CIGNA CORPORATION

SECOND QUARTER 2012 INVESTOR TELECONFERENCE

THURSDAY, AUGUST 2, 2012

DAVID M. CORDANI – PRESIDENT AND

CHIEF EXECUTIVE OFFICER

RALPH J. NICOLETTI – CHIEF FINANCIAL OFFICER

EDWIN J. DETRICK – VICE PRESIDENT,

INVESTOR RELATIONS

NOTE: Cigna has made editorial changes to this transcript.

As used herein, “Cigna” refers to Cigna Corporation and/or its consolidated subsidiaries

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

Cigna Corporation and its subsidiaries (the "Company") and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company's filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management's beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include, but are not limited to, the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends and, in particular, the Company's strategic initiatives, litigation and other legal matters, operational improvement initiatives in the Health Care operations, and the outlook for the Company's full year 2012 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 results and a growing medical customer base, (v) delivering quality service to members and health care professionals using effective technology solutions, and (vi) lowering administrative costs;
4. adverse changes in state, federal and international laws and regulations, including health care reform legislation and regulation that could, among other items, affect the way the Company does business, increase costs, limit the ability to effectively estimate, price for and manage medical costs, and affect the Company's products, services, market segments, technology and processes;
5. the ability to successfully complete the integration of acquired businesses, including the acquired HealthSpring businesses by, among other things, operating Medicare Advantage coordinated care plans and HealthSpring's prescription drug plan, retaining and growing the customer base, realizing revenue, expense and other synergies, renewing contracts on competitive terms, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel;
6. the ability of the Company to execute its growth plans by successfully leveraging its capabilities and those of the businesses acquired in serving the Seniors market segment and the Company's other market segments, including through successful execution of the Company's physician engagement strategy;
7. the possibility that the acquired HealthSpring business may be adversely affected by economic, business and/or competitive factors; or by federal and/or state regulation, including health care reform, reductions in funding levels for Medicare programs, and potential changes in risk

adjustment data validation audit and payment adjustment methodology;

8. 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, tax audits and related litigation, and regulatory market conduct and other reviews, audits and investigations;
9. heightened competition, particularly price competition, that could reduce product margins and constrain growth in the Company's businesses, primarily the Health Care business;
10. risks associated with the Company's mail order pharmacy business that, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
11. significant changes in interest rates or sustained deterioration in the commercial real estate markets;
12. downgrades in the financial strength ratings of the Company's insurance subsidiaries, that could, among other things, adversely affect new sales and retention of current business; downgrades in financial strength ratings of reinsurers, that could result in increased statutory reserves or capital requirements of the Company's insurance subsidiaries;
13. 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;
14. inability of the hedge programs adopted by the Company to substantially reduce equity market and certain interest rate risks in the run-off reinsurance operations;
15. 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;
16. adjustments to the assumptions (including interest rates, 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;
17. significant stock market declines, that 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;
18. significant deterioration in economic conditions and significant market volatility, that could have an adverse effect on the Company's operations, investments, liquidity and access to capital markets;
19. significant deterioration in economic conditions and significant market volatility, that 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 their obligations) and our vendors (including their ability to provide services);
20. amendments to income tax laws, that 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;
21. potential public health epidemics, pandemics, natural disasters and bio-terrorist activity, that 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;
22. risks associated with security or interruption of information systems, that could, among other things, cause operational disruption;
23. challenges and risks associated with the successful management of the Company's outsourcing projects or key vendors; and
24. the unique 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 Report on Form 10-Q for the quarter ended March 31, 2012, and other documents filed with the Securities and Exchange Commission include both expanded discussion of these factors and additional risk factors and uncertainties that could preclude the Company from realizing the forward-looking statements. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Ted Detrick (Vice President, Investor Relations):

Good morning, everyone, and thank you for joining today's call. I am Ted Detrick, Vice President of Investor Relations, and with me this morning are David Cordani, our President and Chief Executive Officer, and Ralph Nicoletti, Cigna's Chief Financial Officer.

In our remarks today, David will begin by commenting on Cigna's second quarter results. He will then review our approach to delivering value for our customers and clients.

He will also identify our key earnings drivers and why we believe Cigna is well positioned to deliver attractive top line and bottom line growth on a sustained basis.

David will conclude his remarks by discussing our capital deployment strategy and how we have invested in our businesses by adding differentiated capabilities that will create shareholder value over the long term.

Next, Ralph will review the financial results for the second quarter and provide an update on Cigna's financial outlook for full year 2012.

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

As noted in our earnings release, Cigna uses certain 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.

A reconciliation of these measures to the most directly comparable GAAP measure is contained in today's earnings release, which is posted in the Investor Relations section of cigna.com.

In our remarks today we will be making some forward-looking 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.

Now, before turning the call over to David, I will cover a few items 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 $51 million, or $0.17 per share, related to the Guaranteed Minimum Income Benefit business, otherwise known as GMIB.

I would remind you that the impact of the Financial Accounting Standards Board's fair value disclosure and measurement guidance on our GMIB results is for GAAP accounting purposes only. We believe 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 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 2012 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.

Also, please note that when we discuss our full year 2012 outlook it will be on a basis which excludes any future capital deployment and includes the year to date results of our Run-off Guaranteed Minimum Death

Benefit business, known as VADBe, but does not include an estimate for future impacts, as these potential impacts including the effect of changes in capital markets or periodic updates to long-term reserve assumptions are not known or reasonably estimable.

And one last item, I remind you that Cigna will be hosting our upcoming Investor Day on November 16, 2012, in New York City.

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

David Cordani (President and Chief Executive Officer):

Thanks, Ted, and good morning, everyone.

Before Ralph reviews our results and outlook, I'll comment on our second quarter performance. Then I'll discuss how the focused execution of our strategy is strengthening our ability to drive sustainable growth in revenue and earnings, as well as strong free cash flow. Finally, I'll highlight how we are further investing in our business to create differentiated value for our customers and clients.

Turning to our results, we are pleased with our performance in the second quarter, specifically:

- delivering another quarter of strong revenue and earnings contributions,
- making good progress on integrating HealthSpring,
- continuing strategic investments to ensure we are well positioned to serve our targeted markets and customer segments, and,
- as a result, we continue to deliver attractive revenue and earnings growth.

With the momentum we've continued to build in 2012, we are again increasing our full year outlook for earnings and capital available for deployment.

Moving to our results, we reported adjusted income from operations of $444 million, or $1.52 per share, excluding the impact of VADBe.

Our consolidated revenue increased by 35% to $7.5 billion. These results demonstrate the ongoing effectiveness of our Go Deep, Go Global, Go Individual strategy and our commitment to consistent execution of our business fundamentals, including clinical quality, service excellence and pricing discipline.

Each of our ongoing businesses--Health Care, International and Group Disability and Life--provided strong revenue and earnings contributions in the second quarter and year to date.

Our Health Care business results benefited from strong client retention and growth in our targeted customer segments. Revenue grew 46% in Health Care relative to the second quarter of 2011, reflecting a full quarter of contribution from HealthSpring and solid organic growth.

Our U.S. medical customer base grew by approximately 1.1 million during the first six months of 2012, representing 10% net growth from year end 2011, including 6% organic Commercial customer growth. I would highlight that essentially all of this organic growth has been in our ASO products.

In our International business, revenue increased by 22% compared to the second quarter of 2011, driven by solid customer retention and continued new sales in our high performing businesses. In our Health, Life and Accident business, we leverage our expertise and customer insights to bring to market innovative solutions at attractive price points. In our Global Health Benefits business, our portfolio of highly specialized health programs and our global network of more than one million healthcare professionals continue to provide a competitive advantage in serving the globally mobile employee market.

In Group Disability and Life, our revenue growth is 4% over the second quarter of 2011, and we reported solid earnings, which is a competitively attractive result. This growth demonstrates the value of our health and productivity programs for the benefit of our customers and clients.

Overall, our second quarter results reflect the strength of our differentiated capabilities and our focused multi-year growth strategy.

In a dynamic global economy with challenges faced by health systems around the world, we continue to deliver strong client and customer retention while broadening our existing relationships and winning new ones in our targeted segments and markets.

The consistent execution of our strategy puts us on track to deliver our third consecutive year of attractive revenue and earnings growth.

I'll now highlight how the focused execution of our strategy positions us for sustained growth.

In our U.S. Commercial business, the differentiated value we offer through our customer focus, our consultative sales approach and physician engagement capabilities continue to create good demand for health and productivity programs.

Our customer focus enables us to take a highly targeted approach to employee engagement through incentive alignment. This personalized approach allows us to move customers from passive recipients of care to active value conscious customers of their own health and wellness.

We support our customers with 24/7/365 live phone service and online decision tools to deliver transparency of health care costs and quality.

More and more employers are realizing that the way to control their medical costs is by keeping their employees healthy by helping them lower their health risks and by making it easier for those facing chronic or acute conditions to obtain high value health care.

Through our consultative sales approach, we design health and wellness plans based on our client's corporate strategy and culture, their workforce health status and their benefit goals.

As we have discussed before, physician engagement is key to improving our customers' health outcomes and achieving sustainable costs.

In the second quarter, we further accelerated our leadership in physician engagement by adding 10 new Collaborative Accountable Care initiatives. We launched our first Collaborative Accountable Care initiative back in 2008 so we've been at this for some time now. Today we have 32 programs spanning 16 states. These programs are designed to deliver improved clinical quality and medical costs, while increasing customer satisfaction.

Our approach incorporates three elements to drive physician success. First, we provide actionable data to help physicians identify potential gaps in care, and we do this in a way that is fully aligned with their operating protocols. Second, we align financial rewards with their performance on keeping patients healthy and delivering the highest quality care. And third, we support the practice with clinical care coordinators who focus on improving medical compliance and identifying patients who could benefit from our health, lifestyle and chronic care programs.

When you consider Cigna's Collaborative Accountable Care footprint, combined with HealthSpring's proven physician engagement model, we believe our breadth and depth of these programs is unmatched in the industry.

In our U.S. Seniors business, we are making solid progress pursuing opportunities to further fuel HealthSpring's growth by deepening their presence in existing markets and expanding the value of the physician engagement model to develop new commercial offerings.

Following the first quarter close of our HealthSpring acquisition, we launched sales of HealthSpring's group Medicare Advantage (MA) products to Cigna's commercial clients in targeted markets, and we're beginning to generate good interest.

We also introduced a new preferred network product in Tennessee and Houston that takes advantage of HealthSpring's high performing physician network to offer our Commercial clients greater access to affordable high quality care.

Overall, our HealthSpring integration continues to go well, and we are on plan to deliver our expected synergies.

In our International business, we see continued demand for Health, Life and Accident products among the growing middle class in emerging markets who want to enhance the coverage beyond their government-sponsored programs.

Success in our International business is driven by leveraging our deep marketing insights to understand our customers' needs. We match solutions to address their needs, and we deliver them through the appropriate direct-to-consumer distribution channels. This proven model enables us to deliver ongoing growth in our target markets, and we are expanding this winning model to Turkey and India.

Additionally, we continue to see strong demand for our highly specialized global health solutions, from multinational companies and intergovernmental organizations (IGO).

Now, I want to take a moment to discuss how we are effectively using capital management to invest in our business in a way that creates sustainable shareholder value.

We continue to have a strong balance sheet and good financial flexibility. Our capital deployment strategy remains focused on three core tenets:

- first, to provide the necessary capital to support ongoing businesses;
- second, to pursue mergers, acquisitions and partnerships to accelerate our growth and create strategic competitive differentiation; and
- third, to return capital to our shareholders.

I'll briefly address each of these.

We are supporting our current businesses with the capital required as a result of our ongoing growth. In addition, we continue to make targeted capital investments to support capabilities that position us for sustained growth.

An example, is our ongoing investment in our technology to better serve our existing and future customers as well as our physician partners. We are also investing in key technology initiatives to yield operating efficiency gains.

Second, relative to strategic acquisitions, we continue to explore and pursue opportunities that align with our growth strategy. In the U.S., our inorganic focus to date has been in acquiring differentiated capabilities and gaining scale in the Seniors market as well as retail capabilities.

Acquiring the best-in-class physician coordination model of HealthSpring is a clear example of our focused execution.

We are further extending our health solutions to more individuals in the U.S. with our recent agreement to acquire Great American Supplemental Benefits Group, one of the largest manufacturers, distributors, and marketers of supplemental health insurance products in the U.S.

These two investments position us with ongoing growth opportunities and the ability to provide greater value to our customers across all stages of their lives.

Within our International business, we continue to seek opportunities to expand our reach in geographies with significant middle class growth potential and to drive greater scale. To accelerate our growth in Turkey, during the second quarter we signed a joint venture with Finansbank, a large retail bank that operates the country's sixth largest life insurance company. The joint venture strengthens our direct-to-consumer distribution capabilities by partnering with a well-established, local financial institution to leverage their network of 500 retail banking branches and more than 10 million customers.

After fully considering our first two priorities for capital deployment - those are supporting the growth of our ongoing businesses and pursuing financially attractive, strategic M&A activity - we evaluate opportunities to return capital to investors. To date that has been primarily through share repurchase.

Now, before I turn the call over to Ralph, I want to reiterate a few key points.

Our second quarter and year to date performance reflects the strong revenue and earnings contributions from each of our ongoing businesses, reinforcing how our key differentiators are resonating in our targeted markets.

We accelerated our investments in high growth customer segments and emerging markets with the announcement to acquire Great American Supplemental Benefits and a new joint venture in Turkey, helping us to plant additional seeds for our future growth.

HealthSpring is performing well and is on track.

Our results reflect the dedication and customer focused mindset of the more than 35,000 Cigna colleagues around the world who work every day to help to improve the health, well-being and sense of security of the people we serve.

And finally, the momentum we have created for the first half of 2012 provides us the confidence to achieve our increased full year outlook for earnings and capital available for deployment.

With that I'll turn the call over to Ralph.

Ralph Nicoletti (Chief Financial Officer):

Thanks, David, and good morning, everyone.

In my remarks today I will review Cigna’s second quarter 2012 results 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 also the basis on which I will provide our earnings outlook.

Before I get into the specifics of the quarter, I want to highlight that the quarter reflects:

- continued effective execution of our strategy,
- revenue growth and strong earnings,
- operating expense ratio improvement, and
- strong contributions from HealthSpring.

These results provide us confidence to increase our full year outlook for earnings and parent company cash.

Now, moving to results.

Our second quarter 2012 consolidated revenues grew 35% to $7.5 billion, driven by contributions from the HealthSpring acquisition and growth in our targeted markets.

Second quarter consolidated earnings were $444 million, or $1.52 per share, excluding the after-tax loss of $0.03 per share from the results of the Run-off VADBe business.

Turning to the segments.

Overall, Health Care results for the second quarter of 2012 were strong and reflect continued effective execution of our growth strategy, highlighted by:

- strong year to date customer growth of our ASO products,
- continued underwriting and pricing discipline, and
- effective integration of the HealthSpring franchise,
- while making investments in future capabilities.

Second quarter premiums and fees for Health Care grew 52% to $5 billion, reflecting the first full quarter of HealthSpring revenues and organic growth in both our Commercial and Medicare businesses. Excluding the effect of HealthSpring, premiums and fees grew 8%.

Second quarter earnings for Health Care were $332 million and reflect revenue growth, including further Specialty penetration and the impact of favorable prior year claim development.

As we highlighted last quarter, results also include strategic spending to support our business growth and service capabilities, as well as targeted investments that will deliver operating expense efficiencies beginning in the second half of this year.

We ended the second quarter 2012 with approximately 12.6 million U.S. medical customers, representing year to date growth of approximately 1.1 million customers. The year to date increase is comprised of organic growth of approximately 750,000 Commercial customers, primarily in our priority markets, and roughly 400,000 HealthSpring customers. Essentially all of our organic growth in Commercial customers for 2012 has been ASO product offerings.

Turning now to medical costs in the quarter, we continue to deliver quality health care for our clients and customers. I would remind you that 85% of our Commercial customers are in ASO funding arrangements, where they directly benefit from these medical cost results.

Across our Commercial and Medicare risk books of business, our second quarter earnings include favorable prior year claim development of $17 million after tax, net of our rebate accrual, compared to $25 million after tax in the second quarter of 2011.

Specific to Commercial Guarantee Cost, our second quarter 2012 Medical Care Ratio, or MCR, was 80.1% on a reported basis. Excluding prior year claim development, the Commercial Guaranteed Cost MCR for the quarter was 81.0%.

When we provided our initial outlook for 2012, we planned for an increase in medical costs in our Commercial book of business over the course of the year, and we began to see this emerge in the second quarter, primarily in outpatient and professional services. Importantly, these increases were contemplated in our pricing.

Our second quarter 2012 MCR for Medicare Advantage was 80.4% on a reported basis, or 80.9% excluding prior year claim development.

Overall, we are pleased with the results in our medical risk businesses, as they continue to reflect good pricing and underwriting discipline as well as sustained clinical quality for our clients and customers.

For the second quarter, the total operating expense ratio was 22.6%, which is a 380 basis point reduction over the second quarter of 2011 expense ratio and primarily reflects the change in business mix associated with the HealthSpring acquisition, inclusive of strategic spending to support our business growth and service capabilities.

Now, I'll discuss the results of our International business.

International continues to deliver attractive growth and profitability. These results reflect targeted new sales, strong retention and further product penetration to existing customers. Premiums and fees grew 22% quarter over quarter, driven by strong customer retention and growth within our Health, Life and Accident business, particularly in Korea, and increased risk membership in our Global Health Benefits business.

Second quarter earnings in our International business were $65 million and reflect continued strong margins in line with our long-term expectations for this business.

For Group Disability and Life, second quarter results were strong overall in a difficult environment, as this business continues to deliver value to our clients and customers through market leading disability management and productivity management programs. Group premiums and fees increased 4% over the second quarter of 2011.

Second quarter earnings in our Group business were $89 million, which includes a net favorable impact of $35 million after tax related to a reserve study on our Group Disability business.

Results for our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, totaled to an after-tax loss of $52 million for the second quarter.

Corporate results include a charge of $10 million after tax for the termination of a vendor contract related to the previously discussed operating expense efficiency initiatives.

Additionally, these results include a reserve strengthening of $10 million after tax related to our Run-off VADBe book of business. The reserve strengthening relates to the impacts of changes to our long-term lapse assumptions for a segment of the business.

Overall, as a result of the continued effective execution of our strategy, our second quarter results reflect solid revenue and earnings contribution from each of our ongoing businesses, and, as a result, we continue to generate significant free cash flow.

Turning to our investment portfolio, we are pleased with the results in the second quarter. Our commercial mortgage loan portfolio is performing well in a challenging economic environment. During the quarter, we completed our annual review of the $3 billion loan portfolio, which indicated there has been an improvement in the average loan to value ratio to 66%, compared to the previous estimate of 70%, along with improvement in our average debt service coverage ratios.

Overall, our strong investment management capabilities, diversification of the portfolio and disciplined approach to risk management continue to deliver solid results.

Now, turning to our outlook.

Based on the strength of our second quarter results, we're confident in our ability to achieve our increased full year outlook. We now expect consolidated adjusted income from operations in the range of $1.53 billion to $1.63 billion and consolidated EPS of $5.25 to $5.60 per share, reflecting continued strong underlying results in each of our ongoing businesses.

This increased outlook represents an increase of $0.05 per share over our previous expectations.

I'll remind you that, consistent with prior practices, our outlook excludes any contribution from additional prior year reserve development or capital deployment.

I will now discuss the components of our 2012 outlook, starting with Health Care.

We now expect full year Health Care earnings to be in the range of $1.21 billion to $1.27 billion, which is an improvement of $15 million from our previous expectations at the midpoint. This increased outlook for Health Care reflects the impact of favorable prior year claim development recognized in the second quarter and continued effective execution of our strategy.

Regarding U.S. medical customers, we continue to expect full year 2012 growth of approximately 1.2 million people, of which 800,000 is in our Commercial book of business. This year's growth is essentially all in our highly transparent ASO funding arrangements and across all of our targeted customer segments, including National Accounts, Middle Market and Select size employers. We expect to provide additional value to our larger clients by expanding our suite of solutions over time, which will drive increased revenue and earnings for these relationships.

Overall, we are pleased that employers of various sizes continue to value our consultative approach and differentiated health and productivity programs.

Turning to medical costs, our outlook continues to assume an increase in medical cost during 2012, which we began to see during the second quarter. For our total Commercial book of business, we continue to expect full year medical cost trend to be in the range of 6% to 7%. These expected medical costs have been reflected in our pricing for 2012.

We continue to expect the full year MCR to be in the range of 80% to 81% for our Commercial Guaranteed Cost book of business, and we now expect the full year Medicare Advantage MCR to be in the range of 81% to 82%, which is an improvement of 50 basis points from our previous expectations. The majority of this is driven by favorable claim development.

We continue to expect the operating expense ratio for the full year 2012 to be in the range of 22.5% to 23.5%.

Now, moving to the other components of our outlook.

For our International business, we expect continued strong top line growth and continue to expect earnings in the range of $265 million to $285 million, which represents earnings growth of 19% to 28% versus full year 2011.

Regarding Group Disability and Life business, we continue to expect full year 2012 earnings in the range of $260 million to $280 million.

Regarding our remaining operations, including Run-off Reinsurance, Other Operations and Corporate, our outlook is now an expected loss of $205 million for 2012, reflecting the second quarter Run-off

VADBe reserve strengthening, as well as the vendor contract charge recorded in the second quarter Corporate results.

So all in, for full year 2012 we now expect consolidated adjusted income from operations of $1.53 billion to $1.63 billion and consolidated EPS in the range of $5.25 to $5.60 per share.

As we indicated on the first quarter call, we expect our 2012 quarterly earnings pattern will be different than prior years. Regarding our outlook for earnings per share for the second half of 2012, I would note that there are a number of moving pieces, including a meaningful step-up in Medicare Part D earnings in the fourth quarter, as well the absence of the second quarter favorable impacts of prior year claim development and the Disability reserve study.

As a result, we expect a quarterly earnings per share pattern similar to the first half of this year.

I will now discuss our updated capital management position and outlook.

Overall, we continue to have good financial flexibility as our subsidiaries remain well capitalized and are generating significant free cash flow to the parent, reflecting strong return on capital in each of our ongoing businesses. We ended the quarter with parent company cash of approximately $650 million. We now expect to have approximately $800 million in parent company cash by the end of 2012, with approximately $350 million available for capital deployment after considering all sources and uses, including approximately $400 million for our two pending strategic acquisitions.

This represents a $200 million increase compared to our previous capital outlook, primarily reflecting the increased subsidiary dividends due to improved business fundamentals.

Overall, our capital position and updated outlook remains strong, and our capital deployment strategy and priorities remain unchanged.

Now, to recap.

Our second quarter 2012 consolidated results reflect the strength of our global differentiated portfolio of businesses and effective execution of our focused strategy, with solid growth in our targeted customer segments.

Our second quarter results represent another strong performance, reflecting good progress on the integration of HealthSpring and strong organic revenue and customer growth, which are expected to deliver:

- an increase of $0.05 in earnings per share for 2012, and
- an additional $200 million in capital available for deployment.

Based on the strength of our results, we are confident in our ability to achieve our increased full year 2012 outlook.

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

Matthew Borsch (Goldman Sachs):

Yes, good morning. If I could just start off with a topic which has gotten a lot of attention this earnings season. Now that we've rolled forward three months, what are you seeing on the Commercial risk based side in terms of price competition and any granularity you can provide around that?

David Cordani (President and Chief Executive Officer):

Matthew, good morning. I'll give you a little color in terms of the overall marketplace and the environment.

Consistent with prior comments, we view the marketplace as competitive. You may recall, last year we flagged that we saw a little bit of intensity of competition pick up specifically for guaranteed cost or risk based business, and we flagged it was down market for the smaller employer size--employers with several hundred employees.

In the face of that, we backed off a little bit on our own guaranteed cost membership growth expectations and replaced that with further accelerated growth in the ASO and ASO with stop loss membership.

So no meaningful change in pattern, but I would suggest we've seen an uptick in intensity dating back over the course of the last year, and we've been successfully using our ASO product in the face of that environment.

Matthew Borsch (Goldman Sachs):

Great, and just to follow up. Shifting to the self-funding side, are you seeing the smaller and Middle Market employers continuing to shift to self-funding, or is the interest in doing that at about the same level? Has that slowed a little bit or is that intensifying? And would you expect it would intensify further if we move towards health reform implementation?

David Cordani (President and Chief Executive Officer):

Matthew, as you know per Ralph’s comments, 85% of our Commercial book of business today is ASO. So a part of it is environmental, and part of it is our targeting and segmentation.

We see continued increased demand for more transparent programs, and ASO is a highly transparent program. We've been effective using them over time, as you know, in National Accounts, in Middle Market and regional accounts, but increasingly I would say we continue to see increased momentum as you go into what we call the Select segment of 50 to 250 life employers.

Very importantly, just to amplify, through the use of those programs we've been able to see elevation in preventative care, elevation in medication compliance and elevation in chronic care program utilization, even for employers that have below average health risks. It's a quite attractive tool, and, as a result, we’re delivering very good medical cost trends.

So overall, increasing intensity of demand is what we've seen, and we expect that pattern to continue.

Matthew Borsch (Goldman Sachs):

Thank you.

Josh Raskin (Barclays Capital):

Good morning. I want to talk a little bit about the loss ratios across the various segments. The Guaranteed Cost ratio was up year over year in the second quarter, which was a bit of a change from the first quarter result where it was actually down year over year. I’m just curious if there was some seasonality or if I'm missing some development changes or other things like that? Then, understanding you didn't have HealthSpring last year in the second quarter, but their reported MLR was actually 80.4%, it looks like the Medicare Advantage Medical Loss Ratio was actually down on a year over year basis, which I think was surprisingly positive. I'm curious if the $17 million of development in Health Care was mostly MA?

David Cordani (President and Chief Executive Officer):

I'm going to ask Ralph to comment on the Commercial side in terms of what we've seen, and then I'll amplify a little bit in terms of what we're seeing in the MA book and the overall medical cost environment.

Ralph Nicoletti (Chief Financial Officer):

Josh, the Commercial side first, as we look at the Medical Cost Ratios (MCR) and the progression here, is performing in line with our expectations. We did come into the year with an expectation that medical costs would begin to move up. Some of the year over year change is that, and some does reflect the different levels of prior year development between the two quarters. But when you cut through that to an operational basis, the MCRs are really moving in line with how we planned the year and, importantly, how we priced the business.

So on Commercial we feel good about where we are. I mentioned in my remarks that we've begun to see some increase in costs, particularly on outpatient services and the mix of services within outpatient, and increased utilization on professional services. Again, all in line with our expectations as we planned through the year.

David Cordani (President and Chief Executive Officer):

Josh, picking up on that, as Ralph noted in his prepared comments, our outlook for the Commercial MCR is intact, and our outlook for overall Commercial Medical Cost Trend is intact.

Specifically as it relates to Medicare Advantage (MA), if you put it back in the context that you raised, for HealthSpring you first have to start with their book of business. HealthSpring has a long history of being very disciplined in terms of its benefit design and its growth story, and, if you look at 2012, their MA growth was in the neighborhood of 6%, while I think the industry average was about 7%. HealthSpring does not historically hunt for Group MA business, so 6% is a good result given that the others are hunting for additional Group MA business. With that good discipline, they've had predictability to their overall medical costs and profitability outcome.

Why is that? What's the focus on the benefit design?

It's the great discipline that the HealthSpring team has. It's also driven by the strong partnership and alignment with physicians where in excess of 60% of their book of business is in very sophisticated physician partnership models. As a result, HealthSpring has delivered a strong result through the first six months this year, and as Ralph noted in his prepared remarks, we actually improved the medical care ratio outlook by 50 basis points. So we feel quite good about that.

Josh Raskin (Barclays Capital):

Okay, then just a quick follow-up on the $35 million favorable Group Disability and Life reserve study in the quarter. Was that expected? It doesn't look like the guidance is moving much? So was that expected?

And more broadly, we've seen a bunch of these over the last couple of years. How do we think about those? Are those one-time items, or are those just sort of natural catch-ups that end up getting lumped into one specific quarter, but are just a part of the business?

Ralph Nicoletti (Chief Financial Officer):

Your latter observation is more directionally how to think about it. With the reserve level on that business at a little over $2 billion, these are what I would call minor adjustments that we look at annually in the second quarter.

It reflects two things: our prudent practice in reserving and our good execution in the marketplace. The combination of those two things on a consistent basis and history has shown that it results in some minor adjustments to the reserves. The level this year was comparable to what we saw last year.

Josh Raskin (Barclays Capital):

So that was included in your expectations, that you'd have similar reserve study impact to last year?

Ralph Nicoletti (Chief Financial Officer):

We did not expect a specific number, but as we go into the year and plan, we look at our execution and our reserve practices as being prudent and consistent. With consistent execution we do go into the year expecting a range not materially different than what we've seen in the past.

Josh Raskin (Barclays Capital):

Okay, thanks Ralph.

Justin Lake (JP Morgan):

Thanks. Good morning. First question, I wanted to dig in a little bit more on the cost trend. Can you add some specifics on how much physician and outpatient was up in the quarter and what you were expecting for those specific trends coming into the year and where you are now? Given that we're already halfway through the year, is there any way you can give us more specifics in terms of where you are within that 6% to 7% percent trend range?

Ralph Nicoletti (Chief Financial Officer):

As it relates to trend, we would expect as we move through the year to see a continued increase. When we set the guidance at the beginning of the year, we shaped it to be a gradual increase in the cost trend throughout the year. We're progressing in the first half at the lower end of the outlook range, and we'd expect to be in the middle of the range on average for the year. Regarding the pieces themselves, as I mentioned in my remarks and some of the earlier comments, we did see the mix of services in outpatient increase, so it's not necessarily utilization based, but it's more the mix of services within outpatient. And we did see a step-up in some utilization on the professional services side, while inpatient was largely flattish.

Justin Lake (JP Morgan):

When you saw that mix of services in outpatient, are there two or three areas that you might be able to point out to us as to where the higher acuity is coming from?

Ralph Nicoletti (Chief Financial Officer):

Essentially it came in line with our expectations, and there's probably some shifting from inpatient to outpatient, which moves some of that mix. But largely it moved as we expected.

Justin Lake (JP Morgan):

Got it. So on the cost trend, just to paraphrase what you were communicating, coming into the year if you were closer to the 6% range in the first quarter, then that's now kind of progressed to the midpoint, and you expect to end the year closer to 7%. Is that a reasonable way to think about it?

Ralph Nicoletti (Chief Financial Officer):

Yes, I would just look at it as we expect to be in the middle of the range as we progress through the year. I don't think you should think of it as a steep curve, but rather more of a gradual curve. We expect to beat around the middle of the range for the balance of the year.

Justin Lake (JP Morgan):

Okay.

You've got a lot of large group business, and I know that pricing gets set pretty early on in the summer or early fall, so you're in there pricing business right now. Is it fair to say that you would be pricing business with a conservative view of trend given what you're seeing; therefore, pricing business north of that 6% to 7% range for further cost trend increases next year?

David Cordani (President and Chief Executive Officer):

Obviously, we're not providing 2013 guidance at this point. Some business is already out, and we've put bids on the market for 2013, with a small percentage of our business out to bid.

I think the important piece is our medical costs for 2011 were better than our expectations and developed favorably. Our medical costs thus far through 2012 are in line with our expectations, and we've priced accordingly. And we're using a similar approach to set pricing for 2013.

Also very important to your point, since our book of business is larger than average, especially since we don't have an under 50 block of business, we're looking at the specific credibility of those cases. So we're a little less exposed to averages when dealing with those types of cases. Our team is working on the case-specific credibility, and that helps to pinpoint medical costs because it is deeper into the market specifics.

Lastly, while you didn't ask about MA, I think it's important to amplify from an MA standpoint the year to date medical costs are also in line to slightly favorable with our expectations. That's quite important because, as you know, the bid process for that is well established and well underway. We have the same successful HealthSpring team that has led that process for many years leading that process, and we also feel good about jumping off a strong base in the first five months of the year to establish those bids.

Justin Lake (JP Morgan):

So you're not seeing the same increase in cost trends in Medicare Advantage that you were seeing in the Commercial side?

David Cordani (President and Chief Executive Officer):

That's correct. Let's separate the two.

In Commercial, when we established the outlook for the year we indicated that we were expecting and priced for a gradual increase in medical costs trend throughout the course of the year, and it's beginning to manifest itself in the second quarter.

Within MA, we didn't plan for, or expect, that same increase and it's not manifesting itself. In fact, we've been able to improve the Medical Care Ratio outlook. So Justin, ask yourself the question why might that be.

In part, as you know in Medicare, inpatient plays a very pronounced role in the overall cost category. Inpatient is intact in Commercial, and it's intact in Medicare Advantage, but it's a larger part of the Medicare Advantage pie.

Secondly, in the HealthSpring model, as I indicated before, in excess of 60% of the block of business is in highly transparent physician partnership models--meaning there are tightly aligned incentives and very sophisticated clinical management programs that continue to deliver great value for the individual Medicare customers in partnerships with physicians.

All of that comes together to deliver a medical cost result in Medicare that's quite attractive right now and in line with our expectations.

Justin Lake (JP Morgan):

Great. Thanks for all the detail.

Ana Gupte (Sanford Bernstein):

Good morning. The first question is to follow up on your commentary David earlier on Medicare. I think Humana specifically has reported age-ins, and their risk scores have been lower than the utilization, so the margin profile seems to be shifting more negatively. Then I'm hearing from other sources as well that the 65 to 75 cohort is less profitable than the 75 plus because the risk scores have not been established.

Any comments on that, and does your 81% to 82% Medicare MLR for this year consider mix shift, star headwinds, the Affordable Care Act headwinds and possibly lower prior period development? Directionally, how do you see that playing out year over year into 2013?

David Cordani (President and Chief Executive Officer):

First, I want to reestablish the base for HealthSpring. Number one is a consistent track record of delivering with their focus of execution. What you've seen with HealthSpring over time is good growth, but not outpacing the industry membership growth year after year. I think that underscores HealthSpring's discipline in terms of getting the benefit design in balance with the premium and the revenue stream along with the physician partnership.

As I noted earlier, HealthSpring has just shy of 6% customer growth, which is below the industry average of 7%, because HealthSpring is not playing in the group MA space; we're focused on continued profitable growth.

We don't see a pronounced difference in medical costs within our book of business. I would note that without the physician partnership model, there would be some erosion or some challenge in terms of the medical cost. However, there's a decade plus of success with the physician partnership model, and that enables us to actually take some cost out of the equation to get the MLR to work.

As it relates to the Medicare Advantage MLR outlook, we noted a 50 basis point improvement, and we're pleased with that.

If you take the current Medical Care Ratio at which the portfolio is running and you adjust it for all the moving parts we expect to transpire as the dust settles with the Affordable Care Act, on average, the portfolio MCR is running about where it needs to be. Of course, there'll be little puts and takes by market, and the HealthSpring team is taking that into consideration as they're positioning for 2013 and already thinking about the 2014 bid strategies.

So overall, we have a very strong performing block of business, with no meaningful noise in the block of business thus far.

Ana Gupte (Sanford Bernstein):

Okay, thanks. So it sounds like the future model would be more tightly controlled from a care gatekeeper in Medicare to try to achieve the kind of margin sustainability going forward?

David Cordani (President and Chief Executive Officer):

Yes, Ana, I'd use slightly different words in framing, but directionally correct. Now, when we say future model, you could assert that the HealthSpring model has been that all along for the last decade plus. They've been playing to a sub-segment of the market and playing there very successfully.

Specific to your assertion, we believe your assertion is correct and the marketplace for that opportunity is going to expand.

The slight difference I would say is, it's not the gatekeeper model of 15 years ago, it's more of a physician-directed model with care coordination which looks and feels substantially different. To those who have gone out and looked and felt and touched the model, it feels different -- with embedded care core coordinators in the physician practice, with different information and data flows, and higher engagement and prevention wellness lifestyle management programs. For those who value that approach, it is high quality, high value and high satisfaction.

To your point, we think the marketplace demand for that is going to grow and HealthSpring is phenomenally positioned for that.

Ana Gupte (Sanford Bernstein):

Thanks, David. Just switching gears, on the capital deployment you talked about $800 million in cash at the end of the year at parent. After HealthSpring, you did the supplemental deal on Med Supp, and I think you guys also mentioned individual as a potential area of opportunity. So as you're thinking about your other inorganic needs and reflecting on the Amerigroup and WellPoint deal and possibly your strategy on duals, can you comment on how you're thinking going forward?

David Cordani (President and Chief Executive Officer):

Ana, you're very efficient about getting many questions in.

I'll make just a few points.

As Ralph noted, we're delighted to now increase our outlook for capital available for deployment for the second quarter this year. We increased it by $100 million in the first quarter, and we increased it by another $200 million this quarter. As Ralph noted, after paying for the pending acquisitions that we have out there, of the expected $800 million at the parent at year end, $350 million is available for deployment.

Our broad targets and categories haven't changed, so our objectives for M&A have been to expand our global footprint on a targeted basis, secure leading Seniors capabilities, and we haven't actually stated individual, but rather specifically stated retail capabilities, because we think the marketplace continues to evolve into a much more retail oriented market. We're pleased to be securing the Great American

Supplemental Benefits Group capabilities that take us more toward the retail space in the U.S. and be able to add that to our leading global Health, Life and Accident portfolio.

When we take all of that together, we feel quite good about what we've secured, and now, having much more capital flexibility for deployment in the second half of the year, we're pleased in terms of how we're positioned.

Lastly, as it relates to duals, we've been very consistent on duals that priority one, two and three for us were to secure a leading Seniors set of capabilities with a clinical program that is differentiated. We're pleased to have done so with HealthSpring, and we've been consistently saying after we secured that, we believe the dual and the high risk Medicaid market is an attractive opportunity for us in our targeted geographies and we will pursue that marketplace.

Clearly, HealthSpring successfully serves some of that market today, and we will pursue that market on a geography by geography basis, predominantly through HealthSpring's organic capabilities that they have in hand today or through partnerships. That's our preferred approach currently, which is to build off of the success of the HealthSpring model.

Ana Gupte (Sanford Bernstein):

Thanks, we appreciate it.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay, great thank you.

I wanted to go back to some of the comments before about HealthSpring and how you're starting to leverage that. I think last quarter you indicated that the Commercial opportunity was a 2013 opportunity and Group MA was 2014, but I think in the prepared comments it sounded more like you're trying to accelerate things a little bit. Can you tell us about what you're doing in Tennessee and Houston and then comment about already launching sales effort on the Group MA?

David Cordani (President and Chief Executive Officer):

Sure, Kevin, and good morning. Your memory is correct, as we laid out the acquisition business case we talked about the meaningful opportunity beginning to unfold in 2013 and 2014 but that our team was immediately ready and starting to get to work.

So what we flagged in the prepared remarks is early progress. You should not read into the early progress to suggest that any of those items are going to actually move our revenues or earnings contributions from the synergies into 2012, but we're working at it aggressively.

On the Commercial side, to give you an example of what we've been able to do dating back to May of this year, we were able to stand up a Commercial solution in Houston, a marketplace where HealthSpring is quite deep and we have a broad portfolio. We were able to stand up a solution that uses HealthSpring's very successful and deep physician management model and deliver a revised solution for a large Commercial employer who wanted access to that, as they saw it as an opportunity to get even further enhanced clinical quality and care coordination, and, as a result, improved value and cost. That's an example of success.

We had a similar approach in Tennessee--two very deep markets for HealthSpring and two very strong markets for Cigna, where we've already seen good inbound demand from clients around those solutions.

Similarly on Group MA, this is a matter of reshaping solutions within the HealthSpring portfolio and proactively bringing them to market and creating awareness for our existing client base.

Per our prepared remarks, early interest is positive. We're pleased with that direction, and we want to be moving on this so we're able to step into 2013 and 2014 with some momentum.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay, that makes sense. Then, on the International side of things, obviously the economic outlook is a bit shaky right now and you reaffirmed your International guidance, but I just wanted to see if you thought that was having any kind of impact on any of your markets.

David Cordani (President and Chief Executive Officer):

Broadly, the answer is no to date, but let me offer a little more color on that.

We have two large businesses there. First, the business for the globally mobile corporate and IGO clients. Regarding the globalization of the economy, that pace continues, the deployment of executives continues around the globe, and our positioning is quite well received in the marketplace.

Second is the individual Health, Life and Accident business. The key to success there is continued innovation and targeting specific solutions for specific buying segments.

You could argue it's a little harder in the case of an economic headwind; but today, if you look at our results, success remains in terms of good retention, good customer relationship expansion and good new business adds.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay, great. Thanks.

Christine Arnold (Cowen and Company):

As we think about 2013 and as you're pricing large groups now, are you expecting a continued creep in medical trend, or do you look at the professional and outpatient utilization and say that ultimately we're going to see inpatient and we expect a leak rather than a creep in medical trend? How are you thinking about that going forward?

Then, my follow-up is could you talk about the ASO pipeline. It looks like the 50 to 250 life business continues to accelerate in growth as you had spectacular growth this year. How do I think about that ASO pipeline? Thanks.

David Cordani (President and Chief Executive Officer):

Christine, I think I'm going to take it in reverse order. I'll speak to the ASO pipeline, and I'll give a little color on pricing, then ask Ralph to expand on that.

Specific to the ASO pipeline, you're referencing the Select segment, so employers between 50 and 250 lives, and we're delighted with the performance of that portfolio. We've continued to build on the successful acquisition several years ago of Great West. By securing that acquisition, we brought on some additional capabilities, and we have since targeted individual markets, using those to greater depth. The success continues. Throughout the residual part of this year, we expect to see continued momentum in the ASO Select segment, and there's no indication that will abate as we step into 2013.

The key to that is continuing to make sure we're innovative and delivering the right solutions, to the right employer clients and involving some of the clinical models. We're doing that very successfully currently.

On a macro level as it relates to the pricing environment, as I noted before, a small percentage of our risk business is out to bid for 2013. As you very well know, the majority of our business is larger average case size. Again, the importance is that there's credibility to the individual case's medical experience.

That's quite helpful in an environment that we operate in like today. We're able to look at that benefit design, the changes in the benefit design, the underlying experience, and then make case level decisions as opposed to aggregate blended book of business decisions that you might have to do if your book was mostly under 50 or mostly under a 100 lives.

A final comment as I hand it to Ralph, our medical cost performance in 2012 is in line with our expectations, so we're not seeing a spike that is, broadly speaking, outside of our expectations currently.

Ralph, can you expand a little bit around our approach to pricing for 2013?

Ralph Nicoletti (Chief Financial Officer):

Thanks, David.

First, just to reinforce the point, we have the benefit with the mix of our business skewed to the larger size cases that allows us to take a look at those on a very case-specific basis. Calling the macro trend is important as we set up our strategies for pricing, but, most importantly, we have good visibility into the clients and customers that we serve, and that helps us a lot.

As it relates to the trend itself, there is still a lot more to learn and discern as it relates to what the trend might look like going into next year--specifically because we're really only starting now to see some change in the trend, which we did plan for. But we've only really started to see some of that now, and we'll be looking at that very closely.

I would say that our posture will be more of what I'll call conservative in the context of we want to be sure that we're pricing our business in line with Medical Care Ratios that are essentially flattish to where we are. So that will be our posture going in, as we want to make sure that our margins are thoroughly protected and where we can deliver a lot of value for our customers, not only on just the base services, but a lot of the other value added specialty services as well.

Christine Arnold (Cowen and Company):

Thank you.

Carl McDonald (Citi):

Thank you. In the Commercial risk business you have seen stable to up in enrollment this year. It looks like the Per Member Per Month yields in first half of this year are basically equivalent with last year. I would be interested in where you're seeing that stability with the growth, whether it's coming from limited benefits or some of the more traditional risk products, given that a lot of the competitors are seeing some meaningful enrollment declines this year.

David Cordani (President and Chief Executive Officer):

Carl, good morning. First, contextually, as you know, the risk portfolio is less than 10% of the overall Cigna franchise in terms of covered lives.

There are puts and takes in the portfolio. The one that I would call out is that we've been driving some targeted individual primary medical programs in the U.S. over the last two and a half years, and we've been driving on a targeted basis in a subset of our Go Deep geographies with the objective of learning and being in position well in advance of the 2014 exchange environment. We've achieved our growth objectives over the last year, and we're achieving our growth objectives there. You actually see growth in our individual block of business, offsetting some atrophy in the employer block of business, that's being more than offset with the ASO sales.

That would be the trend I would give you for guaranteed costs.

Carl McDonald (Citi):

All right, and then a separate question on the Medicare business. I think it would be interesting for people to hear some of the contrast for HealthSpring, particularly around new members, given the comments made earlier by Humana about new members being less profitable.

HealthSpring has historically said that not only are new members more profitable, but they're substantially more profitable at least in certain periods of time. So it would be interesting for people to hear some of the reasons why you think that is.

David Cordani (President and Chief Executive Officer):

I'm not going to speak about what others are experiencing, but I'll clearly speak about what HealthSpring experiences.

First and foremost, as I noted earlier, the HealthSpring team has a long track record of being very disciplined in terms of how it establishes the benefit design in their targeted markets. We call it Go Deep, while they call it a Targeted Market. They have been very disciplined, and, if you track them over time, they have good growth, but not ebb and flow or outpaced growth. That's data point one.

I think when you cut to the core of your conclusion, which we agree with in terms of the HealthSpring model actually being highly attractive to new members, largely the reason is HealthSpring's physician partnership and clinical model engage an individual at a level that the industry, broadly speaking, doesn't do. You hear the buzz around accountable care organizations, etcetera--well, HealthSpring has been at it for over a decade.

What transpires is as a senior comes into the HealthSpring model a quite comprehensive health assessment occurs and significant clinical coordination ensues with the individual or patient and their physician. HealthSpring enables that. They enable it with information, they enable it with financial incentives and, very importantly, they enable it with care coordination resources such as embedded nurses, embedded case managers and embedded health coaches. For some physician practices, HealthSpring is actually taking real estate right next to the physician practice and having a healthy living center where the annual physicals are conducted and the health and lifestyle coaching sessions take place.

So, Carl, when you take that picture together, you get out of the box with a well positioned product design. Then, as you get your new customers on board, you're actively engaging them with their physicians and care coordinators and aligning the information, the financial incentives and the clinical programs. That's why the HealthSpring model has been able to deliver significant value for new customers.

Part of it goes back to the individual in terms of health, quality of life and benefit coverage. Part of it goes back to the physician in terms of the financial incentives, but only when the health status improves. And part of it has come back to HealthSpring or the shareholder.

That model is successful, and we're seeking to grow it as fast as possible.

Carl McDonald (Citi):

Great, thanks.

David Windley (Jefferies & Company):

Thanks for taking the questions. I wanted to come back to the reserve study. I had in my notes that you had actually pushed your expectation for this to Q3, and so I wanted to see if that hitting in Q2 had the effect of rebalancing your earnings expectation or your earnings distribution for the year. I'm particularly digging for was it not upside to your guidance or was it included to some degree in your guidance in the second half and that's why the guidance is not going up any more than it is?

Ralph Nicoletti (Chief Financial Officer):

Regarding the timing, we didn't move it. The reserve study on disability is performed in Q2 and that's been what we've done in the past, but we will do a more in-depth life study in Q3. We had expected that timing as we entered the year, with our expectations for the work to remain on track to complete the life study in Q3.

David Cordani (President and Chief Executive Officer):

David, as it relates to the second part of your question around forward-looking earnings expectations, while there wasn't an express number that we had relative to the Disability reserve study in the second quarter, as Ralph noted previously in response to a question, with the consistent execution of the reserving process and our disability clinical model, what we've seen over the last couple of years is positive reserve development on, as he noted, a $2 billion dollar reserve base.

We take into consideration the prior experience, and we have a range built into our expectations, and what Ralph noted is that what was posted in the second quarter was in line with our expectations or what we thought would transpire in the second quarter. Hence, no change in our forward looking outlook.

David Windley (Jefferies & Company):

Okay, thank you. The other question that I had is around your technology investments that you called out a little more specifically in Q1. Did those continue in Q2? Are the benefits of those still unchanged or still the same in terms of the amount? And do you also expect the amount that you expected to be realized in the second half of 2012 to be the same?

Ralph Nicoletti (Chief Financial Officer):

David, I'll talk a little bit more specifically on the technology investments, but first want to step back to our overall operating expense ratio.

We continue to be on track with the guidance that we had provided on the operating expense ratio for the year.

As we noted, on the technology side, in particular, we're making some investments in the first half of the year, and as I noted in my remarks, we took a charge related to a vendor contract in the quarter that was also related to some investments we're making in technology that will have benefits in the back half of the year, and we are on track there.

If you think about where we are then for first half and second half, you'd expect to see operating expense ratio improvement from some of these efficiencies from the first half. We will also make some investments in the back half of the year, particularly as it relates to getting ready for 2013 readiness, but, overall, we are on track on our operating expense ratio, and the technology investments are also on track to perform as we expected.

David Windley (Jefferies & Company):

Okay, great. Thank you.

Melissa McGinnis (Morgan Stanley):

Good morning. Thanks for the question. I'm sorry if I missed this, as I had to jump on another call a couple times this morning.

On the $350 million I think you said that you now expect to have in deployable cash. We've seen the company be quite acquisitive with some little acquisitions that were still very much aligned with your focus on Seniors and International. Do you still see other capability gaps or places where you want to bolster the Senior platform or regions of the world where you want to bolster your International platform?

Are we getting back to a place where you might see more robust re-entry into the share repurchase market?

David Cordani (President and Chief Executive Officer):

Melissa, good morning. First, I'd underscore we are pleased that we were able to increase our outlook in the first quarter for another $100 million of capital available for deployment and then take it up another $200 million above that this quarter. That's a very positive message.

Broadly speaking, your recollection is correct. Our inorganic priorities have been to expand our global footprint, secure leading seniors capabilities here in the U.S. and then expand our retail capabilities. And those broad objectives remain. We will be opportunistic with in-kind scale, tuck-in acquisitions or leverage acquisitions.

Broadly speaking, we feel great about having been successful the last two years securing what we wanted to augment the strategy, and we're well positioned.

Now, we can be opportunistic to the extent opportunities present themselves to either do further bolt-on or tuck-ins to our leading Seniors capabilities, or some further geographic expansions outside the U.S., but our geographic priorities remain intact there, so we feel quite good about what's in front of us from an M&A standpoint.

Melissa McGinnis (Morgan Stanley):

Great, thanks. Can you also update us on some of your most recent thoughts as you started to get farther along in the integration process with HealthSpring? How you're thinking about the pharmacy opportunity you might have with your PBM now that you're controlling more drug spend?

David Cordani (President and Chief Executive Officer):

First, broadly speaking, we noted that the HealthSpring--I'll call it integration, although it's a very light integration--is progressing quite well, and we feel quite good about it.

Specific to pharmacy, the pharmacy opportunity is a meaningful opportunity as we were able to secure the HealthSpring acquisition. First, to put the PBM in context, we've been quite consistent that our PBM is an important part of our clinical and service strategy. Secondly, a couple years ago when there was a lot of activity in the space, we did a very comprehensive look at our PBM, and we concluded that our PBM was well run, highly profitable, and we had expectations that would continue to grow. The good news is that we actually have grown it organically.

To your point, having secured the HealthSpring acquisition, the scale of that asset is poised to grow meaningfully if we so choose and, therefore, that can create a lot of shareholder value. As such, we're stepping back and making sure we understand all the alternatives that are in front of us, but the exciting part of that is any alternative is a meaningful step in shareholder value, as well as continuing the good value we're delivering to our customers. So we're excited about the opportunities that are in front of us.

Melissa McGinnis (Morgan Stanley):

Great. Thanks for all the detail.

Scott Fidel (Deutsche Bank):

Thanks. I was wondering if you could give us an update on Texas Medicaid and what HealthSpring has been seeing down here in StarPlus and particularly in Hidalgo, given some of the issues raised by some of the other Medicaid peers?

David Cordani (President and Chief Executive Officer):

Scott, good morning. We have a very small position in Texas and specifically in the county that you referenced. Order of magnitude, think about less than 1% of the corporation's revenue and a de minimis part of the overall covered lives. Having said that, within that context, we're seeing some of the same pressure that the marketplace is seeing, and that's fully contemplated in our earnings outlook.

There's a lot of interaction that's taking place with the physicians--but also the state, as the state understands the performance, and there's good directional progress with the state to rectify some of the issues as we go into the second half of this year.

Scott Fidel (Deutsche Bank):

Any sense on the rate increase there, David? Both Molina and Centene had disclosed that the state had indicated they would receive rate increases, so I'm interested if HealthSpring will receive one as well.

David Cordani (President and Chief Executive Officer):

Yes, we expect to. It's an attractive one, in the context of the underlying medical cost, to rectify the situation, and it's toward the latter part of the year; think about the end of third quarter beginning of the fourth quarter.

So, good continuity in terms of how the state is dealing with the various vendors down there, and everybody is aligned in terms of trying to get this program back in line.

It's important to underscore for you, Scott, this is a very small portion of the overall portfolio for us, number one, and, secondly, the economics around that are fully contemplated currently in our guidance.

Scott Fidel (Deutsche Bank):

Okay, and then just a quick follow-up. Going back to the launch of the Group MA product in some of the HealthSpring markets, are those the two markets where you've launched so far, Tennessee and Houston, or are there additional markets as well?

And then, is there a way to size how many Commercial retiree members you have in those markets right now in terms of thinking about the upsell opportunity you might have in terms of moving Commercial ASO members into a group risk MA product?

David Cordani (President and Chief Executive Officer):

First, Tennessee and Houston were markets we actually called out for the Commercial solution--so, standing up a new Commercial solution that takes advantage of the very successful HealthSpring physician model. Those markets, plus a few others, come into play as it relates to MA.

I think it's early for that conversation for us. We don't see it as a silver bullet by any stretch of the imagination. Rather, we see it as another tool we're able to bring in for our team to offer our clients as they're working through how to deal with the significant challenges of their long-term retiree medical costs. In those targeted markets, where the HealthSpring portfolio delivers great value, we think we'll see good success going forward. Early interest is high, but until there are meaningful runs on the board, we're not going to get overly excited, which is why when we did the business case and framed it for you we said think about this as having some contribution in 2013, but really a 2014 opportunity. We expect to actually see some traction beginning to unfold on the Commercial side in 2013.

Scott Fidel (Deutsche Bank):

Okay. Thank you.

Chris Rigg (Susquehanna):

Good morning. Thanks for taking my question. Have you sized how much revenue you're buying for the $400 million in M&A? And can you give us a sense for shorter term profitability there or, at least, directionally whether those transactions will be accretive next year?

Then, can you give us a better sense for how you look at the longer term returns on these investments.

David Cordani (President and Chief Executive Officer):

Chris, first and foremost, these are two different relationships.

One, you have about $100 million dollars on the joint venture in Turkey with Finansbank. We have been very successful in our Health, Life and Accident business outside the U.S. heretofore, driving significant attractive growth with high margins and high returns supported by strong retention. We're quite excited about that opportunity.

We launched our business in Turkey organically in 2011, so we have the organization on the ground. We have early traction relative to sales, and this is really going to supercharge that and accelerate our growth curve meaningfully.

Organically, it typically takes four to five years to break even in a marketplace. This will dramatically reduce that time and put us on a pretty attractive trajectory starting next year, so we feel good about that investment.

The U.S. investment in terms of the Great American Supplemental Benefits business--that is an expansion on strategy of our retail capabilities and our direct to individual capabilities--and it really is going to build on our successful global direct to individual Health, Life and Accident portfolio where we have been successful.

Broadly speaking, both of these opportunities are profitable as we approach them day one. They will be accretive as we go forward.

We compared it to other alternative deployments of capital, including share repurchase and the like. These are on strategy and financially attractive opportunities for us.

Chris Rigg (Susquehanna):
Okay, I'll leave it at that. Thanks.

David Cordani (President and Chief Executive Officer):

Thank you all. In closing, I want to highlight and reinforce a few key points from our discussion today.

Our second quarter and year to date performance reflects strong revenue and earnings contributions from each of our ongoing businesses, reinforcing how our key differentiators resonate in our targeted markets.

We accelerated our investments in high growth customer segments and emerging markets with our announcements to acquire Great American Supplemental Benefits and a new joint venture in Turkey, helping us plant additional seeds for future growth.

Our HealthSpring acquisition is performing well, and we are on track.

And the momentum we have created through the first half of 2012 provides us the confidence to achieve our increased full year outlook for earnings and capital available for deployment.

We thank you for joining us on our call and for your interest in Cigna, and we look forward to continuing our discussion in the future.

END