CIGNA CORPORATION

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NOTE: Cigna has made editorial changes to this transcript
As used herein, "Cigna" refers to Cigna Corporation and/or its consolidated subsidiaries

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The press release dated February 7, 2014 and the related investor conference call, and oral statements made with respect to information contained in the release, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on Cigna's current expectations and projections about future trends, events and uncertainties. These statements are not historical facts. Forward-looking statements may include, among others, statements concerning our projected adjusted income (loss) from operations outlook for 2014, on both a consolidated and segment-by-segment basis; projected global medical customer growth (excluding limited benefits) over year end 2013; future financial or operating performance, including our ability to deliver improved health outcomes and productivity for our customers and clients and future growth, business strategy, strategic or operational initiatives; economic, regulatory or competitive environments, particularly with respect to the pace and extent of change in these areas; and financing or capital deployment plans, including whether and to what extent we may engage in share repurchases. You may identify forward-looking statements by the use of words such as “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “may,” “should,” “will” or other words or expressions of similar meaning, although not all forward-looking statements contain such terms.

Forward-looking statements are subject to risks and uncertainties, both known and unknown, that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Such risks and uncertainties include, but are not limited to: our ability to achieve our financial, strategic and operational plans or initiatives; our ability to predict and manage medical costs and price effectively and develop and maintain good relationships with physicians, hospitals and other health care providers; our ability to realize the expected benefits of strategic transactions and/or acquisitions; the substantial level of government regulation over our business and the potential effects of new laws or regulations, or changes in existing laws or regulations; the outcome of litigation, regulatory audits, investigations and actions and/or guaranty fund assessments; uncertainties surrounding participation in government-sponsored programs such as Medicare; and unfavorable industry, economic or political conditions, as well as more specific risks and uncertainties discussed in our most recent report on Form 10-K and subsequent reports on Forms 10-Q and 8-K available on the Investor Relations section of www.cigna.com. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance or results, and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Cigna undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be 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 Tom McCarthy, Cigna's Chief Financial Officer.

In our remarks today, David and Tom will cover a number of topics, including Cigna's full year 2013 financial results as well as our financial outlook for 2014. As noted in our earnings release, Cigna uses certain financial measures which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP, when describing our financial results.

Specifically, we use the term labeled "adjusted income from operations" and "earnings per share" on the same basis as the principle measures 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.

Now, in our remarks today we will be making some forward-looking statements, including statements concerning our outlook for 2014 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 the risks and uncertainties is contained in the cautionary note in today's earnings release and in our most recent reports filed with the SEC.

Now before turning the call over to David, I will cover one item pertaining to our financial results and disclosures. In the fourth quarter, we recorded an after tax charge of $40 million, or 15 cents per share, for severance and other costs associated with a series of actions we are taking to improve our organizational efficiency and we reported the charge as a special item.

As described in today's earnings release, special items are excluded from adjusted income from operations in today's discussion of our 2013 results. As a reminder, please note that when we discuss our earnings outlook for 2014, it will be on the basis of adjusted income from operations. In addition, our outlook for earnings per share for 2014 excludes the effects of any future capital deployment.

And with that, I will turn it over to David.

David Cordani, President and Chief Executive Officer:

Thanks Ted. Good morning everyone, and thank you for joining today's call. First, I'll discuss Cigna's full year performance and highlights for our 2013 results. Then I'll address how we continue to meet the needs of our customers and clients in an ever-changing marketplace.

Next, Tom will provide detail on the performance of the fourth quarter and full year for 2013 as well as provide the specifics for outlook for 2014. Then Tom and I will answer your questions before I leave you with just a few closing comments.

I will begin with some highlights for the year. Our strong full year 2013 results extend an outstanding track record of financial performance and mark Cigna's fourth consecutive year of competitively attractive financial results.

All of our business segments contributed meaningfully to our results for the year with each segment delivering earnings and revenue growth. For the full year 2013, consolidated revenue increased by 11% to $32.4 billion with each business segment delivering double-digit growth versus 2012.

We reported adjusted income from operations for the full year of $1.93 billion, or $6.79 per share, which represents a per share increase of 13% over 2012.

It's important to note that 2013 was a year of strategic accomplishments for Cigna as well. First, I would highlight our transaction to transfer our run-off reinsurance business which improves our financial flexibility.

Second, our further improvement of our PBM capabilities enhances pharmacy offerings for our customers and clients while providing a platform and infrastructure to drive accelerated innovation, and provides attractive financial benefits for both our customers and shareholders.

Third, we continue to deepen our global footprint through meaningful progress in important growth markets including Turkey, India and China. And fourth, we advanced our capital health through a strengthened balance sheet and significant free cash flow from our businesses. Overall, these results and accomplishments were driven by focused, effective execution of our strategy.

Turning to 2014, we expect Cigna will deliver competitively attractive earnings and revenue growth. Tom will elaborate further on our outlook in a few moments, but first I will address how we view the global environment we are operating in this year. We anticipate that disruptive market forces, changing client and customer needs, and a variety of headwinds will continue to create a challenging marketplace.

Both developed and developing countries are confronting significant change in disruption, including an aging population, growing middle class, rising chronic disease levels and affordability pressures for all.

Our industry also continues to operate in an active legislative and regulatory environment, one that includes uncertainty around Medicare Advantage reimbursement levels, cost pressure resulting from reduction in hospital reimbursement levels due to government cuts, implementation challenges in public exchanges, changing reward structures for physicians and hospitals, and globally, health systems attempting to rebalance public and private relationships as they seek to ensure sustainability of their social programs.

With these trends and uncertainties in mind across our segments and key markets, we've built our capabilities to be able to adapt and deliver ongoing success.

Cigna's businesses have the strategic direction, focus and core capabilities to anticipate, adapt and win in the global markets. Our clear strategy of Going Deep, Going Global, and Going Individual continues to guide our company around the world.

By executing this strategy in our target markets and in new ones where we see opportunities, our capabilities are delivering differentiated value for our customers, clients, and shareholders. Our strategy enables us to improve individual health and productivity, engage with physicians to drive quality health outcomes and affordability, and support our customers with products and services that provide them with much needed sense of security.

To continue to succeed in these global markets, there are three key areas that we continue to invest in to ensure ongoing value creation. These areas are customer insights and engagement, consultative distribution, and physician partnership models.

Insights give us deep knowledge that allows us to identify the right micro segments and match the distribution channels that best meet our customers' preferences.

When combined with our consultative distribution capabilities, analytical insights give Cigna the unique ability to bring our customers personalized solutions through their channel of choice.

These include selling through brokers and consulting channels for employers of nearly all sizes in diverse geographies, selling through intermediaries including affinity partners, selling to individuals directly through telemarketing, Internet distribution and direct response marketing, and selling through our new proprietary private exchange capability where we tailor benefit programs for the needs of employers, clients and brokers and provide greater choice and personalization for our customers.

In addition, relative to the evolving private exchange market, we have chosen to participate in those exchanges which most closely align with our target client needs, and we are staying close to evolving programs should they prove to deliver differentiated value.

Our third key area is care delivery and physician partnership capabilities. Here we are delivering superior health and productivity outcomes today in a local and personalized fashion and our innovation continues for tomorrow.

In 2013 we increased the number of customers benefiting from our collaborative relationships with physicians by 50%, or an increase of 400,000 lives. We now have 86 collaborative accountable care initiatives up and running, which is up from 52 at the end of 2012.

Importantly, we are seeing positive cost and quality outcomes for our customers, and additionally, we continue to receive feedback from healthcare professionals that Cigna's approach to these initiatives is differentiated in the market.

Our approach, which harnesses aligned incentives, specific actionable information, and care extenders such as health coaches and case managers, is highly leverageable in a rapidly changing marketplace.

In addition, our global network of doctors and hospitals, coupled with our localized health management and coordination resources, positions us to offer innovative solutions in our targeted markets around the world.

Now looking ahead, we recognize that change is constant and change will continue at an accelerated pace. At Cigna, we have demonstrated our ability to effectively anticipate and adapt to change, and we will continue to grow by retaining, expanding, and adding new customer and client relationships.

More specifically, in 2014 we expect to grow our U.S. and Global Health Care businesses as well as our Global Supplemental Business. When coupled with the continued strength of our Disability and Life business, this will more than offset the market disruption and repositioning pressure of our U.S. seniors business.

Finally, our ongoing strong capital position affords us significant deployment opportunities to further build customer and shareholder value. Based on our focused strategy, diversified capabilities, and differentiated portfolio of businesses, we expect to continue to deliver competitively attractive and sustainable long term EPS growth of 10%-13% on average, all while continuing to invest back on our company.

Now to briefly summarize before turning it over to Tom, Cigna's strong financial performance in 2013 marks the fourth consecutive year of earnings and revenue growth for our company and provides a good foundation as we step into 2014.

We have significantly advanced our capital health through a strengthened balance sheet and free cash flow. We recognize that global markets will continue to be disrupted. In this environment of ongoing change, we will successfully execute our focused strategy and leverage our differentiated capabilities in customer insights and engagement, consultative selling, and physician partnership, all with the objective of delivering differentiated value for our customers and clients.

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

Thomas McCarthy, Chief Financial Officer:

Thanks David. Good morning everyone. In my remarks today, I will review Cigna's 2013 results and provide our outlook for 2014. We had a strong year in 2013, with earnings and revenue both growing by 11% over 2012, and earnings per share growing 13%. These results represent a fourth consecutive year of strong revenue, earnings, and EPS growth while also continuing to make significant strategic investments in capabilities across all our businesses.

Some other key highlights regarding our 2013 results include strong revenue and earnings growth in each of our business segments despite a disruptive market environment, most notably in Medicare Advantage, enhancement of our pharmacy business through our arrangement with Catamaran, the strengthening of our balance sheet through the successful exit of the run-off reinsurance business and our pension fund de-risking plan, and continued strong free cash flow generation with $1 billion returned to shareholders through share repurchase.

While there was some pressure in our fourth quarter results, the strength of our overall 2013 performance provides us with a solid foundation for growth in 2014.

Now, moving to operating results. Our full year consolidated revenues grew 11% to $32.4 billion driven by contributions from each of our segments and growth in our targeted markets. 2013 earnings were $1.93 billion which represents growth of 11% over 2012.

Regarding the segments, I will first comment on our Global Health Care segment. Overall, our Global Health Care results for 2013 were solid. 2013 premium and fees grew 9% to $23 billion.

Full year earnings were approximately $1.6 billion, representing growth of 6%, driven by strong revenue growth, specialty contributions, operating expense efficiency, and attractive medical costs in our commercial business partially offset by revenue and medical cost pressure in our seniors business.

Turning to medical costs, our customer and physician engagement capabilities continue to deliver differentiated value for our clients and customers. Our medical trend outlook has improved throughout the year and we delivered a competitively attractive result.

For our total U.S. commercial book of business, full year medical cost trend was below 5% for 2013. Since nearly 85% of our U.S. commercial customers are on ASO funding arrangements, they directly benefit from these favorable medical cost results.

Regarding medical care ratios, in our U.S. commercial Guaranteed Cost business, our full year 2013 Medical Care Ratio, or MCR, was 81.5% on a reported basis or 82.3% excluding prior year reserve development.

We are pleased with the results of our commercial risk businesses which continued to reflect strong pricing, disciplined underwriting and continued effective medical management and physician engagement.

Our fourth quarter 2013 Guaranteed Cost MCR was higher than prior year. Some of this increase was anticipated due to the impact of business mix and broker fee changes continuing into the fourth quarter, and some from large claim activity and modestly increased utilization in the quarter. While on the high end of our expectations, this result is within the normal range of variability we expect for this business.

In our Seniors business, our full year 2013 MCR for Medicare Advantage was 84.8% on a reported basis or 85.2% excluding prior year reserve development. This is higher than we had expected.

The elevated Medicare Advantage MCR for full year 2013 reflects revenue pressure driven by government reimbursement levels as well as higher medical costs. The claim pressure in the fourth quarter Medicare Advantage MCR is a continuation of what began earlier in 2013. This pressure is not improving as we had expected.

While we continue to focus on opportunities to improve medical costs for our Seniors business, we expect to see pressure into 2014 and have reflected this impact in our 2014 outlook.

Moving to operating expenses, for 2013 our total Global Health Care operating expense ratio, excluding special items, was 21.7% which is a 90-basis point improvement over the 2012 expense ratio. We accomplished this result while continuing to fund strategic investments. Overall, we've had a solid year in our Global Health Care business.

Now we'll discuss the results of our Global Supplemental Benefits business, which continues to deliver attractive growth and profitability. Premiums and fees in 2013 grew 27% over 2012 driven by contributions from our recent acquisitions, most notably Great American Supplemental Benefits and our Turkey joint venture, as well as strong customer retention and new business growth.

2013 earnings in our Global Supplemental Benefits business were $183 million representing a 24% increase over 2012 and reflecting attractive profitability while we continue to fund strategic investments for future growth.

Fourth quarter results included some modest claim increases in our Korea operations due to seasonality and additional funding to enhance distribution capabilities.

For Group Disability and Life, full year results were strong. Group premium and fees increased 10% over 2012 results. 2013 earnings in our Group business were $311 million, an increase of 11% over 2012, primarily driven by a lower disability loss ratio and higher net investment income.

For our Corporate and Other operations, results totaled to an after tax loss of $134 million for full year 2013.

Overall, our 2013 results reflect revenue and earnings growth from each of our business segments as well as significant free cash flow as a result of the continued effective execution of our strategy.

Turning to our investment portfolio, for 2013 we recognized net realized investment gains of $141 million after tax coupled with a strong net investment income result. Overall, we continue to be pleased with the quality and diversification of our investment portfolio.

Now I will discuss our outlook for 2014. While 2014 will be a disrupted and challenging environment, we expect to continue to deliver differentiated value for our customers and clients and, as a result, strong financial performance, including revenue and earnings growth, for our shareholders.

This is based on effectively executing our focused strategy, leveraging our differentiated global capabilities and capitalizing on the multiple sources of growth in our diversified portfolio of businesses.

For full year 2014, we expect consolidated revenues to grow in the range of 4%-7% over 2013. We expect full year 2014 consolidated adjusted income from operations to be in the range of $1.9 billion to $2 billion, or $6.80 to $7.20 per share. Consistent with prior practices, our outlook excludes any contribution from additional capital deployment as well as any prior year claim development.

Before reviewing more specifics for the year, I will comment briefly on the organizational efficiency plan we implemented during the fourth quarter. As Ted mentioned, we reported a special item charge of $40 million after tax related to the actions we are taking across our global operations, including actions to implement our pharmacy strategy.

We estimate that these actions will yield annual after tax savings of approximately $45 million going forward, with expected savings of $30 million after tax in 2014. The impact of these actions has been factored into our 2014 guidance.

I will now discuss the components of our 2014 outlook, starting with Global Health Care. We expect full year Global Health Care earnings in the range of approximately $1.58 billion to $1.64 billion, compared to our 2013 result of $1.57 billion. Excluding 2013 prior year claim development of $77 million after tax, this represents growth of 5% to 9% in 2014.

This outlook reflects continued benefits from organic revenue growth, specialty contributions and operating expense efficiencies, partially offset by continued pressure in Medicare Advantage. This also includes our updated view of the annual enrollment period results for both Medicare and the public exchange business.

I'll now summarize some of the key assumptions reflected in our Global Health Care earnings outlook for 2014, starting with our customer base.

Regarding global medical customers, we expect 2014 customer growth of 1%-2% after adjusting for the impact of the limited benefits business exit due to ACA legislation.

Relative to Medicare Advantage, after taking into consideration the impact of market exits, we expect modest growth overall during the course of 2014 with essentially flat customer growth in January.

Turning to medical costs, our 2014 outlook assumes some increase in medical utilization versus current levels and this increase has been reflected in our pricing.

For our total U.S. commercial book of business, we expect full year medical cost trends to be in the range of 5%-6%. For our U.S. commercial Guaranteed Cost book of business, we expect the 2014 medical care ratio to be in the range of 80%-81%. This range is lower than our 2013 results and reflects strong medical cost management and ACA legislation impacts.

For our Seniors business, our Medicare Advantage MCR for 2014 is expected to be in the range of 84%-85%. This range reflects expected revenue and medical cost pressure in 2014.

Regarding operating expenses, our 2014 Global Health Care operating expense ratio is expected to be in the range of 22.5%-23.5%. This range includes approximately 130 basis points due to the impact of the industry fee and taxes.

Overall we expect full year 2014 Global Health Care earnings to be approximately $1.58 billion to $1.64 billion, which we believe is a competitively attractive result.

Now moving to the other components of our outlook. For our Global Supplemental Benefits business, we expect continued strong top line growth and expect earnings in the range of $195 million to $215 million. This represents earnings growth of 7%-17% when compared to 2013 and is consistent with our long term growth expectations.

Regarding the Group Disability and Life business, we expect full year 2014 earnings in a range of $305 million to $325 million compared with the strong 2013 result of $311 million.

Regarding our remaining operations, that is Other Operations and Corporate, we expect a loss of $175 million in 2014.

So all in, for full year 2014, we expect consolidated adjusted income from operations of $1.9 billion to $2 billion, or $6.80 to $7.20 per share. This excludes the impact of any future capital deployment or prior year claim development.

Overall, this result represents a competitively attractive outlook in a disrupted market environment and underscores the benefit of our diverse and differentiated portfolio of businesses.

Before moving on, I would note that we believe our 2014 earnings outlook will follow a different quarterly pattern this year for a number of reasons. These include absence of $48 million of after tax prior year claim development in the first quarter of 2013, which translates to 17 cents on an earnings per share basis, the impact of sequestration and ACA related factors, start-up costs for business expansion, and the timing of some expenses. As a result, we expect first quarter earnings in 2014 will be lower than the prior year's first quarter.

Now moving to our 2014 capital management position and outlook. Overall we continue to have good 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 strategies 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 targeted areas of focus, and after considering these first two items, we would return capital to shareholders primarily through share repurchase.

Regarding free cash flow, during 2013 we repurchased 13.6 million shares of stock for approximately $1 billion, and we ended the year with parent company cash of approximately $760 million.

For full year 2014, we expect subsidiary dividends of $1.6 billion driven by a strong performance in each of our business segments. After considering all sources and uses of parent company cash and setting aside $250 million to meet liquidity needs, our outlook implies we would have approximately $1.8 billion available for capital deployment in 2014.

During the period from January 1 through February 6, we repurchased 2.6 million shares of Cigna's common stock for $225 million. This amount is included as part of the $1.8 billion available for capital deployment.

Overall, our financial position and 2014 capital outlook remain strong. The strong margins and high returns on capital from each of our businesses, coupled with the strength of our balance sheet, means that we will continue to generate significant free cash flow to deploy for the benefit of shareholders.

During our third quarter call, we also discussed the progress we have made in improving our financial flexibility regarding the funding of our pension plans. Based on 2013 contributions, the equity market's strong performance, and an increase in interest rates during the course of the year, the funded status of the pension plans has continued to improve.

As of December 31, 2013, the unfunded liability of our pension plans has improved $1 billion over year end 2012 and the pre-tax unfunded liability is now approximately $600 million. As a result, we expect to contribute $100 million pre-tax to the pension plans in 2014 which is a significant reduction from prior years. This increases the free capital available for deployment in 2014 and has been contemplated in the capital outlook highlighted earlier.

Now to recap, our full year 2013 consolidated results reflect the strength of our diversified portfolio of global businesses and the continued track record of effective execution of our focused strategy.

Our 2013 performance provide a solid foundation for 2014, highlighted by differentiated capabilities that create value for our customers and clients, competitively attractive growth in revenue and earnings, continued targeted strategic investments to enable sustained growth into the future, and continued strong free cash flow.

While we expect a continued disruptive market environment, we are confident in our ability to achieve our full year 2014 earnings outlook and with that, we'll turn it over to the operator for the Q&A portion of the call.

Matthew Borsch, Goldman Sachs:

Can you elaborate on the trend pressures on both the commercial and Medicare Advantage side, starting with which one is more concerning to you. It sounds like Medicare Advantage because that's what you expect will persist to some degree into 2014, but correct me if I'm wrong.

David Cordani, President and Chief Executive Officer:

Matthew, good morning. It's David. Let me start with the framing of Medicare and then ask Tom to give you a little bit more insight on the commercial business because they are two very different dimensions.

First, to put the Medicare loss ratio into context, we entered the year with an expectation that our medical care ratio for Medicare Advantage would go up as we priced for and positioned the book for adoption of ACA.

In addition, last quarter we talked about the revenue pressure that continued to mount for the Medicare Advantage portfolio tied to sequestration, risk adjustors, etc., and we started to see the impact of a bit of an uptick in medical costs. That carried on through the fourth quarter.

From our assessment, it's most notably seen in facility-based costs. As you know, that's inpatient and outpatient-based costs. We see that manifesting itself a bit differently in our model. We operate three different models in our portfolio: the integrated care delivery model where we have an owned or a tightly aligned delivery system, the highly engaged physician models, and then the less engaged physician models.

While the impact of this facility elevation is taking place in many geographies, the variance is different in each. There is a higher variance in the less engaged models and a lower variance in the integrated models.

We have projected forward that the impact of those medical cost pressures will carry into 2014. There's a variety of actions that we're implementing to address this, and we've taken the step forward and said until we see otherwise, the impact of those medical cost pressures will continue into '14. We factored that into our outlook and with the diversified portfolio we have, we're still able to grow earnings.

I'll ask Tom to comment now about the Guaranteed Cost loss ratio because that's a different dimension.

Thomas McCarthy, Chief Financial Officer:

Yes Matt, on the commercial MCR, if you step back, the fundamentals of our commercial results for the year were very strong. Over the course of the year, we continued to improve the outlook for the GC MCR, basically reflecting the very good overall medical management we've had for the year and ending with a very strong medical cost trend for the total year.

In the fourth quarter, we did see some increased variability, both to large claims and some increased utilization, so we did end up on the high end of our expectations for the quarter, but as you said, more in line with what we might expect for the performance on that business. I would also point out that we've previously commented that there is potential for some uptick in results in utilization, so not quite a surprise.

In addition to that fact, we have a relatively small Guaranteed Cost block and this variability we see as more in line with expectations versus the experience we saw in Medicare.

Matthew Borsch, Goldman Sachs:

When you talk about facility-based costs on the Medicare side, do you mean more utilization or unit cost?

David Cordani, President and Chief Executive Officer:

Matthew, it's David. It's less utilization. So the way we think about it, it's a combination of mix of services causing an increase in either cost per admit or cost per episode of care. So it's manifesting itself more in terms of the billing aspect as opposed to the utilization aspect.

Matthew Borsch, Goldman Sachs:

Or the acuity, is that a fair word to use?

David Cordani, President and Chief Executive Officer:

I'm going to say yes, but if our clinicians were here, would they say the acuities of diagnosis are spiking up? I would have to say we don't have the data to say that. The costs per episode of care are going up and we see the impact of that in many geographies, but we don't see the acuity or severity of illness changing one for one with that.

Matthew Borsch, Goldman Sachs:

Got it. Thank you.

Chris Rigg, Susquehanna:

Good morning. Thanks for taking my question. I just wanted to follow up on the Corporate and Other expenses. If I look at the guidance for the full year and what you had implied for the fourth quarter, it looks like those full year costs came in meaningfully below what you were looking for, particularly in the fourth quarter. Can you help us understand what might have changed relative to what you were looking for at 3Q? Thanks.

Thomas McCarthy, Chief Financial Officer:

Chris, it's Tom. The corporate results actually ran favorably through the whole year in 2013, including some tax items and that is what's reflected in the outlook for 2014 - a turn to a more normal year.

Chris Rigg, Susquehanna:

Okay. So is it fair to say it was about a $23.5 million to $29.5 million delta relative to what you were guiding for at 3Q?

Thomas McCarthy, Chief Financial Officer:

I think we gave a range in the 3Q. So it was a little better in the quarter, but that sounds a little high to me, but somewhere in that range.

Chris Rigg, Susquehanna:

Okay, thanks.

Justin Lake, J.P. Morgan Chase:

Thanks. Good morning. First, I just want to go back to the Medicare Advantage costs, specifically because I know your book is pretty heavily capitated, so I'm somewhat surprised at the magnitude of the MLR increase year over year. Can you walk us through that in terms of how much the actual core MLR had to be changing in order to have this flow through given your capitation agreements?

And then as you look out to 2014, given the MLR you've guided to in Medicare Advantage of 84%-85% plus the tax and the typical SG&A, can you give us an idea of where the MA margin will sit under that MLR?

David Cordani, President and Chief Executive Officer:

Justin, it's David. Let me start. First, you use the term capitation so I'm going to use a different term - we have aligned physician relationships with more shared risk relationships. So capitation tends to be a full risk transfer as opposed to shared risk.

But stepping back and following your logic, to my prior comment, what we've seen is the facility cost pressure is in multiple geographies. The performance or variance that we're experiencing is different. So to your point, in the less engaged or less aligned reimbursement models, we're seeing more variability or more of a financial impact.

In the most aligned models, we're seeing less variability and less impact. So you're seeing the impact of your term capitation, or what I'll call risk alignment. Additionally, as we looked into 2014, from a growth standpoint, our net new business adds or new business deletes were stronger in the integrated markets or the highly aligned physician markets as opposed to the less integrated or less physician aligned markets. So we see that variability playing through, but the macro point here is that the facility-based cost pressure is in multiple geographies.

As it relates to 2014, the headline is this - in our outlook and projection, we have assumed margin pressure and a decrement to Medicare Advantage margins in 2014 relative to 2013. Even with that taken into account, given the diversification of our business, we're able to grow our earnings in 2014.

Justin Lake, J.P. Morgan Chase:

What I was trying to get to on the margin question, David, is just understanding what the core margin of this business is longer term and where does that sit in 2014 versus that longer term target?

Obviously, with the thinking that 2015 is also going to have some pressure, are we at the baseline where you're probably going to pass most of the cuts through to the beneficiary at this point or get more efficient? Or do you feel like margins have potential to fall further given the rate pressures that we're looking at for '15?

Thomas McCarthy, Chief Financial Officer:

Justin, it's Tom. Again, in the long term, we continue to see this business as a mid-single digit pretax margin performer. Obviously, the pressure we've talked about in '14 will put this year’s margin below that. As you pointed out, a flattish loss ratio doesn't get us to our target margins given the introduction of the industry fee in 2014.

I don't think we're prepared to quantify exactly where we'd end up in 2014, but it will be below our long term expectation for the business.

Justin Lake, J.P. Morgan Chase:

Okay, great. Thanks.

Scott Fidel, Deutsche Bank:

I was hoping you could give us an update on some of the metrics around the exchange business so far - the public exchange in terms of how much enrollment have you seen so far and some of the indicators on the risk mix and then just more broadly whether you expect the exchange business to be profitable or unprofitable in 2014.

David Cordani, President and Chief Executive Officer:

Good morning, Scott. It's David. For the public exchange, as you recall, we've been open to the marketplace, but highly focused. I would remind you we're in five states and a limited number of specific markets within those states.

At a macro level, our experience to date has been in line with a lot of the headlines that you've seen and we've seen with the lower overall additional adoption rates, therefore lower covered lives, and a bit older base.

To put it in context, about half of the business we put on for January 1 came through the exchange and about half of the business, or slightly less than that, came through off exchange. As it relates to the makeup of the business, think about the majority of our on-exchange business being in the Silver plan. Think about a little variability in terms of the mix versus our assumption in terms of a little older mix relative to the population.

For those who bought on-exchange, about 75% of them were subsidy eligible. Finally to the last piece of your question, we assume for this business that it will not be a profit driver or a moneymaker for us in 2014 at this point.

Scott Fidel, Deutsche Bank:

Okay. Thanks for those details. And then just a follow up question on Group insurance and then Global Supplemental Benefits, do you just have an outlook for revenue growth for each of those segments for us?

Thomas McCarthy, Chief Financial Officer:

It's Tom, Scott. I don't think we provide the specific details of revenue growth by segment. Overall, the commentary there is we're expecting continued growth in line with what we've seen lately in both of those businesses.

Scott Fidel, Deutsche Bank:

Okay. Maybe, Tom, to put it another way, do you think about top line growth in those businesses in a similar trajectory as margins or earnings growth, or is there something on the margin side on either of those that we should be considering relative to top line growth?

Thomas McCarthy, Chief Financial Officer:

That is probably fair in relation to Global Supplemental Benefits. In Group, I'd remind you 2013 was a pretty strong margin year, so the revenue might grow a little faster than the after-tax profit in Group next year.

Scott Fidel, Deutsche Bank:

Okay thank you.

Josh Raskin, Barclays:

Hi. Thanks. Good morning. I wanted to ask on the private exchanges if you had any data or information around your experience - I know, David, you've said you're participating in several of them. So I'm curious if you have any updated data on how many Cigna lives in '13 moved into exchanges in '14, and then, how many you've gotten out of the private exchanges you're participating in in 2014 and what the mix of ASO and risk look like?

David Cordani, President and Chief Executive Officer:

Sure. Good morning, Josh. It's David. First, just a moment of backdrop. As we've said before, we view the private exchange environment being in the early stages of innovation and these markets have the potential for creating sustainable models on a go forward basis.

To date, we focused our energies on a number of the exchanges with those that most closely align with the needs of our current and target clients. Also, as you may have recently seen, we announced and launched our own proprietary exchange this week.

Specific to your question, and as we anticipated, 2014 has a small impact for Cigna from an exchange standpoint, both inflows and outflows. You can net them together and say there's a de minimus impact. You should think of tens of thousands of customers, not hundreds of thousands of customers.

With some new business adds and some losses, the exchange enrollment is netting to a small number that is not a needle mover for our overall membership. It is slightly biased to ASO, but not limited only to ASO in terms of how we're playing.

Josh Raskin, Barclays:

Okay. And then just to clarify, I think you said for Medicare Advantage membership, you were expecting growth this year. It looked like in the CMS data - I know it's never complete for the January run - but it looked like you were down about 5,000 lives. Did you say first quarter would be flat or the full year would be flat?

Thomas McCarthy, Chief Financial Officer:

Josh, this is Tom. You put the puzzle pieces together correctly. First of the year is flattish, down 5,000 lives; full year, we expect to grow modestly.

Josh Raskin, Barclays:

Okay, perfect. Thank you.

Ralph Giacobbe, Credit Suisse:

Thanks. Good morning. I wanted to go back to MA. Is it something you sense in the population that you attracted that's driving the higher MLRs? We haven't really seen it pop up to this point with peers. How would you get a better handle on it?

And then along those lines, how should we think about the higher trend in the context of your 2014 bids? Any sense at this point - you talked about moderate growth and there's been others in the industry that are going to grow significantly in terms of enrollment - any chance of churn as it relates to some of your existing block – if you can give that gross versus term expectation, that would be helpful. Thanks.

David Cordani, President and Chief Executive Officer:

Ralph, good morning. It's David. I'll give you a little color on the multiple questions you have there. First, as we noted before, we saw the impact beginning to manifest itself in 2013 tied to facility-based costs. From our point of view, the pressure that's being put back on the hospital systems as it relates to reimbursement pressure from the government, we see that making its way through the system and most notably in Medicare.

As I noted before, it’s not utilization, but mix of reimbursement for the services, either per episode or mix of acuity, in terms of the billing as it relates to the services.

On a go forward basis there's a number of actions that we're focused on driving in terms of our business to position us for 2015. Having said that, we've taken a more cautious view of our outlook for the Medicare business and factored that into our outlook for 2014.

As it relates to the gross net lives, think about our growth for 2014 overall. Tom just summarized it, but over the year we'll grow somewhat in Medicare Advantage, with a bunch of moving parts there. We'll have organic growth in the first quarter of the year offset by some strategic market exits. We've also entered two new markets in 2014.

As we look at the makeup of our net losses and net gains, our growth profile is stronger in the integrated care delivery markets as well as those markets that have the most mature physician engagement models. In some other markets that have less mature physician engagement models or less engaged physicians, we took a little bit more cautious approach relative to our product positioning in an effort to protect the margin and the sustainability. Hence we lost some lives there.

So there's not a single churn answer, but it varies by market. I'll ask Tom to expand on that.

Thomas McCarthy, Chief Financial Officer:

One other thing on that, Ralph – to the point of how we're feeling about the health of the business, given the modest growth, there isn't much turnover in lives in our portfolio. We think we have a pretty good handle on that. In fact, our outlook is that about 10% of our customers will be new to us and that compares to about 12% last year - very consistent with our long term results.

Ralph Giacobbe, Credit Suisse:

Okay, that's helpful. And then just one more quick one. You've done a lot over the last 12 months to shore up the balance sheet, particularly with your pension. I just wanted to get an update on your interest level in M&A - any specific areas you'd like to bulk up or expand into and maybe even any thoughts on a dividend at this point. Thank you.

David Cordani, President and Chief Executive Officer:

Yes, Ralph. I'll comment on M&A and I'll ask Tom to talk to you about the overall capital deployment priorities. As it relates to M&A, there is no major change in posture for us. We've continued to view that where strategically and financially attractive. There are three major categories of M&A opportunity that continue to be attractive to us.

First, further expansion of our global footprint and global portfolio capabilities; second, U.S. seniors and/or duals capabilities that enable us to serve the growing duals population and, third, our retail base capabilities that allow us to better deliver a more personalized solution, distribution service, capabilities, etc.

Those priorities have not changed for us. You can look back over the last several years and see we've been disciplined in terms of staying in those categories. I'll ask Tom to elaborate a little bit more to the capital deployment priorities because as he referenced in his prepared remarks, we'll have a significant amount of free cash flow and capital to deploy in 2014.

Thomas McCarthy, Chief Financial Officer:

As we reiterated in the prepared remarks, our first priority in capital deployment is to support organic growth. Now the margin profile of our business tends to generate significant capital in excess of what's needed to finance internal growth, so that does give us the opportunity to deploy capital elsewhere.

We've said many times we'd like to deploy capital strategically, and that would be our preference through M&A or business expansions. If we don't find the right opportunities to do that, we do return capital to shareholders.

We're still using share repurchase as our primary vehicle for returning capital to shareholders. We do regularly revisit our dividend policy, but at this point, there's no change in that area.

Ralph Giacobbe, Credit Suisse:

Okay. Thank you.

Christine Arnold, Cowen and Company:

Good morning. As I look through my model, it seems like other MLRs were elevated. I'm calculating back of the envelope and haven't had much time with it, but it looks like the stop loss and experienced rated loss ratios are up about five percentage points year-over-year and also sequentially. What's going on there?

Thomas McCarthy, Chief Financial Officer:

Christine, it's Tom. Stepping back, the global MCR does have a lot of moving pieces to it. The characteristics of those businesses, including the loss ratios and expense ratios that we have across this broad portfolio are very diverse, and even within experience rated, we have different business types that have different MCR levels.

So the movement in the global MCR result has a number of impacts. The headline result here really is the variability in our GC MCR in the commercial business. The stop loss business also had a small change in reserving methodology that produced some reserve strengthening, but overall, no material change to the overall outlook for that business.

Christine Arnold, Cowen and Company:

So was the international loss ratio up? I'm trying to figure out if there's other stuff going on here. And just to lay it on the table, it begs the question if trends are rising because if I look at this model, it's not just Guaranteed Cost and Medicare Advantage. There's other stuff that is significantly happening in the loss ratios.

Thomas McCarthy, Chief Financial Officer:

Again, Christine, I take you to the bottom line - the variability there is explained by what we've talked about and the additional variability within the MCR is more of a function of the business mix. Different lines of business have different loss ratios even though they have the same bottom-line margin contribution.

David Cordani, President and Chief Executive Officer:

Christine, the only add is, as you referenced, there's a number of various lines of business in their so to Tom's point, you could have some puts and takes within the various experience rated funding types. The loss ratio as reported in that aggregate loss ratio will move, but the margin profile does not. The headline that Tom is delivering is the important one, which is the underlying margin profile of the discrete businesses is strong and intact and carrying into the new year or else we would have flagged it otherwise.

It's also the reason why we caution not to overly analyze that aggregate bucket because there's so many moving parts in it.

Christine Arnold, Cowen and Company:

One last question here. I'm trying to get a run rate for fourth quarter. Was there prior period negative development perhaps related to prior quarters such as the fourth quarter maybe was better than it looked on a run rate basis?

David Cordani, President and Chief Executive Officer:

In the fourth quarter, as I mentioned, we did do a small stop loss reserving methodology change so there really was modest negative prior period development in the fourth quarter in commercial.

Christine Arnold, Cowen and Company:

But only in that stop loss?

Thomas McCarthy, Chief Financial Officer:

Yes.

Christine Arnold, Cowen and Company:

Okay. Thanks.

Kevin Fischbeck, Bank of America Merrill Lynch:

I want to go back to MA for a minute here. I think I understand what you're saying about what the higher costs are being caused by in Q4 and expectation of 2014. Is there a good way to get on top of those costs and understand if you're below your target margin for 2014? How do you think about positioning yourself and getting back to a normal margin when the 2015 rates are also going to be difficult?

David Cordani, President and Chief Executive Officer:

Kevin, good morning. It's David. There are two different sets of actions that are currently being actively worked. Again, as I referenced before, they are going to be different depending on the market types – our integrated markets versus our highly activated physician markets versus our less activated.

If you think about bucket number one, the goal is to further accelerate our timeframe to move less activated physicians to more activated and get them into the shared risk model, or, on a more accelerated basis, look at culling from the network. So that’s bucket number one.

In those markets over the near term, I would say they more comprehensively use traditional medical management and cost tools which you typically don’t use in the more activated physician markets.

Second set of actions are on the facility side, of which there are several. One is to seek outlier reimbursement activity and adjust the contractual reimbursement levels with the facilities. Absent your ability to do that, you would seek to use the activated physicians to guide their patients to higher value facilities and lever free-standing surgery centers where appropriate and where the value is best.

Finally, if you’re not able to get to the desired outcome as we’re looking toward the 2015 environment, we might be willing to remove an underperforming facility from the network while still delivering network adequacy.

All of the actions are being worked. We believe we’ve taken an informed view of the earnings for 2014 into our outlook by stepping down our outlook and our margin expectations.

But you hit the nail on the head; we are getting as much visibility into it as possible as we go into the second quarter for the bid cycle and we believe we’ll make some good traction in these actions.

Kevin Fischbeck, Bank of America Merrill Lynch:

Does this dynamic with the clear outperformance of the targeted provider alignment change your view at all about your ability to enter new markets over the next couple of years? You have to ascertain the markets this year and a thought was you might add one to two per year after that.

Does it get harder to do that if you really need to have the specific alignment, or is there enough out there to be able to continue to enter new markets in 2015 and beyond?

David Cordani, President and Chief Executive Officer:

Kevin, I think it's a real important point. I'm going to answer you yes and no.

The difference here is if you enter a new market de novo with no activated physician relationships, the time to go from that to a fully activated shared-risk model is probably too long given the reimbursement environment we operate in. So it puts a premium on choosing those markets that are both attractive from a senior standpoint and very importantly, we have well developed commercial relationships with physician groups and integrated care delivery systems where we're already moving through the activated physician environment.

The opportunity for us is that we have 86 CACs up and running and we have more than our fair share of opportunities in front of us in new markets to choose from. That's where the opportunity is and we would expect to continue to open new markets building off of the success of the commercial proposition.

It compresses the timeframe where you could go from no activation to fully activated and integrated, and those collaboratives will help us accelerate that timeframe.

Kevin Fischbeck, Bank of America Merrill Lynch:

Okay, and then just a last question here on the efficiency review. It sounded like a lot of it was Catamaran. I just wanted to see if that was right, and if there's a big part that's not part of that understanding, what had spurred this review, and then just an update on how Catamaran is going.

Thomas McCarthy, Chief Financial Officer:

Kevin, it's Tom.

PBM is part of the restructuring, but I wouldn't say it's the majority of it or nowhere close to all of it. The restructuring included a number of factors.

First, there was some general process improvement and efficiency enhancement throughout the organization and as we mentioned, the impact from PBM implementation. We also were able to consolidate some real estate locations and we had some realignment costs in our overseas operations.

It was a number of things across the organization to better position ourselves to grow and give us the capacity to reinvest in new initiatives.

David Cordani, President and Chief Executive Officer:

Kevin, the other add on I would give you is that we now have a track record over the last four plus years in terms of continuing to seek efficiency and effectiveness gains; in part, folding that back into our investment portfolio to continue to invest back into new markets and new capabilities and in part, seeking to shore up the expense ratio on a run-rate basis in terms of the improvement you've seen year over year. This is a continuation of that good progress the organization has driven.

Kevin Fischbeck, Bank of America Merrill Lynch:

Okay, and then just an update on how Catamaran is going?

David Cordani, President and Chief Executive Officer:

Relative to the PBM in total, just putting Catamaran back into context, the PBM steps off of another very strong year for us, delivering very good economic outcomes and very good clinical outcomes for the benefit of our customers.

We're seeking to further improve the operating platform to drive a level of flexibility that's necessary to innovate for the future, further improve the underlying cost of goods sold for the pharmacy business as well as administrative expenses. We've set a target for 2015 of about $0.50 of EPS accretion, and 2014, as a transition year, is progressing well.

A.J. Rice, UBS:

When you set up the guidance when you released third quarter and came in ahead of expectations, I think the comment at that point was that you expected revenue growth and earnings growth for 2014.

Today you're giving us the formal guidance and admittedly, none of the other major companies are even projecting any growth, but at the high-end you've got about 6% and at the low end about flat year-to-year.

Has there been any change? I'm trying to put in perspective the comments about what you saw in the fourth quarter. Does any of these things change your view about 2014 relative to where it was three months ago?

David Cordani, President and Chief Executive Officer:

A.J., it's David. I think from a macro perspective you have the right picture here. When we provided the comments after the third quarter, we said we expect the organization would grow both revenue and earnings, albeit at a lower rate than our historic run-rate.

As we look at 2014, our framing is that when you take the 2013 results that we're rather proud of, and you back out the prior year reserve development because we don't project any, we jump off of a base of about 1.85 billion, and we've given you a range of 1.9 billion to 2 billion. That's a base that we believe is attractive.

The only thing that's changed and evolved is what we've spent some time on this morning. It is our assumption on a prospective basis that the medical cost pressure in Medicare will continue into 2014 and that reduces our Medicare Advantage expectations.

With the breath of our portfolio, we're still able to harness the overall strength of that portfolio and still deliver attractive revenue results on an organic basis and still deliver an attractive overall result. As a reminder, we don't project any reserve development in our outlook and we're not projecting any further capital deployment beyond what Tom referenced.

So all in, we think it's an attractive result for 2014 off of a very strong 2013.

A.J. Rice, UBS:

Okay, and a quick follow-up to that.

You mentioned this morning that in January alone you bought $225 million worth of stock. How should we think about that in the context of this? I mean is it all about the fact that you got this extra liquidity that's going to be available to you?

In anticipation of today's results, it's just interesting to me that you were fairly aggressive in purchasing in January even coming up on this.

Thomas McCarthy, Chief Financial Officer:

A.J., it's Tom. Our share repurchase program tends to follow a periodic pattern of repurchase. There's really no particular signaling and we don't give any guidance to future repurchase activity.

A.J. Rice, UBS:

Okay, thanks.

Ana Gupta, Leerink:

Yes hi, thanks, good morning. I was just trying to put the third quarter and the fourth quarter and your guidance in context here including the growth model longer term.

If I just looked at Global Health Care, it appears you have continued margin pressure. You were probably in the high single, double digits even on margins, and now guiding to mid-singles so it's less of a growth story.

2014, you have Catamaran so it helps you in Global Health Care longer-term. Is that whole business line going to be a slow growth story or are you seeing more conversion to self-insured?

On the Global Supplemental side, you were growing at a much higher pace in 2013 and now you're guiding to 7-17% which may be longer term growth guidance. Again that was an outside grower it feels like. Is that slowing down as well?

What gives you confidence about your growth model? Can you give me the whole pitch about Cigna being a longer-term growth story that's undervalued in the long-term, and are you planning any deals to supplement your growth?

David Cordani, President and Chief Executive Officer:

Ana, good morning; it's David. I think you put about 16 questions into that so I'm going to take the first part that you importantly framed and call it the underlying earnings trajectory and the drivers of that. I'll take that piece of it and then I'm going to ask Tom to take the Global Supplemental component of your question.

When you think about 2013, just to put it back in context, we successfully executed and delivered 11% and 11% for the top line and the bottom line and 13% for the EPS. We were able to increase our outlook for each quarter and we feel great about the overall year, even with acknowledging the fourth quarter pressure on Medicare Advantage.

Looking to 2014, there is going to be a series of headwinds, including MA, for the marketplace and us and our assumption of no prior year reserve development. We're running off the limited benefit business which we previously gave you context to say that's about $30 million in earnings which is still in the right trajectory. In addition in 2013, we delivered a medical cost that was superior to the underlying assumption so we had positive spread from our ratings.

Looking to 2014, we don't make those assumptions. In 2014, you have tailwinds which include ongoing organic growth in a very challenging market and we have a track record of delivering that. Two, ongoing expense leverage, which we have a track record of delivering; and three, contributions from further strengthening of our PBM. Taken as a whole, this will generate organic earnings growth and organic revenue growth that we see as competitively attractive in a disruptive environment.

We believe this positions us with strength as the marketplace conditions change in order to be able to continue to grow both our U.S. Health Care business, our Global Health Care business, our Global Supplemental business, our Disability business, as well as the Seniors business as it gets repositioned.

As it relates to deals, I'll comment very briefly relative to that and kick it back to Tom on the Global Supplemental question you specifically asked.

You've seen our past track record. We've been targeted and opportunistic relative to acquisitions that make good strategic and financial sense. We've been very consistent in terms of where we see the category of assets we're attracted to and we'll be disciplined relative to that.

Our underlying organic earnings growth rate is what will drive the organization, and very importantly, a level of free cash flow production because of the profile of our businesses. It's going to be very attractive no matter how we seek to deploy it for shareholder value creation.

I'll ask Tom to talk a little bit more about Global Supplemental Benefits.

Thomas McCarthy, Chief Financial Officer:

Stepping back on Global Supplemental Benefits, 2013 was a very strong year with 27% revenue growth and 24% earnings growth, both very strong metrics.

The revenue growth split about 50/50 between acquisitions and organic growth. The run rate revenue growth in 2013, excluding the inorganic activity, was in the range of the long-term expectation we have in the mid-teens and that's again what we would expect to normally see in Global Supplemental going forward.

Our earnings projection for 2014 is a little bit light of that, but keep in mind 2014 has some start up activities going on which tend to contribute over the longer-term, but well within the range of what we might expect in that business. We're very comfortable with our position in these fast growing markets overseas.

Ana Gupta, Leerink Swan:

And then self-insured, do you think that conversion continues?

David Cordani, President and Chief Executive Officer:

Ana, what we've seen to date as it relates to self-insured, has been a continuation for us. When you look at where there are indicators, the bulk of the regional segment, and we define the regional segment quite broadly, it's the largest segment of business that we run in our company today.

Employers in this group have 250 to 5,000 employees and it also includes large, single state pieces of business. The bulk of that is self-funded.

Interestingly, when you get to the Select segment, which is our fastest growing segment and comprises of groups 50 to 250 employees, we've seen systematic growth and penetration into self-funded.

Ana, thinking about what that trajectory was a few years ago, you would have less than 50% of the new sales being self-funded and more than 50% of the sales being risk or guarantee cost. A year-and-a-half ago that was approaching 50/50. Most recently, it's about 70% self-funded, but still a full 30% of it being Guaranteed Cost, and we're able to successfully offer both of those alternatives.

Both parts are attractive and the self-funded continues to do well largely because it's a highly transparent funding mechanism that allows us to align our incentives and the employer incentives, and give them a level of visibility monthly and quarterly to actively manage their care programs and their health improvement programs.

Carl McDonald, Citigroup:

Great, thanks. I'm going to ask Christine's question in a different way.

If I look in the Global Health Care segment, medical expense increased about $90 million sequentially in the fourth quarter, with $45 million of that from Guaranteed Cost. PDP was down $30 million sequentially and Medicare Advantage was basically flat. Somewhere in the other products, medical expenses went up $75 million sequentially, and that seems like it is too big just to be a stop loss reserve adjustment.

So I'm wondering if you have any comment on that.

Thomas McCarthy, Chief Financial Officer:

Yes Carl, it's Tom. Again, there are different perspectives on different things that you're trying to triangulate. It sounded like you were going sequentially from quarter three to quarter four.

While I haven't done the math to reconcile to the $90 million you point out, we do expect, pretty much every fourth quarter now, an uptick in medical claims due to the deductible impact. I suspect that's what is underlying the math that you're seeing there, although I haven't done the math that way to figure it out.

Again, the headline for the medical cost results in the fourth quarter in commercial is as we talked about - some variability due to large claims and some up-tick in utilization.

Carl McDonald, Citigroup:

There's definitely an increase in Guaranteed Cost. It just seems like there's $75 million missing somewhere else that hasn't been explained.

Second question is on the Medicare loss ratio. It's increased 150 basis points in each of the last two quarters. What gets you comfortable that we're going to see that stabilize in 2014 rather than continue that acceleration?

Thomas McCarthy, Chief Financial Officer:

Carl, it's Tom again. A good deal of that Medicare MCR increase is also related to revenue pressure both as sequestration worked in total over the year and risk adjustors adjusted over the course of the year. Those are things we would expect to normalize out and the issue we're focused on is making sure we get the medical costs under control.

Carl McDonald, Citigroup:

Okay, thank you.

Andy Schenker, Morgan Stanley:

Thinking about your cost guidance for the year of 5-6%, which is only about a 50 basis point increase at the mid-point versus when you end 2013, and you're thinking originally of 6-7% for 2013. Is there any color about how trends developed over this year and your expectations for next year, and then any more detail on what's really driving that 50 basis points. I think you said utilization.

Are there any ACA related costs in there and anything around impatient versus outpatient and any other drivers? Thanks.

David Cordani, President and Chief Executive Officer:

Andy, it's David. At a macro level, as Tom noted in his prepared remarks, 2013 is coming in favorable to 5%. To put that back in context, we have several years in a row of competitively, very attractive medical cost trends. As Tom noted, with 85% of our book of business being self-funded, those clients and employees benefit directly from that.

As it relates to looking forward for 2014, we're projecting somewhat of an uptick to that trend, so to the mid-point it's a little greater than the 50 basis points you made reference too.

But the major headline is that we're still making some assumptions that some of the utilization pattern will uptick slightly. There's no major category changes that are sea changes, and there's little puts-and-takes, but no major category sea changes for the commercial population.

Andy Schenker, Morgan Stanley:

Okay, so most of the increase you're expecting is all utilization driven. Anything related to ACA driving that at all?

David Cordani, President and Chief Executive Officer:

Nothing especially to call out.

Andy Schenker, Morgan Stanley:

Okay, thank you.

Dave Windley, Jefferies:

Hi, thanks for taking my questions. I wonder David if there were any call outs or proof points that you could highlight on your ACO strategy, and is that enough of a critical mass to have a meaningful impact on your cost trend performance across the business?

David Cordani, President and Chief Executive Officer:

Sure David.

Coming back to some of the prepared remarks, the collaborative accountable care arrangements, as we call them, are still in the early stages of development. We're really pleased in terms of the amount of growth we've seen in those.

We have 50% growth year-over-year in the number of customers that are experiencing it, which is about 400,000 lives going from a base of 800,000 to about 1.2 million, including both seniors as well as commercial. The growth of collaboratives is going from low 50's to the mid 80's in terms of the number.

To the core of your question regarding proof points, we're able to see now in some of the more mature collaboratives a meaningful improvement in clinical quality, engagement, and cost. It then comes down to the ability to move trend, particularly for employers that are higher utilizers of those collaboratives. So we have high concentration coming through to the benefit of some of those collaboratives.

Now with a density of 80 plus collaboratives, we have the ability in some markets to offer a network constellation that will have just collaboratives or an incentive collaborative model where the employer can make the decision to more aggressively steer their employees in that direction.

The headline is meaningful growth, still early, but meaningful growth in terms of lives, physicians, and collaboratives; and two, the exciting news is the proof points would say that off of an open access, high-performing clinical model, there is another step function in cost-improvement and in clinical quality because of the customer/physician engagement. That's really the so-what that matters.

The driving up of enough density where some employers could really benefit from using just the collaborative or highly incentive collaboratives is the next stage that we're driving toward.

Dave Windley, Jefferies:

Follow-up question off the main topics here.

The Disability business has been under pressure from the general economic cycle. Has that turned the corner? I think disability was called out as a better performer.

David Cordani, President and Chief Executive Officer:

Dave, you're right. Disability did perform really well in 2013. As you pointed out, it's been operating in a very challenging environment over the last few years given the low interest rates and high unemployment and we all are hoping both of those are normalizing.

Within that timeframe though, our focus on health and productivity produced great results that allowed us to mitigate a great deal of environmental pressure and the fundamentals of our productivity and return-to-work tools in that business are very strong.

Going into 2014, with the background of improving market conditions and investment results, we're expecting Group to have another strong year.

Dave Windley, Jefferies:

Okay, thank you.

David Cordani, President and Chief Executive Officer:

Thanks. To wrap up, I just want to emphasize a few key points from our discussion this morning.

Cigna's full year results were strong and include earnings and revenue growth from each of our business segments, continuing our track record of strong financial results for the fourth consecutive year. Our outstanding performance is made possible by the passion and focus of our 35,000 colleagues who are deployed around the world. Our Go Deep-Go Global-Go Individual strategy has enabled us to grow over the long-term in the midst of an environment that continues to undergo considerable change and disruption.

By leveraging our flexible and transferable capabilities across the globe which include our ability to have a deep understanding of our customers, the use of consultative distribution, and physician partnership capabilities, we will continue to compete and win in the global markets for the benefit of our customers, clients and shareholders.

Based on this, we're confident in achieving our full-year outlook for 2014, and we remain committed to our long-term average EPS growth outlook of 10-13%.

We want to thank you for joining us this morning and your continued interest in Cigna. We'll look forward to continue our dialogue as the year unfolds.

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