OVERVIEW:
Co. reported 1Q15 consolidated revenue of $9.5b and adjusted earnings from operations of $513m or $1.96 per share. Expects Full-year 2015 consolidated adjusted income from operations to be $2.12-2.21b or $8.15-8.50 per share.
Will McDowell - Cigna Corporation - VP of IR

Good morning, everyone, and thank you for joining today's call. I am Will McDowell, Vice President of Investor Relations.

Joining me this morning are David Cordani, our President and Chief Executive Officer; and Tom McCarthy, Cigna’s Chief Financial Officer. In our remarks today, David and Tom will cover a number of topics including Cigna's first-quarter 2015 financial results, as well as an update on our financial outlook for 2015.

As noted in our earnings release, when describing our financial results, Cigna uses certain financial measures which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP. Specifically, we use the term labeled adjusted income from operations and earnings per share on this same basis as our principal measures of financial performance. 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 statements, including statements regarding our outlook for 2015 and future performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations. A description of these risks and uncertainties is contained in the cautionary note of today's earnings release and in our most recent reports filed with the SEC.

Before turning the call over to David, I will cover a few items pertaining to our financial results and disclosures. As a reminder, beginning in 2015, we have simplified our guidance and disclosures for our medical care ratios, or MCRs, by reporting them on a basis of Total Commercial and Total Government. The Total Commercial ratio encompasses all of our Commercial risk products, including medical, pharmacy, dental, stop loss, and behavioral products provided through guaranteed cost or experience-rated funding arrangements in both the United States and internationally.

The Total Government ratio includes our Medicare Advantage, Medicare Part D, and Medicaid businesses. Finally, consistent with past practices, when we make any prospective comments on earnings or EPS outlook, we will do so on a basis that excludes the impact of any future capital deployment or additional prior-year development of medical cost. And with that, I will turn the call over to David.

David Cordani - Cigna Corporation - President & CEO

Thanks, Will. Good morning, everyone, and thank you for joining our call today. To begin, I'd like to review the highlights of our financial results for the first quarter. Next, I'll discuss how we are leveraging Cigna's integrated capabilities to engage individuals to help them optimize their health and well-being and how this is translating into value for customers and clients. Then, Tom will provide more detail on our first-quarter financial performance and update our full-year 2015 outlook. Following your questions, I'll leave you with a few closing remarks.

Let's dive into some highlights from the quarter. Cigna's first-quarter 2015 performance represents a strong start to the year. We are pleased with our results, which extends our track record of attractive financial performance.

Once again, our success was driven by the effective and disciplined execution of our strategy, which continues to guide our actions in a dynamic marketplace. Our first-quarter 2015 consolidated revenue increased 11% to $9.5 billion with strong contributions across our business segments.

We reported adjusted income from operations for the first quarter of $513 million, or $1.96 per share. Our Global Health Care revenues increased 12%, driven by strong performance in our Commercial and Government businesses.

Our Global Supplemental Benefits business once again drove strong revenue growth and high single-digit after-tax margins while we continue to make targeted investments in support of future growth. And we achieved 6% revenue growth in our Group Disability and Life business.

Overall, our diversified portfolio of businesses continues to produce significant free cash flow that further enables our financial flexibility with more than $500 million deployed for share repurchase on a year-to-date basis. Our continued focus and effective strategic execution are generating strong results, enabling ongoing investments in our business portfolio, and helping us meet the unique local market needs through the right balance of affordability and personalization of our products and services.

As we have discussed previously, we have a clear framework to drive ongoing future value creation for Cigna. First, our diversified businesses are well positioned to create attractive value for customers and clients, and as a result, differentiated revenue growth.

Second, we are focused on targeted and effective capital deployment to create ongoing shareholder value through investments in our business, strategic M&A, and share repurchase. Our businesses generate high levels of free cash flow which give us financial flexibility and the opportunity to deploy capital to further create value for the benefit of shareholders.
And finally, we continue to seek new and emerging opportunities to expand in new distribution marketplaces, new geographies, and new buying segments. Guided by this framework and coupled with effective execution, we continue to expect to deliver an average annual revenue growth rate of 8% to 10% over the long term. This framework also positions us to support our focus on enabling healthcare over financing sick care, which is well aligned with Cigna’s efforts to improve the current healthcare system.

The United States spends $3 trillion a year on healthcare. Studies consistently show approximately 25% of the total expenditures are wasted through inefficiency or breakage. At the same time, 50% of all adults have at least one chronic disease, conditions which translate to 7 out of the top 10 causes of death in the U.S.

In this dynamic environment, Cigna continues to convene key stakeholders to work toward a sustainable healthcare system. Healthcare stakeholders from individuals to corporate employers and government organizations are seeking a common set of core goals. These include maintaining or improving health and productivity, affordable and predictable cost outcomes, and greater personalization of solutions and services.

To meet these goals, we must continue to accelerate the transition from yesterday’s view of health insurance as a mechanism for financing the cost of illness to an orientation centered around maintaining and improving the health and wellness of individuals. At Cigna, we are and will continue to make significant strides toward achieving a more sustainable healthcare system by engaging with individuals and physicians through coordinated offerings and aligned incentives.

We have moved beyond the typical multi-product sales teams and services approach to engaging individuals and coordinating care at a very personal level as we work to improve health and wellness, all by harnessing information, incenting and supporting individuals, and partnering with physicians. The result of which is a service experience for customers that achieves the right balance of personalization and affordability.

I’d like to share with you a few examples of how we are leveraging the power of integration and coordination with our broad solution suite: by encouraging maintenance and prevention among the healthy, providing coaching to the healthy at risk, enabling coordinated care for those with chronic conditions, and facilitating access to centers of excellence for those with acute conditions. Our healthcare professionals engage with customers and clinicians to improve health every day, leveraging the breadth of our clinical capabilities which spans over 4,000 professionals - from doctors and nurses to behavioral professionals, health coaches, and pharmacists.

Relative to our behavioral professionals, our capabilities include engaging with a cardiology team when a health event transpires, as we have seen a strong correlation between these types of illness and depression, engaging with our experts and disability programs to improve health and maximize personal productivity and helping individuals recover from an injury by taking a more holistic view of mind and body.

As for results, our customers are empowered by active coordinated care through coaching, support services, and incentive programs. And for impact, Cigna clients with integrated offerings have 29% fewer mental health and substance abuse related outpatient visits and 8% fewer inpatient events compared with those without integrated offerings.

Another powerful example of our success with our coordinated approach is for customers who are expectant moms. In today’s healthcare system, the cost of a premature birth is nearly 11 times higher than that of a full-term birth, not to mention the impact on the family’s stress, and in some cases, lifelong health challenges. Cigna’s Healthy Pregnancies, Healthy Babies program engages with customers to optimize health during pregnancy by working with nurses who can assess risks, develop personalized care plans, and continue the supportive outreach and coordination with OB-GYN teams and finally, providing coaching on newborn care.

Active participation by expectant mothers in our integrated program is key. In fact, for those who enroll, there is nearly a 50% reduction in premature births versus the U.S. average. This is a huge impact for the family, the child, and society overall.

The benefit of integrated and coordinated care is also impactful within Cigna’s specialty pharmacy programs where our pharmacists and clinicians engage with customers and healthcare professionals to improve the effectiveness of drug regimens to drive better overall health outcomes. Our engaged customers have higher medication adherence and lower specialty drug costs, resulting in a 15% lower overall medical cost versus individuals who do not have these coordinated offerings.
Our coordination also works for dental care customers where there is a high correlation between periodontal health and improved health outcomes. In our dental programs, individuals with diabetes, heart disease, or stroke, who have both medical and dental coverage with Cigna, have seen higher health quality and lower medical costs.

For example, patients with diabetes participating in our coordinated dental programs saw lower average annual medical costs of approximately 28% when receiving coordinated care, and for patients with heart disease, costs were lowered by approximately 25%.

As a final example, across the U.S., our 4,000-plus clinical professionals continue to engage and help our customers, an increasing number through our rapidly growing collaborative care relationships. Today, we have more than 120 of these relationships spanning 29 states.

As for impact, more than 90% of Cigna’s collaborative care relationships with at least two years of experience are seeing success in managing improved medical costs, and nearly 80% with at least one year of experience are seeing success in total medical cost results or clinical quality measures. Examples of medical results include an improvement in blood pressure, an improvement in BMI, and an improvement in total cholesterol levels. These examples reinforce our successful efforts to improve health and quality of life while working to remove costs from the system.

By leveraging our integrated capabilities and coordinating clinical care resources for each individual through their health journey, we are improving affordability while creating a more sustainable health care system. Over the long term, we believe our approach to healthcare rather than sick care will promote better health, sustainability, and economic vibrancy, and lower the cost burden on customers as well as employers. And this success translates to shareholder value as we leverage our capabilities to meet customer needs with products and services that are enhanced through our highly aligned coordinated offerings.

This value is evidenced by our industry-leading medical cost trend over the last several years, higher customer retention levels, and strong growth in our specialty and integrated services to achieve the personalization of services outcomes that I previously referenced. As demonstrated by our discussion this morning, our integration and coordination of care has moved beyond the simple multi-product solution. Today, we are engaging individuals in a very personalized way, leveraging actionable information, partnering with healthcare professionals, and utilizing care resources that both reduce costs and produce superior health outcomes.

Now to summarize my remarks before turning it over to Tom. Cigna’s strong start to 2015 continues our long track record of financial performance in delivering competitively attractive revenue and earnings and gives us confidence in our increased full-year 2015 outlook. The strong free cash flow from our high return on capital and high margin portfolio businesses provides ongoing financial flexibility in capital management and deployment.

We are effectively executing our strategy and creating value for our customers and clients by leveraging integrated capabilities that promote health care rather than sick care, and driving improved personalization and affordability for the benefit of the individuals we serve. We remain committed to our long-term objective, which is to double the size of our business over the next seven to eight years, yielding an 8% to 10% annual revenue growth rate on average. And over this time horizon, we expect to continue to deliver competitively attractive long-term EPS growth of 10% to 13% annually on average, all while we continue to invest in our Company’s business portfolio. And with that, I’d like to turn the call over to Tom.

Tom McCarthy - Cigna Corporation - CFO

Thanks, David. Good morning, everyone. In my remarks today, I will review Cigna’s first-quarter 2015 results and discuss our outlook for the full year. We have had a good start to the year with strong revenue and earnings contributions across our diversified portfolio of businesses driven by continued effective execution of our strategy.

Key highlights in the quarter include consolidated revenue growth of 11% to $9.5 billion, consolidated earnings of $513 million, quarterly earnings per share of $1.96, and continued strong free cash flow with approximately $515 million returned to shareholders through share repurchase on a year-to-date basis. Overall, the strength of our first-quarter performance provides us with solid momentum for the year.
Regarding the segments, I will first comment on our Global Health Care segment. Global Health Care results were solid in the quarter. First-quarter premiums and fees grew 12% to $6.7 billion, driven by customer growth in our Commercial and Government businesses as well as specialty contributions and rate actions. We ended first quarter of 2015 with 14.7 million global medical customers including approximately 200,000 new customers from our QualCare Alliance Networks acquisition.

First-quarter earnings were $444 million reflecting medical and specialty business growth, continued effective medical cost management, improving results in our individual business with some offset from increased spending for strategic investments, as well as higher seasonal costs in our growing Medicare Part D business.

Turning to medical costs, we continue to deliver medical costs that reflect better health outcomes and strong clinical excellence for our customers and clients as a result of our deep collaborative relationships with physicians and our focus on personalization of care. Our commercial medical trend result continues to be among the lowest in the industry. And given that over 85% of our U.S. Commercial customers are in transparent ASO funding arrangements, our clients directly benefit from these favorable medical costs.

Regarding medical care ratios, our first-quarter 2015 Total Commercial medical care ratio, or MCR, was 75.2% on a reported basis or 75.9% excluding prior-year reserve development. Overall, we are pleased with the results of our Commercial risk businesses in the quarter, reflecting strong pricing, disciplined underwriting, and continued effective medical management and physician engagement. Results in our Individual business continued to improve in the first quarter and are in line with our expectations.

In our Government business, our first-quarter 2015 Total Government MCR was 89.4% on a reported basis or 89.9% excluding prior-year reserve development, reflecting continued good performance in our Medicare Advantage business, partially offset by seasonal costs from our growing Medicare Part D business. Across our Commercial and Government risk books of business, our first-quarter earnings included favorable prior-year reserve development of $25 million after tax compared to the $30 million after tax in the first-quarter 2014.

Moving to operating expenses, for first-quarter 2015, our total Global Health Care operating expense ratio was 21.7%, which reflects an expected increase in spending for strategic investments. Overall, we have had a strong start to 2015 in our Global Health Care business.

Now, I will discuss the results of our Global Supplemental Benefits business, which continues to deliver attractive growth and profitability. Premiums and fees grew 8% quarter over quarter in Global Supplemental, or 12% on a currency adjusted basis. First-quarter earnings grew 21%, or 25% on a currency adjusted basis, to $69 million reflecting business growth and strong operating expense management, as well as some favorable operating expense timing.

For Group Disability and Life, first-quarter premium and fees increased 7% over first-quarter 2014 reflecting growth across the disability, life and accident product lines. First-quarter earnings in our Group business were $51 million, which include unfavorable claims experience in our life insurance business as well as an expected increase in operating expenses.

For our Corporate and Other operations, results totaled an after-tax loss of $51 million in the first quarter of 2015.

Overall, as a result of the continued effective execution of our strategy, our first-quarter results reflect strong revenue and earnings contributions from our ongoing businesses and significant free cash flow.

Turning to our investment portfolio, in the first quarter we recognized net realized investment gains of $48 million after-tax, coupled with a strong net investment income result. The high quality and diversification of our investment portfolio continue to drive our overall investment results.

Now I will discuss our outlook for 2015. In 2015, we expect to continue to deliver strong financial performance for our shareholders by leveraging our differentiated capabilities to deliver affordable and personalized solutions, effectively deploying capital, and targeting new and emerging opportunities where we will seek to drive additional value for shareholders.

We continue to expect consolidated revenues to grow in the range of 8% to 10% over 2014.
Our outlook for full-year 2015 consolidated adjusted income from operations is now in the range of approximately $2.12 billion to $2.21 billion or $8.15 to $8.50 per share. This represents an increase of $0.10 to $0.15 per share over our previous expectations.

I will now discuss the components of our 2015 outlook, starting with Global Health Care. We now expect full-year Global Health Care earnings in the range of approximately $1.75 billion to $1.8 billion, an increase over our prior expectations.

I’ll now summarize some of the key assumptions reflected in our Global Health Care earnings outlook for 2015, starting with our customer base. Regarding global medical customers, we now expect 2015 customer growth of 2% to 4%. This increase over previous expectations primarily reflects customers added through the acquisition of QualCare Alliance Networks, which was completed in the first quarter of 2015.

Turning to medical costs, our 2015 outlook continues to assume some increase in medical utilization versus current levels, which has been reflected in our pricing. For our total U.S. Commercial book of business, we continue to expect full-year medical cost trend to be in the range of 5% to 6%.

Now turning to our medical care ratio outlook, for our Total Commercial book of business, we continue to expect the 2015 medical care ratio to be in the range of 78% to 79%. For our Total Government book of business, we continue to expect the 2015 medical care ratio to be in the range of 84.5% to 85.5%.

Regarding operating expenses, we continue to expect our 2015 Global Health Care operating expense ratio to be in the range of 21% to 22%. Overall, we expect full-year 2015 Global Health Care earnings to be approximately $1.75 billion to $1.8 billion.

The other components of our outlook are unchanged. For our Global Supplemental Benefits business, we continue to expect strong top-line growth and earnings in the range of $230 million to $250 million.

Regarding our Group Disability and Life business, we continue to expect full-year 2015 earnings in the range of $320 million to $340 million. Regarding our remaining operations, that is Other operations and Corporate, we expect a loss of $180 million for 2015.

So all in for full-year 2015, we now expect consolidated adjusted income from operations of $2.12 billion to $2.21 billion or $8.15 to $8.50 per share. This represents an increase of $0.10 to $0.15 per share.

I would remind you that our outlook continues to exclude the impact of additional prior-year reserve development or any future capital deployment. While we do not anticipate the impact of future capital deployment in our EPS outlook, we continue to expect the additional free cash flow that we generate to be deployed for the benefit of our shareholders either through value creating acquisitions or share repurchase.

Moving to our 2015 capital management position and outlook. Overall, we continue to have excellent financial flexibility. Our subsidiaries remain well capitalized and are generating significant free cash flow to the parent with a strong return on capital in each of our business segments.

Our capital deployment strategy and priorities have not changed. These priorities are: providing the capital necessary to support the growth of our ongoing operations; pursuing M&A activity with a focus on acquiring capabilities and scale to further grow in our target areas of focus; and after considering these first two items, we’d return capital to shareholders primarily through share repurchase.

Regarding free cash flow, we ended the quarter with parent company cash of approximately $1.3 billion, which includes approximately $900 million of proceeds from our recent issuance of long-term debt. These proceeds were subsequently used to redeem existing debt in the second quarter of 2015.

During the period February 5 through April 29, we repurchased 3.2 million shares of stock for approximately $400 million, bringing our year-to-date share repurchase to 4.3 million shares for approximately $515 million. After considering all sources and uses of parent company cash, we now expect to have approximately $1.3 billion available for capital deployment during the balance of the year.
Our free cash flow outlook continues to reflect the industry leading margins and returns on capital in our businesses, and a high level of capital efficiency, particularly from our fee-based businesses. This capital efficiency allows us to fund attractive organic growth while continuing to generate significant free cash flow to be deployed for the benefit of shareholders.

Now to recap. Our first-quarter 2015 consolidated results reflect the strength of our diversified portfolio of global businesses and continued effective execution of our focused strategy. The fundamentals of our business remain strong as evidenced by our first-quarter results which reflected strong revenue and earnings contributions across our diversified portfolio of businesses, industry leading medical costs trends and high clinical quality, and continued strong free cash flow. Based on the strength of these results, we are confident in our ability to achieve our increased full-year 2015 earnings outlook.

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

QUESTIONS AND ANSWERS

Operator
(Operator Instructions)

Our first question comes from Scott Fidel with Deutsche Bank.

Scott Fidel - Deutsche Bank - Analyst

Thanks, good morning. I was hoping we could just drill into the Government MLR for a little bit, and maybe just talk about first on Medicare Advantage, how utilization trends looked in the quarter. And if you've seen any type of recent indications of any type of inpatient admission acceleration in recent weeks.

And then second, just relative to the PDP MLR, just how that tracked relative to your expectations in the quarter, and clearly given when there's outsized growth in PDP membership, there's sometimes risk of higher MLR. So just interested in terms of what you're seeing around script trends and just around general performance of the PDP business so far this year.

Tom McCarthy - Cigna Corporation - CFO

Scott, it's Tom. First, we're very happy with the position of our Government business. Our outlook for the Government MCR in 2015 reflects strong results in our Medicare Advantage business and some expected pressure in Part D, as you mentioned.

The quarter-over-quarter increase specifically in the Government MCR is mainly due to Part D with continuing good Medicare Advantage results. As you pointed out, we reported significant growth in Part D customers in 2015, and as a result we have had a more pronounced seasonal impact from Part D this quarter. These new customers have a period of time to transition from their previous formulary to our formulary.

So as we expected, we saw some additional first quarter cost impacts. And all in, we continue to expect our Government MCR to be in the range of 84.5% to 85.5% for the full year which we're happy with. As far as the outlook -- or the utilization outlook, we really didn't see any significant change in MA utilization in the quarter.
Scott Fidel - Deutsche Bank - Analyst

Then just a quick follow-up. Just in terms of the cost trend, reiterating that at 5% to 6% for the full year. Just interested if you could give us some flavor in terms of in the first quarter itself. Commercial MLR looked quite favorable again so just interested if you have a sense of where you were sitting within that range in the first quarter.

Tom McCarthy - Cigna Corporation - CFO

Yes, Scott. Well, we’re really pleased with our medical trend results. And as we’ve mentioned many times, we delivered a cost trend below 4.5% in 2014, building on a very strong track record we’ve had for several years with industry leading results. Our outlook for 2015 medical cost trend of 5% to 6% does anticipate some uptick in utilization over the course of the year, and some expected increase in pharmacy trend due to specialty drug costs.

And commenting on the first quarter, we haven’t seen the uptick in utilization, but we are seeing some expected pharmacy trend impacts. So overall, we’re comfortable we’re going to again deliver a competitively attractive medical cost trend in 2015.

Scott Fidel - Deutsche Bank - Analyst

Okay. Thank you.

Operator

The next connection comes from Matthew Borsch with Goldman Sachs.

Matthew Borsch - Goldman Sachs - Analyst

Yes, I was hoping that maybe you could address what you’re seeing in the marketplace in terms of Middle Market employers and the extent to which there’s interest in self-funding, if you’ve seen that accelerate, if you think that’s going to continue. And maybe on the larger end of that, what are you getting a taste of in terms of product preferences for 2016.

David Cordani - Cigna Corporation - President & CEO

Matthew, good morning, it’s David. As it relates to, you used the term Middle Market, so we’ll talk about the Regional segment. We define that as employers with 250 to 5,000 employees, as well as large single-state employers. The broad thing I would tell you is that the market’s appetite and interest in transparent funding and aligned funding, which includes ASO, continues to grow.

It continues to grow both in the Regional segment that has always been a meaningful portion, but not the totality of it. But very importantly as you move down market into the Select segment as well. So point one is continued high and accelerating interest in transparent funding because it aligns incentives, it provides transparency, and enables better functionality of the incentive alignment programs and the engagement programs we like. The second thing we see is continued elevation and engagement in – we typically call them carve-in of specialty programs. We look at them more as the coordination of care programs with many of the examples I cited in our prepared remarks. So those would be the two predominant trends we continue to see. Elevation in transparent funding, and then continued movement in what you might call carve-in, we’ll call them coordination of care programs that are delivering the superior medical costs and quality outcomes that Tom made reference to a few moments ago.
Matthew Borsch - Goldman Sachs - Analyst

Okay, great. Just on a separate angle, if you don’t mind. Can I just ask if you have any comments about the outlook for your PBM relationship now that there’s a change of control event coming with Catamaran and UNH?

David Cordani - Cigna Corporation - President & CEO

Sure, Matthew. By way of backdrop, important to note that we continue to own and operate a very highly performing PBM for the benefit of our customers and clients. And the high performance is being demonstrated through continued growth in customer lives, strong medical trend and clinical quality performance.

As you know, we further strengthened those capabilities about two years ago with our expanded relationship with Catamaran, seeking several features to strengthen, and we’re seeing the benefit of those. As we’ve talked about that in the past, while we continue to own and operate our PBM, we’ve maintained significant optionality and flexibility in that structure.

And then while we don’t typically comment on details of transactions, we view that the PBM marketplace is and will continue to be very dynamic and as such, we ensured that there was adequate deal protections for us that gives us meaningful flexibility going forward.

Matthew Borsch - Goldman Sachs - Analyst

Okay, thank you.

Operator

The next question comes from Josh Raskin with Barclays.

Josh Raskin - Barclays Capital - Analyst

Hi, thanks, good morning. Just getting back to the Government MLR. I'm just struggling to understand what caused the 290 basis point impact. If you hold Medicare Advantage and Medicaid MLR flat year over year, it implies the PDP was up 12 or 13 percentage points. It's just not big enough in terms of the growth there to make the difference. So when you’re seeing strong performance on MA, does that mean the MLR was down? I'm just trying to understand a little bit more of the granularity there.

Tom McCarthy - Cigna Corporation - CFO

Well, Josh, to answer your last question, the MLR for MA adjusting for reserve development is flattish quarter over quarter. And in fact, the impact we're seeing in the Government MCR this quarter is largely due to PDP. And again, we're not going to get into the specifics of the loss ratio.

But the PDP MCR is always highest in the first quarter, as you know, because of the benefit design and transition period for new customers. And this quarter in particular for us, given we have significant new customer growth, the seasonality was higher than normal.

Josh Raskin - Barclays Capital - Analyst

But I guess, Tom, I mean PDP was up 11%. The overall government revenues were up closer to 17% or 18%. So when you say the seasonality, why is that product changing? Or are you just saying that the loss ratio in PDP was higher?
Tom McCarthy - Cigna Corporation - CFO

Well, both. The loss ratio in PDP was higher, and again, we have a more significant mix of new customers, which is accountable for the loss ratio impact. Most of the impact is from the larger customer base and the transition period for the new customers. And we do expect to see the normal seasonal pattern of improved results over the balance of the year.

We also get some lift from our agreement with Gilead, which was effective April 1 in Part D. And we have anticipated some modest cost pressure, as we’ve mentioned, including last quarter, continuing for Part D in our outlook for the full year. But that was as expected and as reflected in our outlook.

Josh Raskin - Barclays Capital - Analyst

Okay, and then just switching topics a little bit. The public exchanges, it sounds like the Individual business is running a lot better and more in line with your expectations. Any comments on reliance on the three Rs? Any change in your estimations for the three Rs?

Tom McCarthy - Cigna Corporation - CFO

Well, first a little bit on the performance in the business. We’re still in the very early stages. Results in the quarter did see some improvement both from the repositioning of our mental mix and the improved customer demographics. And we are seeing some targeted medical management actions that have lowered loss costs. So over the long term, we’re still optimistic that we’ll see improved results, and this’ll become an attractive market segment.

As far as the three Rs are concerned, our accrual for the three Rs in the first quarter was about $30 million after-tax. The majority of that relates to reinsurance, and we’re continuing to accrue in line with the program parameters. We didn’t really make any material change in the accruals for the three Rs related to the 2014 business and we don’t really see any significant adjustment to that until we get the final results from the government mid-year.

Josh Raskin - Barclays Capital - Analyst

Okay, perfect. Thanks.

Operator

The next question comes from AJ Rice with UBS.

AJ Rice - UBS - Analyst

Yes, hello everybody. First of all, maybe just to continue on the Medicare Advantage question. Obviously, we got the final rates for 2016. Do you have any comments on that? And what that means for you in terms of -- I know there's talk about an average update of 1.25% but each company has their own inputs. Have you got a sense of where you guys would fall out on that?

David Cordani - Cigna Corporation - President & CEO

Sure, AJ, good morning. It’s David. As we look to 2016, first we expect to have a base that’ll have approximately 60% of our customers in 4-star plus plans, noting a step-up from the prior year, and we expect moving forward beyond 2016 to continue to step that up.
As it relates to the rate-setting environment, the net effect for our mix of our portfolio is that the vast majority of our plans are going to have about a flattish rate impact from all the moving parts from CMS, with the exception of two of our plans that will have a meaningful reduction based on the risk adjustors and the county rebasing, et cetera. The net result for our portfolio, that is again, the vast majority of our business markets are flattish, two with meaningful reductions weighted on an all-in basis, about a 2% reduction.

As we look at that taken as a whole, considering our very well positioned portfolio of coverage services and collaboratives, we feel like our businesses are in good position stepping into 2016. As such, we continue to expect to both grow customer base again, stepping into 2016, as well as being able to expand margins stepping into 2016.

AJ Rice - UBS - Analyst
Okay, great. And then maybe just a follow-up. I know you recently announced an alliance with SCAN Health Plan in California. I wondered if you might comment on what you’re hoping to do there and what that opportunity might represent.

David Cordani - Cigna Corporation - President & CEO
Sure, AJ. And you used the term alliance, which I appreciate. We have multiple examples of alliances with, in some cases, traditional competitors, not-for-profit competitors, for-profit competitors, and the like. This most recent relationship with SCAN aligns our very high-performing employer portfolio businesses in California with their well-performing Medicare capabilities and enables us to deliver an employer-sponsored Medicare Advantage solution to employers that are of target for them, but we have distribution reach, and lever their capabilities.

So it’s a wonderful example of playing to both organizations’ strength, enabling us to deliver and expand this set of solution capabilities on a more accelerated time frame than we would have been able to do organically, and be able to deliver value for our existing clients and expand SCAN’s relationships, net a win for both organizations.

AJ Rice - UBS - Analyst
Okay, great, thanks a lot.

Operator
The next question comes from Kevin Fischbeck with Bank of America.

Kevin Fischbeck - BofA Merrill Lynch - Analyst
Great, thanks. Just a couple clarification questions. The commentary about the MA rate for 2016, was that including the star pickup or before the star pickup?

Tom McCarthy - Cigna Corporation - CFO
It’s a net of all moving parts, Kevin.

Kevin Fischbeck - BofA Merrill Lynch - Analyst
Okay. And on the Individual commentary, I guess I don’t remember if you said it specifically or not, but it sounded to me like you’re still expecting to lose money in 2015 on the public exchanges?
Tom McCarthy - Cigna Corporation - CFO

Net-net as we've discussed before, Kevin, we look at 2014, 2015, and 2016 as the version 1.0 of the marketplace. We've built that business plan around not achieving either significant revenue or EPS contributions out of this book of business.

As you know, we expected to improve the performance of the block of business going from 2014 to 2015. That is taking place. On a fully allocated basis, there is a loss in the business, but it is less than 2014. And we'd expect that to improve further as we step into 2016.

Kevin Fischbeck - BofA Merrill Lynch - Analyst

Okay, and then just -- it was helpful at the beginning when you talked about some of the medical management capabilities that you guys are bringing. Some of them like the preterm births is really something that comes in pretty usefully in the Medicaid side of the business.

I wanted to see if you feel like you guys are in a better position to participate in that side of the business. RFP-wise, I've seen a couple of other companies who haven't historically been in that market get more aggressive. How do you think about RFPs that seem to be coming up in the next couple years?

David Cordani - Cigna Corporation - President & CEO

Relative to the Medicaid space, we've been very consistent that we see opportunity in the higher risk or coordinated care dimensions of the Medicaid space. So we could call that the dual space and the various other high-risk portfolios. We have targeted examples of success to date, most notably in counties within Texas where we were recognized for an award of coordination of care with our behavioral and clinical capabilities.

We do see -- affirming your point, we do see opportunities. It's highly geographically targeted in our go-deep markets, and it's within those programs that enable significant coordination of care both engaging the individual and working with the clinical professionals. So we see targeted expansion opportunity over the next several years here.

Operator

Thank you, Mr. Fischbeck. The next question comes from Ralph Giacobbe with Credit Suisse.

Ralph Giacobbe - Credit Suisse - Analyst

Thanks, good morning. Can you give us a little bit of sense of why you did grow so much in PDP? Where it came from? What percentage maybe was auto-assigned, and then just give us a sense of where it all shook out relative to your expectation.

David Cordani - Cigna Corporation - President & CEO

Sure, Ralph, it's David. At a macro level, the majority of our growth was not auto-assigned. So the step function to highly targeted geographically and a significant amount of work was done within the benefit design configuration to target a sub-segment of buyers in key geographies. So as Tom noted, meaningful growth, but we expected it. We factored that into our guidance.

We talked about it last quarter to re-acknowledge that there would be a... we recognize there's a transition of care window that largely spans the entire first quarter that transpired, but largely not assigned, targeted geographies, targeting buying segments, and designing products with that in mind.
Okay. All right, that's helpful. And then can you just update us on where you sit on private exchanges? I know one of your customers recently moved. And my understanding is actually that you retained a large percentage of the book. But can you talk about the conversations you're having with customers and your opportunities there from the existing as well as new opportunities? Thanks.

Sure. Relative to the private exchange marketplace, we continue to view this as a potentially attractive long-term market as it unfolds. As such, we've allocated leadership and significant resources to the portfolio of businesses here. We are currently positioned in the vast majority of third-party exchanges that exists in the marketplace, up to and including also having our own captive exchange.

To date, the performance is, generally speaking, in line with our expectations, which we thought was a slower market transition than maybe some had flagged in the grand scheme of things. To date, we've seen some wins and losses in terms of our portfolio as we've discussed before. As we stand here today, we have several hundred thousand lives when you span across our core medical and specialty capabilities, as well as additional lives in the supplemental space.

But it's in the early innings, we're positioned, and we're evolving within the marketplace, and as our existing customers choose to transition, we have a brand positioning and a service proposition that tends to win us a lot of business in the choice marketplace. So performance is in line with our expectations thus far.

That's helpful. Just real quick on a follow-on on that. Just on the transition, if you have an ASO customer, and they move to a private exchange and you retain that customer, ASO to ASO, is the profitability essentially the same?

It's varied, obviously, depending on the configuration. But you should assume that the way we are seeking to position ourself on the exchanges is to ensure that our offerings enable us to have enough of the, we'll call it coordination and specialty reach, that I made reference to in my prepared remarks to be able to deliver differentiated value and not move back to a TPA administrator.

So the simple answer is, it depends because all the exchanges are not created equal. Our strong operating bias is the integration and coordination because that's where we deliver our step function of value.

Thank you, Mr. Giacobbe. The next question comes from Christine Arnold with Cowen.

Thanks for commentary on the Government segment. Can you give us the same kind of commentary on your Commercial segment? How did you track with respect to Stop Loss versus Experience Rated versus Guaranteed Cost relative to a year ago in your expectation?
Tom McCarthy - Cigna Corporation - CFO

Hi, Christine, it's Tom. Overall, the headline in the Commercial segment is the Commercial MCR is very consistent with our expectations for the quarter. Again, the headline message is the employer group business continues to perform very well. Individual business continues to improve. Quarter over quarter in particular, the MCR is about flat.

That reflects the improvement in Individual with some offset by business mix impacts. But again, within those businesses, the MCR is performing as we'd expect by product line. And I would point out, we would expect some improvement from the increased health insurance fee, but I would point out that our mix has made that impact smaller than most others.

Christine Arnold - Cowen and Company - Analyst

Okay. Thank you.

Operator

Thank you, Ms. Arnold. The next question comes from Andy Schenker with Morgan Stanley.

Andy Schenker - Morgan Stanley - Analyst

Good morning. First the national accounts selling season, if you could give us some updates. On your last call, you indicated you had an elevated percentage out for bid this year based on the procurement cycles maturing. I'm curious how that's progressing.

David Cordani - Cigna Corporation - President & CEO

Sure, good morning, Andy. It's David. First, just let me just redefine national accounts because we define it a bit differently than our competition. For us, it's Commercial employers with 5,000 or more employees that span multiple states. We exclude the large single-state Commercial employers; that's part of our Regional segment. You have a good recollection.

Year over year as we look back to last year, our pipeline was about equal to the prior year, but our portion of our book of business that was out to bid was elevated due to procurement cycles. As we look at the current cycle, looking forward to 2016, relative to the pipeline of new opportunities, number of cases are about the same. Average case size is somewhat elevated. So on a life basis, more lives to look at, but a similar number of cases.

As it relates to the percentage of our book of business out to bid, the percentage is back down because that procurement cycle is moving through. So it's early in the overall sales cycle, but a healthy pipeline of opportunities to look at and a reasonable percentage of our book of business is out to bid.

We continue to be focused on retaining the right business and earning the right business that has engagement and incentive alignment, expanding our specialty capabilities, as indicative of our continued ability to grow revenue and earnings in this space by delivering value to those clients that are on target for us.

Operator

The next question comes from Ana Gupte with Leerink Partners.
Ana Gupte - Leerink Partners - Analyst

I wanted to follow up on the question on the Commercial loss ratio just as far as Individual off-exchange, on-exchange, the Guaranteed Cost and Stop Loss businesses. I get it that it’s in line with expectations. I think there was a lot of pressure on your off-exchange book last year. It seems like you have traded some of the membership. Is that coming from off-exchange? And are you seeing the overall individual book negative, but that book of business is going to return to profitability at this point?

David Cordani - Cigna Corporation - President & CEO

Ana, it’s David. Let me just frame a little bit relative to the Individual business. First as Tom noted in the employer book, the employer book last year and this year continues to perform well and in line with our expectations.

Within the Individual book of business, as you very well know relative to us, it’s small in the grand scheme of things in terms of covered lives. As it relates to the grandfathered and some of the transitional block, one of the states where we had a large grandfathered block of business is a state where we don’t operate on the exchange, specifically California.

So we saw attrition relative to the grandfathered block stepping into 2015, which was in line with our expectations. We still maintain a mix of on exchange and off-exchange business, and net taken as a whole, the loss ratio of our business, and therefore the underlying performance of the Individual business stepped forward and improved in line with our expectations going from 2014 to 2015.

Ana Gupte - Leerink Partners - Analyst

And then on the guaranteed cost legacy book, have you seen margin expansion? Some of your competitors are very commercially focused with some really nice margin expansion. I’m just trying to get to the underlying metric here.

David Cordani - Cigna Corporation - President & CEO

Ana, are you referencing Individual or Group?

Ana Gupte - Leerink Partners - Analyst

Oh, group, group.

David Cordani - Cigna Corporation - President & CEO

Within our group block of businesses, we don’t play in the small group employer space. So you need to take the under 50 block and remove that from the way you think about us. Relative to the over 50 block of business, our performance was strong and remains strong in that portfolio of business.

Ana Gupte - Leerink Partners - Analyst

And then finally on Stop Loss, is that trending flat or are margins coming in or expanding? You’ve seen a nice 19% growth in premiums there.

Tom McCarthy - Cigna Corporation - CFO

Ana, it’s Tom. Margins in Stop Loss are just where we’d like them to be. So the performance in the book is good.
Operator

The next question comes from Peter Costa with Wells Fargo.

Peter Costa - Wells Fargo Securities, LLC - Analyst

Good morning. Question on your strategy around M&A going forward. You're a little bit sub-scale to some of the other national account players, which you focus on some geographically concentrated markets as a way to compensate for that. But there's some books of business likely to come up. One in particular just the other day is being shopped that's more of a broad book of Individual business.

And then there's some expectation that some of these smaller plans that are focused on certain geographies, exchange-based business, are going to come up for sale. Do you think some of those books will be interesting to you guys? And if they are, a lot of why they are up for sale would be that they're under pressure. So some of the business is underpriced. How would you react to fixing books of business that you see up for sale?

David Cordani - Cigna Corporation - President & CEO

Peter, it's David. Let me give you a little color on M&A. You've factored in many statements and questions there. So first, broadly relative to M&A, M&A continues to be a component of our value creation framework. So as an effective deployment of capital, strategic M&A is a component within there.

Our priorities have been consistent in terms of where we see the ability to create step function value. Specifically, smartly furthering our global footprint; two, expanding our MA and dual capabilities; three, expanding our retail capabilities; and four, local tuck-ins. And we've had a successful track record of accomplishing targeted acquisitions over the last five-plus years in line with our strategy.

As relates to your scale comment, we've chosen to redefine our orientation around scale to ensure that we have appropriate scale to have competitive cost structure from an administrative cost standpoint, which we have. We've been able to prove productivity gains year in, year out, and free capacity to further ongoing investment back to within the franchise. And then you come down to medical cost in your dialogue, and that's a very localized conversation. It's not a localized conversation at a state level, it's at an MSA level and increasingly within our marketplaces, it's coming down to a sub-MSA level.

We're highly focused on key geographies and our ability to win and deliver value for our clients and customers. As it relates to appetite for future M&A and opportunities, we're very aware, engaged, and highly focused so long as the transactions are on strategy relative to the items I talked about before.

On a final note, I'm not going to speculate on how you would rehabilitate an underperforming book of business, but our organization has demonstrated the ability to deliver high performance within our targeted segments, and again, we see M&A as a forward-looking opportunity to create smart transactions and good shareholder value.

Peter Costa - Wells Fargo Securities, LLC - Analyst

Thanks for that complete answer. And then just on the Part D business, one further question. You talked about some of the higher MLR being from transition issues.

Is your guidance going forward making the assumption that those transition issues are resolved in Q1? Or do you expect that to continue into Q2, and what if it isn't transition issues, and you're not able to resolve it, would that impact your guidance and by how much?
Tom McCarthy - Cigna Corporation - CFO

Peter, it’s Tom. I think of that a little differently. This is the prescribed 90-day period for new members to stay on their old formulary while they transition to our new formulary. So we would expect that to work itself through in the first quarter.

Operator

The next question comes from Chris Rigg with Susquehanna Financial Group.

Chris Rigg - Susquehanna Financial Group - Analyst

I just wanted to focus on the guidance for a minute, particularly in the Global Health Care segment. You raised by $15 million at the mid-point, but you had $25 million of PYD. I’m just wondering why the raise wasn’t at least in line with the level of reserve development. Thanks.

Tom McCarthy - Cigna Corporation - CFO

Chris, it’s Tom. We’re really pleased that we’ve been able to increase our outlook this early in the year. Again, we expect to deliver attractive growth in revenue, earnings, and EPS across the Company and in Global Health Care in 2015 just as we have in each of the last five years. So really, I’d see our revised outlook as just reinforcing our confidence that we’re on track to deliver those results.

Chris Rigg - Susquehanna Financial Group - Analyst

Okay. And then just with regard to the comments in the press release about the investment spending in the quarter in the Health Care segment, that was expected in the original outlook? Just to be clear?

Tom McCarthy - Cigna Corporation - CFO

Yes.

Chris Rigg - Susquehanna Financial Group - Analyst

Okay, great, thanks a lot.

Operator

Thank you, Mr. Rigg. The next question comes from Dave Windley with Jefferies.

Dave Windley - Jefferies LLC - Analyst

Thanks for taking the question. Good morning. On the operating expense guidance and ratio, I guess I’m just looking at your starting year toward the higher end of that range. Your trends tend to rise intra-year -- rise through the year in historical years, and you’re mentioning some favorable impacts in I think disability this quarter, excuse me, Global Supp this quarter.

So I guess I’m thinking it should rise this year as well, unless you tell me otherwise. So how do you see that trending over the balance of the year to hit that range that you’ve provided?
David Cordani - Cigna Corporation - President & CEO

David, it’s David. So directionally, first off, we knew the first quarter was going to have an elevated level of expenses. As such, last quarter, when we talked about the first quarter pattern, we flagged that, and it was called out as mentioned in the prior questions as we looked at many of our strategic spend initiatives.

Two, as you made reference to our outlook, is to see that our operating expense ratio will show year-over-year improvement as we have been able to demonstrate for many years as we look back, and our organization is tightly aligned relative to that. So the performance of that will transpire a little differently in the 2015 quarters as opposed to the prior quarters, but Q1 was known as an uptick. Our outlook is to see an improved expense ratio, and organization is on track to achieve that.

Dave Windley - Jefferies LLC - Analyst

So if I can clarify just a little further, would you expect the investments that you flagged in 1Q to then exit or evaporate in 2Q, and it could drop back down significantly and then turn back up as it normally does, or is it just a completely different pattern this year?

Tom McCarthy - Cigna Corporation - CFO

I wouldn’t expect the strategic spending to decline over the balance of the year. I think what I’d expect to see is both a little different pattern of revenue and earnings to get to the result we’ve talked about.

Dave Windley - Jefferies LLC - Analyst

Okay. Thank you.

Operator

The final question comes from Sarah James with Wedbush Securities. Ms. James, your line is open.

Sarah James - Wedbush Securities - Analyst

Yes, thank you. One of your peers recently indicated their discussions with employers suggests that there could be a step-up in conversions to private exchanges in the next one to two years.

Are you hearing similar from your clients? And if you could share with us what percentage of your private exchange book is self-funded, and what percent are new members to Cigna. Thank you.

David Cordani - Cigna Corporation - President & CEO

Sure, Sarah, good morning. It’s David. First, the dialogue with employers has been active around private exchanges, as it has been around consumer-directed engagement programs, et cetera. The broader picture here is that employers of all sizes are looking for the higher value creation benefit strategies that are going to be sustainable for them. That’s the broader dialogue.

And private exchanges represent a tool that many employers are trying to explore to determine whether or not it’s part of their overall portfolio. What we’ve seen, and what the market has seen, is a relatively modest adoption rate of that tool set, but it’s early on as we’ve indicated in the
private exchange cycle. Two, what we've seen is a continued elevated performance of self-funded, consumer-directed, aligned incentives, and coordinated integrated offerings.

As it relates to our own experience within the private exchanges, to the second part of your question, the vast majority of those employers are in the self-funded space, given the profile of what we operate in. But we have guaranteed cost lives there as well. We have integrated and non-integrated lives.

But again, it’s small in the grand scheme of things in terms of what we’re seeing, and a portion of the lives we’re seeing there are new to Cigna. Greater than 50% of those are transitioned from existing Cigna relationships carried over to the exchanges. But the important part is it’s still a small part of both the marketplace as well as our portfolio.

Two, we’ve deployed significant resources to make sure we’re in position on the various exchanges, including our own captive and proprietary exchange. And three, we seek to be very consultative with our employers to make sure they understand all the choices that are available to them.

Sarah James - Wedbush Securities - Analyst
Thank you for that color. And as employers are evaluating their different options, you mentioned moving to high deductible plans or private exchanges, can you tell whether or not one is emerging as the more likely way that employers are trending or if there’s any difference in how they’re trending based on employer size, whether or not they’re going towards the private exchanges versus high deductibles?

David Cordani - Cigna Corporation - President & CEO
Well, Sarah, I think we can point both to the track record of actions as well as the emerging action. So the more tangible track record of actions is that employers of a variety of sizes continue to move toward the transparent funding, which includes ASO. That’s a consistent track.

Two, elevation of aligned incentive programs, whether they’re consumer directed, full-on CDHP programs, or if they’re co-insurance programs, co-insurance programs with aligned incentive models. Those would be the two most tangible pieces I think you can point to. And then over the last couple years, an emerging trend, too, as I referenced before, carving in or even more adoption of integrated care programs that are coordinated to delivering the value back.

The private exchange, if you will, trend is again still in the early stages. And I wouldn’t flag it as one where we would see a majority of buying behavior over the next two buying cycles. But as we’re positioned, we’re positioned for an elevation in volume should it unfold.

Sarah James - Wedbush Securities - Analyst
Thank you.

Operator
Thank you, Ms. James. I will now turn the call back over to David Cordani for closing remarks.

David Cordani - Cigna Corporation - President & CEO
Thank you. Just to conclude our discussion this morning, I’d like to reiterate just a few important points. First-quarter results represent a strong start to the year and were driven by revenue and earnings contributions across our diversified portfolio of businesses. Our integrated capabilities are optimizing health, improving medical outcomes, and increasing affordability for the individuals we serve.
Our more than 37,000 talented colleagues around the world are unified in their commitment to work every day to improve the health, well-being, and sense of security of the customers we serve. Our strong first-quarter performance and multiple avenues for growth give us confidence that we will achieve our increased full-year 2015 outlook.

Over the long term, we remain committed to achieving our annual EPS growth of 10% to 13% over the long term, and expect to double the size of our Company’s revenue over the next seven to eight years. Thank you for joining our call today, and we look forward to furthering our discussions.

Operator

Ladies and gentlemen, this concludes Cigna’s first-quarter 2015 results review. Cigna investor relations will be available to respond to additional questions shortly. A recording of this conference will be available for 10 business days following this call. You may access the recorded conference by dialing 1-800-365-2419 or 1-203-369-3679. No passcode is required. Thank you for participating. We will now disconnect.