring to is coordinating our health care capabilities and disability capabilities to deliver differentiated value for our customers and clients. This means working to help people regain their health and stay healthy.

To round out our ongoing businesses, our International operations also carry through on the theme of health and well-being, but they also focus heavily on the sense of security component of our mission statement.

For globally mobile individuals, we provide tools, resources and an unparalleled network of doctors and hospitals to help them navigate the health care systems no matter where they are in the world. Our goal is enabling our customers to receive quality care regardless of where they’re living, traveling or working. With more than 7 million individual Health, Life and Accident policies, we provide supplemental solutions for health services not covered by the social systems in countries around the world.

We leverage the breadth of our U.S. product portfolio for innovative solutions outside the U.S. In addition, we leverage our very successful customer segmentation and distribution programs from our International business back here in the U.S. These leverage points will continue to support sustained success in both businesses.

Finally, as the global economy continues to drive growth for companies of all sizes, we are uniquely positioned to leverage our global delivery footprint and employer distribution to deliver health and productivity solutions for global employers.

Let me provide an example of how we are delivering for global employers today. Take a pharmaceutical services provider with 20,000 employees worldwide. We began serving this client in 2010 as they share our philosophy about health improvement. As a result, today we have comprehensive health care coverage for the U.S. based employees with a full suite of chronic care and wellness programs. We also serve their expatriate employees around the globe. Just recently, we added medical and dental benefits to their employees based in the United Kingdom.

This is a great example of what a growing relationship looks like where we’ve been able to add programs and services to meet our client’s changing needs on a global basis. At CIGNA, we are uniquely positioned to provide comprehensive solutions to the rapidly growing global employer markets.
With our Go Global mindset, we continue to leverage our U.S. clinical and product capabilities; our customer segmentation and marketing capabilities; our global delivery network; our proven direct to consumer distribution capabilities; and further expand our solutions to fulfill our client and customers’ needs no matter where they are in the world.

Overall, our focused strategy, coupled with a diversified and leveragable portfolio of ongoing businesses, positions us for continued success by Going Deep, Going Global and Going Individual.

We fully recognize that we operate in, and will continue to operate in, a very dynamic marketplace. Take the recent developments in Washington as an example; from our point of view, nothing that we have seen causes us to diverge from our current strategic path.

We will continue to drive sustained success within our existing portfolio of businesses and we expect to pursue additional growth opportunities to deliver further expansion on a sustained growth basis. The areas of focus for further expansion continue to be seniors, individual/retail capabilities and additional global expansion opportunities.

Relative to the U.S. exchange based market in 2014 and beyond, while some recent clarity has been provided, we fully recognize that much is to be determined regarding how the exchanges will fundamentally operate, including the breadth of adoption in states and the final subsidy levels. But, based on what we know today, our team has a clear position on which markets we would participate in and the design of the products and programs we would offer. We will of course continue to sharpen this work as the marketplace continues to evolve. We will also continue to constructively engage with legislative and regulatory leaders to ensure that the final framework creates a sustainable solution to expand access to affordable high quality health care programs.

Now, before I turn it over to Ralph for his financial results review, I want to reiterate just a few key points.

Our second quarter results delivered strong top-line and bottom-line growth, and reflect continued effective execution of our growth strategy. We carried good momentum through 2010 and now through the first half of 2011.

I’m proud of the CIGNA team for delivering on our commitment again this quarter and how each and every day we work to improve the health, well-being and sense of security of the individuals we serve.

I’m confident in our ability to achieve our full year 2011 strategic, financial and operating goals and our long-term growth objectives.

Finally, our company is positioned for sustained profitable growth over the long term, as we continue to focus and leverage our global capabilities to drive value in this very dynamic marketplace.

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

Ralph Nicoletti (Chief Financial Officer):

Thanks, David, and good morning, everyone.

I’m pleased to be part of the CIGNA team and I look forward to meeting and getting to know you in the future.

In my remarks, I’ll review CIGNA’s second quarter 2011 results, link these results to our growth strategy and 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’ net income excluding realized investment results, GMIB results and special items. This is also the basis on which I’ll provide our earnings outlook.
Our second quarter consolidated revenues grew to $5.5 billion. This is an increase of 7% over the second quarter of 2010, after excluding the impact of our planned exit from the Individual Medicare Private Fee for Service (Medicare IPFFS) business, and reflects strong growth in each of our targeted market segments.

Our second quarter consolidated earnings were $418 million, or $1.53 per share. That represents EPS growth of 11% over the second quarter of 2010.

These results reflect strong earnings from each of our ongoing operations, as we continue to leverage our global diversified portfolio of businesses to deliver value to our customers and shareholders.

Turning to Health Care, second quarter 2011 premiums and fees grew 8% on a quarter-over-quarter basis, excluding the impact of the exited Medicare IPFFS business, and earnings grew 13% to $280 million. The premium and fee increase reflects solid growth from each of our ongoing lines of business.

We also achieved year-to-date membership growth of 1.3%, adjusting for the planned non-strategic exits. We are seeing strong demand for our solutions and continued growth in our targeted markets and customer segments.

Second quarter earnings for Health Care reflect contributions from sustained business growth, solid fundamentals and the impact of favorable prior period claims development.

Turning to medical costs in the quarter, we again delivered strong value for our customers, over 80% of which are served through self-funded relationships. Medical costs in the quarter also reflect favorable prior period claim development of $42 million after tax across our risk book of business, primarily from lower than expected medical utilization trends. Of this amount, $25 million is related to prior year and $17 million is related to the first quarter.

Specific to guaranteed costs, our medical care ratio in the quarter was 78.0% on a reported basis. Excluding prior year claim development, the guaranteed cost medical care ratio for the first six months of 2011 was 80.3%, including the effect of recording our rebate accrual.

Overall, we are pleased with the results in our medical risk businesses, and they continue to reflect good pricing and underwriting discipline.

As part of our long-term strategy, we continue to focus on improving our operating expenses through a combination of expense efficiencies and business growth, while maintaining our commitment to strong service levels, clinical excellence and funding strategic investments. For the second quarter of 2011, total operating expense ratio is 26.4%, which is 70 basis points lower than the same period of 2010, after excluding the exited Medicare business. Medical operating expenses were modestly down compared to the second quarter of 2010, while the related membership grew.

These improvements reflect investments in technology, as well as other operating efficiencies.

Now, I will discuss the results of our other segments.

For Group Disability and Life, second quarter results were strong overall, as this business continues to deliver value through our market leading disability management model, which focuses on early customer engagement and leverages CIGNA’s proven clinical capabilities.

Premiums and fees grew 10% quarter over quarter, including solid growth from our targeted disability business.
Second quarter earnings in our Group Disability and Life business were $88 million. Earnings include the impact of favorable accident claims experience, a charge related to a litigation matter, as well as a net favorable impact of $30 million after tax related to a reserve study on our Group Disability business.

CIGNA’s International businesses continue to deliver very attractive growth and strong margins.
Our strategy focuses on strong retention and further product penetration of existing customers, as well as targeted new sales, by meeting the needs of the rapidly growing middle class in developing countries and the expanding need for expatriate benefits.

Premiums and fees grew 36% quarter over quarter, driven by strong customer retention and solid new sales within Health, Life and Accident, particularly in Korea and Taiwan, and the Expatriate business, including contributions from Vanbreda International.

Our top-line growth drove strong earnings of $74 million in the quarter. The second quarter results also reflect continued strategic investments for future growth, as well as some unfavorable claims experience in the Expatriate business.

The results for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, total to an after-tax loss of $24 million for the second quarter. Relative to our Run-off VADBe book of business, as expected, no reserve strengthening was required.

To recap, our second quarter results were very strong, reflecting revenue growth and earnings from each of our ongoing businesses.

Now, I will discuss our investment portfolio.

Results in the quarter included solid net investment income and net realized investment gains of $11 million after tax. This includes an impairment loss of $11 million after tax. During the quarter, we completed our annual review of the $3.3 billion commercial mortgage loan portfolio which indicated there has been an improvement in our average loan-to-value ratio to 71%, compared to the previous estimate of 74%.

Overall, we continue to be pleased with the quality and diversification of our investment portfolio. Our strong investment management capabilities and disciplined approach to risk management have delivered attractive risk adjusted return for our clients and shareholders on a consistent basis.

Now turning to our outlook, based on the strength of our second quarter results, we now expect full year 2011 consolidated adjusted income from operations of $1.355 billion to $1.435 billion. This range is $70 million to $80 million higher than our previous expectations. We now expect full year earnings per share to be in the range of $4.95 to $5.25 per share, which is an improvement of $0.25 to $0.30 per share over our previous expectation. This earnings per share outlook does not include the impact of future capital deployment.

I will now discuss the components of our 2011 outlook, starting with Health Care.

We now expect full year Health Care earnings in the range of $930 million to $960 million, which is an improvement of $60 million to $70 million from our previous expectations. This increase reflects the impact of favorable prior period claims development recognized in the second quarter and continued effective execution of our growth strategy. Based on our current view of the business mix, we expect to deliver full year total Health Care operating expense ratio of approximately 27% and medical operating expenses of $235 to $240 per member per year.

Relative to medical membership, we expect full year 2011 membership growth of approximately 2%, excluding the planned non-strategic market exits.

Turning to medical costs, for our guaranteed cost book of business, we now expect the full year medical care ratio to be approximately 80%, which is lower than our previous expectation of 81% to 82%, and includes the benefit of prior year claim development. This improvement is net of our rebate accrual related to the minimum loss ratio requirements. We now expect our full year medical cost trend for our total book of business to be in the 5.5% to 6.5% range, which is a 50 basis point improvement from our previous expectation.
Moving to the other components of our outlook, we continue to expect full year earnings from the International and Disability and Life businesses to each be in the range of $275 million to $295 million, as these businesses continue to perform well and in line with our expectations.

The outlook for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, is now expected to be a loss of approximately $115 million to $125 million, which is an improvement of $10 million from our previous expectation. This assumes approximately breakeven VADBe results for full year 2011.

So all in for full year 2011, we now expect consolidated earnings per share in the range of $4.95 to $5.25 per share, excluding the impact of any further capital deployment.

Before I close, I would like to cover our capital management position and outlook.

We continue to have good financial flexibility as our subsidiaries are generating significant free cash flow to the parent, reflecting the strong return on capital in each of our ongoing businesses. Regarding parent company liquidity, we ended the quarter with cash and short term investments at the parent of $720 million.

During the second quarter, we repurchased 1.4 million shares of CIGNA’s common stock, bringing year-to-date repurchases to 5.3 million shares for approximately $225 million.

After considering subsidiary dividends, pension contributions, and other sources and uses, our full year outlook is to have approximately $1.2 billion of deployable capital. This represents an increase of $100 million based on our improved earnings outlook. After considering the approximately $400 million of capital already deployed to date, this provides about $800 million of capital available for deployment over the balance of the year.

Our capital deployment strategy and priorities remain unchanged. We’ll provide the capital necessary to support the growth of our ongoing operations, as well as supporting our pension plan and Run-off Reinsurance business. We’ll pursue M&A activity, with a focus on acquiring capabilities and scale to improve our growth in targeted areas. And, after considering these first two items, we would return capital to shareholders, primarily through share repurchase.

Overall, our capital position and outlook remain positive, and, as we look to the future, we will continue to evaluate each of these levers to ensure we deliver sustainable value for the benefit of our customers and shareholders over the long term.

Now to recap, our second quarter 2011 consolidated results reflect the strength of our global, diversified portfolio of businesses and continued effective execution of our growth strategy, with strong revenue growth in our targeted customer segments.

We have a healthy capital position, and our investment portfolio continues to deliver strong results.

Finally, we are confident in our ability to achieve our increased full year 2011 earnings outlook.

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

**Matt Borsch (Goldman Sachs):**

Good morning. Thanks, guys. My question is on the commercial market. As you start to approach 2012 calendar renewals -- it's still a ways off -- but for some of the middle market accounts are you sensing an accelerated interest in self-funding products? Any meaningful change from last year? Just curious what the buzz in the employer community is on that?
David Cordani (President and Chief Executive Officer):

As we look to 2012, as you noted, it's early for the Middle Market and clearly for the Select segment season, but let me give you the trends on what you're asking for, and you can follow up if I've missed your question.

Broadly speaking, I would say over the last year or year and a half we've seen continued uptick in momentum on two items. One, the appetite for ASO, or highly transparent funding arrangements -- we continue to see a broadening of appetite clearly in the Middle Market, where it's thrived in the past, and we've described that segment as 251 to 5,000 life employers, but also, very importantly, in the Select segment, as we call the 51 to 250 life employers.

The second trend we see is further acceleration of demand and adoption of what we call incentive, engagement-based programs--working to really get more aggressive engagement of individuals in their proactive health engagement.

The emergence we see lastly is even further adoption to push the needle on the physician strategy. So more ACO demand, more aggressive benefit designs to get to the highest quality physicians, etc. That's a continuation of a trend and we would expect that to continue to show through in 2012.

Matt Borsch (Goldman Sachs):

Just staying on this broad target on national accounts, one of your competitors talked about seeing some pressure as some of the jumbo accounts focused in some instances on just straight unit price discounts. Is that a headwind you're facing as you go into next year?

David Cordani (President and Chief Executive Officer):

Let me give you a little color on national accounts. First, I would remind you of how we define National Accounts because we define it a little differently than our competitors: it's commercial employers with 5,000 or more employees in multi-states. Secondly, by way of backdrop, as you recall we repositioned our National Account segment over the last few years consistent with our strategy to really focus intensely on those employers that valued engagement and incentive-based programs and were focused on improving health and productivity. And we've gone through a repositioning of that book of business.

As we look at the 2012 cycle, you know we're meaningfully through the 2012 selling cycle renewal cycle, although activity remains. One, the volume of our pipeline is good as we measure it in terms of just aggregate volume on historical standards. Two, the quality of the pipeline is very good. And what we mean by that is the "ask" or the "need set" for the clients really aligns very nicely to our value proposition around the alignment of health and productivity improvement or the use of incentives.

For the 2012 season and the clients we're looking at, it's not all about discounts unilaterally. It's about value, total cost, health and productivity improvement. Beyond that, the percentage of our book of business that was out to bid for 2012 is a lower percentage. So as we put that whole picture together, coming off the back of two years of repositioning the National Accounts portfolio, we feel pretty good about the 2012 selling season and, while it's not over yet, we actually expect to see growth in that book, specifically from the incentive and engagement-based programs and the orientation on health and productivity improvement.

Scott Fidel (Deutsche Bank):

Thanks. I wanted to follow up, David, on your comment on the exchanges. You said that the team now is starting to get a sense of which markets and products you may consider participating in, so I would be interested if you can actually talk a little bit about which markets and products you think you might consider participating in on the exchanges?
David Cordani (President and Chief Executive Officer):

As I noted in my prepared remarks, while there’s some clarity, a lot of movement will still happen in the exchange base framework. First, to put it in context and remind you over the last couple of years we focused on an individual initiative in about ten key markets around the country, working on different product designs, different distribution strategies, etc. As we talked about in the past, that was an organic launch to learn. It was highly focused in about ten key geographies and, overall, we’re pleased with those results as we’ve put on somewhere over 100,000 lives and have been able to learn relative to that initiative.

As it relates to the exchanges, what I will tell you is we use our Go Deep strategy as the specific guide. Our Go Deep strategy sorts by state and then ultimately by cities within key states so we look at a better part of 175 MSAs, but we start by state. I’m not going to walk you through which states we see as attractive versus unattractive today, but rather provide the framework we would look to.

One, what is our competitive position in that marketplace? Two, obviously a subset of that, what’s our total cost position, the makeup of the physicians in the hospital delivery system, and do we see a sustainable solution there? And three, do we think the states will have a regulatory environment that’s conducive enough for choice and flexibility to be successful?

We've been highly engaged with both state regulators and federal regulators on this topic and will continue to be going forward.

You should assume that our Go Deep strategy is a direct guide. Then secondly, our ongoing product strategy will clearly include base programs for the bronze, silver, and gold, but allowing for a little programmatic flexibility is also very important to us.

We believe there’s another six to 12 months to play out in the market conditions before we firm up and finalize our framework.

Scott Fidel (Deutsche Bank):

Okay, and then I just wanted to ask a follow-up question on VADBe. Clearly there’s been an uptick in market volatility so far in the 3Q, so just interested if you can give us an update on how the dynamic hedges have been holding up on the VADBe book so far this quarter?

Ralph Nicoletti (Chief Financial Officer):

Overall, we've taken a lot of steps on VADBe to isolate the business within our structure and improve the risk management piece. If you recall, back at Investor Day we talked a little bit about a separate funding plan that we put in place where we modeled a lot of scenarios related to what could happen in the marketplace and we funded that legal entity accordingly.

We feel like we’re in a good position now to manage through the volatility. Some of the modeling done when we capitalized that entity was done in a manner in which we looked at scenarios that replicated very significant drops in the S&P, as well as dynamic interest rate movements, and we felt good that we had the capital in place.

John Rex (JP Morgan):

I wanted to follow up on your comments on National Accounts. So can you, at this point on that segment, size for us what your expectation would be for growth? You said you expect to grow, but what do you know thus far? Also, should we expect to see you expand your Medicare footprint for 2012?
David Cordani (President and Chief Executive Officer):

For National Accounts, at this point I'm not going to give you explicit guidance because we're not providing 2012 guidance, but – play back the comments I provided previously: first, benefiting from very strong retention levels, which underscore the fact that we’re delivering good value to our customers and clients that are on board today, and secondly, referencing the success we’re having in terms of targeted growth initiatives around the health and productivity improvement.

Putting those two together, we expect to see growth in that book of business, admittedly in a very challenging economic environment. We've repositioned that book and, in a very challenging economic environment, we expect to see growth in that book on an overall basis.

Regarding your Medicare question, are you referencing the recent indications that have come out on PDP or is it broader than that, John?

John Rex (JP Morgan):

Broader than PDP…MA.

David Cordani (President and Chief Executive Officer):

From an MA standpoint, we don't have in our 2012 expectations, again without providing you guidance, a breakout organic set of expectations. We've positioned ourselves from a Medicare standpoint to ensure that employer customers have a suite of solutions, be they on Coordination of Benefits (COB), supplemental wraps, or coordination wraps, through our proprietary offering in Arizona or Alliance offering with Humana. We are making sure that we have a more comprehensive suite, including the employer sponsored PDP, to meet their needs. To date, that's proven to be a successful strategy for us to ensure we are accommodating their needs.

On the organic side of the equation, I would not expect a material change of direction for us.

John Rex (JP Morgan):

Appreciating the fact you're not providing 2012 guidance at this point, maybe you could do a little run down of what would be the typical headwinds, tailwinds. As you think about your 2012, I'm trying to think why shouldn't I expect that you could get double digit EPS growth next year. What are some of the headwinds or tailwinds to operating earnings growth in 2012?

David Cordani (President and Chief Executive Officer):

When we think about headwinds and tailwinds, I'll cite a couple for each of our operating businesses to give you a flavor and then summarize it.

When you think about the Health Care business, I think it fundamentally comes to how the underlying cost pressures unfold and how effective we are in terms of anticipating that, acknowledging that now we’re going through a better part of a year of more muted utilization. But the underlying unit cost trends are in line with our expectations. I would identify that as point one. Point two I would identify as the rate and pace of our ongoing investments in our infrastructure and growth capabilities. We’ve been pretty disciplined around that. Three, you'd wrap together our total growth equation. So what's our overall retention and expansion profile look like for 2012.

For Group Disability and Life, I'd highlight too the rate and pace of disability occurrence and claim experience. I put that in the context that our organization has done a very nice job in a challenging economic environment delivering really good value for our clients and customers. If there was a changing course there, that would create a headwind or tailwind. We’re not expecting that at this point in time. Then, similarly in that business, the rate and pace of ongoing investments.
In the International business, we always look to the retention profile of our Health, Life and Accident portfolio, acknowledging that, given our ongoing growth, it continues to get more diversified which is a good thing. Then, I would point to the rate and pace of ongoing investments as we’re expanding both distribution capabilities as well as our geographic footprint on an organic basis.

If you pull all that together and step back and say what does 2012 look like? When we come back and provide you guidance, directionally, we'd expect for the 40% of our business that's not U.S. health care related, there are underlying fundamentals within those businesses that are tied to our strategy that, at this point in time, we don't see any change in course or direction. So said otherwise, we would expect to carry good momentum in those businesses.

Within our Health Care business, as you know, 80% of that business is ASO, so our employer clients and customers are benefiting by the medical costs quality and cost results; our ongoing specialty portfolio is performing well; early indicators, as I just provided, of national account growth are positive; and we would expect, at this point in time, to maintain positive momentum off of our Select segment in middle markets.

As you put the whole picture together, we'll be back at the latter part of this year providing more guidance. Over the last two years the team has done a nice job executing our strategy, and there's nothing we see in front of us from a macro standpoint that provides us a dramatic change of course.

**John Rex (JP Morgan):**

Great, thank you.

**Charles Boorady (Credit Suisse):**

I'm wondering if you could talk to us about provider contracting trends. Specifically with high-performance networks, are they something you have been continuing to roll out? Any successes you're seeing there? Any increase in risk sharing with providers? Then, unit pricing trends?

**David Cordani (President and Chief Executive Officer):**

Broadly speaking, if I put it in the context of the last couple years, we have not seen any surprises in the provider contracting or unit cost trend. We've been able to deliver or beat our medical cost trend and given that order of magnitude, 70% plus of that medical cost trend is underlying unit cost, unit cost is an important part of the equation. Over the last couple years our team has done a very good job there.

As we look forward in terms of emerging trends, the buzzword of the day is ACOs, but take that into the concert of a more aligned contracting relationship. Thus far, we've seen very good traction in the areas we've targeted. We have innovative ACO positions in about ten markets, with over 1000 physicians servicing in excess of 100,000 lives today. The key to those are aligning incentives, very importantly, using targeted information that helps the physicians provide a higher-quality delivery for their patient or customer and then supporting them with care extenders.

We expect to see a lot more of that from an adoption standpoint, both going deeper with the existing relationships and broadening those relationships on a targeted basis. There is risk sharing, or we call it incentive alignment, but what powers that is the information enabling the physician to get a more comprehensive view of their patients more rapidly in what we call care extenders -- population-based health programs, lifestyle management programs, case management programs. That's an area we see much more adoption underway.

**Charles Boorady (Credit Suisse):**

What's the appetite of your customer base to accept narrower networks or high-performance networks? Are they starting to purchase disease management, wellness or other programs again that saw slightly sluggish sales during the period of economic weakness over the last couple of years? I saw your
specialty growth is very strong, and I'm wondering about wellness, disease management, and the high-performance network adoption as well?

**David Cordani (President and Chief Executive Officer):**

I appreciate the fact that you are familiar with high-performance because we don't think of it as a narrower network. We think about it as high-performance, more of a platinum network. I would say the interest level in that area is growing similarly to the way the interest level around consumer-directed programs started to grow several years ago. What backs it up is the fact set. We are able to demonstrate that with a high-performance network, you generate a higher clinical quality result and higher service result. The combination of the two generate better overall total cost equation.

We're seeing continuation of early indicators of demand for that. But what it isn't, Charles, it's not the old narrow network from 15 years ago where you're just compressing the network in totality. This is a case where you're using information to really point toward the highest value part of the solution.

On your disease management question, we see a fair amount of evolution in the marketplace. We've seen a lot of success, but the success has actually been by evolving the traditional disease management programs which are more siloed. Think a disease state of diabetes or asthma, and interact with a person on just that disease state looking at the individual on a more comprehensive basis. Typically an individual who needs to be in a disease management program has multiple, what's referred to as co-morbidities or illnesses. What we've seen great success on are our newer programs that we've developed that actually take a 360 view of the individual. Our clinicians collaborate with that individual and their physician and generate a very strong quality and service outcome for them. The demand for that is significant right now and for some of the early adoption programs, we've actually capped volume that we will allow to go in it because the demand has been so high.

So I see an evolution there and an evolution that we're really excited about.

**Charles Boorady (Credit Suisse):**

Terrific, thanks.

**Josh Raskin (Barclays Capital):**

A question on repurchases: the deployable capital amount went up relative to where we were three months ago when you reported, and yet repurchases seem slow in the last three months. I'm curious if there was any reason behind that?

**Ralph Nicoletti (Chief Financial Officer):**

No particular reason. As you think about this area, we have a strategy that I referred to in my remarks and we're continuing to pursue that in a disciplined way. You've seen this in the past, where we've made various sets of moves with our capital, and we'll continue to do that in the future. I wouldn't read into anything that you saw over the last couple months.

**Josh Raskin (Barclays Capital):**

Okay, so no change in M&A pipeline or change in strategy as you came on, Ralph, or anything like that?

**Ralph Nicoletti (Chief Financial Officer):**

No.
Josh Raskin (Barclays Capital):

Okay, perfect. Second question, around the diversification comments that David made in the prepared remarks. I'm curious as you think about that as a core strategy going forward, does that mean completely new segments or is that really more additional products and services within your segments that you offer today?

David Cordani (President and Chief Executive Officer):

It's really two pieces.

First, what we've been able to demonstrate is off of our diversified portfolio today. Take the Health Care and the Disability component, or take the global Expatriate business and the U.S. Health Care business, off of those seemingly diversified aspects we've been able to generate leverage or create more value. Health care and disability together provide a better value for an employer client than an individual by either avoiding a disability or shortening the duration of a disability. That was point one off of the diversification. Similarly, as the global employer landscape grows, we're seeing increasing demand from our Health Care employer clients, almost all of which have some sort of multi-national or multi-continent footprint today, for expatriate benefits. That's another example of taking the diversification and creating leverage.

Adding to the core of your question, we see the opportunity to further expand our growth segment. Consistent with the strategy and prior conversations we're targeting three key areas. First, on an opportunistic basis, further expanding our global capabilities, be they product or geographies. Second, expanding our seniors capabilities, which is inclusive of Medicare but not exclusive to Medicare alone. And third, is expanding our individual and retail capabilities further, because as we look around the globe we see that the retail marketplace, retail more broadly defined, is continuing to evolve and grow, and we see some great growth opportunities.

So the diversification is two-fold. Creating value today off of leveraging what we have and then, secondly, on a targeted basis, systematically seeking additional acquisitive opportunities to broaden that.

Josh Raskin (Barclays Capital):

That's helpful. Can I just sneak in one more? Did you accrue any additional rebate for minimum MLRs in the second quarter?

Ralph Nicoletti (Chief Financial Officer):

Yes, we did. We accrued $15 million this quarter after-tax basis.

Josh Raskin (Barclays Capital):

If I remember correctly, your methodology is you accrue based on the full year impact. So that reflects that you think rebates are going to be meaningfully higher than you did in the first quarter with the understanding that it's not a huge deal for you guys anyway?

Ralph Nicoletti (Chief Financial Officer):

That's correct.

Josh Raskin (Barclays Capital):

Okay, perfect.
Justin Lake (UBS):

First question on the International business, growth looks pretty healthy there in the quarter; I was curious if you can help us bifurcate the organic growth versus the Vanbreda contribution to revenue and operating income for the quarter? Then, can you give us some update on the expected Vanbreda accretion for next year and how the renewal process is going there in terms of moving clients from ASO to risk relationships?

Ralph Nicoletti (Chief Financial Officer):

I'll take the first part of the question regarding the growth. I don't have the exact numbers, but I can tell you that on an organic basis, that would exclude currency fluctuations and the benefit from Vanbreda in the results, year on year we were above 20% growth in International.

Justin Lake (UBS):

That was in revenue?

Ralph Nicoletti (Chief Financial Officer):

Yes, that was in revenue.

Justin Lake (UBS):

What was the operating income contribution for Vanbreda?

Ralph Nicoletti (Chief Financial Officer):

In the $5 million range after tax in the quarter.

Justin Lake (UBS):

It looked like the contribution from foreign currencies was around $4 million?

Ralph Nicoletti (Chief Financial Officer):

That's correct.

Within the overall International earnings, we did make some more investments in the quarter to support some of our growth strategies that David alluded to just a few minutes ago. You'll see some unevenness quarter to quarter in the results, but overall we feel good about the results in International, we're on track and it's delivering what we expected in the quarter.

David Cordani (President and Chief Executive Officer):

On the second part of your question relative to Vanbreda, on a macro basis we continue to feel very good about it.

A couple points to reinforce that. The client retention levels continue to be outstanding. In addition to that, the employee retention levels and engagement levels are very strong. Very importantly, with a new acquisition, you always look at the retention first and then new business sales. New business sales are very attractive as well.

On an overall basis, there's nothing that we've seen in the last several quarters that would lead us to have a different conclusion than we had when we secured the acquisition. We feel good about it.
Justin Lake (UBS):
So the guidance is still the same in terms of the incremental accretion for next year?

David Cordani (President and Chief Executive Officer):
Yes. We'll provide overall 2012 guidance in probably a quarter or so. But relative to the direction of Vanbreda, the revenue contribution, the overall strategic International contribution, we still feel good about it.

Justin Lake (UBS):
Okay, great. Just one last numbers question. Guaranteed cost yield look a little stronger in the quarter than we have been seeing. Anything changing there in terms of mix of business or a pricing strategy that's driving that growth?

David Cordani (President and Chief Executive Officer):
Nothing material that we would highlight has changed. There's always ebbs and flows given the size of our book of business, but nothing material that we would point to.

Justin Lake (UBS):
Great. Thanks for the call.

Dave Windley (Jefferies & Company):
To follow up on Justin's question on International, could you go a step further and discuss some of the drivers of that above 20% organic revenue growth?

David Cordani (President and Chief Executive Officer):
There are two pieces when you break that business apart -- two major drivers of the portfolio. One is the Expatriate business portfolio and the second is the Health, Life, and Accident business portfolio. Very simply, we're seeing strong demand and growth in both.

In the Health, Life, and Accident portfolio, aided by, first, good retention of our individual customers. Beyond that, we're seeing additional cross-selling and penetration into those relationships and then additional relationships in our key geographies through very strong distribution channel execution and product innovation. For example, there's a new dental product in Korea over the last couple years that was innovated off of the base product and thought process of our U.S. dental business, and it's doing quite well. We continue to innovate and generate good cross-selling opportunities with existing customers and then adding new customers.

For the core Expatriate business, excluding Vanbreda, similarly our retention rates with our clients has been quite strong and our new business growth has been very attractive. As we look around the globe, you see a continued trend of multi-national and global companies further growing their footprint, and that's creating more demand for the type of services we offer.

Those two businesses both have strong retention rates as well as good new business growth rates.

Dave Windley (Jefferies & Company):
So to follow up then, David, the retention rates sound like they are improving. Would you attribute that to the Vanbreda? Is that a knock-on benefit from adding Vanbreda to your platform? Then secondly, the comment in the press release about higher claims in the Expatriate business, I would like to hear your comfort level with the underwriting in that business.
David Cordani (President and Chief Executive Officer):

On the first piece on the retention, both of the businesses I'm referencing have historically had strong retention levels and they've remained strong. It is not a knock-on contribution, to use your term, from Vanbreda. This is separable from that and would underscore that it is really strong delivery of the underlying value proposition and promise to those customers -- good service, good clinical quality, and overall good results.

As it relates to the Expatriate claims that we referenced, number one, that business tends to be a little lumpy when you go forward. If you can think about the medical cost consumption around the globe, it tends to be a little lumpy. We did see a little claim pressure in the second quarter. We don't view that as an underlying trend on a go-forward basis, but of course, we're monitoring, watching, and managing that.

Christine Arnold (Cowen & Company):

You mentioned that you were growing National Accounts. Could you talk a little bit about the progress you're making with the single-site large employers? It seems that you've been making some progress with the state and municipal government accounts.

Then as a follow-up, could you break up where the prior period development was? You said that the year-to-date MLR for guaranteed costs was 80.3%. Does that mean that the majority of the prior year and intra-year development was in guaranteed cost?

David Cordani (President and Chief Executive Officer):

I'll start, and then I'll ask Ralph to address the second part of your question.

We track our single-site large employers as part of our Middle Market or regional portfolio business because it's a localized business with localized sale and a localized service proposition. Over the past several years, we've been very successful there in our Go Deep markets, and that success continues.

We also see a trend in many cases, with governmental employers, whether they're cities, counties or states or university systems dealing with the same budgetary pressures as commercial employers. So we see more of an appetite for evolved program designs. Maybe not full consumer-directed programs, but more incentive- and engagement-based programs, more aligned reimbursement structures, and a bit higher adoption of clinical programs. That's boded very well for us.

So we have had success. We're pretty proud of that success, and we expect to continue to see good traction in the larger single-site employers directly tied to our Go Deep strategy.

I'll ask Ralph to address the second part of your question.

Ralph Nicoletti (Chief Financial Officer):

The prior year development is mostly in the guaranteed cost business, as opposed to the shared returns piece. I won't give the exact number, but it's primarily that.

Christine Arnold (Cowen & Company):

Can I read from your comments that we can expect growth in some of that single-site business?

David Cordani (President and Chief Executive Officer):

You're entitled to draw whatever conclusion you like. I go back to my prior comment that I made to John when he was talking about 2012. At this point, we'd like to expect to see our continued success in the Middle Market and Select segments continue forward. And success there is really based upon retention, expansion, and targeted adds.
We're not providing 2012 guidance. The only place we gave a color indication is the commercial national accounts, but we have a few years of success under our belt in the segment you're referencing, and I see nothing at this point in time to tell us there's a change of course there.

Ana Gupte (Sanford Bernstein):

Following up on the hospital contracting question, in light of the debt ceiling pressures on Medicare, possibly even Medicaid, what are you expecting for 2012 unit cost trends? Is this likely to become a headwind because hospitals start to shift costs back and dig their heels in on contracting in commercial? Or are you seeing any trend or hope to see that they begin to do more risk sharing and ACO contracting? Or is it going to take a turn for the worse?

David Cordani (President and Chief Executive Officer):

First, just a macro point, as we think about the debt ceiling debate and the recent dialogue, to state the obvious, fundamentally we think it further underscores that we have been in an environment where there's a lack of sustained affordability, whether it's through the federal lens, a state lens, an employer lens, or an individual lens. Some of the recent success we've had is really focusing on changing the programs to try to get a better value by both engaging individuals, the employer client, and physicians in a different way.

To the core of your statement, we think that trend is going to accelerate further because just about every stakeholder recognizes that there's a lack of sustainability. For example, I spent the better part of three-quarters of a day with our National Physician and Hospital Advisory Council. The cornerstone of the dialogue when I was there is exactly what you're talking about. How are more effective programs designed so you can get incentive alignment? What are the most critical targeted uses of information that enable them to immediately practice even higher quality health care delivery by seeing a more comprehensive view of their patients? What care extenders, as we call them, are most leveragable or value added for us working in partnership?

We see a high demand looking into 2012 for key hospital groups and physician groups around changing the program design. Beyond that, Ana, you're still going to see some pressure on the fundamental underlying unit cost for those that are playing against yesterday's model of just trying to push on the unit cost model. As you hear from our comments, we're trying to identify and spend a disproportionate amount of our energy with those physician and hospital leaders who really want to drive change, and we think it's going to accelerate further.

Ana Gupte (Sanford Bernstein):

Thanks. It sounds like some puts and takes with some encouraging evidence and some not. Then, getting to your trend projection for the rest of the year, the 50 bps better, what assumptions are built into that for the back half of 2011? As you're looking forward into 2012 and pricing for business, are you making the assumption that that will stay at these low levels or are you and others pricing for a normalization of trend back to higher levels in context to your unit cost commentary and the utilization across in-patient, out-patient and the other drivers?

Ralph Nicoletti (Chief Financial Officer):

I'll take the first part. Essentially, on the assumptions regarding our forecast of the balance of the year, we are assuming a return to more historical medical cost trends. I'll turn it back to David on the going forward.

David Cordani (President and Chief Executive Officer):

We've essentially reflected the very strong results through the first half of the year in our trend outlook, but embedded in that is an uptake in utilization in the second half of the year. We'll see whether or not that manifests itself.
As it relates to our pricing strategy, our pricing is dynamic so it continues to be refreshed, and we've continued to price to our expected medical costs. As you heard from my comments and Ralph's comments, embedded in that is some acceleration or uptake in utilization. To the extent that doesn't transpire, very importantly, the 80% of our customers that are ASO and the 10% of our business or so that is share returns see the direct benefit of that. On a dynamic basis, we refresh the guaranteed cost portion of our portfolio according.

We're expecting to see an uptick tied to utilization.

At this point in time, we haven't provided specific guidance on the 2012 trend on the unit cost versus utilization. You should expect that later this Fall.

**Ana Gupte (Sanford Bernstein):**

If I could just make one more follow-up on the pricing. When you're seeing pricing, for both yourself and your competition, are you seeing more across the board possible reduction in pricing or is there more of an MLR rebate-type strategy where there are some market segments and groups showing some level of reduction in pricing that elsewhere they're not?

**David Cordani (President and Chief Executive Officer):**

First, our approach over the last several years has been to be consistent and disciplined from a pricing standpoint, and we've proven over time that surprising the market in any way, shape or form usually is a bad outcome. We'll point to our retention rates, our cross-selling rates, and our new business and profitability results as an indication of success.

Are there some examples of individual competitors in individual markets doing things differently? Sure. We don't see that as a trend, nor is it an issue that's impeded the goal setting that we've had in front of us to date.

**Carl McDonald (Citi):**

I wanted to come back to the discussion around employers in the small and in the large group markets considering moving to self-funding and get your take on how you think the stop-loss market is going to develop, particularly thinking about some of the larger competitors in the industry that don't have a very large stop-loss presence today. In your view, is that something that can be built organically? Or is that something that because of the specialized needs, is something that has to come through acquisition?

**David Cordani (President and Chief Executive Officer):**

First, just an overview, as I indicated before, we've seen and continue to see an increasing appetite for ASO and ASO-bundled programs moving down market, in terms of size segment. Our Select segment, as I referenced in my prepared comments, is 51 to 250 life employers. We saw about a 10% growth rate in the covered life base in that portfolio, and that's off of a very strong result last year as well. So we see good traction. As I noted earlier this year, sales for that segment in the first quarter of the year include greater than 50% in new business sales for ASO-bundled programs. So that's an indication of success and indication of demand.

The second part of your question, if I heard you correctly, first to be clear, we have the capabilities. We have the capability from an expertise, from an infrastructure, and from a scale standpoint.

The capabilities are really a few-fold, and I don't think you tread into this space lightly. It's one of the key reasons why we acquired Great-West -- for their service infrastructure, very importantly, the transparency of information that you could avail to employers and brokers to help those employers and those brokers understand what's driving the medical costs on a periodic basis, be it quarter or monthly basis, and having those tools that can scale to the volumes you need for a small employer and provide the level of
insights. That's mission critical. Then, having the underwriting discipline and actuarial talent to be able to handle the stop-loss programs, and we have that today.

The ASO business continues to grow, and it continues to be a fundamental part of what we believe about transparency and choice.

Do we expect the market to change going forward? Do we expect competitors to move into that space? Yes, because there's increased demand there, and we'll keep innovating our programs and service models to keep the lead that we have in the marketplace right now.

Carl McDonald (Citi):

Great. And just a couple numbers questions. If you wanted to size the litigation matter that you talked about in the Disability segment and then the unfavorable development in the Expatriate business?

Ralph Nicoletti (Chief Financial Officer):

First on the litigation matter, I want to clarify that it's unrelated to the disability management program, but it does affect that Group Disability and Life business in total, roughly about $5 million range on an after-tax basis.

David Cordani (President and Chief Executive Officer):

I think your second question was really on the Expatriate claim portfolio. As I indicated earlier, that business tends to be a little lumpy because of the tremendous geographic dispersion of how medical costs are consumed. We didn't break out in detail what the impact is, but you can think about it as a couple points of volatility that are created there. And as indicated before, we're managing it very closely and very aggressively. We don't see it as any fundamental shift indicator for us.

Kevin Fischbeck (Bank of America Merrill Lynch):

I wanted to follow up on one of the last questions there. As far as the Disability business, it seems like you got $30 million of favorable claims there with a $5 million litigation offset, but you didn't change the operating income outlook there. Can you talk about what other puts and takes are in that outlook?

David Cordani (President and Chief Executive Officer):

I'll start on a macro basis and see if Ralph wants to add.

Broadly speaking, if you look back in the press release, or otherwise, you can actually see a year-over-year comparator of the reserve development. The good news is there's been a consistent strong performance within that portfolio. As we step back and think about it for the benefit of our employer clients and our customers, it's really indicative of real strong returns that we've been able to generate through the focus around health improvement, health maintenance, helping individuals return to work. While the reserve study takes place in the Spring cycle, you can look at the year-over-year comparator to that, and they're about equal. Then there's a headwind that Ralph just referenced. It's a one-timer outside the Disability line of business, but within the Group Insurance portfolio, of a litigation matter.

The overall outlook is one that we feel good about. There's a range of about $20 million in that outlook, and we can even feel good about that range.

Ralph, anything to add?

Ralph Nicoletti (Chief Financial Officer):

I would also say the flow of some of the investments we're making to grow that business going forward are a little higher in the back half than the first half of the year.
Kevin Fischbeck (Bank of America Merrill Lynch):

That makes sense. Then, you kind of addressed it a little bit. The International business claims experience being a little bit lumpy -- was there any area in particular that you would attribute geographically or in your core business versus the Vanbreda business?

David Cordani (President and Chief Executive Officer):

Yes, our comments are, broadly speaking, relative to the core business, as you put it, or the non-Vanbreda business. As it relates to geography, the consumption there is pretty geographically dispersed. We have some unique events that transpire which is different than any other line of business where people consume a fair amount of their health care outside of their home country. Broadly speaking, there's no geographic concentration that we would point to.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay, great. Thanks.

Doug Simpson (Morgan Stanley):

I'm interested in flushing out some of the comments earlier on the Medicaid and the individual MA business longer term. How are you thinking about it on the Medicaid side? How do you view that in relation to the opportunity with the exchanges, assuming that we'll see people bouncing back and forth between exchanges and Medicaid over time? How important could that be to you and when would you think about making a move in that direction?

David Cordani (President and Chief Executive Officer):

As we referenced in terms of additional growth opportunities that we've prioritized for us, and this has been consistent for some time, to further our global portfolio, include seniors capabilities, and furthering our individual and retail capabilities. Therefore, we put what I'll call classic or traditionally-defined Medicaid below that threshold. It's less attractive versus those capabilities.

Now to your point, as we look to the future, we see an opportunity to leverage evolved seniors clinical capabilities and evolved retail capabilities in a part of Medicaid. If I understand your question, we see the ABD population and the dual-eligible population as attractive as we target our Go Deep strategy in key markets and further expand our seniors clinical capabilities and our retail capabilities. We would see the opportunity to lever into the ABD population off of the kind of chronic and acute care engine we'd have off of seniors and off the dual-eligibles by expanding our retail footprint further.

Doug Simpson (Morgan Stanley):

Could you just update us on your view of the operating expense opportunities looking out over the next six to 12 months?

David Cordani (President and Chief Executive Officer):

Again, we didn't walk through outlook in detail for the next 12 months and as you recall from our Investor Day time we spent with you, we spent a lot of time breaking out the competitive positioning of our operating expenses because such a significant portion of our business is in the ASO portfolio.

We expect to see further improvement in 2011 on an operating expense basis per covered life, so expenses per member per year, and in Ralph's prepared remarks he noted that we continue to be on track for that progress. We also expect to see further progress on our operating expense ratio, and as he noted in his prepared remarks, we expect to see further leverage there in 2011.
As we look forward, we expect to see a favorable movement in our operating expense ratio. The major drivers of that will be smart, on strategy growth, coupled with additional efficiency gains where we will gather further efficiency gains off of our technology investments, further vendor leverage, and further real estate leverage. When we provide 2012 guidance in detail, we'll speak to the level and rate that we would expect further contribution from that.

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

David Cordani (President and Chief Executive Officer):
Before we conclude the call, I want to reinforce a few key themes from today's discussion.

Our second quarter results reflect continued effective execution of our growth strategy as we remain focused on improving the health, well-being, and sense of security of the individuals we serve.

We delivered strong results in 2010, and we've maintained that momentum through the first half of 2011, achieving attractive revenue growth across all of our key areas of focus and double-digit earnings growth for our ongoing businesses.

I'm very proud of our CIGNA team for the results they've achieved, by keeping our customers front and center in everything we do.

I'm confident in our ability to achieve our full year 2011 strategic, financial, and operating goals.

Finally, I believe our Company is effectively positioned to deliver attractive revenue and earnings growth on a sustained basis as we seek to provide long-term value for our customers and clients in this very dynamic marketplace.

We thank you again for joining today's call, and we look forward to our future discussions.

END