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CI.N - Q4 2021 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 2021 consolidated adjusted revenue of $174b, after-tax adjusted earnings of $7b and adjusted EPS of $20.47. Expects 2022 consolidated adjusted revenue to be at least $177b and adjusted EPS to be at least $22.40.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's Fourth Quarter 2021 Results Review. (Operator Instructions) As a reminder, ladies and gentlemen, this conference, including the question-and-answer session, is being recorded. We'll begin by turning the conference over to Mr. Ralph Giacobbe. Please go ahead, Mr. Giacobbe.

Ralph Giacobbe - *Cigna Corporation - Senior VP & Head of IR*

Great. Thanks. Good morning, everyone, and thank you for joining today's call. I'm Ralph Giacobbe, Senior Vice President of Investor Relations. With me on the line this morning are David Cordani, Cigna's Chairman and Chief Executive Officer; and Brian Evanko, Cigna's Chief Financial Officer.

In our remarks today, David and Brian will cover a number of topics, including Cigna's fourth quarter and full year 2021 financial results as well as our financial outlook for 2022.

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As noted in our earnings release, when describing our financial results, Cigna uses certain financial measures, adjusted income from operations and adjusted revenues, which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP.

A reconciliation of these measures to the most directly comparable GAAP measures, shareholders net income and total revenues, respectively, is contained in today's earnings release, which is posted in the Investor Relations section of cigna.com.

We use the term labeled "adjusted income from operations" and "adjusted earnings per share" on the same basis as our principal measures of financial performance. In our remarks today, we will be making some forward-looking statements, including statements regarding our outlook for 2022 and future performance.

These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations. A description of these risks and uncertainties is contained in the cautionary note of today's earnings release and in our most recent reports filed with the SEC.

Before turning the call over to David, I will cover a few items pertaining to our financial results and disclosures. First, as previously disclosed with our Form 8-K filing and investor call on January 24, we announced changes in our segment reporting effective for the fourth quarter of 2021. These changes were made to align with the company's organizational structure as a result of the pending divestiture of Cigna's International life, accident, and supplemental benefits businesses in 7 Asia Pacific markets.

Effective in the fourth quarter, Cigna's results will be reported through the following 3 groups: Evernorth, Cigna Healthcare, and Corporate and Other Operations. The international businesses that will be divested pending the close of the transaction will now be reported in Other Operations, which is included within Corporate and Other Operations in our earnings release and quarterly financial supplement.

The International Health business to be retained by Cigna will join our U.S. Commercial and U.S. Government offerings in a new segment called Cigna Healthcare. This segment replaces the prior U.S. Medical segment.

Second, regarding our results. In the fourth quarter, we recorded an after-tax special item charge of $119 million, or $0.36 per share, related to a strategic plan to further leverage the company's ongoing growth to drive operational efficiency through enhancements to organizational structure and increased use of automation and shared services.

We also recorded an after-tax special item charge of $70 million, or $0.21 per share, for integration and transaction-related costs. As described in today's earnings release, special items are excluded from adjusted income from operations and adjusted revenues in our discussion of financial results.

Additionally, please note that when we make prospective comments regarding financial performance, including our full year 2022 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated 2022 dividends.

Also, our full year 2022 outlook assumes that the pending divestiture of Cigna's International life, accident, and supplemental benefits businesses will close in the second quarter of 2022, but does not assume any impact from other business combinations or divestitures that may occur after today.

Finally, I would like to announce our intention to host an Investor Day in June where we will discuss our long-term strategic growth and value creation story. We look forward to sharing more details in the coming weeks.

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

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David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Thanks, Ralph. Good morning, everyone, and thank you for joining our call today. As we step into 2022, our clients, customers, and patients continue to face a rapidly changing landscape with new COVID variants, changing testing and treatment protocols, and pressures on the global economy.

Throughout these challenges, we've remained focused on addressing and balancing the evolving needs of all of our stakeholders. As a result, our 70,000-plus colleagues around the world continue to deliver differentiated value for those we serve, and also continue to grow our businesses. Today, I'll share a perspective around our 2021 performance and the sustained growth opportunities we see for our organization in the year ahead. Then Brian will provide additional details about our 2021 financial results and our 2022 outlook. Then we'll take your questions. With that, let's get started.

In 2021, we grew full year adjusted revenues to $174 billion, a second consecutive year of growth above our long-term target. We delivered full year adjusted earnings per share growth of 11% to $20.47, and we returned over $9 billion to shareholders in dividends and share repurchases.

Additionally, we continue to invest in our capabilities to ensure we are positioned for sustained growth in 2022 and beyond. Our growth is and will continue to be fueled by our 2 high-performing platforms: Evernorth, our health services business, including pharmacy, care, benefits, and intelligence services; and Cigna Healthcare, which includes our portfolio of U.S. Commercial, U.S. Government and International Health businesses.

Our Evernorth and Cigna Healthcare platforms complement each other through the breadth of their capabilities and the ability to serve multiple buyer groups. Here, we typically lead with either a medical or pharmacy solution, and then we build on those relationships by innovating and delivering new services.

We have a proven track record with this approach, a diverse, high-performing portfolio of solutions, and a sustained commitment to continued innovation to expand that portfolio. Additionally, we are positioned so that accelerated growth in one area can compensate for temporary pressure in another business within our portfolio. We see this as extremely valuable in a dynamic environment.

Relative to our 2021 performance, it was a very strong year for Evernorth. We grew adjusted revenues by 14% in 2021 as Evernorth's corporate clients, health plans, governmental agencies, and healthcare delivery system partners increasingly recognized the value of our health services, including in our specialty pharmacy business, which I'll discuss in more detail in just a moment; in our virtual health capabilities, which have been expanded through MDLIVE to include urgent and dermatology care as well as behavioral health services; in our core pharmacy services portfolio, which continues to generate outstanding results for our clients; and we are further broadening our reach through deeper and new partnerships.

For Cigna Healthcare, we had sustained growth, leveraging the strength of our U.S. Commercial, U.S. Government and International Health businesses. As we previously discussed, we also experienced elevated medical costs. We had higher claims costs in our Commercial insured and stop-loss businesses, and continued higher claims from our special enrollment period customers within the Individual business.

These included the impact of elevated COVID costs for testing, treatment, and vaccines. The elevated trend continued throughout the year; as a result, our medical care ratio for Cigna Healthcare was 84% for full year 2021. As Brian will discuss in further detail, we took targeted pricing and affordability actions earlier in 2021 for 2022 impact, as we continue to prioritize margin expansion for 2022.

As I highlighted earlier, the breadth and complementary nature of our portfolio enabled us to exceed our revenue and EPS outlook and return over $9 billion of capital to our shareholders.

Looking forward to 2022, we expect to continue to capitalize on emerging growth opportunities and achieve sustained attractive performance. We see additional opportunities to drive growth by leveraging Evernorth capabilities to respond to 3 forces that we believe are fundamentally reshaping the future of healthcare.

They are pharmacological innovation, the increased recognition of the link between mental and physical health, and third, the growing trend toward alternative sites of care. I'll start by highlighting how Evernorth will lead the way to capitalize on the first trend, pharmacological innovation.

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New drugs represent one of the most promising areas for medical innovation in the coming years. And we're seeing a dramatic growth in specialty pharmaceuticals, gene therapies, and vaccines. These potentially life-saving and life-changing advances also bring intensifying pressures on affordability.

This creates significant opportunity for Evernorth to provide customers, patients, and clients with the most innovative new therapies in ways that are accessible, affordable, and predictable.

By 2025, for example, 66 biologic drugs currently in the market will have their patents expire, opening the door for increased biosimilar competition and an increasing opportunity to decrease healthcare spending by an estimated $100 billion.

Importantly, this trend is already unfolding in 2022 and will accelerate further in 2023. We are positioned to lead and fully intend to capture a large portion of those savings for the benefit of our customers, patients, and clients by combining and coordinating capabilities that include our Accredo capability, which provides differentiated specialty pharmacy care for a number of specific conditions.

I'd also highlight that today specialty pharmacy already drives fully 1/3 of Evernorth's revenue, and Accredo is one of the fastest-growing parts of our health service portfolio. Additionally, leveraging Express Scripts, which draws upon its expertise in delivering improved affordability, leveraging a broad network, supply chain expertise as well as clinical and service capabilities.

Managing biologics and specialty drugs is also a priority focus for our Cigna Healthcare business. Last year, we launched an innovative program to leverage biosimilars in the medical benefit that included incentives that improve access for integrated clients and customers. This illustrates just one way we will continue to leverage Evernorth's capabilities to drive greater affordability and value for our Cigna Healthcare clients and customers.

Evernorth will also continue to grow from the significant demand for more mental health services as well as the rapidly changing access to care models. For example, Evernorth is continuing to expand our virtual care services by leveraging our MDLIVE platform, as well as expanding our behavioral care network.

We know how important it is for both patients as well as clients. Our Evernorth research reinforces that total healthcare costs decrease when people who are diagnosed with behavioral health conditions receive coordinated, sustained treatment.

For Cigna Healthcare in 2022, we expect to drive customer growth in each of our U.S. Commercial market segments and grow earnings as we continue executing on our affordability and pricing actions throughout 2022.

Additionally, Cigna Healthcare will continue to partner and leverage our Evernorth innovations. For example, we're continuing to expand digital experiences to help our customers connect with the highest performing and most affordable medical care.

A recent approach we developed for patients diagnosed with orthopedic and musculoskeletal conditions provides highly personalized and actionable information to guide their choices and support improved healthcare outcomes and affordability.

In our U.S. Government business, as we've noted previously, we are operating in a more competitive environment stepping into 2022. For Cigna, aided by the strength of our broad portfolio, we've prioritized pricing discipline for our U.S. Government business for 2022.

For Medicare Advantage, we will start the year with flat membership. Looking forward to 2023, we are confident in our position to accelerate growth further, as our customer satisfaction metrics are high, our Stars ratings are very strong, and we steadily expanded our addressable market by entering new geographies.

In our Individual & Family Plan business, as noted previously, 2021 customers grew meaningfully in part due to the extended special enrollment period. We expect a decline in customers in 2022, in part driven by our product and price positioning that will adjust for the special enrollment surge we saw in 2021.

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We do continue to view this as an attractive long-term opportunity, and to support that growth, we continue to enter new markets. For 2022, we entered 3 new states and 93 new counties. With these markets, for example, we have the ability to reach an additional 1.5 million additional customers.

In International Health, we are sharpening our focus, and will continue developing our services for the globally mobile as well as go deeper into domestic health and health services. One of the key ways we will do this is with innovative partnerships such as Honeysuckle Health, an analytics-driven health service company established in our joint venture with the nib Group in Australia.

Now taken as a whole, 2022 will be another year of attractive growth for our company. Our EPS outlook of at least $22.40 and the increase of our quarterly dividend by 12% reinforces the sustained growth and strength of our businesses.

Now before I wrap up, I want to reinforce a key aspect of our sustained performance is our positioning strategically to further expand our reach and addressable markets over time. Here we will leverage organic partnerships and targeted inorganic opportunities to further strengthen our proven growth platforms.

We see 3 areas of continued focus here. First, in U.S. Government, we will seek additional growth opportunities and our ability to win in these markets is further enhanced by our current and expanding Evernorth service capabilities.

Second, we will further expand our Evernorth service portfolio. This includes, for example, our Evernorth Care capabilities, including virtual, home, and behavioral services.

And third, in International Health, our decision to divest our life, accident, and supplemental benefits business in several markets reinforces our discipline to focus on the health portion of our portfolio.

Now to wrap up. Looking back at 2021, our business performed in a dynamic environment. We delivered adjusted EPS of $20.47 and returned over $9 billion of capital to our shareholders in dividends and share repurchase. 2022 will be another year of growth across our business, and we will continue to invest in innovation to position us for sustained long-term growth.

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

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Thanks, David, and good morning, everyone. Today, I'll review key aspects of Cigna's fourth quarter 2021 results, and I'll provide our outlook for 2022.

Key consolidated financial highlights for full year 2021 include adjusted revenue growth of 9% to $174 billion, or growth of 12% when adjusting for the sale of the Group Disability and Life business. Adjusted earnings of $7 billion after-tax and adjusted earnings per share growth of 11% to $20.47. We delivered these results despite an elevated medical care ratio in the quarter, partly driven by COVID-19 related claims. Our enterprise revenue and EPS results were slightly better than our expectations, reflecting the resilience and breadth of our portfolio, with particularly strong performance in Evernorth.

Regarding our segments, I'll first comment on Evernorth. Fourth quarter 2021 adjusted revenues grew 15% to $35.1 billion, while adjusted pretax earnings grew to $1.6 billion. Evernorth's strong results in the quarter were driven by organic growth, including strong volumes in specialty pharmacy and retail, along with ongoing efforts to improve affordability and deepening of existing relationships.

In the quarter, we also continued to increase the level of strategic investments to support ongoing growth of the Evernorth portfolio, such as our Accredo specialty pharmacy, our virtual care platform, and our technology, including digital capabilities.

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Overall, Evernorth delivered a strong year, focusing on driving value for clients and customers, while achieving strong revenue and earnings growth above its long-term growth targets.

Turning to Cigna Healthcare, which, as a reminder, now includes the prior U.S. Medical segment plus our retained International Health business. Overall, fourth quarter adjusted revenues were $11.2 billion, adjusted pretax earnings were $472 million, and the medical care ratio was 87%.

During the fourth quarter, we experienced elevated medical costs driven in large part by dynamics related to COVID, including higher testing, treatment, and vaccine costs. Specifically, the higher-than-expected fourth quarter costs are attributable to 3 primary areas: higher stop-loss claims, particularly in policies with lower attachment points that were triggered by the cumulative impact of COVID and non-COVID costs throughout the year; continued pressure in our individual business, particularly the special enrollment period customers who were added in mid-2021; and, higher claim costs in our Commercial insured book. The elevated medical costs were partly offset by better-than-expected net investment income and fee-based specialty contributions, neither of which are reflected in the medical care ratio metric.

For full year 2021, we finished with a medical care ratio of 84%. The unfavorable fourth quarter medical costs informed and sharpened our 2022 assumptions. We now expect full year 2022 medical costs to run above the corresponding 2022 baseline, at a relative level that is consistent with full year 2021. This 2022 medical cost outlook is now higher than our previous expectations. And specific to stop-loss, we assume the pressure experienced in the fourth quarter will persist in 2022, and we will take appropriate future pricing action as this book of business renews throughout the year.

Helping to offset these pressures as we step into 2022 are targeted pricing actions we've taken in our U.S. Commercial business as we saw claim costs emerge in 2021, higher U.S. Commercial enrollment and retention than previously expected in our fee-based business, and incremental affordability actions, which I'll elaborate on in just a few moments.

Turning to membership, we ended the year with 17.1 million total medical customers, an increase of approximately 430,000 customers for the full year. 2021 customer growth was driven by Middle Markets and Select within U.S. Commercial, Individual and Medicare Advantage within U.S. Government, and International Health.

Overall, Cigna Healthcare supported and delivered for our customers, clients, and partners during a challenging year and is well-positioned to both grow membership and expand margins in 2022.

Turning to Corporate and Other Operations. The fourth quarter adjusted loss was $115 million and now includes positive earnings contributions from our international life, accident, and supplemental benefits businesses held-for-sale pending divestiture.

As Ralph noted, during the fourth quarter, we reported a special item charge of $119 million after tax related to actions to improve our organizational efficiency. These actions will capitalize on our scale and the progress we have made through automation, increased use of digital tools, and continued innovation to better enable us to grow and expand in this dynamic marketplace. Overall, Cigna's 2021 results reflect our balanced portfolio and our commitment to accretive capital deployment to augment our organic growth.

As we turn to 2022, our affordability initiatives, pricing actions, and focus on operating efficiencies will drive income growth and margin expansion in Cigna Healthcare. This performance, coupled with continued growth in Evernorth and accretive capital deployment, will drive attractive EPS growth.

For the full year 2022 outlook, I'd like to first remind you that our outlook assumes the divestiture of our international life, accident, and supplemental benefits businesses will close in the second quarter of this year.

In total for the company, we expect consolidated adjusted revenues of at least $177 billion, representing growth of approximately 4% excluding the impact from previously announced divestitures. We expect full year consolidated adjusted income from operations to be at least $6.95 billion, or at least $22.40 per share, consistent with our prior EPS commentary. We project an expense ratio in the range of 6.9% to 7.3%, further improving

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upon our operational efficiency and ensuring continued affordable solutions for our clients and customers. And we expect a consolidated adjusted tax rate in the range of 22% to 22.5%.

I'll now discuss our 2022 outlook for our segments. For Evernorth, we expect full year 2022 adjusted earnings of approximately $6.1 billion. This represents growth of about 5% over 2021, within our targeted long-term income growth range, reflecting strong growth in Accredo specialty pharmacy, all while we continue to increase investments in order to drive new innovative solutions to the market.

For Cigna Healthcare, we expect full year 2022 adjusted earnings of approximately $3.9 billion. This outlook reflects the strength of our value proposition and focused execution in our business, driven by organic customer growth and disciplined pricing in order to expand margin.

Some key assumptions reflected in our Cigna Healthcare earnings outlook for 2022 include the following: regarding total medical customers, we expect 2022 growth of at least 575,000 customers with the vast majority coming from an increase in U.S. Commercial fee-based customers.

Within our U.S. Commercial book, organic customer growth is driven by National, Middle Market, and Select Market segments. We expect Medicare Advantage customers to be relatively flat compared to 2021, reflecting the competitive backdrop. And, as David shared, we expect a decrease in our individual customers.

We expect the 2022 medical care ratio to be in the range of 82% to 83.5%. As I noted earlier, this outlook assumes total medical costs will be above baseline in 2022. Importantly, we are actively managing overall medical costs with a range of affordability actions, including identifying opportunities such as guiding customers to more effective and efficient sites of care. For example, we focused our eviCore subsidiary on incorporating site of care review to our existing processes. These improvements encourage the use of non-hospital settings, which can substantially reduce cost for customers while increasing patient satisfaction. This action has contributed to results within our Commercial book of business, where we are now seeing fewer than 20% of all knee and hip replacements occurring in an inpatient hospital setting, down from over 75% in 2019.

We are also continuing to promote preventive care, the targeted use of virtual care through our MDLIVE subsidiary, and access to behavioral services to provide meaningful support to patients and moderate overall medical costs over the longer term.

Through these affordability initiatives and our disciplined pricing actions, we expect to expand margins in 2022, while growing our medical customer base.

Now moving to our capital management position and outlook. We expect our businesses to continue to drive strong cash flows and returns on capital, even as we increase strategic reinvestment to support long-term growth and innovation.

In 2021, we finished the year with $7.2 billion of cash flow from operations. Additionally, we returned over $9 billion to shareholders via dividends and share repurchase in 2021, a significant increase from 2020.

And now framing our capital outlook for 2022. We expect at least $8.25 billion of cash flow from operations, up more than $1 billion from 2021, reflecting the strong capital efficiency of our well-performing business. This positions us well to continue creating value through accretive capital deployment in line with our strategy and priorities.

We expect to deploy approximately $1.25 billion to capital expenditures, an increase from our 2021 CapEx levels. The investments will be heavily focused on technology to drive future growth. We expect to deploy approximately $1.4 billion to shareholder dividends, reflecting our meaningful quarterly dividend of $1.12 per share, a 12% increase on a per share basis.

And, we expect to use the proceeds from the divestiture of our international life, accident, and supplemental benefits businesses primarily for share repurchase. Our guidance assumes full year 2022 weighted average shares to be in the range of 308 million to 312 million shares. Year-to-date, as of February 2, 2022, we have repurchased 2.5 million shares for $581 million.

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

So now to recap. Our full year 2021 consolidated results reflect strong contributions from our focused growth platforms, led by Evernorth. Our 2022 outlook reflects meaningful contributions from each of our 2 largest segments, Evernorth and Cigna Healthcare, along with accretive capital deployment.

We are confident in our ability to deliver our 2022 full year adjusted earnings of at least $22.40 per share, consistent with our prior EPS commentary. Finally, as Ralph noted, we are looking forward to speaking with you in more detail at our upcoming Investor Day in June. And with that, we'll turn it over to the operator for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mr. Scott Fidel with Stephens.

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

Wanted to just ask your thinking about seasonality for both MLR and adjusted EPS in 2022 relative to 2021 and maybe sort of typical historical seasonality, and just in particular, thinking about the fact that Omicron obviously still having an impact here in the first quarter, likely on the Commercial book of business? Then also, as you talked about, given that you're planning to reprice some of the stop-loss business throughout the course of the year, interested in how you're thinking about the sequencing of the MLR over the course of the year as a result of that?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Scott, it's Brian. So I'll start with the seasonality component as it relates to the EPS cadence as well as the MCR. For purposes of what we expect relative to quarterly EPS, the 2021 pattern is actually a reasonable starting point as we think about the 2022 quarterly EPS that will emerge for us.

And so more specifically, we would expect a little bit less than half to transpire in the first half of the year. And based on what we're seeing so far in January, the impact of Omicron, et cetera, working its way through our book, there's actually quite a bit of resemblance in terms of January 2022 to January 2021, which again reinforces that '21 is a reasonable framework to use in terms of what to expect relative to EPS seasonality.

As it relates to MCR, the full year guidance, as I indicated, is between 82% and 83.5% for the Cigna Healthcare book of business. So the midpoint of that, you can view as a reasonable starting point for the first quarter. We would expect to run a little bit below that in the quarter just based on, again, what the early read is here in January, coupled with the pattern we saw last year.

So again, think of a little bit less than 50% of the overall EPS in the first half of the year, think of the first quarter MCR being a bit below the midpoint of our full year guide for Cigna Healthcare.

As it relates to the stop-loss book of business, within the quarter, and importantly, you need to think of this as a full year accumulation product. So what ends up transpiring with this business is over the course of the year, claims are accumulated and then the fourth quarter of the policy period, there's essentially a true-up. And what we had occur in the fourth quarter of this year is particularly the smaller end of our stop-loss book, we had some of the lower attachment points pierced slightly more heavily than we had been anticipating. And so that created round numbers, you can think of it as about $70 million of medical cost pressure in the fourth quarter.

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Importantly, though, that's an annual number because it reflects the accumulation over the course of the year in 2021, so that $70 million in the fourth quarter is really a full year '21 number. We have assumed that that $70 million pressure will recur in 2022. So we have not assumed that we'll be able to recover that, and that's embedded in our $3.9 billion income guide for Cigna Healthcare. So to the extent we're able to reprice some of the cases with the later effective dates in '22 that could provide some level of upside relative to the $70 million assumption that's embedded in the guidance.

Operator

Our next question comes from Mr. Steven Valiquette with Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

I apologize if I missed the details around this, but just regarding your Commercial membership outlook for '22, can you remind us of your assumptions related specifically to potential additional members from the industry shift of Medicaid members to Commercial around redeterminations commencing later this year?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Steve, it's Brian. I'll start and then David can add some color. So as I mentioned, we're expecting net customer growth in Cigna Healthcare of at least 575,000 customers in 2022, which we're really pleased with. And it's actually above what we would have expected a few months ago based on stronger-than-expected enrollment and retention.

And as I noted, the vast majority of that will come through in the form of fee-based ASO-related customer relationships. Our membership outlook for '22 does not anticipate any growth from Medicaid redeterminations in either the Commercial book or the individual book. So as you know, we don't continue to participate in the health plan space today in Medicaid. And therefore, as we think of the impact of redeterminations, it's only upside relative to our customer outlook. We have not modeled anything in terms of benefit in there. Anything you want to voice over, David?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Only add I would say, as I noted in my prepared remarks within the Commercial segment, we're pleased that our full year outlook for 2022 has growth in each of our 3 employer subsegments. So we're pleased with the outlook as we start the year, and we're pleased with the outlook for the full year.

Operator

Our next question comes from Mr. A.J. Rice with Crédit Suisse.

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

Maybe just a comment about you'll obviously continue to prioritize expanding in the Government side. Two aspects to my question. One, is that still primarily on the Medicare side or is there any change in the thought about Medicaid opportunities? I know you've always said the more acute into Medicaid was of interest, but just an update on that.

And then there's been a lot of discussion about, from an organic standpoint, what's happening in the distribution channels for MA. Maybe get your assessment of where the market is today? And is your organic growth strategy taking advantage of maybe distribution channels in a different way than what you've done historically?

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David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

A.J., it's David. Specific to the Government expansion, stepping back, first, we continue to see the Government space as an interesting and attractive growth space for us. We define that as MA, Individual exchange, we view as part of the Government programs as well as Medicaid when we look at the space more broadly.

To date, we focused in terms of using our levers and our focus more heavily on MA and on the Individual business. And, we're pleased to highlight the fact that within our Evernorth service portfolio, our Evernorth service portfolio continues to be able to expand its' Medicaid proposition through servicing health plans and other intermediaries.

Additionally, as I noted in my prepared remarks, as we expand our Evernorth service capabilities, we see that as a meaningful value creator to MA, to the Individual marketplace, as well as to the Medicaid marketplace. And we think all of which are going to continue to evolve and be attractive.

Specific to the MA distribution channels, no doubt some headlines have been produced relative to a little different dynamic, and our posture coming into 2022 was that 2022 was going to be a bit more dynamic year from an MA standpoint. Hence, we managed our portfolio to reduce our internal expectations of life growth and focused heavily on margin expansion with an eye toward 2022 -- 2023's growth being a more accelerated growth environment. And I think we'll see a little bit more shake out relative to some of the channels that are evolving.

For us, our channel traction on our retention has been pretty darn reasonable for 2022. We saw less new business growth year-over-year for Medicare Advantage, and we expected to see less new business growth in Medicare Advantage given our product and our pricing position.

Operator

Our next question comes from Mr. Gary Taylor with Cowen.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

One question and one clarification. The question is -- or maybe they're both clarifications. I just want to go back to the Commercial membership growth. I thought Brian had said mostly fee-based ASO. And then David, you had said growth across the segment. So I was just trying to piece together what your outlook was for Select, where you've had really the strongest growth and I would think would lean more towards risk versus fee?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Gary, it's David. Your starting part of your frame is helpful. So when we think about it, we think about National, Regional or Mid, and Select. Each of the segments have attractive growth for 2022 with National and Regional having very attractive growth outlook and all being -- think about that as all fee-based.

Second, to your point, within the Select segment, the Select segment has been and continues to be a very attractive growth segment for us. In any given year, the amount of new business we've written in that segment has varied anywhere between 70% ASO stop-loss and 30% risk to greater than 50% risk and less than 50% ASO stop-loss, it varies.

So we'll continue to write ASO stop-loss within the Select segment, and we'll write some guaranteed cost business in there, no doubt. But the aggregation of all the segments together and the strength of all 3 segments going into 2022 has a significant portion of our net customer growth being in the fee-based environment.

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Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Okay. That makes sense. I'll ask my other clarification offline.

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Sure. Thanks.

Operator

Our next question comes from Ms. Lisa Gill with JPMorgan.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

David, can you give us some update around the PBM on the Evernorth side as we think about 2022 and 2023? So first off, on 2022, did you see any material changes as we think about contracting or programs that you're offering? And then as we think about the selling season for 2023, I know we're pretty early on, but any insights that you can give us as far as renewals, book of business that's up for renewal, or how we think about how your PBM is doing?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Sure. So let me start with the '23 selling season and put a backdrop of it. We're pleased with the performance we've carried now over multiple years within that subsegment of Evernorth and 2023 is guiding towards another attractive year for us.

As it relates to -- when you think about the growth equation you're asking about, we start with retention, we would expect at this point, our retention levels for 2023 to be at or above our 2022 retention levels. So we would see that as an attractive outlook.

For 2023 growth, we have an active pipeline, and so we would see net new business adds coming through. And then context for you and our listeners, if you think about that business portfolio over the last several years, we've essentially had a net add of about 20 health plans into our portfolio of services. So positive and continued, I would say, sustained attractive performance.

Importantly, in the earlier part of your comments in terms of you said contracts and programs, I think I'd draw your attention back to the programs. A cornerstone part of that business is to continue to innovate programs and services. Said otherwise, it's not just a base PBM or access offering. There's an evolution of programs that you would know as Safeguard programs and evolution of Safeguard programs that continue to enhance clinical programs and clinical engagement and clinical care coordination leveraging both with Express Scripts has the ability to do, what Accredo has the ability to do, and increasingly, what we're able to leverage off of some of the Cigna Healthcare capabilities working in both directions off the medical side of the proposition.

So expansion of the services, using your term programs, has been mission-critical. And the final note I would say is our PBM team, as you call it, does a really good job of working client by client, be it a corporate client or in case of health clients to co-collaborate the innovations that work for them. And by doing so, helping them, our clients drive growth, which is mutually beneficial to both organizations. So wrapping up, we see 2023 as being another positive year, both from a retention as well as new business growth standpoint.

Operator

Our next question comes from Mr. Justin Lake with Wolfe Research.

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

I wanted to ask, so you gave us a $70 million number, and it sounds like you're going to reprice fully for that in the stop-loss book. I know in the rest of the -- your Commercial risk book, you had some issues in 2021, you were repricing some of them in 2022, but not fully. Is there a number that you could share with us that you hope to get back for -- in 2022 or 2023 in terms of repricing there so we can think about maybe some of the earnings momentum that we could see ahead as you get those books were priced?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Justin, it's Brian. So I think your question was really specific to the fully insured part of the Commercial book of business. And as I noted in my comments there in the fourth quarter, we saw some elevated medical costs. And all in, you can think of that as also in that same general zone as the stop-loss pressure I mentioned of about $70 million. So the 3 drivers of the pressure: the stop-loss, the individual exchange, and the fully insured that you can think of them as about 1/3, 1/3, 1/3 in terms of the medical care ratio pressure we had relative to our expectations in the quarter.

So the fully insured component of that going forward, as David indicated in his comments, we started to see pressure emerge in the second quarter of 2021. If you recall, our second quarter MCR was elevated relative to our expectations. And that began a cycle of margin expansion on this book of business. So we've been repricing over the course of '21 and into '22 with the expectation of expanding margins.

As we've talked about before, we don't expect that all to transpire in 1 year. And so when you look at the Cigna Healthcare income guide for next year -- or this year, actually, at $3.9 billion, that's up about $300 million from where we ended in 2021. That will improve our margin profile, but it doesn't get us all the way to our target margins in 1 year.

So we have more opportunity in '23 and thereafter for further repricing actions. So in the fully insured book of business, in particular, the sold business so far has revenue yields in excess of cost trends. And you can think of that in the range of 100 to 150 basis points as we step into '22. So we'll get some margin expansion in that portfolio. We'd expect more in '23 as more of the business is repriced.

Operator

Our next question comes from Mr. Matthew Borsch with BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

Yes, I was hoping you could just comment a little bit more on the competitive prices in Medicare Advantage? And -- at what point did you come to realize that those were going to meaningfully impact your enrollment outlook? And just -- sorry, just related to that, partly related to that, if you can maybe give one comment on the advance notice on the 2023 rates we got last night?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Matt, it's David. So specific to the Medicare Advantage environment for 2022, we were mindful of our willingness to trade, if you will, volume for margin as we're establishing our pricing for 2022, earlier in 2021. Did we have perfect insight? Of course not, but we were mindful of that. To answer your question more specifically, clearly, when the competitive pricing by market became visible as you get ready to step into the annual enrollment period, we were able to look at market by market. And we're able to broadly see, in most markets, our level of benefit and price point positioning, clicking down 1 to 3 notches by market.

So that gives you a context. And that's in an environment with the local scale, with attractive medical cost configuration, and with a Stars rating deep into the 80s. So as we looked at that environment, again, we were mindful of what was transpiring. And at that point, we were able to see

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that there would be more volatility. As I noted before, we saw reasonable retention, a little bit of pressure on retention, but less new business sales that came through.

Now specific to your point, it's early, folks are coming through what was posted last night. But big picture, I put the headline number aside, it looks like a little over 4% net yields for the industry. And our assessment of ourselves, when you look at mix, kind of shaking it through, is about 4% yield with an eye toward 2023. We view that as a positive, taking our current proposition, taking our current Stars rating, taking our current Net Promoter Score, taking the geographies we've expanded in, and our disciplined orientation of stabilizing the environment for 2022. So we're looking forward to a very attractive growth opportunity for the Medicare Advantage portfolio of business in 2023.

Operator

Our next question comes from Mr. Josh Raskin with Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

I'll congratulate Ralph for joining. I want to get back to the comments that you made about the inorganic growth, specifically in the Government segment. And I think -- and perhaps this is the answer understanding that there are significant potential synergies with Evernorth for new blocks of business in the Government segment.

But maybe just help us, what's changed over the last couple of years? What is most attractive for potential targets in your mind? How important is scale -- large scale? And do you consider the organization prepared for large-scale M&A at this point? And then lastly, the last big one I think about in the Government segment was HealthSpring, that asset, that growth rate hasn't really kept up with the market. So I'm curious if there are lessons learned or things that you think are different this time around in terms of Cigna operating at larger scale in the Government segment?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

When you think about our inorganic priorities. First, our inorganic priorities augment our organic growth and then our disciplined focus to extending and expanding partnerships and then identifying inorganic opportunities. We have four categories, and I'll come to your core point in a second. Four categories of focus: furthering our international proposition in key markets on the health space, furthering our U.S. Government capabilities, furthering our care delivery and management capabilities, more oriented toward the digital, the home, the behavioral side of the equation, and then digital and technology support for our organization.

As it relates to inorganic opportunities in the Government space, I'm not going to call out any one as a priority, there's multiple subsegments. But as we look at inorganic priorities, to your point, of scale, we have to conclude that, of course, they're strategically attractive, then we have to conclude they're financially attractive, and then we have to conclude that we could essentially close them or create a level of certainty.

So within the context of that, we take into consideration all the items in your question. Regulatorily, we recognize the environment is quite fluid right now. From a financial attractiveness, this includes the organizational readiness and our ability to create and capture value. We have to conclude for a larger transaction that the transaction will be accretive in its first full year of operations and generate an attractive ROIC.

So that's an important part of the equation for us in terms of the way in which we would approach a transaction from that standpoint. And on a final note, we've built a diverse portfolio within Cigna, demonstrating that our services portfolio is well positioned for continued growth and then within our Cigna Healthcare portfolio, we have multiple growth levers from Commercial to Government to our International Health capability. So we'll be opportunistic here if we see a significant value creator, but quite disciplined considering the points I referenced relative to the strategic value creation, the financial value creation, which we're quite disciplined on and, of course, mindful of the regulatory environment.

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Operator

Our next question comes from Mr. George Hill with Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

David, I wanted to pull on a thread that you just mentioned in the last comment, which was demand for digital. And I guess I would ask for demand for digital ex-telemedicine. I think before you guys bought ESI, they had started to build a digital formulary. Brian talked about increased investments in technology to drive future growth. So I guess I would talk about, are any of these initiatives material yet, again, ex-telemedicine? So are any of the digital initiatives really moving the needle at the bottom line? And I guess, could you talk about where future capital is going to be deployed to grow and fill out the white space here?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

So first, just a calibration point, the digital formulary, you made reference to, transpired as we were combined entities. And I think it's a good reinforcement of innovation. So I agree with you using that as an example of innovation. Two, I do appreciate you broadening the leverage and the value creation of digital beyond, although virtual health is massive, beyond that.

As we look into the organization, we see significant opportunity to leverage digital capabilities beyond. So I'll cite two examples just to be succinct. One of which I made reference to in terms of supporting our customers and patients with specific, highly personalized, immediately actionable information as they make their personal health decisions around consuming care.

And I cited an example in orthopedics and musculoskeletal where there is a significant amount of preference and choice that the consumer patient has exercised. And we've learned over time, delivering information that is personalized and actionable at the moment that matters when decisions are being made is mission-critical, and we're able to improve value for that patient through better quality, better affordability, and then share some of that benefit back to the client.

So that's an example on the care side of the equation. On the administrative side of the equation, we talked about our ability to harness further leveraging in the franchise off of shared services as well as our continued growth of our revenue portfolio.

A digital-first framework is mission-critical within that. We have the ability to bring more personalized services on the administrative side of the equation, both to our customers as well as to our physician partners, and most of that lies upon a digital-first philosophy and framework and we continue to invest there.

On a final note, some of the CapEx that Brian made reference to goes toward both of these dimensions, whether it's in the care enablement side of the equation or whether it's in the administrative service side of the equation. We see it as a meaningful value creator, and I appreciate you calling that out.

Operator

Our next question comes from Ms. Ricky Goldwasser with Morgan Stanley.

Michael Ha - *Morgan Stanley - Equity Analyst*

This is Michael Ha on for Ricky. Just a couple of really quick questions. One question about the $119 million charge related to the strategic plan to drive operational efficiencies. Curious, what's the expected size of the cost savings, cadence, timing, is that baked into guidance? And then a second question on the MA rate notice. I know you addressed it a couple of times on the call. But just given how strong it was and '22 membership perhaps

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falling a bit short of expectations starting flat, any implications to competitive dynamics next year? Is your preference for maybe reinvestment into benefit richness or marketing and distribution channel?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Michael, it's Brian. I'll take the first question, and then David can pick up on the Medicare Advantage component. So as we announced this morning, we are taking a charge in the quarter associated with organizational efficiency. And you can think of that the charge amount itself was about $168 million pretax. Over time, that will run rate to a number in the $200 million, $225 million range. And you can expect that that full run rate will be achieved by 2023. A portion of that will come through in '22. Of course, that won't all drop to the bottom line. A portion of that will be redeployed in the form of more competitive prices and premiums out into the market.

And just to give you a little more context there, I talked about automation, digitization. So a piece of this will be essentially removing unnecessary work and some of that will be personnel. There's also a significant piece in here associated with real estate. We made the decision after a couple of years into the pandemic that some sites should be closed permanently and/or some floors restacked, so there's a component here associated with real estate optimization as well. David, do you want to pick up on the Medicare Advantage component?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Sure. And Michael, just as a transition from Brian's point, I'd point you to the fact that our SG&A ratio for 2021 was a very attractive number and our outlook for 2022 is a further improvement so back to embedded in our outlook is a further improvement to the SG&A ratio.

Relative to the Medicare rate notice and the 2023 environment, we view it as just macro a positive environment for us to lean into. I think to the core of your question, do we view it negatively or do we have regret relative to our growth posture for 2022 as we look to the rate notice for 2023? My answer to you is yes and no.

Clearly, we would like more lives that are sustainable to be able to serve, but we believe being disciplined in this more fluid environment of '21 to '22, what was a better answer and better decision. And I would remind you, we're talking about numbers off of a book of business of about 550,000 lives. So within our portfolio, that's about 10%, 5% of the enterprise revenue, we're able to make those trade-off decisions. Looking to 2023, we see more opportunity, and we see that opportunity off of our base, we see the opportunity off of our geographic expansion off the last 2 years, and we see that opportunity being further enabled by the rate environment for 2023. So we're excited by that.

Operator

Our next question comes from Kevin Fischbeck with Bank of America.

Kevin Mark Fischbeck - *BofA Securities, Research Division - MD in Equity Research*

Great. Maybe just want to follow up with that and maybe broaden it a little bit to the exchanges as well. I guess I understand when you price for margin, you're going to grow below average, but MA is growing high single digits, you're flat. The exchanges is having one of the best growth rates we're probably going to see and you're down. And in both cases, you're expanding geographies.

So the other companies who have talked about conservative pricing are still growing. So I just wanted to see a little bit more if you can talk about both MA and the exchanges as far as what gives you confidence that your products are going to be competitive and be able to grow?

And I guess when you think about 2023 growth, are you talking about reacceleration off of flattish or are you talking about getting back to industry-level growth rates in those businesses for next year?

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David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Kevin, appreciate your questions. Two very different markets and two very different market environments. Specifically to the Individual exchange environment, our point of view is adding more lives at 0 or negative margin is not a shareholder prudent posture.

Two, in a marketplace that is fluid year in, year out, we've been able to prove that as that marketplace is undulated, our discipline has played through, save for the special enrollment period that played through in 2021, our discipline has played through in a net positive way, as we've been able to build more geographies, more focus in geographies, and yield a sustainable proposition.

But to be very clear, our conclusion is that adding additional lives in a marketplace that's fluid year in, year out, at 0 or negative margin in a capital-intensive subsegment of the marketplace is not prudent. Looking forward, that marketplace will shake itself out as it has in the past, and we see attractive growth off of our existing geographies and new geographies.

Relative to Medicare Advantage, your challenge is fair. I don't resist your macro challenge. In fact, we see that as opportunity versus downside relative to us. We've broadened our reach over the last couple of years meaningfully in terms of new MSAs as well as new counties. Our Star performance is deep within the 80s on a sustained basis, and our Net Promoter Score is quite high.

So the cornerstone of the value proposition you can play through remains very attractive in the marketplace. I'd remind you that we've only participated in the individual market. And we've recently only participated in the individual HMO and PPO market over the recent vintage. So we looked within and said our strike zone was small, less than 20% of the addressable market. We've expanded that to about 30% of the addressable market. Now we'll continue to grow that over time.

So we look at this current environment for both of these businesses, where in 2022, we're able to be disciplined for both of those businesses and not chase low or 0 margin business and yield attractive revenue and earnings growth for the franchise and put ourselves in a position for what should be a very attractive 2023 for both of those businesses with attractive, meaningful, sustainable growth outcomes.

Operator

Our next question comes from Mr. Nathan Rich with Goldman Sachs.

Nathan Allen Rich - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Brian, I just wanted to go back to the MCR guidance for '22. It implies, I think, about 50 to 200 basis points of improvement. You noted utilization now is expected to be above baseline. And I think if I heard you right on the first quarter, MLR will be up a little bit year-over-year. So could you maybe just talk through the tailwinds that you see over the balance of the year as it relates to MCR?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

So I'll do my best to tackle different aspects of that question. And importantly, the guidance is on the Cigna Healthcare basis. So for purposes of comparability, it's important as you go back and look at our historical financials that you're looking at the Cigna Healthcare basis and not the prior U.S. Medical basis.

But in aggregate, for full year '21, we landed at 84% for the full year MCR. And to your point, the guidance is 82% to 83.5%. So take the midpoint of that, it's 125 basis points of improvement from '21 into '22. So all in, as I mentioned in my comments, and you mentioned in your question, we are expecting the absolute level of medical costs relative to baseline in 2022 to be similar in full year '22 to what we saw in full year '21.

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And so we were previously assuming that there would be some level of cost abatement in '22. We are no longer assuming that. We think that's a prudent posture to take stepping into 2022 in light of the year that just ended. So as a result of that, the MCR improvement year-over-year is attributable to both our revenue outlook, our affordability actions, and some mix of business changes.

So to give you a little more specificity there, if you were to decompose the 125 basis points, think of about 75 basis points of that associated with revenue yields in excess of our cost trends, predominantly in U.S. Commercial. So as Justin asked earlier about the fully insured book, we are seeing revenue yields in excess of cost trends as well as the other subsegments of that portfolio.

We expect about 25 basis points of improvement to come from our Medicare Advantage book, specifically the risk adjuster headwind that we incurred in 2021 will fully unwind here in 2022. We've got a good level of visibility on that.

And then the final 25 basis points is associated with our Individual and Family Plans book, in particular the special enrollment period live that we described earlier, we expect a level of normalization in the medical care ratio from that book, both from a combination of the pricing actions we took, the improvement in terms of risk adjuster coding in '22, less pent-up demand, and some industry-wide risk pool normalization. All of that contributes to about 25 basis points of improvement on the Individual and Family plans.

So you put that all together and you get 125 basis points from the final '21 to the midpoint of our 2022 guide. Those are the big chunks I would encourage you to think about.

Operator

Our next question comes from Mr. Stephen Baxter with Wells Fargo.

Stephen C. Baxter - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Just to follow up on Kevin's question on the exchanges. I guess I wanted to take a little bit more of the short-term orientation about 2022. Obviously, you're working to reprice this business and what remains a pretty competitive and price-sensitive market. So I was hoping you could give us a sense of how much this membership is set the decline in 2022, basically what we're going to see when you report your Q1 results?

And then such, because it's such a big swing factor for 2021, are you expecting this business will be at least break even for 2022 within the guidance you're establishing?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Yes, Stephen, it's Brian. I'll start and then if David wants to pick up on any aspects, feel free to jump in here. So we ended the 2021 calendar year with 378,000 lives and as you know, the open enrollment period just ended a few weeks ago. So there's still some dust to settle in terms of who will follow through with first premium payments. We have extended grace periods on some of the customers, et cetera. So pinpointing the exact number is a bit of a challenge for the first quarter.

But for the full year, based on how the open enrollment period just ended up, we would expect lives to be down in the range of 20%, 25%. So you can think of the 378 that we ended at year-end '21 coming down by that sort of magnitude by year-end '22. Intra-year, there's likely to be some net attrition. So I won't try to pinpoint the Q1 number, but you can expect it will be down from the year-end number and then we'll see some further attrition over the course of the year.

Based on the pricing actions we took, we've seen our competitive position slide down in most geographies. So the renewals that we did get, we were pleased with because the prices are certainly firmer than they were in '21, which gives us good confidence in the margin expansion.

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And following up on the question that Nathan just asked me, we would expect all-in MCR improvement on this book of business of several hundred basis points when you think of the loss of the special enrollment period lives and the revenue yields that we were able to achieve.

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

So therefore, margins expanding in the book to your point, not quite at but approaching more reasonably what our target margins are for the book of business, but not quite at that for 2022.

Operator

Our next question comes from Mr. Dave Windley with Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

David, I wanted to come back to Medicare Advantage and ask what key levers do you think or what key changes do you need to make in the Medicare Advantage business to enrich benefits for competitive purposes, lower cost structure, in particular, to be profitable or closer to profitable at price points that you're talking about in the current environment? And what might Evernorth -- how might you invoke Evernorth to help in that regard?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

So Dave, again, let's start with big picture. Big picture, the performance of that book of business as we step into 2022 has a pretty reasonable retention level, retention points a couple points below where we would like it to be given the competitive environment, just less new business sales.

So from a value proposition for those we are serving today, largely off of an individual HMO chassis and increasing off of an individual PPO chassis, the value proposition resonates for those that are consuming our services.

But the new business side of the equation a little bit more challenging given the dynamics in the marketplace. I think we always enhance the value proposition. So to the core of your point, I would point toward two areas.

One, the ability to continue to accelerate and enhance the collaboration between the pharmacy, the specialty pharmacy and the behavioral subcomponent of the proposition. And two, the ability to further leverage some alternative site of care opportunities for the benefit, in this case, of the senior beneficiary to deliver both better overall affordability and convenience. So you can think about that as alternative site of care being digital, home care or extending the services that could be delivered in a coordinated value-based physician relationship from that standpoint. We see both of those as net additional added value opportunities for both affordability as well as personalization for the individuals we serve. And both of those are enabled through further expansion of Evernorth.

Operator

Our next question comes from Mr. Lance Wilkes with Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Just wanted to ask a question about outlook for the Evernorth PBM sort of business? And had three components here. One, I was interested in the amount of contribution in '21 and the outlook for '22 and beyond from specialty products going generic and how that's impacting margin? Then

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on a growth end was interested in what's the further upside with respect to potentially penetrating the Cigna book of ASO business? And then lastly, just on Prime Therapeutics, just interested in what the outlook is as far as renewing that contract? Obviously, you've been expanding and deepening your relationship. But just was interested in kind of how we should look at the security of that?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Lance, it's David. You packed a lot into 1 question. Let us try to touch upon each. I'll take the Prime question, I'll take the upside on the Cigna book, and I'll ask Brian to take the specialty and specialty generic piece of the equation.

First, specific to Prime, just at a more macro level, I'm not going to go through detailed renewal situation with the -- on the line here. But if you take 2 steps back, Prime is a great reinforcement of our orientation around partnering. Our health plan business has continued to grow. I referenced previously, we've had net growth in our health plan portfolio of about 20 health plans over the last several years. Specific to Prime, we're proud to be able to serve our Prime both organization, health plans within it, and the members. We've been able to expand the relationship and broaden the relationship over time. And importantly, Lance, we co-collaborate and co-innovate with the health plans within Prime to help to drive further growth for them. So we view it as a positive and it's a reinforcement of the meaningful and attractive sustained growth we've had in our health plan portfolio of businesses.

As it relates to upside within the Cigna portfolio, we continue to drive leverage between the Cigna Healthcare portfolio and the Evernorth portfolio. For example, our growth recently with UPMC is an example of leverage between the two organizations, where we leverage some of our Cigna Healthcare capabilities within the Evernorth relationship for a strategic long-term partner when we were able to expand the relationship in that way.

Specific to your -- I think the traditional part of the way you're asking the question, I'll wrap up here, is on the PBM penetration within the Select segment always deemed that to be fully penetrated. Within the Middle Market segment, the level of penetration varies based on client relationship. We see some additional penetration as having been achieved.

And then within National Accounts, it's an account by account relationship that is determined. So overall, we're pleased with our current state of penetration for PBM in Cigna Healthcare. It can move a little bit more, but I wouldn't have you look at it as a big barometer of movement rather the leverage of the relationships like a UPMC is a great example of, you're using the word penetration, we'll use the word cross-leverage and cross-value collaboration. Brian, I'd like you take the specialty and specialty generic piece.

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Yes. Overall, just kind of big picture, specialty generics and biosimilars are both really important mechanisms to drive affordability for our clients and customers over time, as they drive competition. And that's a really important part of the landscape here. And specialty was a meaningful driver of our results in 2021, and it will be in 2022 in the Evernorth space. So, well, I won't specifically size the contributions from specialty generics, it was helpful contributor over a multiyear period now to our ultimate P&L for Evernorth. And as we step into '22, I mentioned in my prepared comments, specialty will drive revenue growth in Evernorth. All in, we would expect our Evernorth growth to be within our long-term targeted growth range, meaning at least 4% revenue growth, powered heavily by specialty. Specialty generics will be a part of that as will biosimilars and other parts of the drug space.

So all in, we would expect Evernorth revenue to grow at least 4% for the coming year, and we expect income growth of 5% with Specialty generics being a component of that.

Operator

Our next and last question comes from Mr. John Ransom with Raymond James.

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John Wilson Ransom - *CIMB Research - Research Analyst*

The question I have is if -- I know you guys aren't breaking out COVID costs anymore, but if we were to assume more of a normal cost, not trend, but just a cost reset in '23, could you please give a ZIP Code for what that would mean quantitatively?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

John, it's Brian. So you're right. We found it increasingly difficult to try to segregate COVID and non-COVID and the commentary we had earlier in '21 about COVID headwinds, particularly as you're finding more and more situations where an individual might be admitted to the hospital with one condition and then found to have COVID later on or the situation with our special enrollment period lives, where it was tough to determine is that a COVID-related issue or not.

So we found it increasingly difficult, which is why we talk about all-in medical costs relative to the baseline. As I mentioned earlier, for full year '21, we ran above the baseline persistently for all 4 quarters across the book, and we've carried that assumption forward into 2022.

And so you should think of that as, when I say above the baseline, not 1% above the baseline, but a few percentage points above the baseline. So think of low single digit to mid-single digit above the baseline. And then over time, if there's some moderation, that will provide tailwind relative to our '22 and/or subsequent outlook.

John Wilson Ransom - *CIMB Research - Research Analyst*

And then this is one for David. I mean just strategically, I get to help out our benefit committee and vetting vendors and things like that. And so we've been going through this cycle and what strikes me, and we're a pretty large ASO plan, what strikes me is what we're hearing from the consultants that we use as everybody is hot on using these navigators and I know you know who they are.

And so we're talking about like yet another overlay to sit on top of the PPO, which now needs to become a TPA, so you can steer and then there's quality information. We changed the number on the back of the card. So we're calling the navigator.

And the reaction from our management was, gosh, this looks like it could save some money, but why do we need yet another layer on top? Why are the health plans not able to do this with all the reserves and IT and everything that they have? And so I'm just curious, you're a large ASO player. I just wonder what your thought is long-term about supplanting that function? Or do you think that's just -- we're just going to add yet another function on top so that we can take three points out of the cost trend?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Yes. Efficient work, John, grabbing another question there. I think your question points toward the criticality of sustained innovation. And if you -- as I know you do, if you go back and look at the space over the last couple of decades, there continues to be periods of time where specialists will take a slice of the value proposition.

And I don't say that as being an immaterial or an unimportant slice of the value proposition, but will take a slice of the value proposition and try to drive super specialization within that. Typically, what that results in is either consolidation of those capabilities or accelerated innovation of those capabilities to be coordinated.

So we don't think the picture you articulate is sustainable. We don't think your coworkers want to have multiple touch points coordinating them. We don't think medical professionals want multiple touch points coordinating them. But rather, the theme of a navigator is totally on strategy for us.

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We have generations of that within our portfolio, within different solutions that have been in the marketplace for quite some time. One Guide capability and certain clinical team capabilities and certain service capabilities, and having a digital-first philosophy, which is what I discussed previously, would reinforce to you that we continue to not only expand programs but expand the capabilities on a digital-first standpoint that could be able to do the navigation for our customers in a much more coordinated way.

So we view that as on strategy, we view that as part of our CapEx, we view it as part of our capabilities within our portfolio, and we have multiple positive proof points of how we've been able to convert that today, but we do not view that as an opportunity for the marketplace to disintermediate over a long period of time because that fragmentation is not sustainable. So opportunity for us.

John Wilson Ransom - *CIMB Research - Research Analyst*

See, David, if I hadn't snuck in that question, you wouldn't have been able to give that answer. So I know you're happy with it.

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

I appreciate your effectiveness, John.

Operator

I will now turn the call back over to David Cordani for closing remarks.

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

John reinforces that the operators suggestions are guidelines. But John, I do appreciate it very much. We want to thank everyone for your questions and importantly, your time this morning. And before I wrap up, I just have a couple of comments.

First, I want to say how appreciative and proud I am of our more than 70,000 colleagues for continuing to serve our clients, our customers, and patients in a very challenging environment. We've all gained an even greater appreciation of the importance of health and well-being during this prolonged pandemic.

And at Cigna, we're committed to continuing to innovate to deliver more affordability, simplicity, and predictability of solutions for our customers, our patients, and our clients. Our Evernorth and Cigna Healthcare platforms are well positioned for sustained growth, and we're confident that 2022 will be another strong year for Cigna. Thanks, and have a great day.

Operator

Ladies and gentlemen, this concludes Cigna's Fourth Quarter 2021 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 (866) 359-3779 or 203-369-0147. There is no passcode required for this replay. Thank you for participating. We will now disconnect.

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