

BN Cigna 4th-Qtr Net Almost Doubles on Cost Cuts, a Gain (Update7)  
Feb 9 2005 16:14

(Updates with closing share price in fifth paragraph.)

By Kristin Reed

Feb. 9 (Bloomberg) -- Cigna Corp., the fourth-largest U.S. health insurer, said quarterly earnings almost doubled on a gain from the sale of the company's retirement-benefits unit and cost cutting.

Fourth-quarter net income rose to \$558 million, or \$4.16 a share, from \$281 million, or \$2, a year earlier, the Philadelphia-based company said today in a statement. Revenue from continuing operations, which excludes the retirement unit sold in April, fell 3.5 percent to \$4.34 billion.

Chief Executive Officer Edward Hanway compensated for a 16 percent drop in membership by paring jobs and reducing Cigna's payments to the largest hospitals in its network. Hanway is seeking to fix claims-processing flaws and other customer-service issues that contributed to the loss of 3.3 million customers since 2002.

``This quarter shows the company is making good progress, and I think we will know in the first few months of the year whether it is poised to once again start growing,'' Patrick Hojlo, a Credit Suisse First Boston analyst in New York, said in a telephone interview. ``The Street is still being optimistic in its assessment of Cigna's near-term growth prospects. We think they are a little further back than some.'' Hojlo has an ``underperform'' rating on Cigna and doesn't own the stock.

Cigna shares rose \$1.43 or 1.7 percent, to \$85.35 at 4:04 p.m. in New York Stock Exchange composite trading. They gained 17 percent in the fourth quarter.

Cigna covered 9.7 million people in its health plans as of Dec. 31, trailing WellPoint Inc., UnitedHealth Group Inc. and Aetna Inc. in terms of membership.

#### Cost Cutting

The recent quarter included a \$141 million gain from the sale of Cigna's retirement-savings unit to Prudential Financial Inc. for \$2.1 billion in April. Excluding that gain, a \$28 million tax benefit and other items, Cigna would have earned \$2.41 a share. The average profit estimate of 17 analysts surveyed by Thomson Financial was \$1.61.

Hanway sold the retirement-benefits business to focus efforts on the company's health plans. Cigna is spreading gains from the sale over several periods.

Cigna exceeded his goal of cutting its administrative expenses by \$300 million last year, Hanway said.

BN Cigna 4th-Qtr Net Almost Doubles on Cost Cuts, a Gain (Update7)  
Feb 9 2005 16:14

The company eliminated 4,800 positions in 2004, including 1,200 positions tied to the retirement-savings business, 1,000 from attrition and 1,600 from job cuts, Cigna spokesman Wendell Potter said.

The company also got a boost from the reversal of \$70 million it had put aside for medical expenses in previous periods that went unused, Potter said.

#### Customer Losses

The cost-cutting helps profit, but may make it harder to gauge how the company's underlying business is doing, said Michael Obuchowski, who helps manage \$35 million for Altanes Investments LLC in New York, including health-insurance stocks.

``Its difficult to pinpoint what kind of stability there is there,`` he said. ``In the middle of cutting expenses it is very easy to increase profit, but harder to create a consistently profitable company that's growing.``

Membership in Cigna's health plans totaled 13 million members at the end of 2002, before claims-processing errors and rising rates drove businesses and individual customers away.

The company's health and commercial-risk insurance plans lost a combined 315,000 members in the fourth quarter from the third, about 140,000 more than expected, Goldman Sachs analyst Matthew Borsch wrote in a note to clients. Borsch raised his rating on the stock to ``in-line`` from ``underperform`` today because he believes the company's customer-retention efforts will pay off, according to the note.

Hanway said another 8 percent to 9 percent of the company's customers left in January, when most of Cigna's contracts are renewed. He said the company expects membership to stabilize after the first quarter of 2005.

#### Growth Plans

Margins in the health-care unit were 7.8 percent in the fourth quarter compared with 4.6 percent a year earlier, Cigna said.

Medical costs increased at a rate of about 8 percent in 2004, while premiums increased about 12 percent. Nationwide, growth in medical costs had started to slow because of unemployment and the shifting of costs to workers in the form of higher co-payments and deductibles. The company forecast an increase in medical costs of between 7.5 percent and 8.5 percent for 2005.

Cigna and other insurers are designing plans that are cheaper for consumers and employers. Cigna is looking for growth

BN Cigna 4th-Qtr Net Almost Doubles on Cost Cuts, a Gain (Update7)  
Feb 9 2005 16:14

from cafeteria-style plans that allow employers to choose from networks of doctors and payment structures, and to decide how closely Cigna will monitor costs.

Cigna forecast 2005 profit from continuing operations, before realized investment results, of \$745 million to \$815 million, or \$5.55 to \$6.05 a share, down from \$1.04 billion, or \$7.55 a share in 2004. The 2005 estimates include about \$20 million to \$25 million in expenses related to stock options, Cigna said.

Cigna forecast first-quarter profit on that basis of \$180 million to \$210 million, or \$1.35 to \$1.55 a share.

(Cigna held a conference call today at 8:30 a.m. New York time. A replay will be available at <http://www.cigna.com>.)

--With reporting by John Lauerma in Boston. Editors: Barry, Elser, Roth, Schauder

Story illustration: For a series of Bloomberg functions Related to the company, see {CI US <Equity> CNP00094090108 <GO>}. For a chart of Pfizer's earnings by quarter, see {CI US <Equity> CH2 Q <GO>}.

To contact the reporters on this story:  
Kristin Reed in San Francisco at (1) (415) 743-3549 or [kreed@bloomberg.net](mailto:kreed@bloomberg.net)

To contact the editor responsible for this story:  
Robert Simison at (1) (202) 624-1812 or [rsimison@bloomberg.net](mailto:rsimison@bloomberg.net).

[TAGINFO]  
CI US <Equity> CN

NI HEA  
NI HMO  
NI US  
NI PA  
NI GEN  
NI COS  
NI ERN  
NI EST

BN Cigna 4th-Qtr Net Almost Doubles on Cost Cuts, a Gain (Update7)  
Feb 9 2005 16:14

#<610507.136587>#

#<581826.652570>#

#<533774.1537269>#

#<581826.652570>#  
-0- Feb/09/2005 21:14 GMT