OVERVIEW:

Co. reports 2017 consolidated revenues of $10.3b, consolidated earnings of $750m and EPS of $2.91. Expects 2017 consolidated revenues to grow 3-4% YoverY and EPS to be $9.75-10.05.
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 SECOND QUARTER 2017 FINANCIAL RESULTS AS WELL AS AN UPDATE ON OUR FINANCIAL OUTLOOK FOR 2017.

AS NOTED IN OUR EARNINGS RELEASE, WHEN DESCRIBING OUR FINANCIAL RESULTS, CIGNA USES CERTAIN FINANCIAL MEASURES WHICH ARE NOT DETERMINED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES, OTHERWISE KNOWN AS GAAP. SPECIFICALLY, WE USE THE TERM Labeled ADJUSTED INCOME FROM OPERATIONS AND EARNINGS PER SHARE ON THIS SAME BASIS AS OUR PRINCIPAL MEASURES OF FINANCIAL PERFORMANCE. A RECONCILIATION OF THESE MEASURES TO THE MOST DIRECTLY COMPARABLE GAAP MEASURE, SHAREHOLDERS NET INCOME, IS CONTAINED IN TODAY'S EARNINGS RELEASE, WHICH IS POSTED IN THE INVESTOR RELATIONS SECTION OF CIGNA.COM.

IN OUR REMARKS TODAY, WE WILL BE MAKING SOME FORWARD-LOOKING STATEMENTS, INCLUDING STATEMENTS REGARDING OUR OUTLOOK FOR 2017 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 one item pertaining to our financial results and disclosures. In the second quarter, we recorded an after-tax benefit of $47 million or $0.18 per share for merger-related income tax benefits net of transaction costs, and we reported this net benefit as a special item. As described in today's earnings release, special items are excluded from adjusted income from operations in our discussion of financial results.

Also, consistent with past practice, when we make any prospective comments on earnings or EPS outlook, we will do so on a basis that excludes the impact of any future capital deployment or prior year development of medical costs.

With that, I will turn the call over to David.

David M. Cordani - Cigna Corporation - CEO, President and Director

Thanks, Will. Good morning, everyone, and thanks for joining our call today. I'll begin my comments by highlighting Cigna's second quarter operating results, which reflect strong execution and continued momentum across our portfolio of businesses. Then I'll describe how our recently evolved strategy of Go Deeper, Go Local and Go Beyond guides our focus on the multiple avenues we have for attractive long-term growth.

As part of our discussion, I'll highlight some of the examples of growth opportunities we are pursuing across our global markets. I'll then turn the call over to Eric for a more detailed overview of our second quarter results as well as our increased outlook for full year 2017. And then following our Q&A, I'll wrap up the call with a few closing comments.

I'll start with this quarter's operating results. In the second quarter, we continued our momentum with organic earnings growth in all of our reporting segments. Consolidated revenue increased to $10.3 billion, and we grew earnings to $750 million or $2.91 per share with significantly increased bottom line contributions from each of our businesses.

Turning to the segments. In Global Health Care, we posted another quarter of strong earnings growth, and our unique approach to engagement and incentive alignment continues to generate high-quality clinical outcomes and competitively differentiated medical costs.

Our Global Supplemental Benefits business had another outstanding quarter, and we continue to innovate with solutions and distribution approaches that enable us to address the evolving health and sense of security needs of individuals in our targeted geographies around the world.

And our Group Disability and Life business delivered strong results, specifically in disability, where our clinical resources and productivity model continues to generate improved return-to-work results, which benefit our customers and our employer clients.

Collectively, these results, coupled with our significant ongoing free cash flow and exceptional capital position, give us confidence we will achieve our increased 2017 EPS outlook of $9.75 to $10.05 per share.

As we discussed at our Investor Day in June, to further accelerate our strategic journey as a global health service company, we’ve taken our successful Go strategy to the next level, building on our differentiated results over the past 7-plus years, a time frame where we delivered 11% compounded annual growth rate for revenue, 12% for EPS and an average annual TSR of 34%.

Our evolved strategy of Go Deeper, Go Local and Go Beyond serves as a guide to achieving the right balance of affordability and personalization, which we will deliver by being the undisputed partner of choice, accelerating the next generation of integration and making the complex simple for the benefit of our customers.

The Go Deeper and Go Local dimensions of our strategy will drive opportunities for Cigna to capture meaningful growth in our targeted businesses and guide us to expand our capabilities and pursue targeted additional adjacencies.
Today, I'll highlight 4 areas where we see significant headroom opportunities for growth. I'll briefly touch upon employer clients with up to 500 employees, our voluntary solutions, Medicare Advantage and our international markets.

Beginning with employer clients with up to 500 employees. Increasingly, we see these employers are eager to benefit from proven market innovations, including greater choice of transparent, affordable solutions to help enable a more productive workforce. They're also seeking health engagement capabilities, such as on-site biometrics screening, health coaching and innovative clinical programs.

Cigna is uniquely positioned to expand and add to these relationships. Our consultative approach, our investments to expand our capabilities and our flexible and innovative offerings, such as One Guide, are very responsive to the emerging needs of these clients.

Next, we also see significant growth potential for our differentiated portfolio of voluntary solutions, as individuals are increasingly empowered to make more personalized choices through their employers relative to their specific benefits that best meet their personal needs at a given life or health stage. We view the $8 billion group supplemental market, and specifically accident indemnity, critical illness and hospital care, as complementary to our medical and disability offerings, and as such, a large growth opportunity for us.

Today, we are well positioned with a range of distribution, product and consumer insight capabilities. In addition, we have proven capabilities in the supplemental market through our successful Global Supplemental Benefits business across the globe.

Next, relative to Medicare Advantage. There is an increasing understanding and appreciation for the ability of these programs to meet the health and wellness needs of the rapidly growing seniors population in the U.S. We deliver significant value to seniors through deep physician partnerships and coordinated approaches to care, each of which are aided by our proven approach to incentive alignment. When you combine this with the effectiveness of Cigna's HealthSpring differentiated value proposition, which is a deeply rooted, value-based care series of programs, we see the U.S. seniors marketplace as a tremendous growth opportunity, both in our existing as well as new markets.

As a final example, we see meaningful growth opportunities in our targeted international markets. The global health marketplace is large, complex and changing rapidly, which provides us with potential for attractive growth and ongoing value creation. In each of our international businesses, specifically Global Supplemental Benefits and Global Health Benefits, Cigna brings decades of local experience and expertise in delivering health, well-being and sense of security solutions to both individual customers and employer clients.

I'll begin with comments on our Global Supplemental Benefits business. We see considerable opportunities for continued growth in our Global Supplemental Benefits, where today, we serve approximately 13 million customer relationships and where we have grown revenue at a compounded annual rate of 18% since 2009. In terms of market opportunities, the middle class in Asia alone is expected to continue to grow by 9% annually through 2030, with even higher growth rates anticipated in countries such as China, India and Indonesia, where we already have a strong foothold.

We recognize that innovative distribution is critical to meeting the diverse and emerging needs of this population. For example, over the past several years, we have broadened our distribution channels from what we primarily outbound telemarketing to new capabilities, such as direct-to-consumer channels, including direct response TV, online and face-to-face sales, particularly in branches of local banking partners.

Further driving demand, medical costs are outpacing inflation globally, meaning health protection gaps will continue to rise. The health coverage gap across Asia-Pacific region -- region is expected to grow to $200 billion by the year 2020 and Cigna is well positioned to deliver solutions to meet the needs of individuals most impacted by this gap.

Relative to Global Health Benefits, Cigna is the leading provider of health benefits to the globally mobile population today with a range of solutions for medical, dental and pharmacy to behavioral, life and long-term disability benefits. We're deepening our solutions suite to offer clients an even more flexible range of benefits that can be customized to meet the complex needs of the globally mobile population. We're further driving growth by expanding our global medical and health care provider network and investing in care management and coordination capabilities which leverage global best practices.
Taking all of this into consideration, Cigna is well positioned to capture further headroom in our existing international businesses as well as expand our capabilities through continued product, service and distribution innovation.

Before I close my remarks, I'd also note how closely tied to our Go Deep and Go Local proposition is our Go Beyond proposition, which further differentiates the services, capabilities and experiences we deliver as well as our social impact.

I’ll share 2 brief examples: the first being our early adoption of Net Promoter Score, or NPS, to improve the customer experience; and the second being our commitment to making an even greater social impact to our local communities around the world, where as we know, social programs designed to promote health and well-being too often leave gaps for local communities.

Approximately 5 years ago, we were the first in our industry to see Net Promoter Score as a more effective way to understand the loyalty and emerging needs of customers and to drive targeted service and program innovations from those insights. Examples of our innovations include One Guide in the United States, which is already serving nearly 2 million customers, as well as our recently introduced global well-being app which will be available to customers across the globe.

Further ongoing emphasis on community involvement guides Cigna’s actions, such as stepping up to the void in the United States relative to the opioid epidemic. Here, we are already seeing meaningful progress toward our goal to reduce the use of opioid pharmaceuticals amongst our customers by 25%. And we are serving as a convening force across the country for community, faith, law enforcement and health care leaders. We’re also deepening our work for the benefit of the veteran community, and we are furthering a range of community-based initiatives to help seniors in key geographies across the world.

Taken together, our strategy of Go Deeper, Go Local and Go Beyond will drive additional value creation for our customers, our clients, physician partners and communities, and as a result, our shareholders.

Now to summarize a few key points before I turn the call over to Eric. Cigna delivered strong second quarter results with considerable strength across our portfolio of businesses as we delivered organic earnings growth in each of our reporting segments. Our increased EPS range of $9.75 to $10.05 per share represents a growth rate of 20% to 24% over our 2016 results.

Our strategy of Go Deeper, Go Local and Go Beyond serves as a guide to our actions in order to deliver differentiated value for customers and clients. We do this by achieving the right balance of affordability and personalization, which we seek to deliver by being the undisputed partner of choice, accelerating the next generation of integration and making the complex simple for the benefit of our customers.

In particular, the Go Deeper and Go Local dimensions of our strategy will drive opportunities for Cigna to deliver significant growth in each of our targeted businesses. And our performance momentum through the second quarter of 2017, coupled with our significant ongoing free cash flow and exceptional capital position, give us confidence we will achieve our increased 2017 outlook.

With that, I’ll turn the call over to Eric.
Overall, the results in the quarter reflect the effective execution of our focused strategy and our -- and demonstrate the strong fundamentals of each of our operating businesses. The strength of these results provides us with continued momentum and confidence, reflected in our increased full year 2017 financial outlook.

Regarding our business segments, I will first comment on Global Health Care. Second quarter premiums and fees in Global Health Care grew to $7.2 billion, driven by strong customer growth and specialty contributions across all Commercial market segments and partially offset by the expected contration in our Seniors enrollment. We ended second quarter 2017 with 15.7 million global medical customers, an organic increase of 457,000 lives year-to-date.

Second quarter earnings increased 22% to $591 million, reflecting growth in medical customers and specialty relationships, continued effective medical cost management, favorable prior year reserve development and operating expense discipline.

Turning to our medical care ratios. Our second quarter 2017 total Commercial medical care ratio, or MCR, of 78.7% reflects the strong performance of our Commercial businesses as well as favorable prior year reserve development, offset by the impact of the health insurance tax moratorium. This result also reflects better-than-expected medical cost in our U.S. individual business and includes a favorable $4 million after-tax true-up related to risk adjustment balances for the 2016 policy year.

Our second quarter 2017 total Government MCR of 86.1% reflects the impact of our innovative physician engagement model within Medicare Advantage and favorable Medicare Part D experience.

Second quarter 2017 Global Health Care earnings included favorable prior year reserve development of $36 million after tax.

Moving to operating expenses. For second quarter 2017, our total Global Health Care operating expense ratio was 19.9%, which reflects the impact of the health insurance tax moratorium, business in exchanges and continued effective expense management. Overall, we've had a very strong quarter in our Global Health Care business.

Now I will discuss the results of our Global Supplemental Benefits business, which David spoke about earlier. This business continues to deliver very attractive growth and profitability as our customers continue to value the affordable and personalized solutions we deliver through an increasingly diverse and innovative set of distribution models. Premiums and fees grew to $914 million, an increase of 14%.

Second quarter 2017 earnings grew 27% to $105 million, reflecting business growth, favorable claims experience in South Korea and effective operating expense management. Our Group Disability and Life second quarter premiums and fees were just over $1 billion.

Second quarter earnings in our group business were $83 million, with our life business performing as expected and disability results continuing to reflect a better-than-expected pace of improvement from the claims process modifications implemented last year.

Overall, as a result of the continued effective execution of our strategy, our second quarter results reflect strong earnings contributions from each of our business segments. We also continue to generate very strong free cash flow from our businesses and maintain significant financial flexibility.

Now I will discuss our increased outlook for 2017. In 2017, we expect to continue to deliver strong financial performance for our shareholders by leveraging our highly consultative approach that aligns affordable, personalized solutions to the needs of our clients and customers, continuing to invest to expand our capabilities and innovative offerings to better serve our customers and clients and effectively deploying capital.

For full year 2017, we continue to expect consolidated revenues to grow in the range of 3% to 4% over 2016 results, driven primarily by our strong growth in medical customers and specialty relationships. Our outlook for full year 2017 consolidated adjusted income from operations is now in the range of approximately $2.50 billion to $2.58 billion or $9.75 to $10.05 per share. This reflects an increase of $0.20 to $0.40 per share over our previous expectations and represents per share growth of 20% to 24% over 2016.
I will now discuss the components of our increased 2017 outlook, starting with Global Health Care. We now expect full year Global Health Care earnings in the range of $2.1 billion to $2.14 billion. Key assumptions reflected in our Global Health Care earnings outlook for 2017 include the following.

Regarding global medical customers, we continue to expect growth in the range of 500,000 to 600,000 lives over year-end 2016, reflecting the strong growth we have seen across our Commercial market segments.

Turning to medical costs, for our total U.S. Commercial book of business, we now expect full year medical cost trend to be in the range of 4% to 5%, an improvement of 50 basis points over our previous expectations. Our industry-leading medical cost trends continue to reflect our collaborative relationships with providers, differentiated specialty integration model and greater incentive alignment for our customers and clients, which result in positive health outcomes and better management of total medical costs.

Now turning to our medical care ratio outlook. For our total Commercial book of business, we continue to expect the 2017 MCR to be in the range of 80.5% to 81.5%, now with a bias toward the lower end of the range. For our total Government book of business, we now expect the 2017 MCR to be in the range of 84.5% to 85.5%, an improvement of 50 basis points versus our prior expectation.

Regarding operating expenses, we continue to expect our 2017 Global Health Care operating expense ratio to be in the range of 20.5% to 21.5%. I would also note regarding our U.S. individual business, we continue to expect to report a loss for full year 2017, albeit at a lower level than previous expectations.

For our Global Supplemental Benefits business, we continue to expect strong top line growth and now expect earnings in the range of $310 million to $330 million. This is an increase of $15 million over previous expectations, reflecting the strength of our second quarter results.

Regarding the Group Disability and Life business, we now expect full year 2017 earnings in the range of $260 million to $280 million, an increase of $20 million to $30 million over previous expectations, reflecting continued operational improvements in our disability business.

Regarding our remaining operations, that is Other Operations and Corporate, we now expect a loss of $170 million for 2017.

So all-in, for full year 2017, we now expect consolidated adjusted income from operations of $2.50 billion to $2.58 billion or $9.75 to $10.05 per share. This represents an increase of $0.20 to $0.40 per share over our previous expectations. I’d also remind you that our outlook continues to exclude the impact of additional prior year reserve development or of any future capital deployment.

Now moving to our 2017 capital management position and outlook. Overall, we continue to have excellent financial flexibility. Our subsidiaries remain well capitalized and are generating significant free cash flow to the parent with a strong return on capital in each of our business segments, and we have significant free cash and leverage capacity available at the parent company.

Our capital deployment strategy and priorities remain: first, funding our businesses to support long-term growth; next, pursuing M&A activity with a focus on acquiring capabilities and scale to further grow in our targeted areas of focus; and lastly, after considering these first 2 items, we would return capital to shareholders, primarily through share repurchase.

Regarding free cash flow, we ended the second quarter with parent company cash of approximately $2.2 billion. And after considering all sources and uses of parent company cash, we continue to expect to have approximately $5 billion of parent cash available for deployment in 2017, reflecting strong ongoing free cash flows from our operating businesses and the after-tax impact of the break fee from the Anthem transaction. Further, we have the capacity to generate additional deployable cash by increasing our debt-to-capitalization ratio to the mid-30s, which we would consider a normal range going forward.

These components would bring us to $7 billion of potentially deployable cash in 2017, with the additional incremental leverage capacity to raise the debt-to-capitalization ratio to the low to mid-40s in consideration of strategic M&A opportunities.
During the period from May 5 through August 3, we repurchased approximately 5.4 million shares of stock for $910 million, bringing our year-to-date share repurchase to approximately 7.7 million shares of stock for $1.25 billion. As we’ve noted previously, we intend to complete at least $2 billion in share repurchases by the end of this year.

Our balance sheet and free cash flow outlook remains strong, benefiting from industry-leading margins and returns on capital in our businesses and a high level of capital efficiency, particularly from our fee-based businesses.

Now to recap. Our second quarter 2017 consolidated results reflect strength and momentum in our diversified portfolio of global businesses and continued effective execution of our focused strategy. The fundamentals of our business remain strong as evidenced by these results, which reflected strong revenue and earnings contribution from each of our business segments, industry-leading medical cost trend and high clinical quality and continued strong free cash flow.

Based on the strength of these results, we are confident in our ability to achieve our increased full year 2017 earnings outlook.

With that, we will 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 Citigroup.

**Ralph Giacobbe - Citigroup Inc, Research Division - Director**

So you have the 10% to 13% long-term growth estimate and you talked at the Investor Day about some more accelerated growth, sort of at or even maybe above the high end of the range. So I guess -- I know you’re not going to give 2018 guidance, but can you maybe just frame into 2018 kind of some of the positives and drags you see relative to kind of that growth estimate that you have for next year?

**David M. Cordani - Cigna Corporation - CEO, President and Director**

Ralph, it’s David. Thank you. As you said, it’s early for 2018 guidance, so we’re not going through the individual components. Let me try to give you just a little color relative to that, all taken against the backdrop, as you said, at our I-Day. We remain committed to the 10% to 13% long-term EPS growth rate and our strategic objective to achieve the $16 of EPS out in 2021. First, as you think about starting any given year, so as we talk about 2018, I would remind you that we always start a year and plan for a year assuming that there will be no prior year reserve development. So put that back in context. As you know, we have about $100 million after-tax of prior year reserve development in 2017, so we would start viewing that as a 0 going into 2018. The macro headlines that – actually to think about off of that is very strong momentum off of the core business in 2017, which is always important when you're projecting forward. To be clear, we would expect to grow revenue as well as earnings off of our 2017 base. As noted by Eric, we have a great track record of producing very strong cash flows. We expect that to continue in 2018 as well as to maintain a very strong capital position. So we look forward to carrying the momentum out of ’17 into 2018 with good top line and bottom line growth, noting that the prior year reserve development would be something would always plan for and project as 0.

**Ralph Giacobbe - Citigroup Inc, Research Division - Director**

Okay, that’s helpful. And then just a follow-up. I want to go to the Global Supplemental Business. Margins were really strong this quarter. Anything to kind of call out there? How sustainable is it? And then you talked about the big opportunity. The segment right now is about 12% of earnings today. Any willingness to kind of give us kind of where you think that can go with the next kind of handful of years as a percentage of the total business?
Ralph, it’s Eric. Just on the margins and such within the Global Supplemental Benefits business. Overall, the Global Supplemental business has a great track record of strong revenue and earnings growth, and we’re really happy with the results in the quarter. This quarter’s results reflected the continued effect of strong growth, it reflected expense leverage as we continue to grow and get that expense leverage opportunity, as well as a bit of a favorable loss cost in Korea, in particular. This business does have variations from period-to-period and can exhibit variability from period-to-period and such, but this is a great quarter. In terms of the longer-term outlook, we continue to expect the long-term revenue growth in this segment to be in the mid-teens. And so you would expect it to grow as a portion of our enterprise over time. But again, feel really good about the trajectory that we’re on and the mid-teens growth rate in terms of the long-term outlook.

David M. Cordani - Cigna Corporation - CEO, President and Director

And Ralph, to expand on the long-term outlook. Clearly, this business has, is and will continue to grow at an organic rate faster than other aspects of our business. We feel great about the overall portfolio of businesses. This has a faster and more robust underlying growth rate. As such, if we’re just to simply freeze for any M&A across the franchise, to your point, the percent of revenue to the enterprise, percent of earnings to the enterprise, would continue to grow for this business as we look forward. And important to note, as we’ve discussed in the past, we continue to invest in and expand in capabilities, geographic footprint, talent, et cetera, to continue that growth momentum. So we have good optimism here to see it to be a bigger part of the portfolio going forward.

Operator

The next question comes from A.J. Rice with UBS.

Albert J. Rice - UBS Investment Bank, Research Division - MD and Equity Research Analyst, Healthcare Facilities

First, maybe just to ask, you’re lowering the medical cost trend expectations again by 50 basis points. Your expectations are already the lowest in the industry or best managed in the industry, whatever way you want to describe it. I guess I’d ask you first, what buckets are you seeing that are making you move this? Is this inpatient? And then more broadly, because it does seem like this quarter and following on the first quarter, the entire industry seems to be on another one of those periods where the cost trend and the MLR results and so forth are running better than expected. If you step back, is there some dynamic that you would point to at a macro level? Is it benefit design, high-deductible plans maybe are having an impact, do you think? Or is it medical cost management’s taking another step forward? What would you say is driving why we’re seeing everyone seemingly having a very good trend on the cost side?

Eric Palmer - Cigna Corporation - CFO & Executive VP

It’s Eric. I’ll start off and then maybe ask David to fill in on some of the more macro comments on the back end here. First of all, we are really pleased with our medical trend results. And we continue to build on the results that we’ve reported now for several years. A couple of comments I’d make. We entered the year with the expectation of 4.5% to 5.5%. And as you know, we lowered it to 4% to 5% in terms of the quarter. And I think I talked on our call a quarter ago, we had expected each of the categories: inpatient, outpatient, professional and pharmacy, to be in that low to mid-single digits range. And that continues to be our expectation, just that each one of those are coming in a little bit lower in the range than we had previously contemplated. So overall, feel really good about our ability to get to the 4% to 5% trend. And again, I’d note that, that is something that’s really fundamental in terms of the way that we deliver our overall value proposition to our clients. We think our trend result is driven by continued effective collaborative relationships. And again, overall, the value of really good incentive alignment. But again, maybe David, I’d ask you to take a more macro perspective.
David M. Cordani - Cigna Corporation - CEO, President and Director

A.J., on the macro perspective, I think you make some very good observations. And specifically, I'd highlight a few points. First, broadly speaking, I think when the industry is having this conversation, and to the core of your question, it's really driven, broadly speaking, by the employer marketplace. And the good news is, as you look over the last several years, the employer marketplace, while it always has opportunities for improvement, has driven meaningful step-up in innovation. So where's the innovation come from? Improved incentive alignment. Where does the innovation come from? Evolution of clinical programs. Where is the innovation coming from? Beginning to explore, across the industry, more value-based programs, as have been proven in MA. Specific to Cigna, we've been deep into those areas for quite some time. And to the cornerstone of your comment, we're seeing a little bit bigger impact of those results on a sustainable basis. I'd also note, finally, as we've discussed in the past, there's more adoption of transparent funding programs. That creates better alignment with employers, it helps to create better alignment with individuals, all of which help you get better engagement and better clinical outcomes. So net-net, we see it as a societal good to see this from an industry standpoint. And we're pleased from a Cigna standpoint, our results are kind of leading the pack relative to those engagement- and incentive-based outcomes.

Albert J. Rice - UBS Investment Bank, Research Division - MD and Equity Research Analyst, Healthcare Facilities

Okay, great. And if my -- could I ask another follow-up maybe. So now we have the lay of the land. You've had good success in mitigating some of the pressures on the STAR ratings for MA and sanctions are behind you and all. How fast should we think about your ability to get back on a growth trajectory in enrollment gains there? And if we're thinking the market's going to grow 6% to 8% enrollment on a steady-state basis, how quick can you get back maybe to market growth? Should we give that a few years? Or are you more optimistic you can get there quicker?

David M. Cordani - Cigna Corporation - CEO, President and Director

A.J., it's David. So first, we're quite pleased to come out of the sanctions process well in advance of the 2018 open enrollment cycle. Our team, as we sit here today, is actively enrolling for the remaining 2017 months and is highly focused and well prepared for a very successful open enrollment cycle this fall. And for 2018, I would just say very clearly, we expect to grow our MA portfolio. And I'd remind you that, as you think about our proposition, we have a clear track record of consistent, sustainable growth in our MA portfolio, which always starts with strong customer retention. And we're aided by the strong customer retention levels because of the fact that we have a high value-based penetration of our programs. 85% of all of our MA lives are in value-based programs. So be really clear, we're active today in the remaining 17 months. The team is prepared and ready to roll for 2018 and we expect to grow.

Operator

The next question comes from Peter Costa with Wells Fargo.

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

Can you talk a little bit about the 2018 selling season and what you're seeing going on there? In particular, referencing the return of the health insurance fee and the impact that that's having on your risk-based business that you're selling, as well as the impact that it might be having on the uptake of alternative funding products that you sell.

David M. Cordani - Cigna Corporation - CEO, President and Director

It's David. Let me give you a little bit of insights relative to the '18 season. So I'll start with some color relative to the national account market, which is the most tangible market to speak to right now, given that it has a little better broader selling cycle, and then give you a little bit of insight relative to your question on the HIF. First, relative to national accounts, remind you that we define that segment a little differently than the industry. Specifically, when we refer to national, it's commercial employers with 5,000 or more employees in multiple states. Secondly, just to remind you,
our strategic goal has been to hold share from an aggregate standpoint, but to deepen share with employers who value incentive- and engagement-based programs and then further deepen our relationship with our clients through leveraging our specialty and clinical programs. And I would note that 2017 has been a good year for that business segment. As it relates to ‘18, what we've seen is that the RFP process, so the inbound opportunities for new growth opportunities, are up relative to 2016 meaningfully. I'd note that the ‘16 volumes were low for the industry because there was a lot of industry disruption. But the ‘18 volumes look a little bit more like ‘16, and they're up meaningfully. To put that in context, the percent of our businesses out to bid is up a little bit, but nowhere near as meaningfully as the inbound opportunities. And we would expect as we look at 2018 to continue to have a very strong client retention rate. As it relates to broader purchasing trends, building on the prior comments, we continue to see, across all segments, high interest levels in incentive- and engagement-based programs, which tend to leverage the transparent funding programs because they just create greater alignment with the employer, and as such, the individual customer employee and enable you to get better not only incentive alignment, but targeted clinical programs. And we see that trend continuing. Lastly, as it relates to the HIF, the industry has a mechanism with which to, previously, pull out the pricing impact of the HIF and now put the pricing impact of the HIF back in. And we do not see a demonstrable change in purchasing patterns as it relates to guaranteed cost or transparent funding programs as a result of that.

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

So pretty similar in terms of the uptake of the different products. It's not an acceleration or deceleration relative to the way it was last year for this year.

David M. Cordani  -  Cigna Corporation - CEO, President and Director

Again, just putting it in context. We've seen a continued drum beat of broader adoption of transparent funding programs across the marketplace. But I don't -- we don't see that trend of acceleration changing.

Operator

The next question comes from Gary Taylor with JPMorgan.


Could you just update us on when you are expecting to receive the termination fee from Anthem and the status of any litigation surrounding that?

David M. Cordani  -  Cigna Corporation - CEO, President and Director

Gary, it's David. As I think you know, that's in -- currently in active litigation. And we don't typically comment on active litigation. So I'd like to leave it there.


Okay. And origin of the tax gain you were able to book related to that. Just a quick synopsis or summary again of what prompted that.

David M. Cordani  -  Cigna Corporation - CEO, President and Director

I'll ask Eric to expand on that, but the tax gain is, more broadly speaking, relative to sunsetting the integration activity. Eric?
Eric Palmer - Cigna Corporation - CFO & Executive VP

Yes, Gary, it's Eric. Specifically, the expenses associated with some of the integration work and such that we recorded as special items throughout the course of the pendency of the transaction, 2015 and 2016, those costs were not tax-deductible. Now that the Anthem transaction is -- the purchase or the merger agreement is closed and behind us, those costs became deductible, and so that is what generated the tax benefit.

Operator

The next question comes from Scott Fidel with Credit Suisse.

Scott J. Fidel - Credit Suisse AG, Research Division - Director and Senior Analyst

First question, just if you can touch on the individual business and the better medical cost that you saw in the quarter. Maybe a little bit on your what you were seeing there. And then in terms of the margin profile, I know that you're still expecting a loss, but maybe can you sort of give us a little indication of sort of where the margin profile has changed relative to the prior view?

Eric Palmer - Cigna Corporation - CFO & Executive VP

Scott, it's Eric. So overall, individual is a small business for us, as you know. As we noted in my prepared remarks, the first half results were a little bit better than we'd expected. In particular, we'd call out the -- it was solid performance from the markets where we've used our aligned collaborative model. As you might remember, we've talked in prior calls, we entered a couple of new markets this year, we changed the offerings we had in a couple of markets in terms of managing our footprint. In particular, drove our offering around deep, aligned collaborative models. And those models, in particular, are performing better for us. As you think about the full year expectations, this business does have a pretty pronounced seasonality. The deductibles and the plan design will drive higher costs over the back half the year. And that takes us to a small loss for 2017. Be a better result than last year, but a loss, nonetheless.

Scott J. Fidel - Credit Suisse AG, Research Division - Director and Senior Analyst

Got it. And then a follow-up question just on MA. And we've certainly been hearing in other calls, competitors citing how they're plowing some of the upside that they've been seeing in the results into investing a bit more on the MA side for growth next year. Maybe just talk about what -- how you're thinking about investments for MA as a result of some of the favorable experience you've been seeing in what seems to be a pretty competitive environment for MA next year.

David M. Cordani - Cigna Corporation - CEO, President and Director

Scott, it's David. First, just broadly speaking relative to investments, we have a long track record of continued process of investing back into our portfolio of businesses, whether it be the health care business from a Commercial standpoint, innovations like One Guide; whether it's the global business, innovations like the global wellbeing app; whether it's voluntary expansion within our group in our health care portfolio as well as MA. So broadly speaking, we just have a continued investment orientation within the portfolio. As it relates to MA, as I noted before, we would expect to grow our MA portfolio in 2018 organically. To be very clear, we did not expand geographically for 2018 because of the previous situation we were in. We would expect to resume our proven pattern of expanding geographies, both adjacent counties as well as new geographies, as we look to 2019 and beyond. And we'll be updating you on those investments as we go forward.

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

I was wondering if you could provide a little bit more color on the MLR by the 2 divisions. I was a little bit surprised that you didn't lower the Commercial MLR, given the favorable development seems to be on that side and that's where you got 3R improvement. But you did raise it in the Government MLR, which seemed, to me at least, more in line with what we were expecting. So I was wondering if you could provide a little bit of color. Obviously, you are going to the low end of the Commercial MLR range, but I would have thought maybe a reduction there.

Eric Palmer - Cigna Corporation - CFO & Executive VP

It's Eric. Just a couple of comments I'd make on that. So as you note, in terms of the Commercial MLR, we are now focused on the lower end of our range of 80.5% to 81.5%. And that just really reflects the year-to-date cost and trend favorability. If you think about the back half of the year on the Commercial loss ratio, we've been -- I think there's some uncertainty around exactly how the individual business could perform in terms of closing out the year. I would have thought that, that was prudent to continue to reflect the range of 80.5% to 81.5%. As you may have commented on prior year development, year-to-date, our prior year development has been in the neighborhood of 60% Commercial, 40% Senior, so it really has been split across our -- all of our books of business. And as you know, the Commercial book of business is quite a bit bigger than the Seniors book of business. And so to the impact of the experience we've had to date, the prior year development made -- moved the Seniors loss ratio, the Medicare loss ratio, more significantly. And that's why we lowered that range.

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

Okay. So I thought in the quarter, you said that it was mostly Commercial, but you're saying in the first quarter, is mostly -- there's more Government, that caused you to lower the Government for the year.

Eric Palmer - Cigna Corporation - CFO & Executive VP

The PYD was 60-40 split over the course of the first half of the year. We didn't provide any particular color in terms of the driver of that or the breakdown of that for the quarter.

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

Okay, then I guess as far as the 4 growth drivers that you outlined earlier, were those listed in order of importance? Or is that -- or is there some way to think about which 1 or 2 might be more important than the others?

David M. Cordani - Cigna Corporation - CEO, President and Director

Kevin, it's David. They were not in order of importance. We have a well-positioned portfolio of businesses with a number of growth opportunities. And those specific 4 growth opportunities, we spent some time at our I-Day further embellishing on them. So we see kind of step-function growth in those 4 categories. And again, you'll note that the diversity of our portfolio enables us to have several unique growth opportunities that we're quite excited about.

Operator

The next question comes from Dave Windley with Jefferies.
On the PYD, coming back to that for a second, think you’ve had, as you’ve said, just under $100 million. You’ve raised health care earnings year-to-date by, I think, about $45 million at the midpoint. I wanted to get your comments or color on whether some of that excess is going into reinvestment in the second half or how we should think about that relative to your earnings guide.

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

Eric Palmer - Cigna Corporation - CFO & Executive VP

David, it’s Eric. I just have a couple of comments on that. We entered 2017 with good momentum in our health care businesses, and we’ve increased the outlook a couple of times so far this year. So just would start with that. In terms of the -- were pleased with the medical cost, that they’ve developed favorably. And again, think of that as being another hallmark in terms of the overall favorability we’ve had in medical cost trend. As we think about the balance of the year and the amount so far this year, a couple of dynamics I’d point to on that. One, I just mentioned a few minutes ago, I think caution in terms of the experience or the potential experience in the second half of the related to the individual business. And second of all, you should expect that we’re making adjustments in terms of the rate and pace of strategic investments and things along those lines in terms of the capabilities we’d invest in and deploy over the balance of the year. But in aggregate, I feel good about the increase to the full year outlook and our position to achieve it.

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

Great. And then in the MA business, curious if you could describe or even quantify the extent to which you’re absorbing some negative leverage with the decline in membership this year. And with the return to growth next year, how that might reverse.

Eric Palmer - Cigna Corporation - CFO & Executive VP

It’s Eric. Without question, we did have a decline in revenue, and that has created some pressure. Don’t think it’s productive to isolate out a specific impact and such there, but you should think of us continuing to operate that business at an expense ratio that we think is attractive, a bit of a room for improvement as we go forward and kind of regrow into our long-term footprint.

Operator

The next question comes from Chris Rigg with Deutsche Bank.

Christian Douglas Rigg - Deutsche Bank AG, Research Division - Research Analyst

Just wanted to come back to Medicare Advantage, really, post the sanctions being lifted. I guess, how quickly -- and I don’t even know if this is -- you can answer this definitively. But how quickly can you tell whether or not people are coming back to your business from direct marketing versus others in the market? Like, how much share are you gaining over the interim?

David M. Cordani - Cigna Corporation - CEO, President and Director

It’s David. Well, I think we always start with -- our growth mantra in our corporation across the globe is retain, expand, add. So we start with a fundamental proposition that if you’re delivering strong value to your customers, you should expect the ability to retain relationships at an elevated level. For the aspects of our business that we have the ability to expand the relationship with, through our specialty portfolio, et cetera, if we’re delivering strong value and retaining on a targeted basis, we should be able to identify ways to further expand the value for our customers and clients and therefore expand relationships and targeted adds. As it relates to MA, that’s really retention and addition. It’s a process, so I would start with the notion of, even during the sanction process, we were able to post a retention rate that was higher than others that have gone through the similar process. And I think that points back to, number one, the deep, well-rooted physician partnership models and value-based relationships
and strong service delivery. So that's the core. Two, to answer your question, we're selling in the marketplace right now and we're re-enrolling. And the pattern is evolving. So we're back in the market for July 1. We're able to kind of test and see whether or not the momentum was manifesting itself. And we're in the market for August 1, we were able to manifest itself. And we'll be in the market through the residual months of 2017. Secondly, we do know from some of our very well-developed physician engagement models, there's some high energy in those markets, and with Seniors to come into our programs. So we would expect to step into 2018 with net growth across this portfolio. And we don't believe we need a hiatus to re-manifest our growth objective.

Christian Douglas Rigg - Deutsche Bank AG, Research Division - Research Analyst

Okay. And then just a slightly different area here on capital deployment. When you take -- you obviously want to emphasize growth areas, but obviously, share repurchases are also an option. How do you sort of decide as you move through the year when the M&A environment's just not going to manifest itself or you've sort of spent enough on growth and then want to switch over the share repurchase? And I guess I'm just trying to think about the timing of when you would go back to a more aggressive posture on the share repurchase front.

David M. Cordani - Cigna Corporation - CEO, President and Director

Chris, it's David. Just to, again, put the levers back into context. As Eric noted in his prepared remarks, our capital deployment priorities remain and are very clear. So support the ongoing needs of our growing businesses. And our growing businesses are supported by well-capitalized subsidiaries today. Second, strategic and appropriately attractive M&A. And third is share repurchase as a primary means of returning to our shareholders as we sit here today. And we've spent good time on it. We have meaningful capital deployment opportunities in front of us relative to current cash-on-hand as well as leverage capability, and that's both an exciting opportunity, but a meaningful shareholder responsibility that we understand. I would note that there's not an or proposition. It is not like we're -- we have a date certain that we're going to shift from A to B. It's a dynamic portfolio management process. And I would guide you to just reflect back on over our last half a dozen plus years, we have a proven track record of: a, not letting excess cash or capital sit idle for the benefit of shareholders; b, a very disciplined approach when we do engage in M&A, on line with our articulated M&A objectives; and over time, a very balanced approach relative to M&A as well as share repurchase. In fact, if you look back over the last half a dozen plus years, it's about 50-50. To your point, it just happened in a little bit more lumpy fashion because of when the M&A opportunities present themselves. So net-net, taken as a whole, significant shareholder value creation sits in front of us relative to capital deployment, and we get that.

Operator

The next question comes from Jack Hwang with Wolfe Research.

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

This is Justin Lake. Just one question. Just getting back to your health care performance in the quarter, can you -- the performance versus Street consensus and our number was $65 million, $75 million better in the quarter. Just curious how your performance looked versus your expectations. Were you mis-modeled a little bit? Or was it -- was there that much upside and you're just reinvesting it back in the second quarter -- second half?

Eric Palmer - Cigna Corporation - CFO & Executive VP

Justin, it's Eric. Just a couple of comments on that. I think our expectations were a little bit higher than where The Street was at. So again, there's an element of that. And overall, I'm really pleased with the favorability that we generated across each of the businesses. As you think over the balance of the year, the things that we're thinking about related to the back half of the year is just our updated assessment in terms of the seasonality. I've commented in terms of our caution in the terms of the individual business and us continuing to make investments in capabilities that would advance the areas of focus, a couple of which David talked about in his prepared remarks.
Operator

The next question comes from Ana Gupte with Leerink Partners.

Anagha A. Gupte - Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst

I wanted to follow-up on the point around value-based care and you lowering the trend. Since this is a spread game, what kind of conversations are you having with the brokers and the benefit consultants? And are the employers now expecting lower rate increases for the remainder of this year and next year? Or is it that your business is pretty differentiated around stop loss or other specialty offerings, so it doesn’t really feel as commoditized? And just what is it broadly for the industry? Are these MLRs going to keep going down?

David M. Cordani - Cigna Corporation - CEO, President and Director

Ana, it’s David. Let me bridge 2 points. The value-based care component, so alignment with health care professionals to pay based on the quality of outcomes and the coordination of care. I would ask you to think about it 2 ways: One, very deep and broad relative to MA, 85% of all of our MA lives are in a value-based care program; deepening and evolving in the Commercial space, so upside opportunities we look forward in the Commercial space, for sure. The reason why I reference that is, in addition to that, in the Commercial space, what we’ve been able to do is advance significantly more on the demand side of the process. So individual incentive alignment, individual engagement, care coordination, navigation support, incentive alignment. When you take all those and put them together, as Eric noted, our Commercial medical cost trend continues to track very favorably relative to any industry norm and continues to track favorably relative to our expectations in this year. Now to the clients, remind you that 85% of our employer clients are in self-funded and fully transparent relationships. We like that because there’s high levels of alignment, transparency and visibility month-to-month, quarter-to-quarter, year-to-year. And they’re seeing the benefit of this lower medical cost trend for their respective portfolio based upon the actions we’re driving and continuing to drive for them. And of the residual 15%, that’s split amongst experience-rated relationships, where there’s high transparency, as well as guaranteed cost. And in guaranteed cost, if we isolate the 4% or so of our revenue that’s on the individual exchange base business, because we don’t play downmarket under 50, even those employers are -- tend to be rated based on the credibility of their experience. My point is there’s a high level of transparency and alignment with employers, and therefore, we’re aligned to try to get the right clinical programs moving forward. And we’ll continue to drive this approach in 2018 and beyond.

Anagha A. Gupte - Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst

Fair enough. Yes, okay. So following up on the specialty side for your sort of ASO-heavy book, can you kind of give us a sense for if you increased your penetration, as you’ve talked about, voluntary and otherwise, what the potential target could be on the operating income, and over what period of time that we can build into our growth forecast?

David M. Cordani - Cigna Corporation - CEO, President and Director

Ana, it’s David. I’m not sure I can give you a point estimate to build into your growth forecast. I bring you back a little bit to the time we spent on this topic at I-Day, walking through some dimensions of the respective penetration levels that exist. And some headroom exists across our portfolio. So point one is we have headroom or additional penetration and growth opportunities across our portfolio. We don’t view that as a static result because the dynamics of our employers’ needs evolve. Secondly, as we’ve proven, we continue to innovate new programs and new services for the benefit of our clients. So we don’t manage a static book. And thirdly, as we -- I highlighted in my prepared remarks, we see the evolving employer voluntary marketplace as an additional growth opportunity. So as we talk about the retain, expand, add, the expand aspect of our growth strategy continues to have a lot of upside attractiveness, both based on our existing specialty portfolio, as well as evolve capabilities as we look forward.
Our last question comes from Sarah James with Piper Jaffray.

Sarah Elizabeth James - Piper Jaffray Companies, Research Division - Senior Research Analyst

Can you speak to the atmosphere within your Medicare sales team? There was a period of disruption from the potential merger and the sanction. So looking at the team now, how is morale and focus and -- as we embark on returning-to-growth mode? And was there any more turnover of the sales team over this period than normal? And also, how are you thinking about the marketing push this year compared to a typical year? Is there a step up in ’18 for marketing spend?

David M. Cordani - Cigna Corporation - CEO, President and Director

Sarah, it’s David. Appreciate the question very much. An important part of having a business that has disruption, how do you engage your team and keep them engaged, et cetera. So very importantly, we understood that coming into the sanction process. And my hat’s off to our Medicare leadership team. They did a great job having massive transparency with our colleagues across all aspect of the business, including sales, to your point. Two, our retention rates have been outstanding. We smartly redeployed a lot of the sales folks and growth-related folks in other aspects of the business. And I think we actually have a net benefit from that, if you look at the silver lining in the clouds, where skill sets and experiences have evolved because they’ve worked in other aspects of the Seniors business over this disrupted time frame. That team has been refocused now back on growing, as I noted before. We’re actively in the smaller aspects of the ’17 process. The team has spent time together focused on the ’18 preparedness process. And they’re ready to roll. That team is proud of the value proposition we deliver, and they’re ready to roll to bring new programs and new relationships out to the Seniors population and help -- to help change more lives. As it relates to the marketing spend, our team’s been prepared, ready, focused on this. And they’ll get the appropriate level of marketing support to make sure we’re able to have the impact in 2018 we’re looking forward to having.

I would now like to turn the call over to Mr. David Cordani for closing remarks.

David M. Cordani - Cigna Corporation - CEO, President and Director

Thank you. Briefly, just to wrap up our call, I’d like to highlight some key points from today’s discussion.

In the second quarter, we continued our momentum with organic earnings growth in all of our reporting segments. These results, coupled with our significant ongoing free cash flow and exceptional capital position, give us confidence we will achieve our increased 2017 EPS outlook of $9.75 to $10.05 per share.

To further accelerate our strategic journey as a global health service company, we’ve taken our successful Go strategy to the next level, building on our differentiated results over the past 7-plus years. Our evolved strategy of Go Deeper, Go Local and Go Beyond serves as a guide to achieving the balance of affordability and personalization, which we seek to deliver by being the undisputed partner of choice, accelerating the next generation of integration and making the complex simple for the benefit of our customers.

At Cigna, we have a team of 43,000-strong across the globe who wake up every day to serve and act as champions for our customers. Our team has proven time and again that they thrive in a dynamic and changing marketplace.

We thank you again for joining our call today and look forward to our future conversations.
Ladies and gentlemen, this concludes Cigna’s Second Quarter 2017 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 (800) 839-1117 or (203) 369-3355. Thank you for participating. We will now disconnect.

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