CI reported 2018 consolidated adjusted revenues of $48b and adjusted income from operations of $3.6b or $14.22 per share. Expects 2021 EPS to be $20-21. Co. also expects 2019 consolidated adjusted revenues to be $131.5-133.5b and consolidated adjusted income per share from operations to be $16.00-16.50.
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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's Fourth Quarter 2018 Results Review. (Operator Instructions) As a reminder, ladies and gentlemen, this conference, including the Q&A session, is being recorded.

We'll begin by turning the conference over to Mr. Will McDowell. Please go ahead, Mr. McDowell.

William 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. With me this morning are David Cordani, our President and Chief Executive Officer; and Eric Palmer, Cigna's Chief Financial Officer.

In our remarks today, David and Eric will cover a number of topics, including Cigna's full year 2018 financial results as well as our financial outlook for 2019.
As noted in our earnings release, when describing our financial results, Cigna uses certain financial measures, adjusted income from operations and adjusted revenues, which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP. A reconciliation of these measures to the most directly comparable GAAP measures, shareholders net income and total revenues, respectively, is contained in today’s earnings release, which is posted in the Investor Relations section of cigna.com. We use the term labeled adjusted income from operations and earnings per share on the same basis as our principal measures of financial performance.

In our remarks today, we will be making some forward-looking statements including statements regarding our outlook for 2019 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 to 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.

First, I remind you that we recently announced changes in our segment reporting. These changes were made to align with the company’s organizational structure following the completion of the combination with Express Scripts on December 20, 2018. In connection with this change, Cigna’s results are now reported through the following 5 segments: Integrated Medical, Health Services, International Markets, Group Disability and Other and finally, Corporate.

As previously disclosed, Cigna has also updated our financial reporting practices as follows. First, we exclude contributions from transitioning clients from adjusted income from operations and adjusted revenue. Transitioning clients reflect contributions from Anthem and Coventry and their clients.

Second, at the segment level, adjusted income from operations is now reported on a pretax basis to better align with corporate and segment management team responsibilities.

Third, when Eric discusses our expense ratio, he is referring to our consolidated selling, general and administrative expense ratio, which is calculated by dividing Cigna’s total selling, general and administrative expenses excluding special items and expenses from transitioning clients by Cigna’s consolidated adjusted revenues.

And fourth, the company’s financial statements are now reported on the basis of Article 5 of Regulation S-X, which is the general standard for service companies and the basis used by our largest managed care competitors. Previously, Cigna’s financial statements were reported under Article 7 generally used by insurance companies.

The reporting updates I have just described enable Cigna to continue to provide high-quality, transparent financial reporting to the investment community.

In Cigna’s earnings release and financial supplement issued this morning, these changes have been applied retrospectively to facilitate comparisons to prior periods. And I want to stress that as a result of these segment changes and reclassifications, there is no change to our historically reported consolidated shareholders’ net income, consolidated adjusted income from operations, earnings per share, shareholders’ equity or cash flows.

Moving to results in the quarter. In the fourth quarter, we recorded special items totaling to a charge of $389 million or $1.48 per share, primarily to reflect the impact of merger-related transaction costs. As described in today’s earnings release, special items are excluded from adjusted income from operations and adjusted revenues in our discussion of financial results.

Please note that when we make prospective comments regarding financial performance including our full year 2019 outlook, we will do so on a basis that reflects our new basis of segment reporting and the additional financial reporting updates I have described this morning and excludes the impact of any future share repurchases or prior development of medical costs.

Finally, I remind you that Cigna will be hosting our upcoming Investor Day on May 31 in New York City.
With that, I will turn the call over to David.

David Michael Cordani - Cigna Corporation - President, CEO & Director

Thanks, Will. Good morning, everyone, and thank you for joining our call today. I'll begin my comments with highlights from our exceptional 2018 financial results, with Cigna delivering substantial revenue and earnings growth across our businesses.

I'll also review how our combination with Express Scripts further strengthens the affordability of our programs, and expands choice for those we serve. Then I'll offer initial insights into our exceptional expectations for 2019 before Eric addresses our full year 2018 financial results and 2019 outlook in more detail.

Eric and I will take your questions, after which I'll wrap up our call with a few closing comments.

Let's dive into review some of our performance highlights from last year, where we delivered strong revenue and earnings growth.

Our full year consolidated adjusted revenue increased by 15% to $48 billion, and we reported full year adjusted income from operations of $3.6 billion or $14.22 per share, representing a per share increase of 36%. These results were driven by substantial growth in contributions across each of our businesses, including strong retention levels, the continued expansion and deepening of our customer and client relationships and solid new growth across our portfolio.

Cigna also delivered industry-leading medical cost trend for the sixth consecutive year. Our sustained market-leading performance will further be strengthened as we integrate and leverage the core capabilities of Express Scripts. Express Scripts concluded 2018 with continued strong performance and delivered its lowest commercial pharmacy trend on record of 0.4%, details of which will be provided next week in our annual drug trend report.

Express Scripts also achieved better than 98% client retention for 2019, all while continuing to invest in innovation for the benefit of customers, patients, clients as well as health care providers.

Overall, Cigna delivered very strong results in 2018 with growth across our portfolio of businesses. Our continued growth reflects Cigna's proven approach to service integration and how it delivers real value for the benefit of our customers, patients, clients and health care provider partners.

A recent report on the value of integration, which was externally validated, showed that clients with Cigna medical, pharmacy and behavioral benefits reduced annual medical costs by an average of $645 for each person with an identified health improvement opportunity. Savings can increase to nearly $10,000 for individuals with certain chronic conditions.

As we look forward, Cigna is evolving our definition and approach to integration, driven by the insights we gain from a deeper understanding of our customers as well as the broader capabilities from our Express Scripts combination. Our approach to integration focuses on the coordination of services around the individual and their whole person health needs, both body and mind. This approach also further expands choice, so access is available anytime, anywhere based on our customer and patient’s needs and preferences. To do this, we must remove friction and help our customers and patients connect to the services, which are best aligned to their health status.

In an environment where some are restricting access in order to narrowly drive affordability, at Cigna we see an opportunity to further expand customer choice and to make it easier for people to access the health services they need, how and when they need them. This includes accessing care in the doctor’s office, an urgent care center, a retail setting or an employer clinic; or for more acute needs at a facility-based setting such as a hospital or outpatient service center; increasingly at home, in a coordinated fashion, and through digital platforms that are linked with their health care professionals.

This choice-based delivery model also allows us to guide our customers and patients toward solutions that help the healthy stay healthy, better predict and address risk factors for the healthy at risk, and ensure we deliver affordable high-quality health care choices for the chronically ill as well as those facing acute conditions.
Making it easier for our customers and patients is important, but it is also critical for health care provider partners. At Cigna, we see our role as being the connective tissue that links customers and patients with their health care providers in order to help them improve their health and well-being. We continue to partner, align with and enable health care providers rather than seeking to own, compete with or disintermediate them.

Our combination with Express Scripts strengthens and accelerates our focus on coordinating services around our individual customers and patient needs. One of the steps that is essential for Cigna to unlock additional value for our stakeholders is the effective integration and leveraging of Express Scripts’ capabilities. Our immediate priority is to ensure we deliver on our commitments to customers, patients and clients in 2019 and are positioned to do so in 2020. This includes the strong service delivery we were able to create in January [2019], (corrected by company after the call) an important implementation period. I couldn't be more proud and appreciative of our team’s focus, passion and delivery as we stepped into 2019.

As a health service company, we see our 74,000 coworkers around the world as the greatest asset we have in carrying out our mission and delivering exceptional value for those we serve.

As we move through 2019 and beyond, with a focus on improving affordability, expanding choice and broadening our reach, we have 3 key areas of focus. First, to optimize the significant medical and pharmacy cost synergy opportunities, which will directly benefit our customers, patients and clients and help to improve affordability.

Second, to harness the breadth and depth of our combined data to better predict and identify conditions or behaviors and improve connectivity between our customers, patients and health care providers.

And third, to leverage new growth opportunities and expanded reach across our businesses as we enter new geographies and broaden our solution portfolio.

Let me use Accredo as an example of how we will creative real value in improving affordability and leveraging data, the first 2 items I referenced. Accredo, Express Scripts’ specialty pharmacy business, brings a comprehensive patient-centered care model to improving prescribing, adherence and clinical program coordination. Accredo has more than 500 specialty pharmacists and a field force of 550 nurses providing in-home care across the United States. In fact, an Accredo at-home nurse is within just 1 hour of a home visit for 85% of Americans today.

Cigna plans to begin leveraging specialty pharma services from Accredo in 2019 to deliver affordability improvements and better health outcomes for our customers and clients. Considering that specialty pharmacy is the fastest-growing cost category in health care today, this will create clear and meaningful affordability benefits.

Second, when looking at leveraging data, today Accredo and Express Scripts apply advanced informatics to identify patients who are likely to be nonadherent or have demonstrable gaps in care. For example, Bluetooth-enabled health monitoring devices tied to blood glucose monitors or rescue inhalers track patient’s health in real-time basis and trigger targeted outreach and support.

Moving forward, we will further strengthen and deepen the actionable insights from this type of pharmacy data by connecting with our medical and behavioral data. Additionally, we will share resulting insights with our collaborative accountable care physician partners to further improve their patient’s health outcomes.

Connecting our physician partners with these actionable insights is especially important when supporting people who suffer from chronic conditions. For example, those with chronic conditions are 7 times more likely to suffer from depression and as many as 6 in 10 Americans live with at least 1 chronic condition, all of which further demonstrates the importance of effectively leveraging medical, pharmacy and behavioral data to drive better health.

Building on the consultative selling success of Cigna and Express Scripts teams, our teams are already, on a targeted basis, identifying and pursuing new enterprise growth opportunities. An example includes expanding PBM services for some health plans that we currently serve through Cigna’s
Client Id: 77

payor business. Additionally, we have already engaged in targeted expansion opportunities for Cigna’s health management capabilities to be offered to Express Scripts’ health plan clients.

Taken as a whole, our integration and value creation initiatives are off to a very strong start, and we look forward to discussing this in more depth with you at our Investor Day on May 31.

Before I close, let me briefly comment on our 2019 outlook. Our growth chassis has a proven track record of delivery and provides multiple paths for sustained growth in 2019 and beyond.

For 2019, we expect revenue growth, attractive EPS growth and strong free cash flows, all positioning us to deliver 15% average annual EPS growth over the next 3 years and enabling us to achieve our $20 to $21 EPS target in 2021.

To conclude, our team, strategic framework, along with capital position and significant free cash flow position us to lead in an environment of continuous change, improve affordability, expand choice and enhance predictability for our customers, patients and clients, all while focusing on treating the whole person, both body and mind.

We are positioned to continue delivering attractive sustainable growth with high -- we have significant strategic flexibility and financial flexibility and high visibility toward achieving our 2021 EPS target of $20 to $21 per share.

And with that, I'll turn the call over to Eric.

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

Thanks, David. Good morning, everyone. In my remarks today, I will review Cigna’s 2018 results and provide our outlook for 2019.

Key consolidated financial highlights for 2018 include adjusted revenue growth of 15% to $48 billion, earnings growth of 33% to $3.6 billion after tax, earnings per share growth of 36% to $14.22 and continued strong operating cash flow. These results reflect the underlying strength of our business and provide us with considerable momentum as we drive growth and advance our integration priorities in 2019.

Regarding our segments, I'll first comment on Integrated Medical. 2018 revenues grew 13% to $33 billion, driven by commercial customer growth and expansion of specialty relationships as well as premium growth, reflecting underlying cost trends. We ended 2018 with 17 million global medical customers, driven by an organic increase of 584,000 lives, led by growth in our select, middle market and government segments.

As we completed our eighth consecutive year of organic medical customer growth, we continue to grow in both risk and ASO funding arrangements with a highly consultative approach that aligns affordable solutions with the needs of our customers and clients.

Full year earnings grew 20% to $3.5 billion on a pretax basis, reflecting growth in medical customers and specialty relationships, continued effective medical cost management and favorability in our U.S. individual business.

Turning to medical costs. For our total U.S. commercial book of business, full year medical cost trend for 2018 was 3.6%. We are pleased to have delivered industry-leading medical cost trend results for a sixth consecutive year, and we are focused on further expanding our capabilities to improve health outcomes and medical cost performance, which drives increased value for customers and clients as they continue to confront challenges with the affordability of health care.

Our combination with Express Scripts accelerates our ability to create that value, enabling us to drive further personalization of services and deeper engagement and collaboration with customers, patients, clients and our health care professional partners.
Our total medical care ratio or MCR of 78.9% for full year 2018 reflects the continued effectiveness of our medical cost management capabilities in both our commercial and government businesses, favorability in our U.S. individual business and the pricing effect of the resumption of the health insurance tax.

Full year 2018 Integrated Medical earnings benefited from $97 million pretax of favorable net prior year reserve development, including $8 million of favorable prior year development in the fourth quarter.

I would note that days claims payable or DCP was 40.7 at December 31 for the integrated medical segment, reflecting an increase of 0.7 days over the prior year and a decline of 2.9 days sequentially due to the normal fourth quarter claim payment seasonality in our Stop Loss business and consistent with prior years.

Days claims payable is generally lower for the Integrated Medical segment than for our previous global health care segment as a result of the reclassification of international health care products, which had higher than average days claims payable due to longer claim payment cycles. That business transitioned to the International Markets segment. Overall, Cigna’s Integrated Medical segment delivered very strong financial results in 2018.

Turning to our Health Services business. Full year 2018 revenues were $6.6 billion and pretax earnings were $380 million. Results for 2018 reflect solid performance from Cigna’s mail order pharmacy operations in support of our integrated value proposition and contributions from the Express Scripts business following the close of the combination on December 20.

Turning to our International Markets business. Our full year 2018 results reflect continued attractive growth and profitability as revenues grew to $5.4 billion, an increase of 9% and full year 2018 pretax earnings grew 12% to $735 million, reflecting solid business growth, continued administrative efficiency and strategic investments for long-term growth.

For our Group Disability and Other Operations segment, full year 2018 revenues were $5.1 billion. Full year pretax earnings for this segment increased to $529 million with strong performance from our Life business, offset by unfavorable disability claims.

Overall, Cigna delivered strong growth and profitability in 2018 across each of our growth platforms.

As I turn to a discussion of our outlook for 2019, and specifically, our expectations for continued attractive growth relative to our 2018 performance, I will start by highlighting the headwinds and tailwinds that we have quantified previously.

Specifically, the 2018 earnings per share performance should be adjusted for the following 3 items: A reduction of $0.40 per share of U.S. individual business outperformance; a reduction of $0.30 per share of favorable prior year reserve development; and finally, an increase of $0.20 per share associated with the industry tax, which was in place for 2018, but is suspended for 2019.

While adjusting for these impacts, Cigna’s 2018 earnings per share was $13.72. As we continue to drive strong value for our customers and clients, we step into 2019 with momentum in each of our businesses. We remain intently focused on delivering on our promises to the marketplace of outstanding service delivery and clinical quality, continued innovation and deepened customer and client relationships, all while we continue to advance our integration priorities.

I would remind you that our outlook for 2019 adjusted revenues and adjusted income from operations excludes contributions from transitioning clients.

For full year 2019, we expect consolidated adjusted revenues in the range of $131.5 billion to $133.5 billion. We expect full year 2019 consolidated adjusted income from operations to be $6.2 billion to $6.4 billion or $16 to $16.50 per share. This represents very attractive growth in the range of 17% to 20% over our 2018 baseline.
We would expect the cadence of earnings per share in 2019 to be approximately 45% in the first half and 55% in the second half of the year, taking into consideration seasonality patterns within our businesses, with our health services segment in particular driving a greater proportion of its earnings in the second half of 2019 as well as continued progress on realization of administrative expense synergies throughout the year.

For 2019, we also project an expense ratio in the range of 10% to 10.5%, which reflects ongoing efficiencies and administrative expense synergies in line with our previous estimate of $112 million pretax. I would also note that our outlook includes approximately $200 million pretax of temporarily stranded operating costs associated with Anthem’s early termination of pharmacy services.

For 2019, we project the consolidated adjusted tax rate in the range of 23.5% to 24.5%. Additionally, our outlook excludes any contribution from future share repurchases as well as prior year reserve development.

I’ll now discuss our 2019 outlook for the Integrated Medical and Health Services segments. We expect full year Integrated Medical pretax earnings in the range of $3.65 billion to $3.80 billion. This outlook reflects strength and growth in our businesses, driven by continued benefits from organic customer growth, deepening of customer relationships and effective medical cost management. This outlook also contemplates a return to more normalized margins in our U.S. individual business.

Key assumptions reflected in our Integrated Medical earnings outlook for 2019 include the following. Regarding global medical customers, we expect 2019 growth in the range of 300,000 to 400,000 customers, driven by continued strong customer and client retention and new growth in our commercial business as well as mid-single-digit percentage growth in Medicare Advantage enrollment. And our outlook for medical customer growth also contemplates an expected enrollment decline in our U.S. individual business of approximately 70,000 customers.

Turning to medical costs. For our U.S. Commercial Employer book of business, we expect full year 2019 medical cost trend to be in the range of 3.5% to 4.5%, with the expected increase over 2018 full year trend due to expected higher utilization of services as well as continued benefits from our initiatives to improve affordability, including those we are further enabling through the combination with Express Scripts.

We expect the 2019 medical care ratio to be in the range of 80.5% to 81.5%, reflecting continued strong performance of our commercial and government businesses, the impact of the health insurance tax suspension in 2019 as well as changes in business mix.

For our Health Services business, we expect full year 2019 pretax earnings in the range of $5.05 billion to $5.2 billion.

For 2019, we expect adjusted pharmacy claims in the range of 1.17 billion to 1.19 billion claims. I would note that this range includes all claim volumes associated with Cigna’s mail order and specialty pharmacy operations in addition to claims associated with the acquired Express Scripts business.

Our 2019 guidance range is consistent with Express Scripts’ previous expectations of 2% to 3% growth in core adjusted pharmacy claims. Our guidance does not include Cigna pharmacy claim volumes we expect to transition from OptumRx. And consistent with all of our key performance metrics, this guidance range does not include pharmacy claim volumes associated with transitioning clients.

We also expect strong growth in contributions from our International Markets, Group Disability and Other businesses as they continue to deliver more personalized and affordable solutions for the benefit of those we serve.

Regarding interest expense, we expect total costs of approximately $1.7 billion pretax in 2019, inclusive of approximately $900 million of incremental interest associated with the financing of the combination with Express Scripts in the corporate segment.

All in, for full year 2019, we expect consolidated adjusted income from operations of $6.2 billion to $6.4 billion or $16 to $16.50 per share. This represents 17% to 20% growth over our 2018 baseline. I would also remind you that our outlook continues to exclude the impact of future share repurchases and prior year reserve development.
Overall, these expected results represent a very attractive outlook, aided by strong performance of our diverse and differentiated portfolio of businesses and the highly accretive combination with Express Scripts. These expected results are also consistent with our multiyear growth outlook and position us well to achieve our 2021 earnings per share target of $20 to $21 per share.

Now moving to our 2019 capital management position and outlook. Our subsidiaries remain well capitalized, and we expect them to continue to drive exceptional free cash flow with strong returns on capital even as we continue reinvesting to support long-term growth and innovation.

In 2018, we deployed $130 million of parent company cash to repay current maturities of long-term debt. We completed our debt offering to finance the combination with Express Scripts, and we repurchased 1.6 million shares of stock for $329 million with the resumption of share repurchase following the close of the combination. We ended 2018 with a debt to capitalization ratio of 50.9%.

As previously discussed, our top capital deployment priority is accelerated debt repayment, with the objective of returning our debt to capitalization ratio to the upper 30s and debt-to-EBITDA ratio in the mid-2s within the next 18 to 24 months.

For 2019, we project capital available for deployment of approximately $6.2 billion. In 2019, we expect to deploy approximately $4.2 billion to debt repayment and approximately $0.8 billion to capital expenditures.

As we have communicated previously, while we reduce leverage over the next 2 years, we expect to also have capacity for additional capital deployment, which can be allocated toward reinvestment back into our businesses to drive further innovation and growth, strategic M&A on a targeted basis and/or returning capital to shareholders primarily through share repurchase. In January of 2019, we repurchased 1.1 million shares for $209 million.

Our balance sheet and free cash flow outlook remain strong, benefiting from our highly efficient service-based orientation that drives strategic flexibility, strong margins and returns on capital.

Now to recap. Our full year 2018 consolidated results reflect considerable strength and momentum across our diversified portfolio of global businesses and continued effective execution of our focused strategy.

The fundamentals of our business are strong, and we have entered 2019 intently focused on delivering on our commitments to the marketplace, while we advance our integration priorities, and are well positioned to achieve the attractive financial targets we have established for 2019 through 2021.

We are confident in our ability to achieve our full year 2019 earnings outlook and have strong visibility into our $20 to $21 earnings per share target for 2021, which represent a 15% average annual growth rate over the next 3 years.

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

**QUESTIONS AND ANSWERS**

Operator

(Operator Instructions) The first question comes from Ralph Giacobbe with Citi.

Ralph Giacobbe - Citigroup Inc, Research Division - Director

Just hoping you could help with the bridge or the underlying assumptions a bit more within the guidance. I know you mentioned the jumping off point being closer to $13.72. I think in the past, you talked about sort of high single-digit growth in the legacy Cigna business. You’d have used 7%. That’s kind of $14.65. And I think at the time of the deal, you said core Express would be mid-teens accretive, which I think is at least $2 sort of
incremental and would sort of suggest above the high end of guidance. So just hoping you could maybe help with where that’s off. If something has changed over your initial view and just the assumptions in underlying core performance between the segments.

David Michael Cordani - Cigna Corporation - President, CEO & Director

It’s David. Let me frame, and offer for Eric to add on to my framing. First, big picture for 2019, our outlook is in line with our planned expectations, broadly speaking, and puts us on the trajectory to deliver on our 2021 commitment of $20 to $21 of EPS. Two, I appreciate you walking through the bridge. You take the core portfolio, the core legacy Cigna portfolio is performing well and will continue to perform well. We step into 2019 with strong performance within Express Scripts from that standpoint, not to quibble with you on the math, but you’re about right. It’s about $2 going back to the announcement. I would just point you to 1 additional data point. Eric emphasized and highlighted the fact that within our assumption for 2019 right now is approximately $200 million before tax of temporarily stranded overhead tied to the early termination. That’s temporary. We will eradicate that through 3 mechanisms. One, execution of EVI, which remains on track, but there will be some temporary dislocation; two, additional leverage from organic growth; and three, the significant capacity and leverage that will be created as we utilize Express Scripts for the Cigna volumes over the near-term future. So when you pull all that together, we are on track on both delivering an outstanding result in ’19 of 17% to 20% of EPS growth even including the stranded overhead. Eric, anything I missed?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

I think those were the major headlines, David.

Operator

The next question comes from A.J. Rice with Crédit Suisse.

Albert J. William Rice - Crédit Suisse AG, Research Division - Research Analyst

I guess you guys are the first guys to have a conference call since the HHS release last night, so I’d probably ask you about that since it’s a top of the mind topic for a lot of us. Can you -- there’s a lot of aspects to that. I guess, I would just ask you broadly. Do you see any particular challenges there, opportunities? Or what would the key open questions from that proposal be? And then, always the question, HHS is saying they don’t have the regulatory authority to implement anything in the commercial market. But if this goes forward, do you think we’ll maintain a 2-tier system where the Medicare Part D will have its own? set and the commercial market will stay pretty much as it is. Any thoughts along those lines would be helpful.

David Michael Cordani - Cigna Corporation - President, CEO & Director

A.J., it’s David. So just appreciate the question. Stepping back, we are 100% committed to providing affordable, high-quality health and well-being services to our customers, patients and clients in the U.S. and across the globe. A key driving force behind our strategic combination with Express Scripts is to further improve on affordability, and we build off of strength with another year of outstanding medical cost trend in the Cigna business portfolio of 3.6%, 6 years in a row, and just a phenomenal result in the Express Scripts portfolio at 0.4% pharmacy trend. The headline #1 is, the proposed rebate rule will not have a meaningful impact on our growth or earnings trajectory. Specifically, as you noted, the proposed rule as will be evaluated over the next 60 days applies to Medicare Advantage and PDP. The mechanisms that exist in terms of rates are built up for Medicare Advantage as well as PDP largely by design, flow and respect the rebates and pass-through the way the rates are built, so we don't see a major ramification to that business portfolio. And then inferred in your comment, it does not apply to the commercial marketplace. We do see some opportunities in the proposed rule as articulated. For example, it provides the mechanism to even further accelerate value-based care programs with the pharmaceutical manufacturers. You'll recall from the day we announced our proposed combination on March 8. We talked about that as an important initiative that we passionately believe in. This will provide some further accelerants to that as well as potentially open up some
additional chassis to work with pharmaceutical manufacturers to get better alignment. But big picture, we do not see it having a material effect on the business portfolios as configured and we are on track to deliver the 17% to 20% EPS growth in 2019.

Operator
The next question comes from Josh Raskin with Nephron Research.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst
I just -- first wanted just a clarification. Are you guys saying that Express is indeed $2 accretive in 2019 as part of the guidance, and then the rest is legacy core with the $200 million were stranded? And then, my real question is the combined company and sort of when do you come to market with that pitch? And I know you guys have been laying the foundation for that integrated approach. But when is sort of that broker, consultants' education begin? When are the large employer groups starting to hear that? And when do you think that actually starts to resonate and how do we start thinking about changes in direction around membership growth, especially on the U.S. commercial side?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO
Josh, it's Eric. I'll take the first part of the question. I think, to the nearest dollar, $2 is probably the right number. It's actually a little bit less than that. So we think of it in the $1.50 to $2 range in terms of the accretion from the Express Scripts acquisition for next year. David, I'll let you take the other portion of the question?

David Michael Cordani - Cigna Corporation - President, CEO & Director
Josh, first, specific to the go-to-market proposition, important to note that each portfolio and each platform is performing well and growing well. We're delighted that we're able to step into 2019 with very strong growth within the ESI portfolio and another year of strong organic growth within the Cigna portfolio. Additionally, important to highlight as it relates to growth as we look even to 2020 within our organization, growth starts with outstanding retention, deepening of relationships and addition of new business relationships. Within the Express Scripts portfolio, there will be a lower percentage of their business that's out to bid for 2020 than was for 2019, and you'll recall a phenomenal retention result for 2019. Think about that as about 30% less business out to bid for 2020 versus 2019. The earlier look on that has the health plan part of the portfolio, which is the earlier part of the portfolio that is up for renewal in terms of decision-making process. And we're pretty well through that process with all known clients thus far making decisions, renewing and no known losses from that standpoint, so strong platform. We'll step forward through 2019 and 2020 with the value propositions to answer the core of your question. Interactions are starting to take place with the broker and consultant community and that will happen in a phased mechanism. There will not be a singular new product offering that is pushed on the market rather additional capabilities that will offer more choice through the legacy of the Cigna distribution model as well as through the Express Scripts distribution model. So strong foundation. An early look at outstanding retention stepping into 2020 within the Express portfolio already today and then emerging momentum around expanding choice as we sit here in 2019 with building momentum to 2020.

Operator
The next question comes from Gary Taylor with JP Morgan.

I just had a question around the new health care services segment, the guidance of $5.05 billion to $5.2 billion. Can you tell us what growth that would represent year-over-year? What legacy Cigna PBM plus Express would represent essentially because my, sort of, back of the envelope looks like that would be flat to down slightly, but there's obviously some disclosure we don't quite have.
Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

It’s Eric. A number of moving pieces in there. So probably not constructive to walk through all of the different kind of ins and outs and dynamics there. Fundamentally, we’ve got growth reflected in terms of the operations that make up the Health Services segment as well as the Integrated Medical segment. So good growth in both, but really not able to kind of pull the pieces apart in the call today.

David Michael Cordani - Cigna Corporation - President, CEO & Director

And Gary, it’s David. Just want to add on and maybe I’ll ask Will and team to follow up with you afterward. As the new business segments are configured, you may recall, and I know it’s all net new, is a portion of the Cigna pharmacy business, for example, is moved into the Health Service business to the mail order aspect, et cetera. However, the integrated aspects of the pharmacy business remain in the integrated health portfolio. So we could take that off-line with you and follow up to put -- walk through the pieces. But at the end of the day, there’s solid organic growth in both of those portfolios, driven by the retention and expansion relationships and the net new business adds.

Operator

The next question comes from Justin Lake with Wolfe Research.

Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst

Just wanted to clean up the $200 million commentary, and then I have a question. So to be perfectly clear, you are saying that ’19 is carrying this overhead reduction of this $200 million. Is that the total number of lost overhead contribution from Anthem or is that -- is there going to be more from 2020?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

Justin, it’s Eric. So I think of the $200 million as the amount stranded in 2019 associated with the transition and timing is about $0.40 earnings per share. Ultimately, as that business transitions, we will get those costs out of the system. We are on track for our $20 to $21 in 2021. That -- the final exact timing will play out in terms of cost coming out this year versus next year as Anthem takes -- works through their transition plan and such. But again, think of that as the amount we’ve estimated for this year that we will absorb and that will need to come out of the system as we go into 2021.

Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst

Okay. And to be clear, that’s a drag on the services business. So even though it might look like there’s not much growth there, that would be $200 million that you didn’t expect to have this year? And is that also a drag versus the accretion number, given you probably didn’t expect to have that as well because of the timing. Can you track that -- those dollars off the accretion -- that $2 of accretion?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

That’s correct on all fronts. So think about that as almost entirely within the Health Services segment and think about that as in the short term a drag on the cost. It’s temporary and we still are on track for our long-term expectations there.
Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst

Okay. And if I could just sneak in my question on rebates. Express historically put out a number of $400 million. I know you don’t think it all goes away with commercial and all, but can you give us an update there, worst-case scenario, if rebates go away, where do you think that would be? And any comments, CVS put out some discussion on rebate guarantees being effective by inflation. Anything there that you see as a headwind for ‘19. Those 2 things would be helpful.

David Michael Cordani - Cigna Corporation - President, CEO & Director

Justin, it’s David. You’ve effectively put in about 4 questions. Let me try to wrap a couple of them together. First, specific to the commercial side of the equation. As noted previously, the rebate rules articulated and proposed does not affect the commercial market. As you go back – you’re correct, let’s go back and use the numbers that were put out. First, for Express Scripts, about 95% of all rebate discounts, et cetera, will pass back. Second, per prior conversation, about 50% of all clients within Express Scripts opt for today full pass-through rebate models. That covers importantly about 2/3 of the volume, so there’s a little disproportionality of that. The net of that is we have multiple funding mechanisms already in hand today and aligned payment models that work for clients across the commercial, health plan and government agency sector that work for them and work for us to get levels of alignment and we’ll continue to evolve those over time. Specific to the rebate guarantees, you’ll note that we did not call that out as a headwind. Stepping back, our industry, broadly speaking, has guarantees as a part of it, whether that’s in the formal nature of a guaranteed cost offering, a discount guarantee, our rebate guarantee, a trend guarantee or otherwise. And both legacy organizations have a great track record of effectively gaining alignment and managing those on a go-forward basis. Lastly, I would just add that Express scripts had some visibility into the decelerating trend environment and as such took appropriate actions with their services contracts. So again, we have not called that out as a headwind.

Operator

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

Kevin Mark Fischbeck - BofA Merrill Lynch, Research Division - MD in Equity Research

Wanted to go to the cash flow guidance that you guys are providing here. The numbers that you’ve been giving, generally speaking, have kind of excluded Anthem as a client. Does that $6.2 billion number include any cash flow that you’ll be earning from Anthem and transitioning clients this year? Or is that excluding that? And then just trying to think about this number as kind of a base to think about next year, is there anything onetime in this number or is this a good number to think about for 2020 cash flow available to the parent, if we just add earnings growth per say to that?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

Kevin, it’s Eric. So overall, think about the $6.2 billion figure that I referenced as all in, so comprehensive for the enterprise in terms of capital generated. There will be -- the rate and pace of us achieving our synergies, the rate and pace of capital investments and the rate and pace of our debt repayment will be the main things that will go into -- that come to mind in terms of the -- kind of the top-tier impacts, but we would expect to have an excess of $6 billion for each of the next couple of years available in this framework.

Kevin Mark Fischbeck - BofA Merrill Lynch, Research Division - MD in Equity Research

Okay. So even though Anthem goes away, earnings growth kind of makes up for that. And $6 billion is a starting point before all the other uses of cash.
Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

Right, Kevin.

Operator

The next question comes from Steven Valiquette with Barclays.

Steven J. James Valiquette - Barclays Bank PLC, Research Division - Research Analyst

So -- I guess, for me, just another quick question here on the early Anthem PBM transition. I guess, other than the stranded cost that you alluded to, just want to hear your view, hopefully, confirmatory that there really shouldn't be any other unexpected consequences in 2019 for the remaining PBM business at Cigna Express related to things like either, let's say, less purchasing power or lower rebate collections or something like that because of the early Anthem transition.

David Michael Cordani - Cigna Corporation - President, CEO & Director

Steve, it's David. No. There will not be any impact. We -- from the date of the announcement, we excluded transitioning clients from all aspects of how we looked at the combination, the business, the outlook, et cetera. But there are no other impacts that you need to be concerned about.

Steven J. James Valiquette - Barclays Bank PLC, Research Division - Research Analyst

Okay. And just quick MLR question here on the guidance, 80.5% to 81.5%. Can you just remind us again how that compares year-over-year on an apples-to-apples basis when adjusting for the HIF to the 78.9% you just posted in 2018? Is that essentially flat when you do the adjustment or is it a little higher or a little lower? Just wanted a little more color there as well.

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

Steve, it's Eric. So in terms of the moving pieces with the MCR, I think the industry fee suspension is the single biggest piece. The other changes I would call out would be the factors we've already talked about. So industry fee suspension is the single biggest piece. We've talked about the normalization of our individual plans margin. And then the absence of prior year development in our outlook. Those would be the pieces that would account for the movement from this year into our guidance for next year.

Operator

The next question comes from Steve Tanal with Goldman Sachs.

Stephen Vartan Tanal - Goldman Sachs Group Inc., Research Division - Equity Analyst

I just had 2 sort of topics I wanted to touch. One is just thinking about the long-term earnings growth algorithm or target, the 10% to 13% you guys used to put out there. How are you thinking about that now? And then secondly, just to round out kind of the discussion on the earlier transition of Anthem, I guess, could you kind of just give us what the new level of year 1 accretion assumed in the low and high end of the guidance provided is now? And how comfortable are you that those costs are truly temporary? And I guess, just separately, why was an earlier transition of Anthem's business not sort of contemplated to the initial accretion targets provided, given the change of control provision of the contract?
Steve, it's David. First, relative to your broader or big picture question, first, a background. We delivered approximately 15% EPS CAGR since 2009, so take 2009 the initiation of our strategy. In 2018, we have been above the high end of the articulated 10% to 13% range. Over the next 3 years, the next chapter of our strategic horizon, we are on track again to deliver 15% EPS accretion on average over the next 3 years, and we look forward to refreshing our long-term outlook as we go forward. So we'll have in excess of a decade of 15% EPS growth outperforming our long-term targets. As it relates to the latter part of your question, all along we understood that we had transitioning clients and we excluded transitioning clients from our EPS outlook, our accretion outlook and cetera. No one can predict the rate, pace and timing of termination. The termination is an early termination. It creates a temporary dislocation, as Eric articulated, of approximately $0.40 of EPS or $200 million before tax. Even with that, we were able to deliver 17% to 20% EPS CAGR year-over-year off of a tremendous base in 2018. And we did anticipate it, hence the EVI initiatives are underway. But we're taking those in a paced fashion and we will deliver on the EVI initiatives as well as tremendous organic growth. So those costs will be eradicated. There's just a temporary dislocation that takes place in 2019. And even with that, we're able to deliver the 17% to 20% EPS growth.

And so just with that, I guess, it sounds like maybe you're still guiding to double-digit accretion ex the $0.40 or -- at the midpoint of guidance or any color on that part?

The way I would think about it, Steve, and as we've discussed before, the core accretion fundamentals of the combination remain intact. Hence, we're on target for our $20 to $21 and the core fundamentals of the Cigna business portfolio remain intact. As Eric referenced in the prior question that was asked if you take the accretion that would have been inferred on date of announcement of mid-teens of about $1.90. You back off about $0.40 for the temporary dislocation of overhead and you want to back into a buildup. You're about right there in 2019. And even with that, we're delivering the 17% to 20% EPS growth rate.

So I want to ask about the other transition, which you remember shifting from OptumRx. Two questions. One, is there -- how straightforward of a transition is that? And is there anything in that process that you're concerned about in terms of the member experience? And two, I understand that it's not going to impact 2019 earnings, but is it at all a significant contributor to that 15%-ish CAGR to get to your 2021 target range?

It's David. So stepping back, remind you, today we own and operate a PBM and have successfully done so for many years. We also implemented a successful strategy 5, 6 years ago to break it into modules and to partner with others to perform some of those modules for us, initially Catamaran that transitioned to Optum, and it's worked quite well and successfully with Optum as a good constructive partner. Earlier this year, we announced an aligned plan and time frame with Optum in terms of our shared view in terms of an orderly transition that will take place. That positions us in a way to have a very disciplined orderly transition of those services and relationships, and there's a good track record of transitioning services to and transitioning services back to us within the respective modules. And that will take place over the next approximate 2-year horizon. It will create some significant volume uptick for Express Scripts, which is a positive. One way you could think about that is the Cigna volumes and today's basis when internalized within Express Scripts make up order of magnitude 75%, maybe a little higher of 75% of the lost volumes from Anthem.
So it’s quite significant, but it will take place on a ratable basis over the next couple of years. And again, we have a successful track record of -- and a very disciplined basis of transitioning services to and from other providers. Hope that helps.

Operator

The next question comes from Peter Costa with Wells Fargo Securities.

Peter Heinz Costa  Wells Fargo Securities, LLC, Research Division  MD and Senior Analyst

So along that line, David, can you explain -- have you accelerated the Optum timing of bringing that business in-house relative to Anthem choosing to go early away from you? And when did Anthem notify you of their decision to go early?

David Michael Cordani  Cigna Corporation  President, CEO & Director

The answer to your question is no. We had a very orderly and disciplined process laid out. We have a very successful and growing captive PBM. We have a very successful strategy approach that we’ve been executing within the captive PBM and a very strong partnership relationship with Optum around shared value delivery. We laid out a very orderly time line that allows for a disciplined 2-year transition, putting our customers front and center and the coordination of services with our physician partners. So that time line and the strategy around that is commensurate of what we believe is appropriate and highly aligned with our service provider partner.

Peter Heinz Costa  Wells Fargo Securities, LLC, Research Division  MD and Senior Analyst

And when did Anthem notify you of their decision? And should I assume that 75% of the $0.40 of stranded overhead goes away with just from Optum coming in house?

David Michael Cordani  Cigna Corporation  President, CEO & Director

I’m not going to get into the dates and timing. I think, Peter, to the second part of your statement, a way to think about the overhead that we articulated before, there are 3 mechanisms to dispatch of that and it will be removed. First and foremost, a very disciplined EVI plan that was laid out and is being executed in an orderly basis. Two, good organic growth and we started 2019 with good organic growth in the Express Scripts portfolio. And third, the very disciplined leverage of the Cigna volumes within the portfolio. All of that will contribute to - and the EVI program was put in place to - actually take out the cost structure. So we see some additive opportunities as we look to the future from the sustained organic growth and the leverage of the Cigna capabilities.

Operator

The next question comes from David MacDonald with SunTrust.

David Samuel MacDonald  SunTrust Robinson Humphrey, Inc., Research Division  MD

David, just 1 quick question. You now have a meaningfully scaled mail order business. I was wondering if there’s an opportunity to potentially sell additional products or services through that channel over time? And now that you have deepened the combination of pharmacy and medical, is there also an opportunity to expand and further leverage some of the incremental clinical horsepower Express brings, things like eviCore, therapeutic resource centers, et cetera?
David Michael Cordani - Cigna Corporation - President, CEO & Director

David, so to your first question, I appreciate it tremendously. And Express Scripts is built and has a proven track record of having a pretty phenomenal mail order fulfillment capability. So it's a service capability that's aided by quite innovative technologies, patents, et cetera. And we will, in a disciplined fashion, continue to look at how that core capability that you come back to potentially could be used in leverage for other services to benefit customers, patients or clients on a go-forward basis. And I appreciate the call out. Specific to the clinical -- integration and clinical leverage, absolutely, absolutely. A core part of both organizations got excited about from early conversations with the shared leverage. I articulated in our prepared remarks a little bit between leverage around the Accredo capabilities relative to the deep clinical excellence they have coupled with the home health coordination services that exist in bringing some of that together. Secondly, from a dataset standpoint, the ability to enrich insights for practicing clinicians to more comprehensively understand the life or health needs of patients. And as you articulated within the core -- eviCore capabilities, there are tremendous opportunities where we are on a focused basis already working through additional step function improvements in the clinical capabilities of the combined corporation, which going back to benefiting our customers and clients and further improving affordability and clinical quality. So yes to both points, and we couldn't be more excited on the early traction on the second point already.

Operator

The next question comes from Scott Fidel with Stephens.

Scott J. Fidel - Stephens Inc., Research Division - MD & Analyst

I had a question just on -- I know you're not giving specific earnings guidance anymore for international and group insurance. So just interested if you can give us maybe some more qualitative or directional commentary on how you're thinking about earnings trends for those 2 segments in 2019?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

It's Eric. Thanks for that. A couple of headlines that come into mind for me there. So first of all, we will continue to have good growth momentum in both businesses. We would expect that we will continue to grow in both and the differentiated return to work platform we've guided in the disability business continues to serve us well and again, continues to be a growth chassis for us. Within the International Markets business, again, continue to grow that platform as well. We closed on November 30 on our acquisition of OnePath Life in New Zealand just as an example of the continued expansion of the International Markets platform and chassis and so we'll continue to move that forward as well. But overall, really no changes to the underlying growth story and the momentum that we've got into those businesses.

Operator

The next question comes from Matthew Borsch with BMO Capital Markets.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Managed Care and Providers Analyst

Maybe just if I can ask the question this way on the rebates relative to the draft rule understanding that the commercial payors are not immediately and/or not impacted by this rule. But if -- so if rebates were to disappear entirely in theory, what would be the earnings impact at this point in commercial?

David Michael Cordani - Cigna Corporation - President, CEO & Director

It's David. We don't have a theoretical EPS answer to the theoretical action you articulate. Stepping back in an attempt to be helpful, again, about 95% of all discounts and rebates within the Express Scripts portfolio pass-through and are shared. About 50% of all clients opt for today full
pass-through rebate relationships and that equates to -- because of the scale of those clients equates to about 2/3 of the volumes. And previously indicated, Express Scripts retains about $400 million, that's a before tax number. I would add the reason why I think your question is a bit unanswerable is the model continues to evolve. So the evolution of value-based contracts and our shared direction in terms of continuing to move toward and more comprehensively toward total cost, total value relationships with our clients whether they are commercial clients, health plan clients or governmental agencies is the direction that Express Scripts was on, it's the direction that Cigna has been on and it's the direction that the combined Corporation goes forward on. So those tools and levers continue to evolve, and you'll see us continue to move away from trying to perceive maximize a single lever as opposed to maximize the overall value, which is total cost and total qualities as we go forward.

Operator

The next question comes from Charles Rhyee with Cowen.

Charles Rhyee - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

I wanted to ask, you obviously reaffirmed the -- your 2021 target of $20 to $21 a share. I just wanted to put that into context with your previously kind of guided synergy target of about $600 million. And if we think about now with the transitioning of Anthem a little bit early, when we think about that number, 2021 in relation to the guidance and then you obviously outlined some -- your growth -- sort of about growth opportunities and optimizing the medical and pharmacy side of it. What pieces contribute that trajectory towards the 2021? And I guess, what I'm really asking is can you start to kind of quantify for us a little bit sort of sizing what you think these are the opportunities are in relation to the $600 million. Because if I recall correctly, that $600 million was largely an overhead kind of synergy target.

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

It's Eric. I'll start with a couple of other pieces and will ask David to give some more overall color and commentary. So at a macro level, we continue to be on track with the synergies as assumed and as we discussed back in 2018 and as we disclosed in the S-4 last year. The synergies that we've put out and that we quantified there primarily reflect administrative costs and we had expected that those would occur over multiple years over the first 4 years of the transaction. We're generating $112 million of pretax administrative synergies for 2019 and that builds to $600 million in 2022. You're correct to that. We expect to generate meaningful additional improvements in the pharmacy and medical costs through the combination, both through the clinical combination and some of the other items that David discussed today. Those benefits will primarily inure to the benefit of our customers and clients. Again, in terms of the synergy pieces, those are the pieces you should think about. And we're on track and consistent with how we teed up the transaction initially. David will give some additional color here.

David Michael Cordani - Cigna Corporation - President, CEO & Director

And so just to bridge, when you think about today to 2021, we've tried to articulate there's 3 major building blocks to get to the $20 to $21 per share. The underlying base performance of both assets, the synergies that Eric just made reference to and you articulated the $600 million before tax synergies and the impact to the P&L of the deleveraging, which were already onboard for the deleveraging path. That's the basic crosswalk between 2018 and 2021. Additional opportunities above and beyond that, which we said are not built into the accretion model are further leverage enhancements of the growth chassis of the portfolio as we go forward and identify additional opportunities for growth whether it's net new growth or further deepening of relationships. Anything beyond what the core businesses are performing is excluded from that today as well as potential additional value at a shareholder level versus passing back to the customer and clients from the leverage of Express Scripts for the transition of the Cigna portfolio into the Express scripts portfolio. So the basic crosswalk is base performance, synergies and deleveraging to get us from 2018 to 2021.

Operator

The next question comes from Ana Gupte with SVB Leerink.
Anagha A. Gupte - SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst

Can I follow up on this question just now. On the Express synergies more on a near-term basis, both administrative and medical, can you talk about on the administrative side. Is there anything you can do to accelerate the schedule you provided in the S-4 in today's guidance? And how much of it is potentially even going to retain your business in the July renewal season or 1/1/2020 season, given Anthem is now talking about $3 billion in savings much sooner, Optum is 250 to 300 and PMPY savings just from RX? And then to follow up on, David, your commentary around the power of Express and Cigna together. When will we see proof of concept on that combined business as far as medical cost trend or medical loss ratio impact or accelerated share gains in growth?

David Michael Cordani - Cigna Corporation - President, CEO & Director

Ana, it's David. Let me try on the points to be responsive here. Specifically, as Eric has articulated a couple of times, there's $112 million of synergies -- shareholder synergies we signed up for in 2019, so a step towards the $600 million. You'll note we're being very disciplined. We're making sure that the expenses come out on an orderly basis. We may outpace that, but the business plan and the guidance we articulated doesn't assume that. And with that and with the transitioning client impact, et cetera, we're delivering 17% to 20% of EPS growth. Specifically, as it relates to the medical and pharmacy cost synergies and value creation that will unfold throughout 2019 and 2020 and benefit our clients and customers on a client or customer basis depending on the products, programs and services they have. And I would note that we have very good growth and outstanding retention in all of our business portfolios stepping into 2019 and we're going to have another good growth year. And I articulated an early glimpse to Express Scripts renewals for 2020, which are tracking very, very favorably right now. As it relates to proof of concept, you should not think about Cigna coming back to you with a net new proof of concept of something de novo we are seeking to build that does not exist today as a concept to rollout in the marketplace. Rather, we are systematically further enhancing the value propositions for our commercial clients, for our health plan clients, for our governmental agency clients and offering more choice, which will unfold in 2019 and 2020 with expanded capabilities and further clinical integration and effective use of data. At our Investor Day, we will seek to bring some of those to life, with both words, examples and challenge ourselves to give some tangibility even in terms of some of the supporting technologies and workflows, but it is not a net new concept. The capabilities unfold pretty rapidly throughout '19 and will expand additional choice for the benefit of clients and customers as we step into 2020.

Operator

The next question comes from Frank Morgan with RBC Capital Markets.

Frank George Morgan - RBC Capital Markets, LLC, Research Division - MD of Healthcare Services Equity Research

Thanks for the color on the Anthem, Optum swap of business. 75% of that volume could be recovered. But when I think about it from a profitability standpoint, how should you be thinking about the profitability on the Anthem book loss versus the savings you'll realize by bringing that back in-house. That's number one. And then number two was just one of the headwinds you're calling out for the year was the outperformance you saw last year in the integrated medical segment, I think mainly the individual segment. Is there anything specifically that you would like to call out as to where that should revert or is it just simply conservatism?

David Michael Cordani - Cigna Corporation - President, CEO & Director

It's David. On your first question, I would ask you not to think about the profitability of those 2 components. Step away from it. We've excluded the transitioning clients from all aspects of our conversation from the day we announced the proposed combination and the earnings impact of that from an EPS standpoint have been excluded. We have in 2019 this temporary dislocation of overhead that from a full transparency basis, we will walk through, laid out $200 million before tax and that will be removed from the system in a pretty expeditious fashion and we have multiple leverage to address that, but I would ask you not to think about profitability of the Cigna portfolio versus the Anthem portfolio because they are not comparables from that standpoint. As it relates to the individual market, you are correct. We articulated on our third quarter call the fact that was the outperformance you saw last year in the integrated medical segment, I think mainly the individual segment. Is there anything specifically that you would like to call out as to where that should revert or is it just simply conservatism?
the high end of our strategic margin threshold. And for 2019 planning purposes, we believe it's prudent when you look at that program and the design of that program to plan for margins that are more in line with our strategic margin trajectory, which is somewhere between 4% and 6% before tax. And for 2019, we have planned for it to be at the higher end of the range, which we think is a more sustainable indication of what that portfolio of programs. There is nothing systematic beyond in terms of dislocation in that marketplace. We just believe it was appropriate to plan for and view that marketplace runs in a 4% to 6% before tax margin versus the significant margin that was delivered above and beyond that in 2018.

Operator

The final question comes from Dave Windley with Jefferies.

David Howard Windley - Jefferies LLC, Research Division - Equity Analyst

David, the disability business has been on a journey to kind of evolve, process and bring margins back up to normal levels, and then this quarter calls out some unfavorable claims. Are those things at all related? Do any actions need to be taken relative to the unfavorable disability claims? And then one last clarification on the $200 million. If you were, as you have said, excluding Anthem from all the results, were those $200 million allocated to that exclusion and now they've become real? Or -- another way to think about it, weren't those $200 million stranded from the very beginning because of the assumption that Anthem would be excluded?

Eric Paul Palmer - Cigna Corporation - Executive VP, CFO

David, it's Eric. I'll take the second one first on that. Really just think about the $200 million is kind of a timing matter, right? So the costs that would have been allocated, so the contract that would have been gone away for all the reasons David described earlier in the Q&A session here. Think about it as timing just because of the earlier transition now that those costs won't be able to be allocated to the volumes that would be going away through there, but think about it that way. On the group life and disability, we've talked on a number of different calls over time about the variability that can happen on any one line quarter-by-quarter, things along those lines, but we can't call out anything particularly systemic or anything along those lines, but just that we had favorable life insurance experience and a little bit unfavorable disability experience in the quarter here.

Operator

And now we will turn the call back to David Cordani for closing remarks.

David Michael Cordani - Cigna Corporation - President, CEO & Director

Thank you. To wrap up our call, I'd just like to highlight some key points from our discussion. Cigna delivered substantial earnings and revenue growth across our businesses in 2018. We are committed to broadening our approach to integration, which focuses on coordination of services around the individual and their whole person health needs, both body and mind. This approach also further expands choice, so access is available anytime, anywhere based on our customers and patients' needs and preferences. We have a well-positioned portfolio of businesses with multiple paths for sustained growth in 2019 and beyond. For 2019, we expect revenue growth, attractive EPS growth and strong free cash flows, which position us to deliver 15% average annual EPS growth over the next 3 years and put us on target to deliver our $20 to $21 EPS target for 2021. We thank you for joining our call today, and we look forward to our future conversations.
Operator

Ladies and gentlemen, this concludes Cigna’s fourth quarter 2018 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 toll-free (866) 453-2340 or toll (203) 369-1229. No passcode is required. Thank you for participating. We will now disconnect.

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