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CI.N - Q2 2021 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 2Q21 adjusted revenue of $43.1b and after-tax adjusted earnings of $1.8b and adjusted EPS of $5.24. Expects 2021 consolidated adjusted revenue to be at least $170b and adjusted EPS to be at least $20.20.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's Second 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 Ms. Alexis Jones. Please go ahead, Ms. Jones.

Alexis Jones - *Cigna Corporation - IR Lead Principal*

Good morning, everyone, and thank you for joining today's call. I am Alexis Jones, Lead Principal for Investor Relations. With me on the line this morning are: David Cordani, our President 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 second quarter 2021 financial results, as well as an update on our financial outlook for 2021. 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.

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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 2021 and future performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations. A description of these risks and uncertainties is contained in the cautionary note to today's earnings release and in our most recent reports filed with the SEC.

Before turning the call over to David, I will cover a few items pertaining to our financial results and disclosures. Regarding our results, in the second quarter, we recorded an after-tax special item charge of $9 million, or $0.03 per share, related to debt extinguishment costs incurred during the period. We also recorded an after-tax special item charge of $14 million, or $0.04 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 2021 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated 2021 dividends, and excludes the impact of any business combinations or divestitures that may occur after today.

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

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

Thanks, Alexis, and thank you to everyone for joining us on today's call. Today, I am going to spend a few minutes talking about the current environment and the forces that are shaping it, the strength and durable nature of our model that enables us to capitalize on opportunities and continue to grow even in the most disruptive conditions, and how the strength and durability is fueling our short- and long-term success. Then Brian will share more details about our second quarter results as well as our outlook for the rest of the year, and we'll take your questions.

So let's jump in. During the quarter, we delivered adjusted revenue of $43 billion and adjusted EPS of $5.24 per share, all while we continue to drive balanced capital deployment as we execute on M&A, share repurchase and our quarterly dividend plan. We achieved these results in a fluid and challenging environment. As we continue to execute our strategy, we are confident in our ability to navigate these dynamic conditions. Our portfolio with 3 growth platforms enables us to create value for our clients and customers, and drive sustained business growth.

During the quarter, the strength of our Evernorth business was clearly a standout. We are seeing high demand for health services programs, and we continue to invest in broadening our service offerings as well as our reach. Our sustained success validates our ability to be a trusted partner of choice for customers and clients as they manage many of the most challenging aspects of health care today. We do this by leveraging our portfolio that includes Pharmacy Solutions, Benefit Management solutions, Care Solutions and Intelligence Solutions.

Evernorth is helping to improve access to care, keep costs down and deliver better outcomes as we serve our clients, patients and customers. And another quarter of Evernorth's strong revenue and earnings growth reinforces that our customers and clients value these capabilities.

In Cigna Medical, we did see elevated medical cost pressure in the quarter as costs associated with direct COVID-19 care and the broader ramp-up of utilization levels exceeded our projections. Within this challenging environment, we continue to take proactive steps to ensure our customers have access to the care they need. This includes the elevated mental health services needed during these unprecedented times, as well as continuing to work with our customers and patients to help navigate them to optimal sites of care.

During the quarter, we achieved customer growth in Cigna Medical in both our U.S. Commercial and Government businesses, and we continue to be on track for medical customer growth of at least 350,000 customers in 2021. Brian will share additional perspective on our results and outlook in his comments.

Overall, our performance, which is strong through the first half of the year reflects the resiliency of our business and the balanced profile within our organization. With our focus on driving performance during the remainder of the year, it's imperative that we understand and account for the challenges our customers and clients will face as well as the continued evolution of the health care landscape.

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At a macro level, the environment is marked by ongoing uncertainty for businesses, governments, and communities around the world. For example, COVID vaccination levels have brought welcome relief to millions, yet only about half of the U.S. is fully vaccinated, and that percentage is much lower for the world's population. With the spread of the more contagious Delta variant, COVID infections and hospitalizations are on the rise in some regions, bringing renewed attention to travel restrictions and mask mandates. We see the economic recovery while positive, has been uneven and varied amongst industries as companies continue to cope with supply chain disruption, emerging inflationary pressure and various issues impacting the workforce.

More broadly, from a health perspective, federal and state policymakers continue to be actively engaged. And as we've previously discussed, we continue to see 3 primary forces of change shaping the health care landscape today and in the future.

Specifically, pharmacological innovation, including specialty pharmaceuticals, gene therapies, evolved oncology medications, vaccines and acceleration in biosimilars. Second, the recognition of the link between mental health and physical health continues to grow, especially accelerated in this COVID environment. And third, the rise of virtual care and other alternative access to care models are rapidly changing. Together, these macro dynamics are profoundly influencing buying behaviors and service innovation in health care.

Now with respect to clients, we are seeing a renewed commitment of employer clients to providing health care benefits vital to helping them to both attract and retain talent as well as increased productivity by maintaining a healthy workforce. This includes, for example, adopting alternative site of care programs and access programs. We see an intensified need for affordability across all of our clients, including pharmacy services as demand surges for high-priced breakthrough drug therapies. We see a desire for more consultative solution-based services as many clients are confronting the convergence of social, physical and mental health issues in ways they have not experienced before.

With respect to the individual customers and patients utilizing our services, we see that they are increasingly valuing their employee-based service models. They're benefiting from support services that help them tend to their emotional well-being, and they have growing demand for coordination of care, both in COVID and non-COVID events. Against this backdrop, we are delivering differentiated value for the benefit of our customers and clients with our capabilities that address their emerging and evolving needs. For example, we have had a strong focus on providing virtual services, broadening networks as well as coordinated clinical programs. In our Pharmacy Solutions, we've been answering the call for greater affordability as we continue to see the emergence of new and expensive pharmacological advancements.

Evernorth's recent expansion of our industry-first comprehensive weight management program illustrates the benefit of a more coordinated approach. Patients can now receive treatment with Wegovy, a promising new therapy for obesity, and other weight management medications. And now with MDLIVE fully operational within our Evernorth business, MDLIVE physicians, along with other Evernorth clinicians are available to help patients. This program expansion also includes personalized support services from health coaches, peer support groups and curated digital apps. This weight management effort is the latest addition to our Evernorth suite of SafeGuardRx programs. As for impact in 2020, patients enrolled in SafeGuardRx have saved more than $6 billion in aggregate.

In Evernorth Care Solutions, we've experienced an increase in demand for our behavioral health solutions from customers and clients as well. In the past year and a half, it has brought heightened stress and other personal challenges, and we see many more people reaching out for help and services. Clients now more broadly understand that someone with a chronic condition is more likely to have a mental health or substance abuse related illness, and individuals are feeling the additional mental and physical challenges associated with the pandemic.

With our market-leading behavioral health capabilities, we are driving more value to our Evernorth and Cigna Medical clients and customers by providing the tools and services they need to address their mental well-being and deliver better sustained long-term outcomes.

Within our Cigna Medical platform, in U.S. Commercial, we are working closely with our employer clients to provide our integrated suite of solutions designed to make their workforce healthier and more productive. We know that employees receiving health and well-being benefits through their employers are less likely to miss work because of poor health. A recent study shows a significant impact - up to 70 fewer percent days missed over a year. With our integrated approach, we strive to bring the right mix of solutions that reduce the workforce challenges many of our clients are facing and helping to support them to engage and retain their employees.

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And affordability is and remains a primary focus across our entire portfolio as it is in Cigna Medical. Our clients continue to manage through an incredibly dynamic environment for their businesses and it is becoming even more important that they can count on us with greater affordability for their health care programs.

New and expensive pharmacological advancements are a predominant contributor to this challenge. And we have been a leader here, putting these treatments in the hands of those who need them at a more affordable price.

For example, Remicade is a treatment for chronic conditions such as Crohn's disease and rheumatoid arthritis, while life changing, can also impose significant financial burdens. 1 year of Remicade infusions costs about $30,000 on average and as much as $70,000 depending on site of care. We recently launched a Cigna pharmacy program that shares prescription drug savings directly with patients who switch from Remicade to one of the approved biosimilars. More than 20% of eligible patients, in consultation with their providers, have already switched to lower-cost preferred alternative medications. This program has an immediate benefit to clients who save at least 10% on the cost of the drug. And we've taken a leadership position here by supporting our patients with a $500 incentive. This is a great example of aligning interests.

Over the longer term, we can drive even greater impact as biosimilars become a more prevalent part in the United States as helping us to further improve affordability.

And in Cigna Medical, we're actively working toward improving affordability by ensuring that our customers continue to have access to the care they need and optimize their long-term health.

For example, in Arizona, we conducted a highly targeted outreach program to our customers who are at high risk due to chronic conditions, yet who have not been vaccinated. The initial results are encouraging, and we're seeing a positive increase in vaccination rates amongst these targeted individuals. We are now taking the learnings from that pilot into other locations across the United States with a particular focus on increasing vaccination rates amongst those in most need.

This broad range of examples illustrates how our comprehensive and strategic approach to helping our clients and customers address their most pressing health needs help us going forward. And in this dynamic environment, we will continue to expand the services we offer our clients and customers. And therefore, we see many more opportunities to create value for both our clients and customers and as a result, for you, our shareholders.

It is clear that the strength of our medical and pharmacy offerings, combined with our strategic agility has enabled us to continue to capture growth even in the most dynamic environment by delivering differentiated value, by partnering and relentlessly innovating and by expanding our addressable markets as we broaden our reach to new geographies and through the introduction of a broader suite of solutions.

When you combine this compelling growth potential, along with our significant operating cash flow generated by our service-based capital-light model, we have confidence in our ability to meet our long-term targets by achieving differentiated results, which include average annual revenue growth of 6% to 8%, average annual EPS growth of 10% to 13%, and continuing to pay an attractive dividend, all while producing cumulative operating cash flow of approximately $50 billion through 2025. Relative to 2021, we remain committed to delivering full year EPS of at least $20.20.

Now to briefly summarize. First, we recognized in an environment like this that's so challenging, we know the growth doesn't come easily. It has to be earned each and every day. Second, we have a proven track record of delivering differentiated value, innovating and partnering and smartly expanding our addressable market to fuel sustained long-term growth, even in a disruptive environment. And our company has attractive sustainable growth opportunities across our 3 well-positioned growth platforms, and importantly, the strategic and capital flexibility to take advantage of opportunities.

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

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

Thanks, David. Good morning, everyone. Today, I'll review key aspects of Cigna's second quarter results, including the ongoing impact of COVID-19 on our business, and I'll discuss our updated outlook for the full year. Key consolidated financial highlights for second quarter 2021 include adjusted revenue growth of 10% to $43.1 billion, adjusted earnings of $1.8 billion after tax, and adjusted earnings per share of $5.24. Results in the second quarter reflect strong top line growth with solid contributions across our businesses.

Before I go into segment-specific results, I'd like to spend a couple of minutes addressing the medical cost environment we are experiencing. Let me be clear, our second quarter results and our full year outlook have been adversely impacted by elevated claim costs compared to our prior expectations. Despite this pressure, our diversified portfolio of businesses and multiple earnings levers drove second quarter adjusted earnings that exceeded our expectations at the enterprise level. Specifically, within the second quarter, ongoing direct COVID-19 costs were above our expectations, and non-COVID utilization returned more rapidly than we anticipated.

During my comments today and in our Q&A, David and I will use the term baseline to refer to 2019 or pre-pandemic claim costs that will be trended forward for 2 years to 2021 to provide you with an estimate for what 2021 claim costs would have been in the absence of COVID-19.

The return of non-COVID utilization has varied by both geography and customer group. For example, we saw the following within the second quarter: In U.S. Commercial, non-COVID costs were back to baseline levels. While in Medicare Advantage, non-COVID costs accelerated from first quarter levels but remained slightly below baseline for the second quarter. We expect to continue seeing elevated claim costs compared to our original expectations for the balance of 2021 within U.S. Medical. However, the strength of our diversified portfolio of businesses and our multiple earnings levers give us the confidence to reaffirm our full year EPS outlook of at least $20.20. Additionally, as we look forward to 2022, while we recognize the dynamic environment in which we operate, we expect another year of attractive growth driven by all 3 of our growth platforms.

Now I'd like to turn to our segment-level results and then provide an update on the details of our outlook as well as our capital positioning.

Regarding our segments, I'll first comment on Evernorth. Second quarter 2021 adjusted revenues grew 14% to $32.6 billion and adjusted pretax earnings grew 13% to $1.4 billion compared to the second quarter of 2020. Evernorth's strong results in the quarter were driven by ongoing organic growth, driving both top and bottom line contributions, and continued progress on a range of affordability initiatives for the benefit of our customers and clients. In the quarter, we also continued to make significant investments to support our ongoing growth, including our virtual care platform and technology capabilities.

Our adjusted pharmacy script volume was 410 million during the quarter, a 13% increase over second quarter 2020 driven by strong organic growth as well as the impact of vaccine volumes in the quarter. Overall, Evernorth delivered another strong quarter, continuing to create differentiated value for clients and customers while driving better-than-expected top and bottom line contributions to the enterprise.

Turning to U.S. Medical. Second quarter adjusted revenues were $10.5 billion, and adjusted pretax earnings were $1 billion. Overall, our second quarter U.S. Medical earnings reflected the impact of elevated claim costs, offset by favorability from operating expenses, nonrecurring items and net investment income.

Regarding our medical costs, we entered the second quarter expecting a continued decline in COVID-related claim costs and a gradual return in broader care consumption patterns towards more normalized levels. While these directional patterns did transpire, as I noted earlier, both direct COVID-19 costs and broader utilization levels were above our expectations for the second quarter. Direct COVID-19 costs were highest in April, decreasing throughout the second quarter while non-COVID costs approximated baseline levels for the quarter. Both U.S. Commercial and U.S. Government total medical costs, reflecting the combined impact of direct COVID-19 and non-COVID costs, were above baseline for the quarter, with U.S. Commercial further above baseline as those customers returned to utilize the health care system at a slightly higher level. Given these developments, the second quarter medical care ratio was above our expectations.

We now expect that the level of non-COVID costs we incurred toward the end of the second quarter will persist for the balance of the year. This, coupled with the ongoing direct COVID-19-related costs we expect to incur, has led us to raise our guidance for the full year 2021 medical care ratio.

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Turning to membership. We ended the quarter with 17 million total medical customers, an increase of 249,000 customers sequentially. The customer growth in the quarter was largely driven by new wins in middle market and growth in the individual business through the extended special enrollment period, supported by continued strong retention across our portfolio. All in, for U.S. Medical, we continued driving customer growth and expanding services while remaining focused on delivering value and supporting our customers and clients in a dynamic environment.

In our International Markets business, second quarter adjusted revenues were $1.6 billion and adjusted pretax earnings were $234 million. These results were approximately in line with our expectations. Corporate and other operations delivered a second quarter adjusted loss of $331 million.

Overall, we continue to deliver value for all of our stakeholders with strong growth, reflecting contributions across our businesses, led by outperformance in Evernorth. The diversified portfolio of Cigna businesses and the multiple avenues to create and ultimately capture value have allowed us to continue meeting our enterprise commitments despite ongoing uncertainties in the marketplace.

Now turning to our updated outlook for full year 2021. We are reaffirming our adjusted earnings per share guidance for full year 2021 of at least $20.20. Before I walk through the outlook by segment, I'd like to frame the key drivers underlying this outlook. The updated components include an increase in expected earnings from Evernorth, a decrease in expected earnings from U.S. Medical driven by a higher medical care ratio, a more favorable outlook for operating expenses and other contributions that are net favorable for the year. Additionally, we now expect full year 2021 consolidated adjusted revenues of at least $170 billion, representing growth of at least 9% from 2020 when excluding the divestiture of our Group Disability and Life business.

Within our outlook, we now expect a full year COVID-19-related headwind of approximately $2.50 per share, primarily impacting our U.S. Medical business. This includes approximately 80% related to impacts on the medical care ratio and approximately 20% related to lower customer volumes due to economy-driven enrollment dynamics.

Finally, we now expect an adjusted SG&A ratio of approximately 7.5%, an improvement relative to our prior outlook.

I'll now discuss our 2021 outlook for our segments. For Evernorth, we now expect full year 2021 adjusted earnings of at least $5.8 billion, representing growth of at least 8% over 2020, reflecting the significant value we create for our customers and clients.

For U.S. Medical, we now expect full year 2021 adjusted earnings of at least $3.5 billion. Underlying this updated outlook, we now expect the 2021 medical care ratio to be in the range of 83% to 84% driven by our updated medical cost expectations for the second half of 2021, as I previously discussed. Regarding total medical customers, we continue to expect 2021 growth of at least 350,000 customers.

All in, for full year 2021, we continue to expect adjusted earnings per share of at least $20.20 with the underlying drivers being an increase in expected earnings from Evernorth, a decrease in expected earnings from U.S. Medical driven by a higher medical care ratio, a more favorable outlook for operating expenses and other contributions that are net favorable for the year.

Now moving to our 2021 capital management position and outlook. We expect our businesses to continue to drive strong cash flows and returns on capital even as we continue reinvesting to support long-term growth and innovation. I would highlight that we had some timing-related items, which impacted cash flow from operations during the second quarter. For full year 2021, we continue to expect at least $7.5 billion of cash flow from operations, reflecting the strong capital efficiency of our well-performing businesses.

Year-to-date, as of August 4, 2021, we have repurchased about 18 million shares for about $4.1 billion. And we now expect full year 2021 weighted average shares of 344 million to 345 million shares. On July 28, we declared a $1 per share dividend, payable on September 23 to shareholders of record as of September 8.

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.

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So now to recap. Results in the second quarter reflect strong top line growth with contributions across our businesses. Additionally, we acknowledge that the environment remains fluid as evidenced by the impact of elevated medical costs in the second quarter and on our outlook for the remainder of the year. Even with this additional pressure, our diversified portfolio and multiple earnings levers have positioned us to achieve our outlook for full year 2021, all while continuing to support our customers, clients and coworkers.

We continue to expect 2021 full year adjusted earnings of at least $20.20 per share, and have continued confidence in delivering our long-term EPS growth rate that will average 10% to 13% per year.

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. A.J. Rice with Credit Suisse.

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

I appreciate all the thoughts there. On the increased outlook for -- on the medical cost ratio, and what you're giving us relative to COVID to non COVID, it looks like, if my math is right, about 2/3 of the increase in MLR would be related to the COVID costs, given the $1.25, now it's $2.50 EPS headwind. And I guess that would mean the remaining is the non-COVID. I want to just confirm that. And would the COVID cost be spread relatively evenly over the course of the year -- rest of the year, Q2, Q3, Q4? And then does that become a tailwind for '22 as hopefully that reverses?

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

A.J., it's Brian. So I -- a few different questions in there. I'll try to give you the overall picture. So as I said in my prepared comments there, we now anticipate about a $2.50 earnings per share headwind in 2021 associated with COVID. And of that, approximately 80% impacts the medical care ratio and approximately 20% is related to enrollment levels being depressed here in 2021. Focusing on the $2.00 per share COVID-related headwind that's impacting the medical care ratio. There's a few components underlying that. So one would be the impact of Medicare Advantage risk adjuster revenue headwinds here in 2021. The other component of it is the level of total cost of care that we're experiencing in 2021 compared to our prior expectations, which includes both COVID-direct costs, and it also includes non-COVID costs that returned earlier than we anticipated during the year here.

And so I wouldn't necessarily parse the 2/3, 1/3 the way that you did, but rather look at the total cost picture being more elevated in comparison to what we had previously expected. COVID costs were highest for us in the first quarter. Within the second quarter, they were higher in April than they were in May and June, and we expect for the balance of the year that COVID costs will run at a lower level than they did in the first half of the year. So that's what's embedded in our outlook. And as I said, the non-COVID utilization, we're anticipating to run at approximately baseline levels for the back half of the year. That, plus the COVID costs we expect to incur, leads us to all-in cost levels at slightly above our baseline for the back half of 2021. And as it relates to what we expect to unwind heading into 2022. Again, if you parse apart the components of that $2.00 I was just making reference to, the Medicare Advantage risk adjuster headwind, we expect to fully recover in 2022. So between our bid strategies and the operational activities we're seeing, we have full confidence that we'll fully recover that component.

The components related to total cost of care, we expect to recover a portion of that in 2022. And so a portion of that will come through pricing actions. A portion of that will come through clinical management activities. And a portion of that, we expect to be a little bit of natural abatement

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in aggregate costs between 2021 and 2022. So we're currently estimating that about half of that $2 per share headwind will come back in 2022 in the form of incremental earnings. So think about $1.00 of the $2.50 EPS headwind returning into the P&L in 2022.

Operator

Our next question comes from Mr. Ralph Giacobbe with Citi.

Ralph Giacobbe - *Citigroup Inc. Exchange Research - Research Analyst*

Just staying on that topic, I think last quarter, you had also suggested that growth would be at or above the high end in 2022, I think off that $20.20 baseline. I guess is that still the case? So the way to think about it is sort of at or above the high end and then add back that dollar that you just said, Brian?

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

Ralph, it's David. So as we think about 2022, clearly early to give you a detailed guidance, but let me try to walk through the moving parts as we think about '22. Underlying our outlook will be strong base earnings growth, contributions from ongoing capital deployment and the recovery of some of the headwind that Brian articulated. There'll be an offset to that. Partially offsetting that will be the lack of some of the non-run-ratable items we're realizing in our 2021 at least $20.20 EPS outlook. So when you take it all together, we expect 2022 will be another strong year for us. As it relates to growth rates, the way I'd ask you to think about that is, first off, I take at least $20.20. When we adjust that for the non-run-ratable items, we would expect to grow at the high end of our 10% to 13% range. Another way of thinking about it, if you take at least $20.20 outlook for 2020, we would expect to grow at least 10% on that. So a net new item was the non-run-ratable items that we'll have in 2022, but an attractive growth rate on either parameter as we expect to have another strong year for 2022.

Operator

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

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

I was hoping you could maybe just talk a little bit about the individual business, which has been volatile for some companies, and the extent to which you saw that and how much that may or may not be contributing to the headwinds you're seeing.

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

Matt, it's David. From the individual business portfolio, as you know, we've been active in that marketplace since its inception. And after a few years of test and learn and the marketplace stabilizing itself, we saw and began to more systematically expand our growth, and that carries into the current year. As it relates to the performance in the current year, we have some attractive growth in that business, both underlying fundamental growth as well as growth contribution from the SEP period. And as it relates to the core of your question, on performance, I'd ask you to think about the underlying -- what we're seeing, the underlying performance of that book of business is similar to the trends and impact that Brian articulated before. So we see an uptick in utilization within that book of business, more approximating from a non-COVID standpoint of baseline activity with some additional utilization on the COVID side of the equation. And lastly, our early look at the SEP, special enrollment period, additional lives; those lives are performing similar to other special enrollment period lives we've observed before. So some of the MLR that we're seeing across our broader portfolio is showing through in the individual business, but not out of proportion in either way from the overall behavior of that book.

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Operator

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

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

I want to try to squeeze in a question and a follow-up here. So first, you talked about 2Q being above baseline in terms of non-COVID costs in U.S. Commercial. I just want to ask how far above baseline versus that 100%? And did you say you expect it to return down to a 100 or do you expect it to continue at that level into the back half of the year? And then my follow-up was to Ralph's question. Your -- I just want to make sure we understand 2022 here. Are you saying you're going to grow 10% off $20.20 -- or $20.20 plus $1.00? Or is the 10% the total number? And then David, you keep talking to these nonrecurring costs. Can you just delineate what those are and how -- what's driving them and how big the nonrecurring items are for this year?

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

Justin, it's Brian. I'll start and then ask David to pile on here. So on the first part of your question there, if I misspoke, I apologize. For the second quarter, our non-COVID utilization for Commercial was essentially at baseline. That plus the direct COVID-19-related costs we incurred put the total cost picture above baseline. But the non-COVID utilization was at baseline. For the back half of the year within our Commercial business, we're expecting that non-COVID utilization will continue to run at baseline and we will incur direct COVID-19-related costs, but at a lower level than what we saw in the first half of the year. So hopefully, that clarifies a bit, the commentary around Commercial and the assumptions on the back half.

Relative to the nonrecurring items that you asked about, you could think about those as largely being SG&A oriented with the bulk of it being associated with litigation from prior years where we had some favorable developments in the quarter that allowed us to recognize some gains there. So boxing that just directionally, you should think of it as about $150 million after tax. So think of it in the range of $0.45, $0.50 earnings per share in terms of the favorable benefit that we've seen here in 2021. David, do you want to clarify in the 2022 commentary?

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

Sure. So Justin, to cross walk again. First, from prior dialogue, as you recall, we would have talked about base earnings, capital deployment and recovery of COVID headwind as a contributor to our 2022 expectations for ourselves. And that remains, the base performance, the capital deployment and recovery of COVID headwind. As Brian articulated with the COVID headwind, that opportunity is a little greater now for 2022 than it was a quarter ago from that perspective. The net new item is what Brian walked through, which are the nonrecurring items, and he gave you approximate order of magnitude. So again, to repeat to the specific part of your question, we believe today, if you take at least $20.20 that we will deliver for this year, our growth rate will be at least 10%. We believe if you take the at least $20.20 and adjust it for those nonrecurring items, that we referenced -- that Brian just referenced, the growth rate will approximate 13% or so. So those are the moving parts relative to our expectations for 2022 on either convention and another year for strong attractive balance performance.

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

And David, just to be clear, that includes the $1? So you're growing 10% with $1.00.

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

No. It includes, Justin, the $1.00. So let's come back. And previously, we would have talked about baseline earnings, capital deployment and the recovery of the headwind. That's what took us to the high end of the range versus within the range. Currently, the expectation includes that, but the $1.00 is somewhat offset by the lack of the non-run-ratable items next year. So on an all-in basis, we'll grow in the 10% to 13% range depending

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on the convention you use, either the $20.20, will grow at least 10%, all in or if you look at it, excluding the nonrecurring items that Brian just articulated about $0.50, will grow at about 13% all in.

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*

Great. David, I'm just wondering if I can ask about the PBM. It was really strong in the quarter. First, can you talk about the 2022 selling season, and how that plays into the outlook that you're talking about right now? And then secondly, can you tell us that the number of vaccines that are included in that script count? Just want to get a better idea of what you're seeing on overall script count, excluding vaccines.

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

Lisa, I'll talk about the growth outlook in the environment, and then I'll ask Brian to come back in and talk about the script count and specifically the vaccine. First, we're very pleased with the performance of the Evernorth portfolio. The durable nature of that in an environment of disruption provides some diversification within the portfolio and the service delivery for our clients, health plan clients, corporate clients, government clients remains quite strong.

As it relates to the underlying growth rate, our growth in 2021 is outstanding for that portfolio, and we'll continue to see expected growth for 2022. As we discussed previously, we've known for some time that we have a lack of renewal of two health plan clients. So we knew that. And even with that, we will grow again in 2022 at an attractive rate. We also recognize that given our strong performance, we've been able to maintain appropriate pricing discipline as we looked at the 2022 environment. So taken as a whole, an active dynamic year for 2022, we'd expect another strong year of retention, even acknowledging those health plan clients in the mid-90s, and we expect strong underlying growth of the Evernorth portfolio. Brian, I'll ask you to talk about the vaccine volumes within our scripts for the quarter.

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

Sure. So in the second quarter, we fulfilled 9 million vaccine-related scripts. So out of the 410 million adjusted scripts that we fulfilled in the quarter, about 9 million of those were associated with the vaccine. Obviously, that's not something to run rate given we would not expect that level to persist for the balance of the year, but 2% to 3% of the total script volume.

Operator

Our next question comes from Steven Valiquette with Barclays.

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

So I guess on -- just back on the medical cost for a moment. Just curious if you have any additional color on the medical cost trend versus baseline by cost category, for example, inpatient, outpatient pharmacy, et cetera. And some MCOs have called out behavioral health and also diagnostic and lab work as cost categories that are trending above baseline. So I'm curious if you're seeing those same trends as well.

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

It's David. Let me provide a little overview, and I'll ask Brian to provide some specifics of what we're seeing in terms of some of the specific categories of utilization. You did call out an important category. We've unequivocally seen, and I noted in my prepared comments, the mental health or behavioral and substance abuse category is growing. We see more individuals needing and utilizing those services and appropriately needing and utilizing those services given the environment. And our portfolio is really well positioned to provide that level of support necessary, and we believe that it's not only appropriately required, it will provide some intermediate and long-term benefit to those individuals, obviously, to clients as well as to ourselves on a sustainable basis. Beyond that, we've seen an uptick in -- from prior levels, an uptick in both inpatient and outpatient surgeries in the non-COVID category. And as Brian articulated, that category has more broadly approximated baseline levels. And we've assumed -- but it will remain at that for the second half of the year. I'll ask Brian to give you a little bit more color in terms of some of the insights we're seeing in terms of the more detailed utilization patterns.

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

Yes. Sure, David. So just to reiterate David's point, surgeries, in particular, we're a hotspot for us both in terms of inpatient and outpatient activity in the quarter. We also saw overall outpatient and professional utilization tick up pretty meaningfully in the quarter. Emergency room utilization and radiology remained below baseline in the quarter and kind of within these different categories, the results of some site of service shift, which is a good thing over time. We saw inpatient shift to outpatient, particularly for some lower acuity procedures, and we saw some of the emergency room utilization shift to urgent care centers and physician offices, which we view as a good thing from the standpoint of optimizing sites of care. On your point about behavioral health, a metric that I'll share with you just relative to prior to the pandemic within our U.S. Commercial book in 2019, about 8% of our customers were utilizing behavioral health services. And as you know, we have industry-leading capability in this space. This year, that number is going to be up almost 40%. So we're going to have nearly 11% of our customers this year utilizing behavioral health services, which we think is a good thing for the long term, it's putting a little bit of pressure on the P&L this year, but we believe it's a good thing for the long term. Our recent acquisition of MDLIVE offers us the opportunity to further synergize that, given the demand for virtual behavioral health has grown meaningfully over the course of pandemic.

Operator

Our next question comes from Mr. Scott Fidel with Stephens.

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

Interested if you can just break down the 20% of the COVID headwind that's from the lower customer volumes, maybe a little more insight into that in terms of some of the key customer segments for you in terms of where you're seeing more of that drag. And then also, I just want to just confirm on the $4 billion revenue raise. If you can also just break that down by segment. It feels like Evernorth is probably the bulk of that growth, but I just want to confirm that in terms of the segment, the breakdown of the $4 billion of revenue adds.

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

Scott, it's David. Let me speak to the headwind, I'll ask Brian to speak to the revenue raise. If I understand your question correctly, you're coming at the portion of the headwind that is non-MCR related. And broadly, we see the impact of the pandemic on employment levels within the commercial population broadly. We had previously called that out as a headwind. We previously called that out as a headwind that we believed would return as a favorable tailwind over time. We're taking the posture right now that given the current employment environment, the headwind will more likely persist. Or said otherwise, that's the baseline with which you grow off of. We'll continue to grow, no doubt. But that's the baseline to grow off of as we observed the marketplace and the overall employment levels beginning to move forward, but more slowly than anticipated in a variety of sectors. So view it as disenrollment and/or aggregate employment levels and the requisite level of change in those employment levels ebbing and flowing at a slower rate given the prolonged pandemic. I'll ask Brian speak a bit more towards the $4 billion revenue raise.

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

Scott, so relative to the revenue outlook, obviously, we're very pleased with the aggregate growth for the company this year. Of the $4 billion, you should think of the lion's share of that being driven by Evernorth. So think of it as roughly 75%-25% with the other segments. And in totality, Evernorth's on track for a year where both revenue and earnings will grow above -- well above our long-term average annual expectation of 4% to 6%. So really pleased with the performance of that business.

Operator

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

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

Okay. Great. I guess the higher utilization that you're seeing this quarter, I guess, isn't terribly surprising, given what other companies are seeing so far this earnings season. I guess the question I have, though, is what gives you confidence that this higher trend is not the beginning of an over -- or the higher cost in the quarter is not the beginning of an overall higher trend that makes 2022 pricing at risk. I guess what gives you that confidence. I would think that a faster return to normal in Q2 would be the first thing you saw before you saw above-average trend overall. So why isn't that a concern?

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

Kevin, it's Brian. So I appreciate the question. If you think about how the second quarter unfolded, I think this is instructive for how we think about the back half of the year and into '22. So April, we saw the highest level of COVID costs, as I said earlier, those track downward pretty meaningfully in May and June. And the total cost of care, when you combine the COVID and non-COVID cost together in the months of May and June, it's more in line with what we're expecting for the back half of '21 and as we step into '22. So for those reasons, based on the more emergent data, we feel better about the next 18 months as compared to the first 4 months of the year where we had particularly elevated costs in our book. David, anything you want to add?

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

Yes. Kevin, the only item I would add is as we think about our book of business -- approximately 2/3 of our risk business is yet to be priced for 2022. So as you know, it's not all -- that portfolio of our business is not all 1/1 or front-end loaded from that standpoint. So we have the opportunity to be appropriately responsive as the marketplace changes, but the underlying assumptions that Brian articulated in the medical cost pattern are the most important part of it.

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

But I guess you're saying that you got back to normal faster in Q2 than your original guidance assumed you would get back to normal. So the price -- so again, that feels to me like the trajectory is higher, why would it get higher and then level off, I guess, in the back half of the year.

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

I think under -- sure. The underlying question comes back to, as Brian broke out, the portions of it. We essentially are looking at an environment in the second half of the year where the medical cost environment will be slightly above baseline. And the pieces of that are that the non-COVID or the, call it, traditional parts of medical costs, approximate baseline in the Commercial portfolio. And above and beyond that, there's some additional load for COVID. So one would have to believe that either, a),the non-COVID costs are going to run above baseline for some reason that they haven't

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to date, when we look at the way we built up the proxy for baseline and/or that the additional COVID costs that we're saying are additive to that, will be materially greater, right? So we acknowledge it's the fluid environment beyond the shadow of a doubt. But we believe that the estimate we've made for the step up in aggregate for the rest of the year to run slightly above baseline is an appropriate assessment based upon the pattern we saw in the end of the first quarter and the way in which the second quarter has evolved and developed. And as I noted, we have about 2/3 of the risk business yet to be priced for 2022.

Operator

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

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

Just wanted to talk a little about the MLR. I know you guys stopped disclosing that MLR by segment a while back, but I was wondering if you could just give us some color on the changes in the MLR in the second quarter or even in the first half of the year for the Commercial book and maybe specifically that individual book of business, if that was different than the overall Commercial -- and then relative to Medicare Advantage and maybe as a side how much of the MA increase was risk adjuster related versus medical cost related?

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

Josh, it's Brian. So a few different components there to the question. Big picture compared to our expectations, I would encourage you to think about the 3 books of business, meaning the Commercial risk, the individual exchange and the Medicare Advantage as all being approximately off by the same amount compared to our expectations in terms of total claim costs. So I'd start there in terms of -- we are not seeing one being really disproportionately impacted relative to our prior expectations. They're all off by, call it, that 200 basis points or so that changed in our MCR guide. The Medicare Advantage business, though, in 2021 as further weighed down by the risk adjustment revenue headwind. So you should view the margins on the Medicare Advantage business as being particularly low relative to what our long-term expectations are. And as we step into '22, we would expect margin expansion on each of those books of business off of what we're experiencing here in '21. As it relates to the risk adjuster headwind, that's a component of the $2.00 per share headwind. We haven't specifically sized that. It's certainly less than half of that. I would note, we recently received our midyear settlement from CMS, which was favorable to our expectations, which gives us further confidence in our ability to fully recover that headwind in '22.

Operator

Our next question comes from Mr. Kevin Caliendo with UBS.

Unidentified Analyst

This is James Garik on for Kevin. Just wanted to quickly follow-up and see if there was any updates to your longer-term targets provided on your Investor Day? Or are you still comfortable with those overall?

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

Sure. Our longer-term targets are consistent, and we remain committed to them. And to remind everybody, it's our attractive revenue growth rate of 6% to 8%, our EPS growth rate of 10% to 13% with the dividend above and beyond that. And our outlook of operating cash flow generation from current year to 2025 of approximately $50 billion. Those numbers are on average over a prolonged period of time. And as we've identified at Investor Day as well, as you look back over the last decade, we have a track record of delivering against those targets and objectives.

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Operator

Our next question comes from Lance Wilkes with Bernstein.

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

Yes. I have a question on strategic capital deployment. And if you could just talk through a little bit of long term, like 5 years out or so, what do you think is the mix of businesses you're expecting thinking of kind of employer managed care, government managed care, PBM and other services? And as you're out looking at things and contemplating that, what's the landscape like as far as attractiveness of opportunities, just availability of targets and the like. And within that value-based care, home care, Medicaid, are there any new views on categories that you'd be interested in?

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

Lance, it's David. I appreciate the forward-looking orientation relative to that. To answer your question, we've got to ground back into our portfolio, the 3 platforms we have, which we feel very positively about, the services-based platform within Evernorth, the U.S. Medical platform, both Commercial and Government, and then our International platform. We see attractive growth opportunities organically and inorganically in all 3 as we look to the future. Specifically, you start your real thoughtful question in terms of kind of apportionment in 5 years out. We don't have a rigid target 5 years out that we want x percent in category a or y percent in category z. But however, we do see an environment where the services portion of our portfolio will continue to grow at an accelerated rate. We see the right to win, the ability to create value, and our strategic position there for the multiple client segments we're able to serve there as being quite attractive, and you should expect this to continue to grow our Pharmacy, our Care, our Benefits and our Intelligence capability to be able to bring to bear against that.

Secondly, we've continued to call out U.S. Government as an attractive growth segment and that will transpire both organically and inorganically as opportunities present themselves. And thirdly, we continue to see targeted opportunities in our International portfolio as attractive growth opportunities.

On a final note, you articulated examples of home care, otherwise, et cetera. I won't call out any one precise example, but I'll step back and remind you, as we've talked about it, we see what we call alternative sites of care. So virtual, longitudinal virtual, polychronic, home care, coordinated home care as attractive additional growth opportunities within our service portfolio, and we continue to extend ourselves and expand ourselves within that space. So multiple strategic alternatives; second, strong platforms to build off of; third, the capital flexibility to be able to grow in multiple attractive markets that you appropriately called out.

Operator

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

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Yes. So couple of questions here. First of all, on the acuity levels. I mean I understand that sort of new members are coming in at similar profile to existing. But are you seeing any increase in acuity for the existing book? I noted last quarter, you talked about preventive utilization at pre-pandemic levels. So just wondering -- trying to understand how it compares in second quarter and what are you seeing in terms of acuity. And then just a follow-up on your point on expansion into U.S. Government, just kind of like if you can give us maybe a little bit more direction in terms are you looking more at Medicare versus Medicaid. And should we think about expansion on the medical side? Or is it more in sort of the adjacent areas and more sort of kind of like the PBM side, the Pharmacy Service that could be expanded into sort of the Medicare and Medicaid market?

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

Ricky, it's Brian. I'll take the acuity portion of the question, and David to tackle the Government component. So big picture, we're not yet seeing signs of any meaningfully higher acuity amongst our customer base. Part of that due to the focus we've had on preventive care, as you indicated in your question as well as appropriate behavioral health utilization as we talked about earlier. And just -- there are a variety of metrics that we use to track this. And just 1 really specific one I'll give you, we track within our Commercial book of business when we have new cancer diagnoses, how many of them are at a metastatic stage when they're first diagnosed. And so prior to the pandemic, if you look at the top 5 cancer types, we saw 38% to 39% of these in a metastatic stage when they presented to us. In 2021, we're in that same range, 38% to 39%. So that's an indicator that we track, one of many, that suggests we do not yet have those signs of acuity spikes. And as I said earlier, we're also seeing a site of service shifts in the book of business, which is a mitigant over time to the potential for acuity coming back into the book. David, maybe you want to talk a little bit about the Government part of the question.

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

Sure, Ricky. The short answer is we see expansion opportunities in both the U.S. Medical side of the equation as well as in the Evernorth or services side. So more specifically, within the U.S. Medical portfolio organically, we see and are continuing to deliver and pursue additional growth opportunities for both our Medicare Advantage portfolio in existing geographies as well as, as we've discussed before, our continued expansion of those geographies and leveraging our broader product portfolio and platform as well as in our exchange portfolio as we continue to expand our individual exchange portfolio, which we view as more Government business versus not. On the services side, you referenced Pharmacy unequivocally, but expanded beyond Pharmacy to Care and Benefit Management services as well as Intelligence services. For example, as we look to continue to serve our expanding portfolio of health plan clients. They have diverse portfolios that they serve: Commercial, obviously, Medicare, Medicaid, Exchange and otherwise. That's an important part of our growth chassis as we go forward with dedicated resources and then ultimately, direct to government contractor relationships as well. So we see attractive growth opportunities in the Government space, both off of the health plan side of the business in the Cigna Medical portfolio as well as in the services side of the business through Evernorth.

Operator

Our next question comes from John Ransom with Raymond James.

John Wilson Ransom - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Director of Healthcare Research*

I'm going to ask about a happy topic because you guys have been beaten up this morning, and I want you to end on a happy note. The -- if we go back (inaudible) period, 12, 18, 24 months, obviously, the PBM side of Evernorth has done a lot better than I think anybody expected. Can you kind of point to the top 1, 2 or 3 reasons why that is? And then secondly, if we think about the profit model of the PBM, how has that shifted away from kind of adjudication straight dollars and toward things like mail order and kind of backward fees into pharma that presumably might be a bit more sticky than some of the old ways of making money.

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

Sure. John, it's David. I'll start relative to your question. And I appreciate the tone, but candidly, I don't feel beaten up. These are dynamic and challenging times. And we're proud of the fact that our portfolio -- our diverse portfolio can perform in this environment and importantly, deliver for our clients, our customers and patients while we deliver our responsibilities from a shareholder perspective. But I appreciate the tone of your question.

Now specifically, as you go back in time, when we brought this portfolio together in terms of the companies, we viewed, obviously, that we had an opportunity to bring in a leading PBM portfolio of services, but it was broader than that. Secondly, we viewed, as we talk about now, that pharmacological innovation was a big part of the future of health care. And the acceleration of innovation is what we're seeing today through a whole variety of things, gene therapy, specialty, medications evolving, biosimilars, et cetera. And hence, if you're going to be helping individuals

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with their overall health care needs, being a leader in pharmacy services is mission-critical. We also saw the opportunity to expand that portfolio through a broader services platform, which we did through Evernorth, and then continue to feed that broader services platform for health plan clients for corporate clients, for our government clients, et cetera.

And as we've noted, both Brian and I have noted, we're very pleased with the performance within the portfolio and the service we're delivering. And importantly, we continue to invest in that portfolio at an accelerating rate relative to expanding products, services, capabilities as well as our reach.

Now as it relates to the profit model, the primary mechanisms that would articulate for you to think about is back to the time you referenced, we acknowledged that the financing models were going to change, and we didn't resist that. We offer choice. We offer choice in terms of how purchasers or clients want to finance their offering. And we've evolved, for example, with a higher percentage of pass-through arrangements for clients in the PBM services from well less than 50% to 50% to well greater than 50% over 3 cycles. And we've been able to evolve our service-based capabilities and our value creation capabilities for the benefit of clients. Secondly, we continue to press for more aligned relationships with pharmaceutical manufacturers on the clinical outcomes, not just the consumptions. We know that broadly in the industry is value-based programs, but think about them as aligned programs. And then lastly, as the biosimilars start to evolve at a more rapid rate, the positioning of our company to have the clinical depth, the coordination of clinical services, the manufacturer relationships and importantly, the medical physician relationships are mission-critical. And as I use the Remicade example, all those come to bear because it's a patient-by-patient decision made with a practicing physician relative to the choices and alternatives. So again, I appreciate your question. We're pleased with the performance, but maybe even more importantly than that underlying your question, we're delighted with the strategic position that the platform gives us right now to continue to drive growth and create value going forward.

Operator

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

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

So David, if I go back to your growth construct and think about a 2020 minus the one-timers and grow that by 13%, it would seem that the dollar recovery for next year represents maybe 40% of that growth next year. Can you talk about the factors that you see at this point that would be limiting on your core business apart from the dollar. So it looks like that would be mid- to high single-digit growth including capital deployment. And so that would obviously be below your trend line? What are the factors limiting the core business apart from the dollar?

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

So again, it's early for the detailed 2022 guidance, but taking the spirit of your question, it ultimately is going to come down to 2 things, rate and pace of evolution of the cost environment -- medical cost environment and rate and pace of our investment portfolio decisions within the organization positioning us for the future. We have a track record of sustained investment in the organization for long-term growth. We have -- as Brian articulated earlier, we have multiple growth and profit levers, and we'll seek to make trade-offs within that and ensure that we seek to deliver an attractive, sustainable result. So I think those are the 2 major points I'd ask you to think about. I talked about the growth rate in frameworks of at least. So we weren't providing guidance to pencil a number rather how we're thinking about the growth platforms and trajectory. And there's nothing in our underlying business portfolio today, I'll leave you with, there's nothing in our underlying business portfolio today that suggests that the organic underlying growth of our earnings will be demonstrably different unless we determine we're going to make a trade-off in terms of rate and pace of investment within the portfolio or there's an exogenous impact to the industry on the cost side of the equation. We're just trying to frame the at least growth rates off of what we know now midyear.

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Operator

And our last question comes from Mr. Stephen Baxter with Wells Fargo.

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

Sorry to come back to a more near-term and less happy topic. Just thinking about the back half discussion and sort of the progression from where we were in MLR in the second quarter to the back half. It looks like you need MLR to decline a couple of hundred bps sequentially to kind of make that work. So just in terms of thinking about it, it'd be really helpful if you could potentially quantify what you're thinking about COVID costs in the back half of the year relative to the second quarter and how we should balance that against sort of the typical deductible seasonality that we'd expect to be pushing up MLR sequentially in a more normal year.

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

Steve, it's Brian. So I would encourage you to think of the year in 2 halves, 1st half and 2nd half. So the first half, we ran at 83.6% MCR, and we're modeling the back half to perform at approximately that same level if you use the midpoint of our guidance. So rather than looking at quarter-by-quarter because there's quite a bit of variability that's transpired in the different months. But big picture, the first half of the year, we ran a few points above baseline in total when you combine the effect of COVID and non-COVID utilization together. For the back half of the year, we're projecting to run slightly above the baseline in totality, and that's comprised of non-COVID utilization running approximately at baseline plus COVID utilization on top of that.

To your question on how does that pattern relative to what we saw in the first half, you should think of the direct COVID-19 related costs as being the highest in the first quarter, lower in the second quarter, and we're modeling slightly lower than that for the back half of the year on direct COVID-19-related costs. So those pieces get you to that overall expectation of slightly above baseline for the back half of the year, and that essentially offsets the seasonality we would typically see in the MCR pattern for our book of business.

Operator

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

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

Sure. I'll be brief. I want to thank everybody for joining our call. And I just want to reinforce 2 points. First, I'm appreciative and proud of our more than 70,000 coworkers and their dedication to working to change our customers' lives for the better every day. They continue to rise to the challenges in the moment by helping our clients, our customers, our patients, working with our partners and in our communities to drive positive change. And second, we continue to demonstrate the resiliency of our business and our well-positioned 3 portfolios, and the strength of our strategic framework, given our results and our outlook.

With that, I ask you to have a good day, and we look forward to our future conversations. Thank you.

Operator

Ladies and gentlemen, this concludes Cigna's Second 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 (800) 819-5743 or (203) 369-3828. There is no pass code required for this replay. Thank you for participating. We will now disconnect.

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