CIGNA CORPORATION

SECOND QUARTER 2013 INVESTOR TELECONFERENCE
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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 STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Cigna Corporation and its subsidiaries (the "Company") and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company's filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management's beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include, but are not limited to, the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends and, in particular, the Company's strategic initiatives, litigation and other legal matters, operational improvement initiatives in the Company's health care operations, and the Company's outlook for full year 2013 and beyond results. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe", "expect", "plan", "intend", "anticipate", "estimate", "predict", "potential", "may", "should", "will" or similar expressions.

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

1. health care reform legislation, as well as additional changes in state or federal regulation, that could, among other items, affect the way the Company does business, increase costs, limit the ability to effectively estimate, price for and manage medical costs, and affect the Company's products, services, market segments, technology and processes;
2. adverse changes in state, federal and international laws and regulations, including increased medical, administrative, technology or other costs resulting from new legislative and regulatory requirements imposed on the Company's businesses;
3. risks associated with pending and potential state and federal class action lawsuits, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging the Company's businesses, including disputes related to payments to health care professionals, government investigations and proceedings, tax audits and related litigation, and regulatory market conduct and other reviews, audits and investigations, including the possibility that the acquired Cigna-HealthSpring business may be adversely affected by potential changes in risk adjustment data validation audit and payment adjustment methodology;
4. challenges and risks associated with implementing improvement initiatives and strategic actions in the ongoing operations of the businesses, including those related to: (i) growth in targeted geographies, product lines, buying segments and distribution channels, (ii) offering products that meet emerging market needs, (iii) strengthening underwriting and pricing effectiveness, (iv) strengthening medical cost results and a growing medical customer base, (v) delivering quality service to members and health care professionals using effective technology solutions, and (vi) lowering administrative costs;
5. the unique political, legal, operational, regulatory and other challenges associated with expanding our business globally;
6. challenges and risks associated with the successful management of the Company's outsourcing

projects or key vendors;

7. the ability of the Company to execute its growth plans by successfully leveraging capabilities and integrating acquired businesses, including the Cigna-HealthSpring businesses by, among other things, operating Medicare Advantage plans and Cigna-HealthSpring's prescription drug plan, retaining and growing the customer base, realizing revenue, expense and other synergies, renewing contracts on competitive terms or maintaining performance under Medicare contracts, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel;
8. risks associated with security or interruption of information systems, that could, among other things, cause operational disruption;
9. risks associated with the Company's information technology strategy, including that the failure to make effective investments or execute improvements may impede the Company's ability to deliver services efficiently;
10. the failure to maintain effective prevention, detection and control systems for regulatory compliance and detection of fraud and abuse;
11. risks associated with the pharmacy benefits management agreement with Catamaran Corporation, including without limitation, those related to the ability to transition and implement successfully the agreement in a timely, cost-efficient manner without an adverse impact on service to clients and customers, and the failure to achieve projected operating efficiencies, estimated earnings per share accretion and estimated financial contribution to the Company's results;
12. risks associated with the Company's mail order pharmacy business that, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
13. liability associated with the Company's operations of onsite clinics and medical facilities, including the health care centers operated by the Cigna-HealthSpring business;
14. heightened competition, particularly price competition, that could reduce product margins and constrain growth in the Company's businesses, primarily the Global Health Care business;
15. significant stock market declines, that could, among other things, impact the Company's pension plans in future periods as well as the recognition of additional pension obligations;
16. significant changes in market interest rates or sustained deterioration in the commercial real estate markets that could reduce the value of the Company's investment assets;
17. downgrades in the financial strength ratings of the Company's insurance subsidiaries, that could, among other things, adversely affect new sales and retention of current business or limit the subsidiaries' ability to dividend capital to the parent company, resulting in changes in statutory reserve or capital requirements or other financial constraints;
18. significant deterioration in global market economic conditions and market volatility, that could have an adverse effect on the Company's investments, liquidity and access to capital markets;
19. unfavorable developments in economic conditions, that could, among other things, have an adverse effect on the impact on the businesses of our customers (including the amount and type of health care services provided to their workforce, loss in workforce and ability to pay their obligations), the businesses of hospitals and other providers (including increased medical costs) or state and federal budgets for programs, such as Medicare or social security, resulting in a negative impact to the Company's revenues or results of operations;
20. risks associated with the Company's reinsurance arrangements for the run-off retirement benefits, life insurance and annuity business, variable annuity death benefits and guaranteed minimum income benefits businesses, including but not limited to, failure by the reinsurer to meet its reinsurance obligations or that the reinsurance does not otherwise provide adequate protection; or

21. potential public health epidemics, pandemics, natural disasters and bio-terrorist activity, that could, among other things, cause the Company's covered medical and disability expenses, pharmacy costs and mortality experience to rise significantly, and cause operational disruption, depending on the severity of the event and number of individuals affected.

This list of important factors is not intended to be exhaustive. Other sections of the Company's most recent Annual Report on Form 10-K, including the "Risk Factors" section, and other documents filed with the Securities and Exchange Commission include both expanded discussion of these factors and additional risk factors and uncertainties that could preclude the Company from realizing the forward-looking statements. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Ted Detrick (Vice President – Investor Relations):

Good morning, everyone, and thank you for joining today's call. I'm Ted Detrick, Vice President of Investor Relations. 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 will begin by commenting on Cigna's second quarter 2013 results and how our broad portfolio of differentiated solutions creates value for our customers and clients, as well as provides us with several options for business growth in 2014 and beyond.

Next, Tom will review the financial results for the second quarter and provide an update on Cigna's financial outlook for 2013. We will then open the lines for your questions. Following our question and answer session, David will provide some brief closing remarks before we end the call.

As noted in our earnings release, Cigna uses certain financial measures which are not determined to be in accordance with generally accepted accounting principles, or GAAP, when describing its financial results.

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

In our remarks today, we will be making some forward-looking comments and would remind you that there are risk factors that could cause actual results to differ materially from our current expectations. Those risk factors are discussed in today's earnings release.

Now, before I turn the call over to David, I will cover a few items pertaining to our results and disclosures. Regarding our results, I would note that in the second quarter, we recorded an after-tax charge of $24 million, or 8 cents per share, related to transaction costs associated with the previously announced pharmacy benefits arrangement with Catamaran. We reported this charge as a special item. I would remind you that special items are excluded from adjusted income from operations in today's discussion of our second quarter 2013 results and our full year 2013 outlook.

Regarding our disclosures, our GAAP cash flow statement explicitly discloses, in cash flows from operating activities, the amount paid to Berkshire Hathaway in connection with our exit of the Run-off Reinsurance businesses.

Adjusting for this one-time payment, which we view as a cost to dispose of the run-off businesses, operating cash flows for our ongoing businesses are $803 million in the quarter, representing 1.6 times our adjusted income from operations.

Finally, please note that when we discuss our full year 2013 outlook, it will be on the basis of adjusted income from operations, and this outlook excludes the effects of any future capital deployment. With that, I will turn it over to David.

David Cordani (President and Chief Executive Officer):

Thanks, Ted, and good morning, everyone. Today I'll briefly review highlights of our second quarter earnings performance. Then I'll discuss the current trends and opportunities we see in the global marketplace, and I'll address how our ongoing investments, coupled with execution of our focused strategy of "Go Deep, Go Global, Go Individual," continue to position Cigna to deliver attractive results in a dynamic and disruptive global environment.

Moving to the quarter, we delivered strong second quarter results in each of Cigna's ongoing businesses. Our second quarter consolidated revenue increased by 8%, to $8 billion. We reported adjusted income from operations of $512 million, or $1.78 per share, which represents a per share increase of 19% over the second quarter of 2012.

Relative to each of our businesses, our Global Health Care business delivered strong performance across all of our markets. We continue to deliver high quality medical outcomes and competitively attractive medical costs that directly benefit our customers and clients.

Within the Global Health Care business, our U.S. Seniors business remains well positioned to deliver value and innovative solutions to our Cigna-HealthSpring customers over the long term.

We delivered substantial revenue and earnings growth in our Global Supplemental Benefits business, driven by recent acquisitions, ongoing organic growth, and our ability to leverage our differentiated distribution capabilities.

Our Group Disability and Life business had strong results as we continue to create value for our clients and customers through our productivity and return to work programs.

Our performance across the board underscores our focus on creating enduring value for our customers and clients and our ability to provide sustained attractive results for our shareholders.

Now, moving to the environment and outlook. To date, by effectively executing our strategy, we have positioned Cigna to win in a rapidly changing marketplace.

Looking to the future, the global forces of change include well-documented disruptions that stem from economic, demographic, legislative and regulatory forces, most notably defined by an aging population, a rapidly growing middle class, rising instances of chronic disease and affordability and access challenges for systems around the world, including the U.S., where we have an evolving health care system which is confronting changing reimbursement levels and approaches and adapting to new exchange marketplaces.

All of these forces put additional pressure on the governments, employer groups and individuals that purchase products and services, as well as those who deliver and coordinate those services.

As we've discussed before, we are sharply focused on evolving our solutions to deliver differentiated value and on making ongoing targeted investments to ensure we are well positioned for sustained growth.

Categories of our investments include executing enhancements to our portfolio of innovative solutions and tools, advancing programs designed to effectively connect with the evolving retail customer markets, and making further progress in establishing ourselves in important new geographies.

I'll provide just a few examples of the strategic investments and improvements we continue to make for the benefit of our customers, clients, and shareholders.

Relative to the expansion of our portfolio of PBM solutions, during the quarter we announced our long-term strategic partnering agreement with Catamaran to advance our pharmacy solutions.

Our unique partnership will enable our customers and clients to realize greater value through further improvements to clinical integration across medical care and pharmacy services, enhanced program affordability, and leading technology that will accelerate innovation and customized solutions.

Relative to customer technology solutions, our customer navigation tools continue to expand. Today, we average more than 1.2 million monthly visitors to our "My Cigna" customer web site.

Nearly half a million of these visits are from customers researching cost and quality information for doctors, specialists, hospitals, and specific medical procedures.

These tools help our customers engage, get information, and make more informed, personalized decisions.

Relative to our geographic expansion, in the second quarter we expanded the reach of our Global Supplemental Benefits business with the continued rollout of a new Individual Medicare Supplemental product in the U.S. This new product was released in an additional 17 states and, as of today, is available in 35 states.

In Turkey, since partnering with Finansbank in November of last year, we are now beginning to see encouraging results that are accelerating our ability to offer new solutions to support growth in this important and attractive market.

On the physician and health care delivery front, the American Medical Association's National Health Insurer Report Card ranks Cigna highest among the seven leading commercial insurers for its low physician related administrative costs, demonstrating our continued investment in efficiencies that make it easier for our physician partners to work with us and focus on caring for their patients.

We're also pleased with the ongoing expansion of our collaborative accountable care, or CAC, relationships. Since forming the first of our CACs in 2008, we have delivered differentiated value relative to our triple aim, which is to improve clinical quality, customer satisfaction, and affordability.

We continue to expand our CACs, and now, combined with the customers in Cigna-HealthSpring's physician engagement model, we currently support more than 1 million customers in these collaborative models.

In our more mature CACs, we are seeing improvements in medical costs and care quality, which exceed the market averages, driven in part by implementation of embedded care coordination programs, where our nurses build relationships with our physician partners to help coordinate the care programs for our customers.

By way of a specific example, at a recent ACO summit designed to share best practices, our CAC partner, Jackson Clinic in Western Tennessee, shared its success in improving medical cost trends by nearly 5% while further improving quality.

Our success included reducing by 50% the number of emergency room visits by frequent ER utilizers, driving over a 20% improvement in compliance rates for diabetic measures, and 50% better compliance for adolescent well care.

So, to summarize, we continue to make targeted investments in our platform of solutions, capabilities for an evolving retail market, and expanding into new geographies, all to position us for sustained growth in the future.

Before addressing the balance of 2013 and touching on 2014, I want to offer a brief overview of our long-term outlook. Over the next three to five years, we continue to expect to deliver 10% to 13% EPS growth, on average.

As noted earlier in my remarks, we've executed our strategy to position Cigna with differentiated capabilities in attractive markets including U.S. Health, U.S. Seniors, Global Employer, Group Disability and Life and Global Individual businesses.

In U.S. Health, we'll continue to focus on employers who value incentives and engagement based programs, and we'll seek to further leverage our transparent and aligned funding capabilities.

For U.S. Seniors, where 10,000 people are aging into Medicare every day, Cigna's differentiated physician partnership model positions us to excel over the long term.

In the Global Employer market, we have the largest network of health care professionals in the world, and we are well positioned to continue to meet the needs of the growing, globally mobile population.

In Group Disability and Life, our business remains focused on improving productivity and presenteeism for the benefit of our clients and customers.

Our Global Individual business will continue to leverage our leading marketing and distribution capabilities, which will enable us to meet the expanding needs of the growing, global middle class.

Taken as a whole, we continue to see an attractive growth outlook for Cigna over the long term.

Now, stepping back to 2013 and 2014, we've increased our outlook for 2013 again this quarter.

The strength of our second quarter and our track record of effective execution of our strategies give me confidence that we will achieve our full year outlook.

Further, our broad portfolio of products, with differentiated capabilities, positioned in global markets with attractive growth potential, gives us confidence that we will deliver competitively attractive revenue and earnings performance in 2014.

Now, to briefly summarize before turning it over to Tom, we are pleased with our strong second quarter results. They reinforce consistent, effective execution of our "Go Deep, Go Global, Go Individual" strategy which guides our 35,000-plus Cigna colleagues around the world who work each and every day to help our customers.

The combination of our clear strategy, consistent execution, outstanding team, and sustained investments in capabilities positions us well to deliver competitively attractive results for the remainder of 2013 and beyond.

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

Tom McCarthy (Chief Financial Officer):

Thanks, David. Good morning, everyone. In my remarks today, I will review Cigna's second quarter 2013 results and provide an update to our full year outlook.

The quarter was highlighted by a few key accomplishments, specifically: revenue and earnings growth across each of our operating segments, the announcement of our strategic arrangement with Catamaran to enhance our successful pharmacy business, and quarterly earnings per share of $1.78, representing growth of 19% over second quarter of 2012.

The quarter also benefited from favorable development in medical costs and disability reserves. Overall, this quarter is another example of the effective execution of our focused strategy and demonstrates the strong fundamentals of each of our operating businesses.

The strength of these results provides us with good momentum and confidence to increase our full year financial outlook in 2013.

Now, moving to some specifics, second quarter consolidated revenues grew 8% over prior year to $8 billion, driven by growth in our targeted market segments.

Second quarter consolidated earnings were $512 million, representing 18% growth over second quarter 2012.

Regarding the segments, I will first comment on our Global Health Care segment.

Overall, Global Health Care results were strong, particularly for our Commercial business. Second quarter premiums and fees grew 5% to $5.7 billion, reflecting strong contributions from both our Commercial and Seniors businesses.

We ended second quarter 2013 with 14.3 million medical customers, representing year to date growth of 241,000 customers, or 2% over year-end 2012.

Second quarter earnings in Global Health Care increased 10% to $403 million and were driven by favorable medical costs, strong revenue growth and specialty penetration, and operating expense efficiencies.

Turning now to medical costs, we continue to deliver attractive medical costs and clinical quality for our clients and customers. Medical costs also reflect a continued low utilization trend. As a reminder, given that nearly 85% of our U.S. Commercial customers are in ASO funding arrangements, our clients directly benefit from these favorable medical cost results.

Regarding medical care ratios, in our U.S. Commercial Guaranteed Cost business, our second quarter 2013 medical care ratio, or MCR, was 78.7% on a reported basis, or 79.5% excluding prior year reserved development.

In our Seniors business, our second quarter MCR for Medicare Advantage was 82.9% on a reported basis, or 83.3% excluding prior year reserve development. Across our Commercial and Seniors risk businesses, our second quarter earnings included favorable prior year reserve development of $20 million after tax, compared to $17 million after tax in second quarter of 2012.

We are pleased with the results of our medical risk businesses, as they continue to reflect both a strong pricing and disciplined underwriting approach and continued effective medical management and physician engagement.

Moving to operating expenses, for second quarter 2013, the total Global Health Care operating expense ratio was 21.7%. This ratio has improved over time, reflecting our ongoing commitment to drive expense efficiency while maintaining strong service levels and continued funding of strategic investments.

To recap, we had a strong quarter in our Global Health Care business on all key metrics.

Now, I will discuss the results of our Global Supplemental Benefits business, which continues to deliver attractive growth and profitability.

Premiums and fees grew 35% quarter over quarter to $613 million, 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 business growth, primarily from South Korea.

Second quarter earnings in our Global Supplemental Benefits business were $49 million, representing a substantial increase over a depressed second quarter 2012.

For Group Disability and Life, second quarter results were very strong. Group premium and fees increased 10% over the second quarter of 2012 to $846 million, and second quarter earnings in our Group business were $104 million.

The quarter's earnings included favorable claims experience in the Disability book, partially offset by unfavorable life claims.

The quarter also included a $27 million after tax favorable impact from a reserve study on our Group Disability business, which compares with a $35 million after tax favorable impact from a similar study in second quarter 2012, and a $14 million after tax favorable impact related to a higher discount rate for reserves as a result of the transfer into the Group Disability portfolio of higher yielding assets previously supporting our Run-off Reinsurance business.

Results for our remaining operations totaled to an after-tax loss of $44 million for the second quarter of 2013, which is primarily interest expense in the Corporate segment.

Turning to our investment portfolio, we are pleased with our results in the second quarter. Our commercial mortgage loan portfolio is performing well. During the quarter, we completed our annual review of our $2.6 billion mortgage loan portfolio, which indicated that there had been an improvement in the average loan to value ratio to 64%, as well as improvement in the average debt service coverage ratios.

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

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

Now I will discuss our full year 2013 outlook. We now expect consolidated revenues to grow in the range of 9% to 11% over 2012. Based on the strength of our second quarter results, we now expect full year 2013 consolidated adjusted income from operations of approximately $1.8 to $1.9 billion.

This range is higher than our previous expectations and reflects strong underlying results in all of our businesses. We now expect full year earnings per share in the range of $6.25 to $6.65 per share, which is an improvement of 20 to 25 cents per share over our previous expectations.

Consistent with prior practices, our outlook excludes any contributions from additional capital deployment.

I will now discuss the components of our 2013 outlook, starting with Global Health Care.

We now expect full year Global Health Care earnings in the range of approximately $1.5 to $1.57 billion, an increase of $15 to $30 million. This increased outlook for Global Health Care primarily reflects second quarter favorable prior year reserve development and favorable medical costs, with overall low utilization relative to expectations.

I'll now summarize some of the key assumptions reflected in our Global Health Care earnings outlook for 2013, starting with our customer base. Regarding global medical customers, we continue to expect full year 2013 customer growth of approximately 1% to 2%.

Relative to medical costs, for our total U.S. Commercial book of business, we now expect full year medical costs trends to be in the range of 5% to 6%, which is 100 basis points lower than our prior guidance.

We now expect the 2013 Medical Care Ratio to be in the range of 81.5% to 82.5% for our U.S. Commercial Guaranteed Cost book of business, which is 100 basis points lower than our previous expectations.

For our Seniors business, we continue to expect our Medicare Advantage MCR for 2013 to be in the range of 82% to 83%.

Turning to operating expenses, we expect our total Global Health Care operating expense ratio to improve approximately 50 basis points over 2012's full year ratio of 22.6%.

Now, moving to the other components of the outlook. For our Global Supplemental Benefits business, we expect continued strong topline growth and now expect earnings in the range of $180 to $200 million, which is an increase of $20 million from our previous expectations, and represents earning growth of 22% to 35% relative to full year 2012.

Relative to operating expenses in Global Supplemental Benefits, we expect to increase our investment in product, distribution, and geographic expansion to support growth in this segment during the balance of the year.

Regarding the Group Disability and Life business, we now expect full year 2013 earnings in the range of $280 to $300 million, an increase of $10 million over our previous expectations.

Regarding our remaining operations, we now expect a loss of $165 million in 2013. So all in, for full year 2013, we have increased our outlook for consolidated adjusted income from operations to a range of approximately $1.8 to $1.9 billion, or $6.25 to $6.65 per share.

I would also highlight a number of items reflected in our outlook that impact our earnings pattern in the second half of the year relative to the first half, including the absence of favorable first half prior year reserve development, an expected increase in strategic spending in third and fourth quarter in Global Health Care, and additional spending to support growth in our Global Supplemental Benefits business.

Finally, while the net earnings impact of the Catamaran arrangement is expected to be immaterial in 2013, there is a lag in the timing of the incremental pharmacy savings benefits relative to the transition cost spending between the third and the fourth quarter of 2013.

This pattern of transition cost spending and other strategic spending could dampen third quarter earnings by 10 to 15 cents per share.

Now, moving to our 2013 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 strong returns on capital in each of our ongoing businesses.

We ended the quarter with parent company cash of approximately $575 million. During the period May 2nd through July 31st, we repurchased 3.3 million shares of Cigna's common stock for approximately $250 million.

Year to date, we have repurchased $7.2 million shares of stock for approximately $500 million.

After considering all sources of parent company cash and setting aside $250 million to meet liquidity needs, we now expect to have approximately $1 billion available for capital deployment during the balance of the year.

Overall, our capital position and updated outlook are strong and reflect the underlying performance of our operating segments, and our capital deployment strategies and priorities remain unchanged.

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

The fundamentals in our business remain strong, as evidenced by our second quarter results, which reflected attractive growth in revenue and earnings for each of our ongoing businesses, the finalization of our strategic pharmacy benefits arrangement to deliver market-leading value to customers, and continued targeted strategic investments which will enable sustained growth into the future.

Based on the strength of these results, we are confident in our ability to achieve our increased full year 2013 earnings outlook. With that, we will turn it over to the operator for the Q&A portion of the call.

Ralph Giacobbe (Credit Suisse):

Thanks. Good morning. I want to start with the guidance, so that I can understand it a little bit better. You've done $3.50 in earnings in the first half. It implies a $2.75 to $3.15 type range for the second half.

I know you did $3.25 last year, and in previous calls you had suggested that second half was actually expected to be stronger than first half, at least within Global Health Care.

I know you provided some color, but is there anything incremental to help us bridge that gap in terms of earnings being down compared to sizeable first half growth?

Tom McCarthy (Chief Financial Officer):

Ralph, it's Tom. The first place I'd start is that we're really pleased with the results in the first half of the year. Based on those strong results, we have raised our guidance. As far as thinking about how the year progresses, the growth and pricing dynamics are largely locked in for the balance of the year.

We've got some normal pluses and minuses in the second half. We've got expected strength in PDP. We've got some pressure from claim costs for the last half of the year.

We also are not anticipating favorable reserve development or disability reserve study impacts in the second half of the year. So all of that is factored in, combined with the anticipated increase in strategic spending, and it leads us to believe that our full year outlook looks pretty reasonable.

Ralph Giacobbe (Credit Suisse):

Have you quantified the strategic spending amount?

Tom McCarthy (Chief Financial Officer):

We haven't. We're talking about the ramp up in telemarketing costs and affinity partner relationships in our Supplemental Benefits business and additional capabilities to support customer engagement in the U.S., but we haven't quantified that for you.

Ralph Giacobbe (Credit Suisse)

Okay. Then just my follow-up -- any updated thoughts on the ASO business? Obviously, you've had good growth there over the last couple of years, particularly moving downstream. Any thoughts on the competitive landscape? Are you seeing any more pressure there? And then in your conversations with employers, do you get a sense of any greater shift beyond the norm into 2014? Thanks.

David Cordani (President and Chief Executive Officer):

Ralph, good morning. It's David. I would say macro, no seismic shifts. There is broad, continued elevation in interest in more transparent funding mechanisms. Given ASO is highly transparent, there is a continuation of that progress.

As you know, greater than 80% of our total portfolio is in ASO. The reason we believe you'll see more interest in it is the alignment of incentives. We're able to get the transparency with the employers as they're trying to get a more engaged, wellness focused, preventative care model with their employees in a very positive way, and we're seeing that traction throughout all of our segments.

On a final note, you said down market, or our select segment targets employers -- with 51 to 250 employees. We continue to see great progress there as employers are seeing this as an attractive alternative.

Ralph Giacobbe (Credit Suisse):

What about the competitive landscape?

David Cordani (President and Chief Executive Officer):

I would say no broad change in the competitive landscape from a pricing standpoint. There might be a little bit more of competitive activity as some competitors had previously not had ASO or self-funding options down market. They are beginning to explore those opportunities, which we expected to transpire, as that market unfolds.

Ralph Giacobbe (Credit Suisse):

Okay, thank you.

Josh Raskin (Barclays):

David, I think you said in 2014 you're expecting competitively attractive revenue and earnings growth. Does that mean relative to your peers, or do you expect absolute earnings growth next year? And maybe within that, following up on the last question, would you expect ASO National Account membership to be up or down to start next year?

David Cordani (President and Chief Executive Officer):

Yes, good morning. It's David. Two points for 2014, we have not provided 2014 outlook or guidance, and we're not providing any specifics. You did hear me correctly in that we continue to indicate that we expect, because of the diversity and performance of our portfolio, that our 2014 results will be competitively attractive for both revenue and earnings, but we have not yet provided specific outlook and guidance.

The reason we expect that competitively attractive result is both the consistency of our execution and the positioning of our businesses that have very attractive growth outlooks, such as our global portfolio of businesses, including our U.S. Health Care portfolio business focusing on both ASO and the other more transparent performing mechanisms.

As it relates to the second part of your question, for U.S. National Accounts, at this point in time, that's the part of the portfolio we have reasonable visibility into. So let me give you a little color there. First and foremost, we define that segment differently than the competition. We define that segment as commercial employers with 5,000 or more employees that are multistate.

Our definition tends to define it more narrowly. Within that portfolio, as we've consistently talked with you about over the last several years, that defined employer group has net shrinkage in its employee base of 1% to 2% as a result of the economic environment.

From an RFP standpoint, our RFP volume for 2014 was down a bit relative to 2013, as we see more employers trying to assess healthcare reform.

Second, we had the same amount of finalist meetings to attend in 2014 as we did for 2013. So you can conclude that the quality of the RFPs, or the alignment with our value proposition, is high.

Third, the percentage of our book of business that goes out to bid for 2014 was also a little lower than 2013.

So taken as a whole, while not complete yet, as we look to 2014 for National Accounts, we'd expect our customer and client retention level to be up somewhat, to have a reasonable net sales outcome and then to have a net membership performance that's on or about the national average of that segment.

So think anywhere from minus 1 to minus 2, up to plus 1 from a range standpoint, which is where we strategically targeted that portfolio of business to perform.

Josh Raskin (Barclays):

Okay, that's perfect. That makes sense. You're seeing a little less activity just broadly in front of reform. And then sticking with 2014 on the Medicare Advantage front, I'm guessing, based on your footprint and model, that there's probably not going to be a lot of market exits. I'd be surprised if there were, but I'm curious if you're anticipating any market exits from competitors.

In some of your markets, you tend to be a little bit more rural, and I'm wondering if we should be thinking about a period similar to the early 2000s, after the BBA, where HealthSpring was a net share gainer in a meaningful way as competitors had trouble keeping up. Is that consistent with what you're expecting or what you're seeing already?

David Cordani (President and Chief Executive Officer):

Josh, it's David. Time will tell. We don't have to wait very long to get into the fall cycle to have clarity in terms of what that looks like, but first and foremost, stepping back as we look to 2014 and as we talked about before, make no doubt, the environment is a disruptive environment that will impact product offerings, price point to product offerings, market positions of competitors including ourselves, and unfortunately, some disruption for seniors.

We're seeking to minimize that for the benefit of our customers. Secondly, our expectations are unequivocally to grow our customer base further in 2014 as we focus on our "Go Deep" strategy in those respective markets.

Specific to your point, we will have some targeted market exits. It'll be small. Right now we're thinking about maybe 2% to 3% of our underlying covered lives.

And lastly, to your point, we expect for both 2014 as well as 2015, there'll be some disruption that's triggered from market exits as this product line gets constrained based on the federal government's policy. We think that creates net opportunity for us relative to our level of focus.

Scott Fidel (Deutsche Bank):

Thanks. Good morning. First, now that you have over a year of integration with HealthSpring and you are looking at around a billion dollars of deployable capital in the back half of the year, I'm interested in your updated thoughts on M&A at this point and whether you're honing in on any opportunities, either domestically or internationally, or do you think that capital deployment would be more biased towards share repurchases looking out over the next six to nine months?

David Cordani (President and Chief Executive Officer):

Hello, Scott. It's David. So first on the macro level, our capital deployment priorities have not changed, and just as a quick reminder, our number one objective is to make sure the underlying portfolio of businesses are appropriately sourced and capitalized and that we run a well capitalized business in our subsidiary environment. Second, then, is to evaluate and pursue on a targeted basis attractive M&A opportunities, and third is to return excess capital to our shareholders. Specifically to your point about M&A priorities, broadly speaking, our priority targets haven't changed. We continue to be open to targeted opportunities that will further expand our already very attractive global portfolio.

Secondly, I'd highlight the opportunity relative to further expansion of our Seniors footprint, including capabilities that may assist us in the emerging duals marketplace, and then third is expanding our retail based portfolio capabilities. We're open to that, and we have platforms with which to integrate. As Tom pointed out in his prepared remarks, the continued strength of our operating execution positions us with a very healthy amount of free cash flow for deployment this year. We would expect to continue that strength of operation as we go forward, but the headline here is no change in capital deployment priorities.

Scott Fidel (Deutsche Bank):

Okay. Then just a follow-up question. I'd be interested in an update on the environment for the International businesses. It looks like performance remained very strong in the second quarter as measured by the Global Supplemental business in particular, but clearly there's been some slowdown in some of the economies and emerging markets and in China. I'm interested if you're seeing any impact on demand from some of the international economic slowdown, or do you continue to see continued stable and strong demand for your products?

David Cordani (President and Chief Executive Officer):

Scott, it's David again. There are two specific businesses we operate globally. First and foremost is what we call the globally mobile population. These are comprehensive products and solutions offered to corporations, IGOs, NGOs, and then on a targeted basis, high network individuals who want a very comprehensive high service coverage around the globe. We see continued demands and opportunity around that, and as I referenced in my prepared remarks, we're able to leverage the broadest and largest delivery system portfolio in the world, a multicultural service environment, and a multicultural clinical management environment for the continued growth opportunity there.

Specific to the business you referenced, our Global Supplemental Benefits business, you're correct. The global economy is challenged and we expect will be challenged. Our model has us focused on both the emerging and recently established middle class. The outlook in our targeted markets is quite attractive relative to the underlying economy. The second point key to our success is the continued innovation of our products, including understanding the needs of that population and innovating both products and distribution channels to match those needs. The headline here is we continue to see a very attractive outlook in our targeted geographies, whether they be emerging, developing or developed countries, for those targeted supplemental benefits.

Scott Fidel (Deutsche Bank):

Great. David, would you mind flagging how the startup of the Turkey operations is progressing so far?

David Cordani (President and Chief Executive Officer):

Sure, and nicely done sneaking in a third question. Turkey's a very attractive market, Scott. As you look at the macro makeup of that market, we did a two-step there. We started with initiation of an organic footprint and then we were able to have a great opportunity for a joint venture with Finansbank. I mentioned it briefly in my prepared remarks, but we're very pleased with the first year progress there. The joint venture helps us accelerate an organic path very significantly and begins to accelerate innovation of new products and services. It’s early, so we’re cautious in the early cycle, but it’s growing and profitable with some very attractive opportunities for growth. The last comment I would add there is that government continues to be a bit innovative, relative to making sure they're evolving policies to assist with the population needs. We have a positive outlook for that market.

Christine Arnold (Cowen):

Good morning. Could you update us on efforts of the NAIC and CMS and other reports we've recently seen limiting small groups' ability to self insure and how that might impact you going forward?

David Cordani (President and Chief Executive Officer):

Christine, good morning. It's David. So I think you're going at the self-insured question for small group. Specifically then, you're going at it from the self-insurance and the self-insurance cohabitating with stop loss or catastrophic coverage.

Christine Arnold (Cowen):

Exactly. They're trying to limit the attachment points.

David Cordani (President and Chief Executive Officer):

Yes, you are specifically referring to state and NAIC activities. We continue to be highly and actively engaged on both work streams. That's a core part of what we do across multiple business segments. A couple of headlines: one, there is high support for, and a very vocal movement amongst, employers to ensure that those products and services remain in the marketplace because they're offering significant value in enabling employers to have aligned incentives and see meaningful movement and progress around prevention and wellness engagement, and therefore, improvements in health productivity and overall costs. That's point one.

Two is from a Cigna standpoint. I'd ask you to remember that when you think about small employer, or commonly defined as under 50, think about us as having a de minimis population there and thinking about that as a non-target for us. This is well less than 100,000 lives. So that is not a target segment for us. The headline is we are highly engaged in the conversation to make sure we're illuminating how the programs will work when responsibly and effectively designed. Two, we hear a very active voice from the employer landscape demonstrating its value, and three, from an under 50 life or the small employer groups, that is not a target business for Cigna going forward.

Christine Arnold (Cowen):

Okay, and the follow-up is that ASO yields looked a little bit light this quarter. Were there some one-timers or some unusual things going on there that we should be thinking about?

Tom McCarthy (Chief Financial Officer):

Christine, it's Tom. I'd think of that just as normal variability with nothing particular to point out.

Christine Arnold (Cowen):

Okay. Thank you.

Kevin Fischbeck (Bank of America Merrill Lynch):

This may not be a completely fair question for you, but it feels to me like the tone from the companies around Medicare Advantage for next year, although everyone still acknowledges the disruption that the rates are going to create, has gotten a whole lot better over the last few months. Is there anything in particular as you evaluated the rates and your ability to respond to the rates that makes you feel a little bit better about your positioning and your ability to say with confidence that you're going to be able to grow membership next year? Any initial thoughts about the ability to maintain profitability while growing that membership next year?

David Cordani (President and Chief Executive Officer):

Kevin, it's David. There are a couple of different points in there. One, coming back to our macro point, it is and will be a disruptive environment. Two, our orientation around both our "Go Deep" geographic focus and Cigna's historic orientation around that alignment, and three, our ability to continue to partner effectively with physicians to offer outstanding value. When we take that picture together, while being disrupted, we believe that based on our prior performance in disrupted environments, we will grow coverage wise. We have a great value proposition in those target geographies.

The second point is that we can do so profitably. The history of Cigna and the history of HealthSpring is to make sure that the books of business are sustainable and, therefore, profitable. So we'll do it in a shareholder responsible way because we want to have longstanding relationships with our customers that are sustainable over a long period of time. We're pleased with the positions we're able to take in our respective markets relative to the disruption, and obviously, over the near term, we'll see the overall competitive landscape and the enrollment that will take place in the fall. As we stand here today, we expect to grow covered lives in our targeted geographies in 2014 for sure.

Kevin Fischbeck (Bank of America Merrill Lynch):

Regarding cost trend, a 100 basis point reduction in cost trend in a quarter is a pretty big move. Can you talk a little bit about what main factors are driving that reduction?

Tom McCarthy (Chief Financial Officer):

Kevin, it's Tom. Again, we've been really happy with the competitively attractive results we've been able to deliver in medical cost trend for quite some time. The improvement and the outlook is generally driven by lower outpatient utilization than previously expected, and now we're seeing all the key elements of trend in the same mid-single digit range for the year.

Kevin Fischbeck (Bank of America Merrill Lynch):

Okay. Great. Thanks.

Justin Lake (J.P. Morgan):

Thanks. Good morning. My first question is on private exchanges. Can you give us a view on what the three to five year outlook is for this distribution channel and how you think it can impact your business going forward?

David Cordani (President and Chief Executive Officer):

Justin, good morning. Relative to private exchanges, there are a couple of points. First, it’s the very early innings of evolution relative to private exchanges. Second, there's a variety of offerings that are in the marketplace today that are formed for very different reasons. Let me give you an example, and then I'll address the core of your question. Some of the private exchanges are designed to improve the retail purchasing experience for individual employees or customers. That's positive. Some are designed to do that and to further advance adoption of engagement and incentive based programs, et cetera. Still some are further designed to shift risk more meaningfully from the employer to the employee. Beyond that, some of the exchanges are designed to be multi carrier. Some are designed to be single carrier. Some are designed to be risk funded. Some are designed to be ASO funded.

My point here is: one, it's early, and two, they're not all created equal. From my point of view, we're playing in many, many of the exchanges and positioned to play in many, many of the exchanges. As we've consistently done in the past, we'll seek to partner and focus where we think we could work with others to create meaningful, sustainable value for clients and customers. Last note I'd make here is we've designed, developed, and will roll out in 2014 a proprietary exchange that's focused on employers who value both those incentive and engagement based programs as well as packaged alternatives that will provide quite attractive flexibility for an employer to configure what they want and for an employee to configure what they value, and lever that up against the right funding alternatives. These are really sophisticated multi-modal service capabilities that bring some attractive savings and come along with incentive based and packaged alternatives.

Lastly, you asked for the three to five year horizon. Many parts of the health care marketplace are changing, and we are keenly focused on making sure we're engaged to be able to create value. This is an example of change and, in my mind, where some efficiency and transparency and choice can be brought into the marketplace. We have examples of how to play here, both in the U.S. as well as outside the U.S. We're actively engaged in the early innings here, and we have some proprietary capabilities to play in the space as well.

Justin Lake (J.P. Morgan):

Any thoughts on how big a market this is going to be or whether it's going to be full risk or ASO?

David Cordani (President and Chief Executive Officer):

Yes, Justin. I don't think it'll be constructive for me to theorize on some of those percentages given the early timeframe. I also don't think there are many credible third party assessments relative to it. I do think if you step back, though, and think about the changing distribution environment, if you look at other industries, you could point toward the broad category of changing distribution around choice and transparency and illumination of value as being a trend that many industries go toward. We're comfortable in that environment. We're comfortable competing based on value, and the totality of our business is really around knowing and understanding the customer's needs and offering the right choice and transparency. But I can't give you a direct percentage to either of those categories at this point.

Justin Lake (J.P. Morgan):

Okay, and then my follow-up will be that you mentioned there's more competition down market in ASO. Can you flush that out a bit in terms of what is changing there and how might it impact your ASO growth going forward?

David Cordani (President and Chief Executive Officer):

Sure. I'll try to be very pinpointed there for your very fair question. What's transpiring is that you could see some competitors filing new product offerings, and very importantly, we expect and expected that to transpire, and for us to be successful, we need to continue to innovate. A couple of pieces here. When you think about down market, so a 100 life employer, a 150 life employer in an ASO stop loss offering, the entire delivery platform that you use to serve that employer is different than what you're going to use for a regional or a national account employer.

Your ability to produce reports on a monthly basis that are actionable and transparent for both the employer as well as the broker to help understand how their money is being deployed and where the opportunities for improvement exist and then to be consultative, modifying communication plans and incentive programs, network modifications, clinical programs -- that's really the fundamental success that goes into this. So early on, candidly, more employee or more competitor dialogue here actually creates more opportunity for us because it lathers up the market even more significantly. Secondly, as long as we continue to innovate off of our very attractive platform, we see strong growth opportunities as we look to the future.

Matthew Borsch (Goldman Sachs):

Just picking up on that last topic, what are you seeing at this point five months ahead of reform implementation, in terms of the pace of ASO conversions? Is this something that's meaningfully accelerating as employers look to make those changes ahead of implementation?

David Cordani (President and Chief Executive Officer):

Good morning. It's David. My headline answer to you would be no. Now backing up from that, we have seen over the last several years a continued increase in demand for interest in, and adoption of, the more transparent programs. That continues, but we do not see, for an above 50 life employer, an overnight sea change relative to the desire, demand or acceptability of the programs. Rather, we see a continued elevation in interest and awareness relative to employers or relative to brokers who are seeking to offer alternatives that are transparent and create value over time, and that's a very attractive position for us to see and be in.

Matthew Borsch (Goldman Sachs):

Thank you. I also wanted to ask about the Guaranteed Cost side of the business in terms of the pricing that you're seeing there from competitors, and whether that's evolved at all as we move through this year, given underlying cost trends have been pretty favorable throughout the industry. Related to that, has it been a relatively smooth process on the Guaranteed Cost side of passing through the industry fee, including the gross up to account for the fact that it's not tax deductible?

Tom McCarthy (Chief Financial Officer):

Matthew, it's Tom. On the first part of your question, we really haven't seen a dramatic change in the competitive environment on the Guaranteed Cost side. You can come up with an anecdote or two here or there, but generally conditions in that market segment have been consistent. To the question on general pricing and the industry fee in particular, we tend to have a pretty disciplined pricing and underwriting approach, and the industry fee is another cost factor we built into our process. We understand the tax dynamics of it, and we have included that in the amount we need to recover as we set our prices and expect that to continue going forward.

Matthew Borsch (Goldman Sachs):

Thank you.

Ana Gupte (Dowling & Partners):

Thanks. Good morning. Just following up on the distribution questions that were being asked earlier and more broadly, beyond private exchanges, this notion that you're moving more from group to individual. I wanted to get your thoughts on the growth opportunity in supplemental and voluntary benefits, specifically because you play globally and compete with players like AFLAC who are making noise about this. Then, on the life side, it seems like Met and Pru and others are also pointing to this as a sizeable growth story.

David Cordani (President and Chief Executive Officer):

Ana, good morning. It's David. Two comments. First, before commenting specifically on your question, again the supplemental and voluntary businesses are very important to us. The employer to individual piece, primarily when you think about National Accounts, who are the largest of the retail employers where we're operating in a B to B to C relationship today, is one of choice, meaning we're a choice that's offered, but not the only choice. In order to be successful, you need to have both a wholesale and a retail experience that works and that has been increasing over time. The positive is that it enables us to evolve and hone some capabilities that are more retail oriented.

Now more specific to your supplemental and voluntary comment, we do believe if you step back and you look at markets around the globe, and you look at change in a comprehensive way, where primary benefits are offered, you end up seeing a large and evolving supplemental or voluntary series of programs that exist. We think in the United States the growth of supplemental and voluntary, supplemental being sold direct to individual, voluntary sold to an individual but through an employer as an aggregator, that marketplace will grow.

Lastly, through the combination of our existing U.S. set of capabilities around supplemental and voluntary product design, individual insights, direct to consumer distribution and service capabilities, we are effectively able to play in multiple countries and cultures around the world, and it gives us an important set of capabilities to be able to lever as this marketplace unfolds here in the United States. We see that as an attractive opportunity.

Ana Gupte (Dowling & Partners):

So in light of this growth opportunity, I do get questions from people investing in the life side of the business. Do you think pure health players are positioned better or are the life guys positioned better or someone like yourself that plays in both? Might you invest in some new distribution channels like private exchanges or carrier specific private exchanges so you can capitalize on that growth?

David Cordani (President and Chief Executive Officer):

Yes, Ana. I typically don't like to generalize, so I would not say life players are better positioned or health players are better positioned. A couple of things I'd ask you to think about, or at least one way I think about it. In order to be successful here, we believe you're going to need deep and sustainable insights around the customer's current and evolving needs and the ability to sub-segment and micro-segment, because the ability to thrive over time and have longstanding supplemental and voluntary relationships, not just to push a product, but to actually sell a highly valued product, is going to be based upon that customer knowledge and those customer insights.

The second piece is the multiple distribution channels that work and meet the needs of those sub-segments. That's what we do all day, every day outside the United States. Then just teasing that up against the fact that some players will find themselves confronting massive channel conflict. We see that outside the United States all day, every day. If you have a primary distribution channel that's oriented in one way, when you try to bring up a different distribution channel against that to meet a customer's needs, you get massive channel conflict. In the United States we are not labored by that in any way, shape or form.

Lastly, to answer your tie back to investments, when we talk about our priorities around investments, the third category we talk about from an inorganic standpoint is additional retail based capabilities. It underscores this, for example, as an evolving marketplace. So we'll leverage our non-U.S. capabilities, our current U.S. capabilities, and we'll seek to augment that further going forward.

Ana Gupte (Dowling & Partners):

Thanks. That's helpful commentary.

A.J. Rice (UBS):

Hi, everyone. Thanks. First, I know it's an area where you're more targeted and opportunistic, but any updated thoughts on how the rollout of the public exchanges under ACA is going? Are you seeing more opportunities or less opportunities than you thought, and any reaction to the initial data that's been available?

David Cordani (President and Chief Executive Officer):

Good morning, A.J. It's David. So just a moment of backdrop and then specifically where we are. As I think you know, at Cigna, our history is that we've not played in both the under 50 life as well as the individual Guaranteed Cost market. The relevancy of that is both: (a) we don’t have to protect a legacy revenue or earnings stream and (b) we don't have an old business model that has to be changed to a new business model. We can take a fresh look. To that point, we've run pilots for the last three years in ten different cities to be able to test a variety of product distribution and service orientation programs, and we successfully were able to take away some very good sizeable earnings.

As it relates to the exchange marketplace, we sought to play in five states, and then in a limited number of markets within those states. As we look at our rack and stack of our positioning for the sub-segment of buyers we're seeking to go after, I think our headline would be no great surprises there. We're going to take a very focused, cautious view in terms of the early entrance in the markets. We do view that over time this may present an attractive growth opportunity that's sustainable, but we’re currently taking a very focused and disciplined approach for 2014.

A.J. Rice (UBS):

Okay, and then, very specifically, on the Disability and Life segment, I know last quarter you called out that you had some unfavorable experience on the disability claim side. This quarter you're calling out that you had some favorable experience. Could you provide a little commentary around that, and should the reserve study benefit and the discount rate assumption provide any benefit in the back half of the year as well?

Tom McCarthy (Chief Financial Officer):

A.J., it's Tom. As you point out, the Disability business has had a few ups and downs this year, and this is a segment where we're really happy with the core capabilities we have. We've got great productivity and return to work tools and a great team. The health of the book over the last few years has been under the constraints of a difficult economy. In the first quarter of this year, you might recall we made some model changes that we thought would have some negative impact to Disability results, and in fact, reflected that in the first quarter results and the reserve change.

This quarter, we're really going through more of the normal process of assessing what the outlook for the business is, including the reserve studies, and I've also seen a little better metrics on the claims indicators in Disability that may be tied to some stability in the economy. We tend to continue to have a model where we look for continued improvement and outcomes in this business, and we do think about that when we set our outlook for the balance of the year. Now sometimes those improvements show up in better current operating results. Sometimes those improvements show up through a reserve study impact when looking back on claims we've already had in inventory.

There's a little bit of mischief in the timing of the Group Disability results, but what the current outlook for Group does is net all those impacts out for the claim model changes in the first quarter, the somewhat improved dynamics in the Disability results evident in the second quarter, and the pressure from life claims that we're seeing right now that is dampening some of the improvement in the last half of the year. All in all, those factors are considered in the general outlook for Group.

A.J. Rice (UBS):

Okay. All right, thanks a lot.

Carl McDonald (CitiGroup):

Thanks. Interested in your thoughts on the sustainability of earnings, specifically in the experience rated business. I know you don't disclose a loss ratio for that product, but it does look like that's run at some pretty favorable levels in the first half of this year. I would still be interested in what you're assuming in second half and then also into 2014 given the dynamics of those contracts.

Tom McCarthy (Chief Financial Officer):

Carl, it's Tom. As you pointed out, we don't really give that level of detailed results, but in response to your general inquiry, there's really nothing mischievous going on in experience rated. That's a product that really hunts well for a segment of the market. Again, it's customers that are willing to engage and expect to be able to invest in health improvement. We've had great results there historically. I don't really see any change in that prospect going forward. I'm feeling pretty comfortable where we are in experience rated.

Carl McDonald (CitiGroup):

Okay, thank you.

Dave Styblo (Jefferies):

Good morning. It's Dave Styblo filling in for David Windley. One quick clarification on your comment earlier about market exits and the Seniors business. I think it was representing 2 to 3%. Was that the total membership of plans that you're withdrawing from or is that the net impact of how many of your members won't have access to another HealthSpring/Cigna plan?

David Cordani (President and Chief Executive Officer):

Dave, it's David. When we think about that, it is essentially disruption to the current aggregate MA covered lives. There are some other product alternatives we have that would be made available, but that's a disrupted number, and you recall correct that it's 2 to 3% of the MA product in the overall portfolio.

Dave Styblo (Jefferies):

Okay, can you size that? What percentage of those 2 to 3% will have another alternative plan?

David Cordani (President and Chief Executive Officer):

For our planning purposes, that would be upside because it's hard for us to determine whether or not the other offerings will meet the needs of those specific customers, but I think it's safe for you to assume that 2 to 3% is a pretty firm estimate that we have in terms of disruption from the MA portfolio.

Dave Styblo (Jefferies):

Okay, great. Then my follow-up is that you had talked about your CACs expanding and supporting over a million customers now. Can you talk a little bit more about the things that we can watch for as you go forward, what your targets are for that, and then, how much of your medical costs are running through that?

David Cordani (President and Chief Executive Officer):

Sure. Let me give you a little color relative to this because there's absolutely a lot of buzz in the market relative to the broader ACO movement and what we call our collaborative accountable care relationships. First and foremost, we've been at this now for, believe it or not, six years in the Commercial space and well over a decade, because of the legacy of HealthSpring, in the MA space. Our approach is to use this as a preferred network alternative in our “Go Deep” markets because it's proving to have the highest value by balancing accessibility, cost and quality. We don't orient around it as a separate P&L or a separate technology initiative going forward.

As I indicated, we have over one million lives being serviced today, and we expect that to continue to grow significantly. We have a meaningful number of collaboratives up and running, I think in excess of 60. Now, the focus is making sure that we're able to demonstrate that the sustainability of those results to the benefit of our clients and customers are driving retention rates, ultimately enabling the crossover into growth in those respective markets.

Lastly, at this point we don't think it's helpful to try to estimate the aggregate medical cost flowing through because we can have fun with numbers there. I can take all the chronic data and any chronic that's being touched by those physicians and get you some pretty big numbers. I don't think they're actually helpful, but rather we see these as preferred networks in our “Go Deep” markets that are delivering, as I indicated in the prepared remarks, meaningful cost improvement. As Jackson Clinic is demonstrating a 5% cost improvement along with quality improvements, we see more opportunity going forward to continue to grow those for the benefit of both our MA customers as well as Commercial customers.

Dave Styblo (Jefferies):

Got it. Thanks.

Brian Wright (Monness, Crespi, Hardt & Co.):

Thanks. Good morning. In Global Supplemental Benefits, what percent of the other geography is Turkey, and is that a market that you could see as large as your Korea market?

Tom McCarthy (Chief Financial Officer):

Brian, it's Tom. I'm not sure I can give you the exact percentage, but it's in its startup stage right now. It's not a meaningful contributor in the early stage, but as David has pointed out, we do view Turkey as a very significant contributor in the long run. So we would expect that it could grow to be a size to rival Korea over time.

Brian Wright (Monness, Crespi, Hardt & Co.):

Okay and then on another note. In the MA MLR for the quarter and the year over year increase, what percentage of that was planned to get to the minimum MLR going forward?

Tom McCarthy (Chief Financial Officer):

Brian, it's Tom. I would say most of it was by design. I think you understood we had MLRs in some plans that were running well below the floors that we'd be dealing with and we had anticipated conscious program changes to increase the MLR.

Brian Wright (Monness, Crespi, Hardt & Co.):

Okay. Thank you.

Chris Rigg (Susquehanna):

Regarding the pension funding and the amount of monies you're going to put into it this year, is that billion dollars available for capital deployment net of what you're going to contribute, or can you add any color on what we should be assuming for the rest of the year?

Tom McCarthy (Chief Financial Officer):

Chris, it's Tom. Yes, the billion dollars available for capital deployment is net of all the other parent cash funding needs we would expect, including interest expense and the pension plan contribution. From a timing standpoint, most of that $250 million pre-tax pension plan contribution hasn't been made yet. It will be made in the last half of the year, but the billion dollars of free capital available for deployment in the last half of the year is net of that funding expectation.

Chris Rigg (Susquehanna):

Okay, great. Thanks a lot.

David Cordani (President and Chief Executive Officer):

Thank you. In closing, I'd like to emphasize a few highlights from our discussion this morning.

We're pleased with Cigna's second quarter results, which reflect strong revenue and earnings contributions from each of our ongoing businesses. These strong results give me confidence in our ability to achieve our full year 2013 earnings outlook.

We continue to make targeted investments in solutions and market expansion to support the sustained growth of our businesses; and the combination of our clear strategy, consistent execution, and sustained investment and capabilities positions us well to deliver competitively attractive results in 2013 and beyond.

We thank you for joining us today and your continued interest in Cigna, and we look forward to our future discussions.

END