

CIGNA CORP
Form 10-Q
August 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____**

Commission file number 1-08323

CIGNA CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

06-1059331

*(State or other jurisdiction of incorporation or
organization)*

(I.R.S. Employer Identification No.)

**900 Cottage Grove Road
Bloomfield, Connecticut**

06002

(Address of principal executive offices)

(Zip Code)

(860) 226-6000

(Registrant's telephone number, including area code)

(860) 226-6741

(Registrant's facsimile number, including area code)

FORMER ADDRESS:
Two Liberty Place, 1601 Chestnut Street
Philadelphia, Pennsylvania 19192
<i>(Former name, former address and former fiscal year, if changed since last report)</i>

Indicate by check mark	YES	NO
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<ul style="list-style-type: none"> whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 					
<ul style="list-style-type: none"> whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 					
<ul style="list-style-type: none"> whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. 					
<ul style="list-style-type: none"> whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. 					
Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company		
<ul style="list-style-type: none"> whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 					

As of July 15, 2011, 270,197,763 shares of the issuer’s common stock were outstanding.

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As used herein, “CIGNA” or the “Company” refers to one or more of CIGNA Corporation and its consolidated subsidiaries.

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CIGNA Corporation

Consolidated Statements of Income

	Unaudited		Unaudited	
	Three Months Ended		Six Months Ended	
<i>(In millions, except per share amounts)</i>	June 30,		June 30,	
	2011	2010	2011	2010
Revenues				
Premiums and fees	\$ 4,786	\$ 4,504	\$ 9,519	\$ 9,047
Net investment income	284	283	563	549
Mail order pharmacy revenues	349	351	688	699
Other revenues	73	193	109	247
Realized investment gains (losses):				
Other-than-temporary impairments on fixed maturities, net	(2)	-	(2)	(1)
Other realized investment gains	19	22	45	17
Total realized investment gains	17	22	43	16
TOTAL REVENUES	5,509	5,353	10,922	10,558
Benefits and Expenses				
Health Care medical claims expense	2,034	2,078	4,111	4,287
Other benefit expenses	1,058	977	2,052	1,856
Mail order pharmacy cost of goods sold	289	290	565	575
GMIB fair value loss	37	164	21	160
Other operating expenses	1,475	1,405	2,957	2,819
TOTAL BENEFITS AND EXPENSES	4,893	4,914	9,706	9,697
Income before Income Taxes	616	439	1,216	861
Income taxes:				
Current	138	68	160	155
Deferred	70	76	218	127

TOTAL TAXES		208		144		378		282
Net Income		408		295		838		579
Less: Net Income Attributable to Noncontrolling Interest		-		1		1		2
Shareholders' Net Income	\$	408	\$	294	\$	837	\$	577
Shareholders' Net Income Per Share:								
Basic	\$	1.52	\$	1.07	\$	3.11	\$	2.10
Diluted	\$	1.50	\$	1.06	\$	3.06	\$	2.08
Dividends Declared Per Share	\$	-	\$	-	\$	0.040	\$	0.040

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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CIGNA Corporation

Consolidated Balance Sheets

<i>(In millions, except per share amounts)</i>	Unaudited	
	As of June 30, 2011	As of December 31, 2010
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, \$14,118; \$13,445)	\$ 15,505	\$ 14,709
Equity securities, at fair value (cost, \$161; \$144)	149	127
Commercial mortgage loans	3,315	3,486
Policy loans	1,615	1,581
Real estate	112	112
Other long-term investments	869	759
Short-term investments	204	174
Total investments	21,769	20,948
Cash and cash equivalents	1,774	1,605
Accrued investment income	237	235
Premiums, accounts and notes receivable, net	1,417	1,318
Reinsurance recoverables	6,336	6,495
Deferred policy acquisition costs	1,284	1,122
Property and equipment	953	912
Deferred income taxes, net	493	782
Goodwill	3,136	3,119
Other assets, including other intangibles	1,307	1,238
Separate account assets	8,327	7,908
TOTAL ASSETS	\$ 47,033	\$ 45,682
LIABILITIES		
Contractholder deposit funds	\$ 8,521	\$ 8,509
Future policy benefits	8,179	8,147
Unpaid claims and claim expenses	4,098	4,017
Health Care medical claims payable	1,225	1,246

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Unearned premiums and fees	442	416
Total insurance and contractholder liabilities	22,465	22,335
Accounts payable, accrued expenses and other liabilities	5,480	5,936
Short-term debt	330	552
Long-term debt	2,883	2,288
Separate account liabilities	8,327	7,908
TOTAL LIABILITIES	39,485	39,019

Contingencies — Note 16

SHAREHOLDERS' EQUITY

Common stock (par value per share, \$0.25; shares issued, 351)	88	88
Additional paid-in capital	2,556	2,534
Net unrealized appreciation, fixed maturities	\$ 610	\$ 529
Net unrealized appreciation, equity securities	3	3
Net unrealized depreciation, derivatives	(34)	(24)
Net translation of foreign currencies	123	25
Postretirement benefits liability adjustment	(1,138)	(1,147)
Accumulated other comprehensive loss	(436)	(614)
Retained earnings	10,658	9,879
Less treasury stock, at cost	(5,318)	(5,242)
Total shareholders' equity	7,548	6,645
Noncontrolling interest	-	18
Total equity	7,548	6,663
Total liabilities and equity	\$ 47,033	\$ 45,682
SHAREHOLDERS' EQUITY PER SHARE	\$ 27.93	\$ 24.44

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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CIGNA Corporation

Consolidated Statements of Comprehensive Income and Changes in Total Equity

<i>(In millions, except per share amounts)</i>	Unaudited			
	2011		2010	
Three Months Ended June 30,	Comprehensive Income	Total Equity	Comprehensive Income	Total Equity
Common Stock, April 1 and June 30,	\$	88	\$	88
Additional Paid-In Capital, April 1,		2,547		2,522
Effects of stock issuance for employee benefit plans		9		4
Additional Paid-In Capital, June 30,		2,556		2,526
Accumulated Other Comprehensive Loss, April 1,		(569)		(530)
Net unrealized appreciation, fixed maturities	\$	89	\$	119
Net unrealized depreciation, equity securities		(2)		(1)
Net unrealized appreciation on securities		87		118
Net unrealized appreciation (depreciation), derivatives		(5)		16
Net translation of foreign currencies		46		(43)
Postretirement benefits liability adjustment		5		(100)
Other comprehensive income (loss)		133		(9)
Accumulated Other Comprehensive Loss, June 30,		(436)		(539)
Retained Earnings, April 1,		10,270		8,840
Shareholders' net income		408		294
Effects of stock issuance for employee benefit plans		(20)		(5)
Retained Earnings, June 30,		10,658		9,129
Treasury Stock, April 1,		(5,312)		(5,119)
Repurchase of common stock		(62)		(123)
Other, primarily issuance of treasury stock for employee benefit plans		56		14

Treasury Stock, June 30,		(5,318)		(5,228)
Shareholders' Comprehensive Income and Shareholders' Equity	541	7,548	285	5,976
Noncontrolling interest, April 1,		-		14
Net income attributable to noncontrolling interest	-	-	1	1
Noncontrolling interest, June 30,	-	-	1	15
TOTAL COMPREHENSIVE INCOME AND TOTAL EQUITY	\$ 541	\$ 7,548	\$ 286	\$ 5,991

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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CIGNA Corporation

Consolidated Statements of Comprehensive Income and Changes in Total Equity

<i>(In millions, except per share amounts)</i>	Unaudited			
	2011		2010	
Six Months Ended June 30,	Comprehensive	Comprehensive		
	Income	Total Equity	Income	Total Equity
Common Stock, January 1 and June 30,	\$	88	\$	88
Additional Paid-In Capital, January 1,		2,534		2,514
Effects of stock issuance for employee benefit plans		18		12
Effects of acquisition of noncontrolling interest		4		-
Additional Paid-In Capital, June 30,		2,556		2,526
Accumulated Other Comprehensive Loss, January 1,		(614)		(618)
Net unrealized appreciation, fixed maturities	\$	81	\$	191
Net unrealized depreciation, equity securities	-	-	(1)	(1)
Net unrealized appreciation on securities	81		190	
Net unrealized appreciation (depreciation), derivatives	(10)	(10)	20	20
Net translation of foreign currencies	98	98	(39)	(39)
Postretirement benefits liability adjustment	9	9	(92)	(92)
Other comprehensive income	178		79	
Accumulated Other Comprehensive Loss, June 30,		(436)		(539)
Retained Earnings, January 1,		9,879		8,625
Shareholders' net income	837	837	577	577
Effects of stock issuance for employee benefit plans		(47)		(62)
Common dividends declared (per share: \$0.04; \$0.04)		(11)		(11)

Retained Earnings, June 30,		10,658		9,129
Treasury Stock, January 1,		(5,242)		(5,192)
Repurchase of common stock		(225)		(123)
Other, primarily issuance of treasury stock for employee benefit plans		149		87
Treasury Stock, June 30,		(5,318)		(5,228)
Shareholders' Comprehensive Income and Shareholders' Equity	1,015	7,548	656	5,976
Noncontrolling interest, January 1,		18		12
Net income attributable to noncontrolling interest	1	1	2	2
Accumulated other comprehensive income attributable to noncontrolling interest	-	-	1	1
Acquisition of noncontrolling interest	-	(19)	-	-
Noncontrolling interest, June 30,	1	-	3	15
TOTAL COMPREHENSIVE INCOME AND TOTAL EQUITY	\$ 1,016	\$ 7,548	\$ 659	\$ 5,991

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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CIGNA Corporation

Consolidated Statements of Cash Flows

<i>(In millions)</i>	Unaudited	
	Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities		
Net income	\$ 838	\$ 579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166	128
Realized investment gains	(43)	(16)
Deferred income taxes	218	127
Gains on sale of businesses (excluding discontinued operations)	(14)	(12)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(104)	(100)
Reinsurance recoverables	23	17
Deferred policy acquisition costs	(116)	(87)
Other assets	(44)	(165)
Insurance liabilities	103	375
Accounts payable, accrued expenses and other liabilities	(297)	(87)
Current income taxes	(144)	18
Other, net	(7)	(4)
NET CASH PROVIDED BY OPERATING ACTIVITIES	579	773
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	300	446
Equity securities	4	3
Commercial mortgage loans	52	37
Other (primarily short-term and other long-term investments)	556	641
Investment maturities and repayments:		
Fixed maturities	673	426
Commercial mortgage loans	201	51
Investments purchased:		

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Fixed maturities	(1,511)	(1,617)
Equity securities	(15)	(4)
Commercial mortgage loans	(109)	(65)
Other (primarily short-term and other long-term investments)	(669)	(329)
Property and equipment purchases	(187)	(120)
Acquisitions and dispositions, net	1	(5)
NET CASH USED IN INVESTING ACTIVITIES	(704)	(536)
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	676	701
Withdrawals and benefit payments from contractholder deposit funds	(596)	(629)
Change in cash overdraft position	(30)	32
Net change in short-term debt	(222)	-
Issuance of long-term debt	587	296
Repayment of long-term debt	(2)	(3)
Repurchase of common stock	(225)	(113)
Issuance of common stock	96	28
Common dividends paid	(11)	(11)
NET CASH PROVIDED BY FINANCING ACTIVITIES	273	301
Effect of foreign currency rate changes on cash and cash equivalents	21	(13)
Net increase in cash and cash equivalents	169	525
Cash and cash equivalents, January 1,	1,605	924
Cash and cash equivalents, June 30,	\$ 1,774	\$ 1,449
Supplemental Disclosure of Cash Information:		
Income taxes paid, net of refunds	\$ 296	\$ 134
Interest paid	\$ 88	\$ 84

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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CIGNA CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

NOTE 1 Basis of Presentation

CIGNA Corporation is a holding company and is not an insurance company. Its subsidiaries conduct various businesses, that are described in its Annual Report on Form 10-K for the year ended December 31, 2010 (“2010 Form 10-K”). As used in this document, “CIGNA” or “the Company” may refer to CIGNA Corporation itself, one or more of its subsidiaries, or CIGNA Corporation and its consolidated subsidiaries. The Company is a global health services organization with subsidiaries that are major providers of medical, dental, disability, life and accident insurance and related products and services. The Consolidated Financial Statements include the accounts of CIGNA Corporation and its significant subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The interim consolidated financial statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim consolidated financial statements and notes should be read in conjunction with the Consolidated Financial Statements and Notes in the Company’s 2010 Form 10-K.

The preparation of interim consolidated financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the health care and related benefits business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations.

During the three months ended March 31, 2011, the Company acquired the noncontrolling interest in a majority-owned subsidiary that the Company continues to consolidate.

Certain reclassifications have been made to prior period amounts to conform to the current presentation.

NOTE 2 Recent Accounting Pronouncements

Deferred acquisition costs. In October 2010, the Financial Accounting Standards Board (“FASB”) amended guidance (ASU 2010-26) for the accounting of costs related to the acquisition or renewal of insurance contracts to require costs such as certain sales compensation or telemarketing costs that are related to unsuccessful efforts and any indirect costs to be expensed as incurred. This new guidance must be implemented on January 1, 2012 and any changes to the Company’s Consolidated Financial Statements may be recognized prospectively for acquisition costs incurred beginning in 2012 or through retrospective adjustment of comparative prior periods. The Company’s deferred acquisition costs arise from sales and renewal activities primarily in its International segment and, to a lesser extent, the Health Care and corporate-owned life insurance businesses. Because the new requirements further restrict the types of costs that are deferrable, the Company expects more of its acquisition costs to be expensed when incurred under the new guidance. The Company continues to evaluate these new requirements to determine the method and estimated effects of their implementation.

Troubled debt restructurings. In April 2011, the FASB amended guidance (ASU 2011-02) to clarify for lenders that a troubled debt restructuring occurs when a debt modification is a concession to the borrower and the borrower is experiencing financial difficulties. The amendments are effective July 1, 2011 and are to be applied retrospectively to loan restructurings occurring on or after January 1, 2011. The amendment also requires new disclosures to be provided in the third quarter 2011 addressing certain troubled debt restructurings. On adoption, the Company does not expect a material effect to its results of operations or financial condition.

Fair value measurements. In May 2011, the FASB amended guidance (ASU 2011-04) to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments are effective January 1, 2012 and are to be applied prospectively. The Company is presently evaluating the new requirements to determine the potential effects of their implementation.

[Back to Contents](#)**NOTE 3** Earnings Per Share (“EPS”)

Basic and diluted earnings per share were computed as follows:

Three Months Ended June 30,*(Dollars in millions, except per share amounts)*

	Basic		Effect of Dilution		Diluted
2011					
Shareholders’ net income	\$ 408			\$	408
Shares <i>(in thousands)</i> :					
Weighted average	268,557				268,557
Common stock equivalents			4,176		4,176
Total shares	268,557		4,176		272,733
EPS	\$ 1.52	\$	(0.02)	\$	1.50
2010					
Shareholders’ net income	\$ 294			\$	294
Shares <i>(in thousands)</i> :					
Weighted average	275,107				275,107
Common stock equivalents			2,429		2,429
Total shares	275,107		2,429		277,536
EPS	\$ 1.07	\$	(0.01)	\$	1.06

Six Months Ended June 30,*(Dollars in millions, except per share amounts)*

	Basic		Effect of Dilution		Diluted
2011					
Shareholders’ net income	\$ 837			\$	837
Shares <i>(in thousands)</i> :					
Weighted average	269,464				269,464
Common stock equivalents			3,836		3,836
Total shares	269,464		3,836		273,300
EPS	\$ 3.11	\$	(0.05)	\$	3.06
2010					
Shareholders’ net income	\$ 577			\$	577
Shares <i>(in thousands)</i> :					
Weighted average	275,398				275,398
Common stock equivalents			2,421		2,421
Total shares	275,398		2,421		277,819

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EPS \$ 2.10 \$ (0.02) \$ 2.08

The following outstanding employee stock options were not included in the computation of diluted earnings per share because their effect would have increased diluted earnings per share (antidilutive) as their exercise price was greater than the average share price of the Company's common stock for the period.

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Antidilutive options	2.9	6.8	3.5	6.0

The Company held 80,740,132 shares of common stock in Treasury as of June 30, 2011, and 77,905,033 shares as of June 30, 2010.

[Back to Contents](#)**NOTE 4** Health Care Medical Claims Payable

Medical claims payable for the Health Care segment reflects estimates of the ultimate cost of claims that have been incurred but not yet reported, those that have been reported but not yet paid (reported claims in process) and other medical expense payable, that primarily comprises accruals for incentives and other amounts payable to health care professionals and facilities. Incurred but not yet reported comprises the majority of the reserve balance as follows:

<i>(In millions)</i>	June 30, 2011	December 31, 2010
Incurred but not yet reported	\$ 1,026	\$ 1,067
Reported claims in process	182	164
Other medical expense payable	17	15
MEDICAL CLAIMS PAYABLE	\$ 1,225	\$ 1,246

Activity in medical claims payable was as follows:

<i>(In millions)</i>	For the period ended	
	June 30, 2011	December 31, 2010
Balance at January 1,	\$ 1,246	\$ 921
Less: Reinsurance and other amounts recoverable	236	206
Balance at January 1, net	1,010	715
Incurred claims related to:		
Current year	4,232	8,663
Prior years	(121)	(93)
Total incurred	4,111	8,570
Paid claims related to:		
Current year	3,310	7,682
Prior years	809	593
Total paid	4,119	8,275
Ending Balance, net	1,002	1,010
Add: Reinsurance and other amounts recoverable	223	236
ENDING BALANCE	\$ 1,225	\$ 1,246

Reinsurance and other amounts recoverable reflect amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for minimum premium products and certain administrative services only business where the right of offset does not exist. See Note 10 for additional information on reinsurance. For the six months ended June 30, 2011, actual experience differed from the Company's key assumptions resulting in favorable incurred claims related to prior years' medical claims payable of \$121 million, or 1.4% of the current year incurred claims as reported for the year ended December 31, 2010. Actual completion factors resulted in a reduction in medical claims payable of \$80 million, or 0.9% of the current year incurred claims as reported for the year ended December 31, 2010 for the insured book of business. Actual medical cost trend resulted in a reduction in medical claims payable of

\$41 million, or 0.5% of the current year incurred claims as reported for the year ended December 31, 2010 for the insured book of business.

For the year ended December 31, 2010, actual experience differed from the Company's key assumptions, resulting in favorable incurred claims related to prior years' medical claims payable of \$93 million, or 1.3% of the current year incurred claims as reported for the year ended December 31, 2009. Actual completion factors resulted in a reduction of the medical claims payable of \$51 million, or 0.7% of the current year incurred claims as reported for the year ended December 31, 2009 for the insured book of business. Actual medical cost trend resulted in a reduction of the medical claims payable of \$42 million, or 0.6% of the current year incurred claims as reported for the year ended December 31, 2009 for the insured book of business.

The favorable impacts in 2011 and 2010 relating to completion factors and medical cost trend variances include the release of the provision for moderately adverse conditions, that is a component of the assumptions for both completion factors and medical cost trend, established for claims incurred related to prior years. This release was substantially offset by the provision for moderately adverse conditions established for claims incurred related to the current year.

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The corresponding impact of prior year development on shareholders' net income was \$47 million for the six months ended June 30, 2011 compared with \$17 million for the six months ended June 30, 2010. The favorable effects of prior year development on net income in 2011 and 2010 primarily reflect low medical services utilization trend. The change in the amount of the incurred claims related to prior years in the medical claims payable liability does not directly correspond to an increase or decrease in the Company's shareholders' net income recognized for the following reasons:

First, the Company consistently recognizes the actuarial best estimate of the ultimate liability within a level of confidence, as required by actuarial standards of practice, that require the liabilities to be adequate under moderately adverse conditions. As the Company establishes the liability for each incurrence year, the Company ensures that its assumptions appropriately consider moderately adverse conditions. When a portion of the development related to the prior year incurred claims is offset by an increase determined appropriate to address moderately adverse conditions for the current year incurred claims, the Company does not consider that offset amount as having any impact on shareholders' net income.

Second, changes in reserves for the Company's retrospectively experience-rated business do not always impact shareholders' net income. For the Company's retrospectively experience-rated business, only adjustments to medical claims payable on accounts in deficit affect shareholders' net income. An increase or decrease to medical claims payable on accounts in deficit, in effect, accrues to the Company and directly impacts shareholders' net income. An account is in deficit when the accumulated medical costs and administrative charges, including profit charges, exceed the accumulated premium received. Adjustments to medical claims payable on accounts in surplus accrue directly to the policyholder with no impact on the Company's shareholders' net income. An account is in surplus when the accumulated premium received exceeds the accumulated medical costs and administrative charges, including profit charges.

The determination of liabilities for Health Care medical claims payable requires the Company to make critical accounting estimates. See Note 2(N) to the Consolidated Financial Statements in the Company's 2010 Form 10-K.

NOTE 5 Guaranteed Minimum Death Benefit Contracts

The Company had future policy benefit reserves for guaranteed minimum death benefit ("GMDB") contracts of \$1.1 billion as of June 30, 2011 and December 31, 2010. The determination of liabilities for GMDB requires the Company to make critical accounting estimates. The Company estimates its liabilities for GMDB exposures using a complex internal model run using many scenarios and based on assumptions regarding lapse, future partial surrenders, claim mortality (deaths that result in claims), interest rates (mean investment performance and discount rate) and volatility. These assumptions are based on the Company's experience and future expectations over the long-term period, consistent with the long-term nature of this product. The Company regularly evaluates these assumptions and changes its estimates if actual experience or other evidence suggests that assumptions should be revised. If actual experience differs from the assumptions used in estimating these liabilities, the result could have a material adverse effect on the Company's consolidated results of operations, and in certain situations, could have a material adverse effect on the Company's financial condition.

In 2000, the Company determined that the GMDB reinsurance business was premium deficient because the recorded future policy benefit reserve was less than the expected present value of future claims and expenses less the expected present value of future premiums and investment income using revised assumptions based on actual and expected experience. The Company tests for premium deficiency by reviewing its reserve each quarter using current market conditions and its long-term assumptions. Under premium deficiency accounting, if the recorded reserve is determined insufficient, an increase to the reserve is reflected as a charge to current period income. Consistent with GAAP, the

Company does not recognize gains on premium deficient long duration products.

See Note 8 for further information on the Company's dynamic hedge programs that are used to reduce certain equity and interest rate exposures associated with this business.

Since December 31, 2010, the Company updated its long-term assumption for assumed mean investment performance ("growth interest rate") of the underlying equity mutual funds to use the market-observable LIBOR swap curve for the portion of the liability that is covered by the Company's recently implemented growth interest rate hedge program. The mean investment performance for the remaining liability has not changed since December 31, 2010.

During 2010, the Company performed its periodic review of assumptions and recorded a charge in the third quarter of \$52 million pre-tax (\$34 million after-tax) to strengthen GMDB reserves. During 2010, current short-term interest rates had declined from the level anticipated at December 31, 2009, leading the Company to increase reserves. Interest rate risk was not covered by the GMDB hedge program at that time. The Company also updated the lapse assumption for policies that have already taken or may take a significant partial withdrawal, which had a lesser reserve impact.

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Activity in future policy benefit reserves for the GMDB business was as follows:

<i>(In millions)</i>	For the period ended	
	June 30, 2011	December 31, 2010
Balance at January 1	\$ 1,138	\$ 1,285
Add: Unpaid Claims	37	36
Less: Reinsurance and other amounts recoverable	51	53
Balance at January 1, net	1,124	1,268
Add: Incurred benefits	3	(20)
Less: Paid benefits	57	124
Ending balance, net	1,070	1,124
Less: Unpaid Claims	33	37
Add: Reinsurance and other amounts recoverable	48	51
ENDING BALANCE	\$ 1,085	\$ 1,138

Benefits paid and incurred are net of ceded amounts. Incurred benefits reflect the favorable or unfavorable impact of a rising or falling equity markets on the liability, and include the 2010 charge discussed above.

The aggregate value of the underlying mutual fund investments was \$16.0 billion as of June 30, 2011 and \$16.6 billion as of December 31, 2010. The death benefit coverage in force was \$4.6 billion as of June 30, 2011 and \$5.2 billion as of December 31, 2010. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the value of the underlying mutual fund investments for all contractholders (approximately 500,000 as of June 30, 2011 and 530,000 as of December 31, 2010).

The Company has also written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits (“GMIB”). All reinsured GMIB policies also have a GMDB benefit reinsured by the Company. See Note 6 for further information.

NOTE 6 Fair Value Measurements

The Company carries certain financial instruments at fair value in the financial statements including fixed maturities, equity securities, short-term investments and derivatives. Other financial instruments are measured at fair value under certain conditions, such as when impaired.

Fair value is defined as the price at which an asset could be exchanged in an orderly transaction between market participants at the balance sheet date. A liability’s fair value is defined as the amount that would be paid to transfer the liability to a market participant, not the amount that would be paid to settle the liability with the creditor.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that the Company believes a hypothetical market participant would use to determine a current transaction price. These valuation techniques involve some level of estimation and judgment by the Company which becomes significant with

increasingly complex instruments or pricing models.

The Company's financial assets and liabilities carried at fair value have been classified based upon a hierarchy defined by GAAP. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level of input that is significant to its measurement. For example, a financial asset or liability carried at fair value would be classified in Level 3 if unobservable inputs were significant to the instrument's fair value, even though the measurement may be derived using inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

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The Company performs ongoing analyses of prices used to value the Company's invested assets to determine that they represent appropriate estimates of fair value. This process involves quantitative and qualitative analysis including reviews of pricing methodologies, judgments of valuation inputs, the significance of any unobservable inputs, pricing statistics and trends. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates.

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of June 30, 2011 and December 31, 2010 about the Company's financial assets and liabilities carried at fair value. Similar disclosures for separate account assets, that are also recorded at fair value on the Company's Consolidated Balance Sheets, are provided separately as gains and losses related to these assets generally accrue directly to policyholders.

JUNE 30, 2011

	Quoted Prices in			Total
	Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
<i>(In millions)</i>	(Level 1)	(Level 2)	(Level 3)	
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	\$ 207	\$ 556	\$ 4	\$ 767
State and local government	-	2,450	-	2,450
Foreign government	-	1,239	17	1,256
Corporate	-	9,726	369	10,095
Federal agency mortgage-backed	-	10	-	10
Other mortgage-backed	-	70	1	71
Other asset-backed	-	335	521	856
Total fixed maturities ⁽¹⁾	207	14,386	912	15,505
Equity securities	8	103	38	149
Subtotal	215	14,489	950	15,654
Short-term investments	-	204	-	204
GMIB assets ⁽²⁾	-	-	490	490
Other derivative assets ⁽³⁾	-	22	-	22
	\$ 215	\$ 14,715	\$ 1,440	\$ 16,370

**TOTAL FINANCIAL ASSETS AT
FAIR VALUE,
EXCLUDING SEPARATE
ACCOUNTS**

Financial liabilities at fair value:

GMIB liabilities	\$	-	\$	-	\$	917	\$	917
Other derivative liabilities ⁽³⁾		-		43		-		43
Total financial liabilities at fair value	\$	-	\$	43	\$	917	\$	960

(1) Fixed maturities includes \$447 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including \$79 million of appreciation for securities classified in Level 3.

(2) The GMIB assets represent retrocessional contracts in place from two external reinsurers that cover 55% of the exposures on these contracts.

(3) Other derivative assets includes \$9 million of interest rate and foreign currency swaps qualifying as cash flow hedges and \$12 million of interest rate swaps not designated as accounting hedges. Other derivative liabilities reflect foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 8 for additional information.

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DECEMBER 31, 2010

	Quoted Prices in			Total
	Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
<i>(In millions)</i>	(Level 1)	(Level 2)	(Level 3)	
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	\$ 133	\$ 550	\$ 4	\$ 687
State and local government	-	2,467	-	2,467
Foreign government	-	1,137	17	1,154
Corporate	-	9,080	364	9,444
Federal agency mortgage-backed	-	10	-	10
Other mortgage-backed	-	85	3	88
Other asset-backed	-	348	511	859
Total fixed maturities ⁽¹⁾	133	13,677	899	14,709
Equity securities	6	87	34	127
Subtotal	139	13,764	933	14,836
Short-term investments	-	174	-	174
GMIB assets ⁽²⁾	-	-	480	480
Other derivative assets ⁽³⁾	-	19	-	19
TOTAL FINANCIAL ASSETS AT FAIR VALUE, EXCLUDING SEPARATE ACCOUNTS	\$ 139	\$ 13,957	\$ 1,413	\$ 15,509
Financial liabilities at fair value:				
GMIB liabilities	\$ -	\$ -	\$ 903	\$ 903
Other derivative liabilities ⁽³⁾	-	32	-	32
Total financial liabilities at fair value	\$ -	\$ 32	\$ 903	\$ 935

(1) Fixed maturities includes \$443 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including \$74 million of appreciation for securities classified in Level 3.

(2) The GMIB assets represent retrocessional contracts in place from two external reinsurers that cover 55% of the exposures on these contracts.

(3) Other derivative assets include \$16 million of interest rate and foreign currency swaps qualifying as cash flow hedges and \$3 million of interest rate swaps not designated as accounting hedges. Other derivative liabilities reflect foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 8 for additional information.

Level 1 Financial Assets

Inputs for instruments classified in Level 1 include unadjusted quoted prices for identical assets in active markets accessible at the measurement date. Active markets provide pricing data for trades occurring at least weekly and include exchanges and dealer markets.

Assets in Level 1 include actively-traded U.S. government bonds and exchange-listed equity securities. Given the narrow definition of Level 1 and the Company's investment asset strategy to maximize investment returns, a relatively small portion of the Company's investment assets are classified in this category.

Level 2 Financial Assets and Financial Liabilities

Inputs for instruments classified in Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are market observable or can be corroborated by market data for the term of the instrument. Such other inputs include market interest rates and volatilities, spreads and yield curves. An instrument is classified in Level 2 if the Company determines that unobservable inputs are insignificant.

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Fixed maturities and equity securities. Approximately 93% of the Company's investments in fixed maturities and equity securities are classified in Level 2 including most public and private corporate debt and equity securities, federal agency and municipal bonds, non-government mortgage-backed securities and preferred stocks. Because many fixed maturities and preferred stocks do not trade daily, fair values are often derived using recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

Nearly all of these instruments are valued using recent trades or pricing models. Less than 1% of the fair value of investments classified in Level 2 represents foreign bonds that are valued, consistent with local market practice, using a single unadjusted market-observable input derived by averaging multiple broker-dealer quotes.

Short-term investments are carried at fair value, which approximates cost. On a regular basis the Company reviews market prices for these securities to validate that current carrying amounts approximate exit prices. The short-term nature of the investments and corroboration of the reported amounts over the holding period support their classification in Level 2.

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties, and determined that no adjustment for credit risk was required as of June 30, 2011 or December 31, 2010. The nature and use of these other derivatives are described in Note 8.

Level 3 Financial Assets and Financial Liabilities

Certain inputs for instruments classified in Level 3 are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Company classifies certain newly issued, privately placed, complex or illiquid securities, as well as assets and liabilities relating to GMIB, in Level 3.

Fixed maturities and equity securities. Approximately 6% of fixed maturities and equity securities are priced using significant unobservable inputs and classified in this category, including:

<i>(In millions)</i>	June 30, December 31,	
	2011	2010
Other asset and mortgage-backed securities - valued using pricing models	\$ 522	\$ 514
Corporate and government bonds - valued using pricing models	328	312

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Corporate bonds - valued at transaction price	62	73
Equity securities - valued at transaction price	38	34
TOTAL	\$ 950	\$ 933

Fair values of mortgage and asset-backed securities and corporate bonds are determined using pricing models that incorporate the specific characteristics of each asset and related assumptions including the investment type and structure, credit quality, industry and maturity date in comparison to current market indices, spreads and liquidity of assets with similar characteristics. For mortgage and asset-backed securities, inputs and assumptions to pricing may also include collateral attributes and prepayment speeds. Recent trades in the subject security or similar securities are assessed when available, and the Company may also review published research, as well as the issuer's financial statements, in its evaluation. Certain subordinated corporate bonds and private equity investments are valued at transaction price in the absence of market data indicating a change in the estimated fair values.

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Guaranteed minimum income benefit contracts. Because cash flows of the GMIB liabilities and assets are affected by equity markets and interest rates but are without significant life insurance risk and are settled in lump sum payments, the Company reports these liabilities and assets as derivatives at fair value. The Company estimates the fair value of the assets and liabilities for GMIB contracts using assumptions regarding capital markets (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments), future annuitant behavior (including mortality, lapse, and annuity election rates), and non-performance risk, as well as risk and profit charges. As certain assumptions used to estimate fair values for these contracts are largely unobservable (primarily related to future annuitant behavior), the Company classifies GMIB assets and liabilities in Level 3. The Company considered the following in determining the view of a hypothetical market participant:

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that the most likely transfer of these assets and liabilities would be through a reinsurance transaction with an independent insurer having a market capitalization and credit rating similar to that of the Company; and

-

that because this block of contracts is in run-off mode, an insurer looking to acquire these contracts would have similar existing contracts with related administrative and risk management capabilities.

These GMIB assets and liabilities are estimated with a complex internal model using many scenarios to determine the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received adjusted for risk and profit charges that the Company estimates a hypothetical market participant would require to assume this business. Net amounts expected to be paid include the excess of the expected value of the income benefits over the values of the annuitants' accounts at the time of annuitization. Generally, market return, interest rate and volatility assumptions are based on market observable information. Assumptions related to annuitant behavior reflect the Company's belief that a hypothetical market participant would consider the actual and expected experience of the Company as well as other relevant and available industry resources in setting policyholder behavior assumptions. The significant assumptions used to value the GMIB assets and liabilities as of June 30, 2011 were as follows:

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The market return ("growth interest rate") and discount rate assumptions are based on the market-observable LIBOR swap curve.

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The projected interest rate used to calculate the reinsured income benefits is indexed to the 7-year Treasury Rate at the time of annuitization (claim interest rate) based on contractual terms. That rate was 2.50% at June 30, 2011 and must be projected for future time periods. These projected rates vary by economic scenario and are determined by an interest rate model using current interest rate curves and the prices of instruments available in the market including various interest rate caps and zero-coupon bonds. For a subset of the business, there is a contractually guaranteed floor of 3% for the claim interest rate.

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The market volatility assumptions for annuitants' underlying mutual fund investments that are modeled based on the S&P 500, Russell 2000 and NASDAQ Composite are based on the market-implied volatility for these indices for three

to seven years grading to historical volatility levels thereafter. For the remaining 51% of underlying mutual fund investments modeled based on other indices (with insufficient market-observable data), volatility is based on the average historical level for each index over the past 10 years. Using this approach, volatility ranges from 16% to 31% for equity funds, 4% to 11% for bond funds, and 1% to 2% for money market funds.

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The mortality assumption is 70% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.

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The annual lapse rate assumption reflects experience that differs by the company issuing the underlying variable annuity contracts, ranges from 1% to 12%, and depends on the time since contract issue and the relative value of the guarantee.

•

The annual annuity election rate assumption reflects experience that differs by the company issuing the underlying variable annuity contracts and depends on the annuitant's age, the relative value of the guarantee and whether a contractholder has had a previous opportunity to elect the benefit. Immediately after the expiration of the waiting period, the assumed probability that an individual will annuitize their variable annuity contract is up to 80%. For the second and subsequent annual opportunities to elect the benefit, the assumed probability of election is up to 35%.

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The nonperformance risk adjustment is incorporated by adding an additional spread to the discount rate in the calculation of both (1) the GMIB liability to reflect a hypothetical market participant's view of the risk of the Company not fulfilling its GMIB obligations, and (2) the GMIB asset to reflect a hypothetical market participant's view of the reinsurers' credit risk, after considering collateral. The estimated market-implied spread is company-specific for each party involved to the extent that company-specific market data is available and is based on industry averages for similarly rated companies when company-specific data is not available. The spread is impacted by the credit default swap spreads of the specific parent companies, adjusted to reflect subsidiaries' credit ratings relative to their parent company and any available collateral. The additional spread over LIBOR incorporated into the discount rate ranged from 5 to 135 basis points for the GMIB liability and from 10 to 80 basis points for the GMIB reinsurance asset for that portion of the interest rate curve most relevant to these policies.

•

The risk and profit charge assumption is based on the Company's estimate of the capital and return on capital that would be required by a hypothetical market participant.

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The Company regularly evaluates each of the assumptions used in establishing these assets and liabilities by considering how a hypothetical market participant would set assumptions at each valuation date. Capital markets assumptions are expected to change at each valuation date reflecting currently observable market conditions. Other assumptions may also change based on a hypothetical market participant's view of actual experience as it emerges over time or other factors that impact the net liability. If the emergence of future experience or future assumptions differs from the assumptions used in estimating these assets and liabilities, the resulting impact could be material to the Company's consolidated results of operations, and in certain situations, could be material to the Company's financial condition.

GMIB liabilities are reported in the Company's Consolidated Balance Sheets in Accounts payable, accrued expenses and other liabilities. GMIB assets associated with these contracts represent net receivables in connection with reinsurance that the Company has purchased from two external reinsurers and are reported in the Company's Consolidated Balance Sheets in Other assets, including other intangibles.

Changes in Level 3 Financial Assets and Financial Liabilities Carried at Fair Value

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three and six months ended June 30, 2011 and 2010. These tables exclude separate account assets as changes in fair values of these assets accrue directly to policyholders. Gains and losses reported in these tables may include net changes in fair value that are attributable to both observable and unobservable inputs.

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**For the Three Months Ended
June 30, 2011**

<i>(In millions)</i>	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at April 1, 2011	\$ 928	\$ 459	\$ (850)	\$ (391)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	48	(85)	(37)
Other	2	-	-	-
Total gains (losses) included in shareholders' net income	2	48	(85)	(37)
Gains included in other comprehensive income	6	-	-	-
Gains required to adjust future policy benefits for settlement annuities ⁽¹⁾	11	-	-	-
Purchases, sales and settlements:				
Purchases	42	-	-	-
Settlements	(19)	(17)	18	1
Total purchases, sales and settlements	23	(17)	18	1
Transfers into/(out of) Level 3:				
Transfers into Level 3	19	-	-	-
Transfers out of Level 3	(39)	-	-	-
Total transfers into/(out of) Level 3	(20)	-	-	-
Balance at June 30, 2011	\$ 950	\$ 490	\$ (917)	\$ (427)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	\$ 2	\$ 48	\$ (85)	\$ (37)

(1) Amounts do not accrue to shareholders.

**For the Three Months Ended
June 30, 2010**

<i>(In millions)</i>	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at April 1, 2010	\$ 884	\$ 479	\$ (886)	\$ (407)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	187	(351)	(164)
Other	8	-	-	-
	8	187	(351)	(164)

Total gains (losses) included in shareholders' net income				
Gains included in other comprehensive income	9	-	-	-
Gains required to adjust future policy benefits for settlement annuities ⁽¹⁾	43	-	-	-
Purchases, sales and settlements:				
Purchases	5	-	-	-
Settlements	(20)	(8)	16	8
Total purchases, sales and settlements	(15)	(8)	16	8
Transfers into/(out of) Level 3:				
Transfers into Level 3	18	-	-	-
Transfers out of Level 3	(2)	-	-	-
Total transfers into/(out of) Level 3	16	-	-	-
Balance at June 30, 2010	\$ 945	\$ 658	\$ (1,221)	\$ (563)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	\$ 5	\$ 187	\$ (351)	\$ (164)

(1) Amounts do not accrue to shareholders.

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**For the Six Months Ended
June 30, 2011**

<i>(In millions)</i>	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at January 1, 2011	\$ 933	\$ 480	\$ (903)	\$ (423)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	27	(48)	(21)
Other	7	-	-	-
Total gains (losses) included in shareholders' net income	7	27	(48)	(21)
Gains included in other comprehensive income	8	-	-	-
Gains required to adjust future policy benefits for settlement annuities ⁽¹⁾	5	-	-	-
Purchases, sales and settlements:				
Purchases	49	-	-	-
Settlements	(31)	(17)	34	17
Total purchases, sales and settlements	18	(17)	34	17
Transfers into/(out of) Level 3:				
Transfers into Level 3	19	-	-	-
Transfers out of Level 3	(40)	-	-	-
Total transfers into/(out of) Level 3	(21)	-	-	-
Balance at June 30, 2011	\$ 950	\$ 490	\$ (917)	\$ (427)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	\$ 7	\$ 27	\$ (48)	\$ (21)

(1) Amounts do not accrue to shareholders.

**For the Six Months Ended
June 30, 2010**

<i>(In millions)</i>	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at January 1, 2010	\$ 845	\$ 482	\$ (903)	\$ (421)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	187	(347)	(160)
Other	12	-	-	-
	12	187	(347)	(160)

Total gains (losses) included in shareholders' net income					
Gains included in other comprehensive income	21	-	-	-	
Gains required to adjust future policy benefits for settlement annuities ⁽¹⁾	61	-	-	-	
Purchases, sales and settlements:					
Purchases	20	-	-	-	
Sales	(1)	-	-	-	
Settlements	(45)	(11)	29	18	
Total purchases, sales and settlements	(26)	(11)	29	18	
Transfers into/(out of) Level 3:					
Transfers into Level 3	72	-	-	-	
Transfers out of Level 3	(40)	-	-	-	
Total transfers into/(out of) Level 3	32	-	-	-	
Balance at June 30, 2010	\$ 945	\$ 658	\$ (1,221)	\$ (563)	
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	\$ 9	\$ 187	\$ (347)	\$ (160)	

(1) Amounts do not accrue to shareholders.

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As noted in the tables above, total gains and losses included in shareholders' net income are reflected in the following captions in the Consolidated Statements of Income:

- Realized investment gains (losses) and net investment income for amounts related to fixed maturities and equity securities; and

- GMIB fair value (gain) loss for amounts related to GMIB assets and liabilities.

Reclassifications impacting Level 3 financial instruments are reported as transfers into or out of the Level 3 category as of the beginning of the quarter in which the transfer occurs. Therefore gains and losses in income only reflect activity for the period the instrument was classified in Level 3.

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. For the six months ended June 30, 2010, transfers into Level 3 from Level 2 primarily reflect an increase in the unobservable inputs used to value certain private corporate bonds, principally related to credit risk of the issuers.

The Company provided reinsurance for other insurance companies that offer a guaranteed minimum income benefit, and then retroceded a portion of the risk to other insurance companies. These arrangements with third-party insurers are the instruments still held at the reporting date for GMIB assets and liabilities in the tables above. Because these reinsurance arrangements remain in effect at the reporting date, the Company has reflected the total gain or loss for the period as the total gain or loss included in income attributable to instruments still held at the reporting date. However, the Company reduces the GMIB assets and liabilities resulting from these reinsurance arrangements when annuitants lapse, die, elect their benefit, or reach the age after which the right to elect their benefit expires.

Under the FASB's guidance for fair value measurements, the Company's GMIB assets and liabilities are expected to be volatile in future periods because the underlying capital markets assumptions will be based largely on market-observable inputs at the close of each reporting period including interest rates and market-implied volatilities.

GMIB fair value losses of \$37 million for the three months ended June 30, 2011 were primarily due to declining interest rates. Fair value losses of \$21 million for the six months ended June 30, 2011 were due to declining interest rates and updates to the risk and profit charge, partially offset by increases in underlying account values due to favorable equity market returns.

Beginning in February 2011, the Company implemented a dynamic equity hedge program to reduce a portion of the equity market exposures related to GMIB contracts ("GMIB equity hedge program") by entering into exchange-traded futures contracts. The Company also implemented a dynamic interest rate hedge program that reduces a portion of the interest rate exposure related to GMIB contracts ("GMIB growth interest rate hedge program") using LIBOR swap contracts and interest rate futures contracts. See Note 8 for further information.

GMIB fair value losses of \$164 million for the three months ended June 30, 2010 and \$160 million for the six months ended June 30, 2010, were primarily a result of declining interest rates and decreases in underlying account values that occurred during the second quarter of 2010.

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Separate account assets

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are excluded from the Company's revenues and expenses. As of June 30, 2011 and December 31, 2010 separate account assets were as follows:

June 30, 2011	Quoted	Significant	Significant	Total
	Prices	Other	Significant	
	in Active	Observable	Unobservable	
	Markets	Inputs	Inputs	
	for Identical			
	Assets			
(In millions)	(Level 1)	(Level 2)	(Level 3)	
Guaranteed separate accounts (See Note 16)	\$ 292	\$ 1,410	\$ -	\$ 1,702
Non-guaranteed separate accounts ⁽¹⁾	1,864	4,117	644	6,625
TOTAL SEPARATE ACCOUNT ASSETS	\$ 2,156	\$ 5,527	\$ 644	\$ 8,327

(1) As of June 30, 2011, non-guaranteed separate accounts include \$3.1 billion in assets supporting the Company's pension plans, including \$601 million classified in Level 3.

December 31, 2010	Quoted	Significant	Significant	Total
	Prices	Other	Significant	
	in Active	Observable	Unobservable	
	Markets	Inputs	Inputs	
	for Identical			
	Assets			
(In millions)	(Level 1)	(Level 2)	(Level 3)	
Guaranteed separate accounts (See Note 16)	\$ 286	\$ 1,418	\$ -	\$ 1,704
Non-guaranteed separate accounts ⁽¹⁾	1,947	3,663	594	6,204
TOTAL SEPARATE ACCOUNT ASSETS	\$ 2,233	\$ 5,081	\$ 594	\$ 7,908

(1) As of December 31, 2010, non-guaranteed separate accounts include \$2.8 billion in assets supporting the Company's pension plans, including \$557 million classified in Level 3.

Separate account assets in Level 1 include exchange-listed equity securities. Level 2 assets primarily include:

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equity securities and corporate and structured bonds valued using recent trades of similar securities or pricing models that discount future cash flows at estimated market interest rates as described above; and

-

actively-traded institutional and retail mutual fund investments and separate accounts priced using the daily net asset value that is their exit price.

Separate account assets classified in Level 3 include investments primarily in securities partnerships, real estate and hedge funds generally valued based on the separate account's ownership share of the equity of the investee including changes in the fair values of its underlying investments. In addition, certain fixed income funds priced using their net asset values are classified in Level 3 due to restrictions on their withdrawal.

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The following tables summarize the changes in separate account assets reported in Level 3 for the three and six months ended June 30, 2011 and 2010.

<i>(In millions)</i>	Three Months Ended	
	June 30,	
	2011	2010
Balance at April 1	\$ 559	\$ 544
Policyholder gains (losses) ⁽¹⁾	21	(2)
Purchases, sales and settlements:		
Purchases	106	19
Sales	(1)	(9)
Settlements	(35)	(18)
Total purchases, sales and settlements	70	(8)
Transfers into/(out of) Level 3:		
Transfers into Level 3	-	1
Transfers out of Level 3	(6)	(1)
Total transfers into/(out of) Level 3	(6)	-
BALANCE AT JUNE 30	\$ 644	\$ 534

(1) Included in this amount are gains of \$21 million at June 30, 2011 and \$3 million at June 30, 2010 attributable to instruments still held.

<i>(In millions)</i>	Six Months Ended	
	June 30,	
	2011	2010
Balance at January 1	\$ 594	\$ 550
Policyholder gains ⁽¹⁾	79	14
Purchases, sales and settlements:		
Purchases	115	43
Sales	(41)	(27)
Settlements	(94)	(27)
Total purchases, sales and settlements	(20)	(11)
Transfers into/(out of) Level 3:		
Transfers into Level 3	-	1
Transfers out of Level 3	(9)	(20)
Total transfers into/(out of) Level 3	(9)	(19)
BALANCE AT JUNE 30	\$ 644	\$ 534

(1) Included in this amount are gains of \$61 million at June 30, 2011 and \$12 million at June 30, 2010 attributable to instruments still held.

Assets and Liabilities Measured at Fair Value under Certain Conditions

Some financial assets and liabilities are not carried at fair value each reporting period, but may be measured using fair value only under certain conditions, such as investments in commercial mortgage loans and real estate entities when they become impaired. During the six months ended June 30, 2011, impaired commercial mortgage loans representing less than 1% of total investments were written down to their fair values, resulting in after-tax realized investment losses of \$11 million. For the six months ended June 30, 2010, impaired commercial mortgage loans and real estate entities representing less than 1% of total investments were written down to their fair values, resulting in after-tax realized investment losses of \$20 million.

During 2010, impaired commercial mortgage loans and real estate entities representing less than 1% of total investments were written down to their fair values, resulting in after-tax realized investment losses of \$25 million.

These fair values were calculated by discounting the expected future cash flows at estimated market interest rates. Such market rates were derived by calculating the appropriate spread over comparable U.S. Treasury rates, based on the characteristics of the underlying collateral, including the type, quality and location of the assets. The fair value measurements were classified in Level 3 because these cash flow models incorporate significant unobservable inputs.

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Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

Most financial instruments that are subject to fair value disclosure requirements are carried in the Company's consolidated financial statements at amounts that approximate fair value. The following table provides the fair values and carrying values of the Company's financial instruments not recorded at fair value that are subject to fair value disclosure requirements at June 30, 2011 and December 31, 2010:

<i>(In millions)</i>	June 30, 2011		December 31, 2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Commercial mortgage loans	\$ 3,411	\$ 3,315	\$ 3,470	\$ 3,486
Contractholder deposit funds, excluding universal life products	\$ 1,016	\$ 1,002	\$ 1,001	\$ 989
Long-term debt, including current maturities, excluding capital leases	\$ 3,362	\$ 3,087	\$ 2,926	\$ 2,709

The fair values presented in the table above have been estimated using market information when available. The following is a description of the valuation methodologies and inputs used by the Company to determine fair value.

Commercial mortgage loans. The Company estimates the fair value of commercial mortgage loans generally by discounting the contractual cash flows at estimated market interest rates that reflect the Company's assessment of the credit quality of the loans. Market interest rates are derived by calculating the appropriate spread over comparable U.S. Treasury rates, based on the property type, quality rating and average life of the loan. The quality ratings reflect the relative risk of the loan, considering debt service coverage, the loan-to-value ratio and other factors. Fair values of impaired mortgage loans are based on the estimated fair value of the underlying collateral generally determined using an internal discounted cash flow model.

Contractholder deposit funds, excluding universal life products. Generally, these funds do not have stated maturities. Approximately 50% of these balances can be withdrawn by the customer at any time without prior notice or penalty. The fair value for these contracts is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. Most of the remaining contractholder deposit funds are reinsured by the buyers of the individual life and annuity and retirement benefits businesses. The fair value for these contracts is determined using the fair value of these buyers' assets supporting these reinsured contracts. The Company had a reinsurance recoverable equal to the carrying value of these reinsured contracts.

Long-term debt, including current maturities, excluding capital leases. The fair value of long-term debt is based on quoted market prices for recent trades. When quoted market prices are not available, fair value is estimated using a discounted cash flow analysis and the Company's estimated current borrowing rate for debt of similar terms and remaining maturities.

Fair values of off-balance-sheet financial instruments were not material.

[Back to Contents](#)**NOTE 7** Investments

Total Realized Investment Gains and Losses

The following total realized gains and losses on investments include other-than-temporary impairments on debt securities but exclude amounts required to adjust future policy benefits for the run-off settlement annuity business:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Fixed maturities	\$ 29	\$ 19	\$ 50	\$ 34
Equity securities	1	(1)	4	3
Commercial mortgage loans	(16)	(4)	(16)	(15)
Other investments, including derivatives	3	8	5	(6)
Realized investment gains before income taxes	17	22	43	16
Less income taxes	6	8	15	5
NET REALIZED INVESTMENT GAINS	\$ 11	\$ 14	\$ 28	\$ 11

Included in pre-tax realized investment gains above were changes in valuation reserves, asset write-downs and other-than-temporary impairments on fixed maturities as follows:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Credit-related ⁽¹⁾	\$ 16	\$ 5	\$ 16	\$ 30
Other	2	-	2	1
TOTAL	\$ 18	\$ 5	\$ 18	\$ 31

(1) Credit related losses include changes in valuation reserves and asset write-downs related to commercial mortgage loans and investments in real estate entities.

Fixed Maturities and Equity Securities

Securities in the following table are included in fixed maturities and equity securities on the Company's Consolidated Balance Sheets. These securities are carried at fair value with changes in fair value reported in other realized investment gains (losses) and interest and dividends reported in net investment income. The Company's hybrid investments include preferred stock or debt securities with call or conversion features.

(In millions)

	As of June 30, 2011	As of December 31, 2010
Included in fixed maturities:		
Trading securities (amortized cost: \$3; \$3)	\$ 3	\$ 3
Hybrid securities (amortized cost: \$45; \$45)	51	52
TOTAL	\$ 54	\$ 55
Included in equity securities:		
Hybrid securities (amortized cost: \$112; \$108)	\$ 95	\$ 86

Fixed maturities included \$59 million at June 30, 2011, that were pledged as collateral to brokers as required under certain futures contracts. These fixed maturities were primarily federal government securities.

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The following information about fixed maturities excludes trading and hybrid securities. The amortized cost and fair value by contractual maturity periods for fixed maturities were as follows at June 30, 2011:

<i>(In millions)</i>	Amortized	
	Cost	Fair Value
Due in one year or less	\$ 836	\$ 847
Due after one year through five years	4,711	5,053
Due after five years through ten years	5,153	5,615
Due after ten years	2,557	3,002
Other asset and mortgage-backed securities	813	934
TOTAL	\$ 14,070	\$ 15,451

Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without penalties. Also, in some cases the Company may extend maturity dates.

Gross unrealized appreciation (depreciation) on fixed maturities (excluding trading securities and hybrid securities with a fair value of \$54 million at June 30, 2011 and \$55 million at December 31, 2010) by type of issuer is shown below.

June 30, 2011				
<i>(In millions)</i>	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Federal government and agency	\$ 542	\$ 226	\$ (1)	\$ 767
State and local government	2,249	209	(8)	2,450
Foreign government	1,191	69	(4)	1,256
Corporate	9,275	802	(33)	10,044
Federal agency mortgage-backed	9	1	-	10
Other mortgage-backed	62	11	(3)	70
Other asset-backed	742	122	(10)	854
TOTAL	\$ 14,070	\$ 1,440	\$ (59)	\$ 15,451

December 31, 2010				
<i>(In millions)</i>	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Federal government and agency	\$ 459	\$ 229	\$ (1)	\$ 687
State and local government	2,305	172	(10)	2,467
Foreign government	1,095	63	(4)	1,154
Corporate	8,697	744	(49)	9,392
Federal agency mortgage-backed	9	1	-	10
Other mortgage-backed	80	10	(3)	87
Other asset-backed	752	117	(12)	857

TOTAL	\$	13,397	\$	1,336	\$	(79)	\$	14,654
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The above table includes investments with a fair value of \$2.5 billion supporting the Company's run-off settlement annuity business, with gross unrealized appreciation of \$474 million and gross unrealized depreciation of \$27 million at June 30, 2011. Such unrealized amounts are required to support future policy benefit liabilities of this business and, as such, are not included in accumulated other comprehensive income. At December 31, 2010, investments supporting this business had a fair value of \$2.5 billion, gross unrealized appreciation of \$476 million and gross unrealized depreciation of \$33 million.

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Sales information for available-for-sale fixed maturities and equity securities were as follows:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Proceeds from sales	\$ 149	\$ 209	\$ 304	\$ 449
Gross gains on sales	\$ 14	\$ 12	\$ 28	\$ 27
Gross losses on sales	\$ (1)	\$ (2)	\$ (1)	\$ (3)

Review of declines in fair value. Management reviews fixed maturities with a decline in fair value from cost for impairment based on criteria that include:

- length of time and severity of decline;
- financial health and specific near term prospects of the issuer;
- changes in the regulatory, economic or general market environment of the issuer's industry or geographic region; and
- the Company's intent to sell or the likelihood of a required sale prior to recovery.

Excluding trading and hybrid securities, as of June 30, 2011, fixed maturities with a decline in fair value from amortized cost (that were primarily investment grade corporate bonds) were as follows, including the length of time of such decline:

<i>(In millions)</i>	Fair Value	Amortized		Number of Issues
		Cost	Depreciation	
Fixed maturities:				
One year or less:				
Investment grade	\$ 785	\$ 808	\$ (23)	293
Below investment grade	\$ 175	\$ 178	\$ (3)	107
More than one year:				
Investment grade	\$ 243	\$ 272	\$ (29)	57
Below investment grade	\$ 22	\$ 26	\$ (4)	15

The unrealized depreciation of investment grade fixed maturities is primarily due to increases in market yields since purchase. There were no equity securities with a fair value significantly lower than cost as of June 30, 2011.

Commercial Mortgage Loans

Mortgage loans held by the Company are made exclusively to commercial borrowers and are diversified by property type, location and borrower. Loans are secured by high quality, primarily completed and substantially leased operating properties, generally carried at unpaid principal balances and issued at a fixed rate of interest.

Credit quality. The Company has one portfolio segment and one class of mortgage loans and applies a consistent and disciplined approach to evaluating and monitoring credit risk, beginning with the initial underwriting of a mortgage loan and continuing throughout the investment holding period. Mortgage origination professionals employ an internal rating system developed from the Company's experience in real estate investing and mortgage lending. A quality rating, designed to evaluate the relative risk of the transaction, is assigned at each loan's origination and is updated each year as part of the annual portfolio loan review. The Company monitors credit quality on an ongoing basis, classifying each loan as a loan in good standing, potential problem loan or problem loan.

Quality ratings are based on internal evaluations of each loan's specific characteristics considering a number of key inputs, including real estate market-related factors such as rental rates and vacancies, and property-specific inputs such as growth rate assumptions and lease rollover statistics. However, the two most significant contributors to the credit quality rating are the debt service coverage and loan-to-value ratios. The debt service coverage ratio measures the amount of property cash flow available to meet annual interest and principal payments on debt. A debt service coverage ratio below 1.0 indicates that there is not enough cash flow to cover the loan payments. The loan-to-value ratio, commonly expressed as a percentage, compares the amount of the loan to the fair value of the underlying property collateralizing the loan.

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The following table summarizes the credit risk profile of the Company's commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios, as of June 30, 2011:

<i>(Dollars in millions)</i>	Debt Service Coverage Ratio					Total
	1.30x or Greater	1.20x to 1.29x	1.10x to 1.19x	1.00x to 1.09x	Less than 1.00x	
Loan-to-Value Ratios						
Below 50%	\$ 389	\$ -	\$ 4	\$ 15	\$ 9	\$ 417
50% to 59%	349	103	26	-	53	531
60% to 69%	443	140	36	-	74	693
70% to 79%	180	111	150	138	52	631
80% to 89%	112	82	115	94	72	475
90% to 99%	36	35	30	59	116	276
100% or above	-	10	50	88	144	292
TOTAL	\$ 1,509	\$ 481	\$ 411	\$ 394	\$ 520	\$ 3,315

The Company's annual in-depth review of its commercial mortgage loan investments is the primary mechanism for identifying emerging risks in the portfolio. The most recent review was completed by the Company's investment professionals in the second quarter of 2011 and included an analysis of each underlying property's most recent annual financial statements, rent rolls, operating plans, budgets, a physical inspection of the property and other pertinent factors. Based on historical results, current leases, lease expirations and rental conditions in each market, the Company estimates the current year and future stabilized property income and fair value, and categorizes the investments as loans in good standing, potential problem loans or problem loans. Based on property valuations and cash flows estimated as part of this review, the portfolio's average loan-to-value ratio improved to 71% at June 30, 2011, decreasing from 74% as of December 31, 2010. The portfolio's average debt service coverage ratio was estimated to be 1.39 as of June 30, 2011, a modest improvement from 1.38 as of December 31, 2010.

Quality ratings are adjusted between annual reviews if new property information is received or events such as delinquency or a borrower request for restructure cause management to believe that the Company's estimate of financial performance, fair value or the risk profile of the underlying property has been impacted.

During the second quarter of 2011, the Company restructured a \$65 million potential problem mortgage loan. The original loan was modified into two notes, including a \$55 million loan at current market terms and a \$10 million loan issued at a below market interest rate. This modification is considered a troubled debt restructuring because the borrower was experiencing financial difficulties and a concession was granted as the second loan was issued at a below market interest rate. No valuation reserve was required because the fair value of the underlying property exceeds the total outstanding loans. As a part of this restructuring, both the borrower and the Company have committed to fund additional capital for leasing and capital requirements.

Other loans were modified during the six months ended June 30, 2011, but were not considered troubled debt restructures. The impact of modifications to these loans was not material to the Company's results of operations, financial condition or liquidity.

Potential problem mortgage loans are considered current (no payment more than 59 days past due), but exhibit certain characteristics that increase the likelihood of future default. The characteristics management considers include, but are not limited to, the deterioration of debt service coverage below 1.0, an increase of estimated loan-to-value ratios to 100% or more, downgrade in quality rating and request from the borrower for restructuring. In addition, loans are

considered potential problems if principal or interest payments are past due by more than 30 but less than 60 days. Problem mortgage loans are either in default by 60 days or more or have been restructured as to terms, which could include concessions on interest rate, principal payment or maturity date. The Company monitors each problem and potential problem mortgage loan on an ongoing basis, and updates the loan categorization and quality rating when warranted.

Problem and potential problem mortgage loans, net of valuation reserves, totaled \$380 million at June 30, 2011 and \$383 million at December 31, 2010. At June 30, 2011, mortgage loans collateralized by industrial properties represent the most significant component of problem and potential problem mortgage loans, with no significant concentration by geographic region. There were no significant concentrations by property type or geographic region at December 31, 2010.

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Impaired commercial mortgage loans. A commercial mortgage loan is considered impaired when it is probable that the Company will not collect all amounts due (principal and interest) according to the terms of the original loan agreement. The Company assesses each loan individually for impairment, utilizing the information obtained from the quality review process discussed above. Impaired loans are carried at the lower of unpaid principal balance or the fair value of the underlying collateral. Certain commercial mortgage loans without valuation reserves are considered impaired because the Company will not collect all interest due according to the terms of the original agreements; however, the Company expects to recover their remaining carrying value primarily because it is less than the fair value of the underlying property.

The carrying value of the Company's impaired commercial mortgage loans and related valuation reserves were as follows:

<i>(In millions)</i>	June 30, 2011			December 31, 2010		
	Gross	Reserves	Net	Gross	Reserves	Net
Impaired commercial mortgage loans with valuation reserves	\$ 171	\$ (27)	\$ 144	\$ 47	\$ (12)	\$ 35
Impaired commercial mortgage loans with no valuation reserves	60	-	60	60	-	60
TOTAL	\$ 231	\$ (27)	\$ 204	\$ 107	\$ (12)	\$ 95

The average recorded investment in impaired loans was \$145 million for the six months ended June 30, 2011 and \$193 million for the six months ended June 30, 2010. The Company recognizes interest income on problem mortgage loans only when payment is actually received because of the risk profile of the underlying investment. Interest income that would have been reflected in net income if interest on non-accrual commercial mortgage loans had been received in accordance with the original terms was not significant for the six months ended June 30, 2011 or 2010. Interest income on impaired commercial mortgage loans was not significant for the six months ended June 30, 2011 or 2010.

The following table summarizes the changes in valuation reserves for commercial mortgage loans:

<i>(In millions)</i>	2011	2010
Reserve balance, January 1,	\$ 12	\$ 17
Increase in valuation reserves	16	16
Charge-offs upon sales and repayments, net of recoveries	(1)	(11)
Transfers to real estate	-	(12)
RESERVE BALANCE, JUNE 30,	\$ 27	\$ 10

Short-Term Investments and Cash Equivalents

Short-term investments and cash equivalents include corporate securities of \$1.3 billion, federal government securities of \$134 million and money market funds of \$32 million as of June 30, 2011. The Company's short-term investments

and cash equivalents as of December 31, 2010 included corporate securities of \$1.1 billion, federal government securities of \$137 million and money market funds of \$40 million.

NOTE 8 Derivative Financial Instruments

Derivative instruments associated with the Company's run-off reinsurance segment. The Company has written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees of minimum income benefits resulting from the level of variable annuity account values compared with a contractually guaranteed amount ("GMIB liabilities"). The Company has purchased retrocessional coverage for a portion of these contracts ("GMIB assets"). Because cash flows are affected by equity markets and interest rates, but are without significant life insurance risk and are settled in lump sum payments, the Company reports these GMIB liabilities and assets as derivatives at fair value.

During the first quarter of 2011, the Company expanded its dynamic hedge program that substantially reduces equity market exposures associated with its GMDB business to include a portion of equity market exposures associated with its GMIB business (approximately one-quarter). The Company also implemented a dynamic hedge program to reduce the growth interest rate exposures for approximately one-third of its GMDB and one-quarter of its GMIB businesses ("GMDB and GMIB growth interest rate hedge program"). These hedge programs are dynamic because the Company will regularly rebalance the hedging instruments within established parameters as equity and interest rate exposures of these businesses change.

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The Company manages these hedge programs using exchange-traded equity, foreign currency and interest rate futures contracts, and interest rate swap contracts. These contracts are generally expected to rise in value as equity markets and interest rates decline, and decline in value as equity markets and interest rates rise. These hedge programs do not qualify for GAAP hedge accounting. Although these hedge programs effectively reduce equity market and interest rate exposures, changes in the fair values of the swap and futures contracts may not exactly offset changes in the portions of the GMDB and GMIB liabilities covered by these hedges, in part because the market does not offer contracts that exactly match the targeted exposure profile. The results of the swaps and futures contracts are included in other revenues and amounts reflecting corresponding changes in liabilities for GMDB contracts are included in benefits and expenses. Related changes in liabilities for GMIB contracts are reported in GMIB fair value (gain) loss.

See Notes 5 and 6 for further details regarding these businesses.

Derivative instruments used in the Company's investment risk management. Derivative financial instruments are also used by the Company as a part of its investment strategy to manage the characteristics of investment assets (such as duration, yield, currency and liquidity) to meet the varying demands of the related insurance and contractholder liabilities (such as paying claims, investment returns and withdrawals). Derivatives are typically used under this strategy to minimize interest rate and foreign currency risks. The Company routinely monitors exposure to credit risk associated with derivatives and diversifies the portfolio among approved dealers of high credit quality to minimize this risk.

Accounting for derivative instruments. The Company applies hedge accounting when derivatives are designated, qualify and are highly effective as hedges. Effectiveness is formally assessed and documented at inception and each period throughout the life of a hedge using various quantitative methods appropriate for each hedge, including regression analysis and dollar offset. Under hedge accounting, the changes in fair value of the derivative and the hedged risk are generally recognized together and offset each other when reported in shareholders' net income.

The Company accounts for derivative instruments as follows:

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Derivatives are reported on the balance sheet at fair value with changes in fair values reported in shareholders' net income or accumulated other comprehensive income.

-

Changes in the fair value of derivatives that hedge market risk related to future cash flows and that qualify for hedge accounting are reported in a separate caption in accumulated other comprehensive income. These hedges are referred to as cash flow hedges.

-

A change in the fair value of a derivative instrument may not always equal the change in the fair value of the hedged item; this difference is referred to as hedge ineffectiveness. Where hedge accounting is used, the Company reflects hedge ineffectiveness in shareholders' net income (generally as part of realized investment gains and losses).

Collateral and termination features. Certain of the Company's over-the-counter derivative instruments contain provisions requiring either the Company or the counterparty to post collateral depending on the amount of the net liability position and predefined financial strength or credit rating thresholds. The collateral posting requirements vary by counterparty. The aggregate fair value of derivative instruments with such credit-risk-related contingent features

where the Company was in a net liability position was \$33 million at June 30, 2011 and \$25 million at December 31, 2010 for which the Company was not required to post collateral with its counterparties. If the various contingent features underlying the agreements were triggered as of the balance sheet date, the Company would be required to post collateral equal to the total net liability. The Company is a party to certain other derivative instruments that contain termination provisions for which the counterparties could demand immediate payment of the total net liability position if the financial strength rating of the Company were to decline below specified levels. As of June 30, 2011 and December 31, 2010, there was no net liability position under such derivative instruments.

The following tables present information about the nature and accounting treatment of the Company's primary derivative financial instruments including the Company's purpose for entering into specific derivative transactions, and their locations in and effect on the financial statements as of June 30, 2011 and December 31, 2010, and for the three months and six months ended June 30, 2011 and June 30, 2010. Derivatives in the Company's separate accounts are excluded from the tables because associated gains and losses generally accrue directly to policyholders.

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Instrument/Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Designated as Accounting Hedges - Cash Flow Hedges				
Interest rate swaps — \$137 million as of June 30, 2011 and \$153 million as of December 31, 2010 of par value of related investments	Interest rate and foreign currency	To hedge the interest and/or foreign currency cash flows of fixed maturities to match associated liabilities. Currency swaps are primarily euros, Australian dollars, Canadian dollars and British pounds for periods of up to 10 years.	The Company periodically exchanges cash flows between variable and fixed interest rates and/or currencies for both principal and interest. Net interest cash flows are reported in operating activities.	Using cash flow hedge accounting, fair values are reported in other long-term investments or other liabilities and accumulated other comprehensive income and amortized into net investment income or reported in other realized investment gains and losses as interest or principal payments are received.
Foreign currency swaps — \$134 million as of June 30, 2011 and \$159 million as of December 31, 2010 of U.S. dollar equivalent par value of related investments				
Combination swaps (interest rate and foreign currency) — \$64 million as of June 30, 2011 and December 31, 2010 of U.S. dollar equivalent par value of related investments				

Fair Value Effect on the Financial Statements (In millions)

Instrument	Other Long-Term Investments		Accounts Payable, Accrued Expenses and Other Liabilities		Gain (Loss) Recognized in Other Comprehensive Income ⁽¹⁾			
	As of		As of		Three Months Ended		Six Months Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest rate swaps	\$ 8	\$ 10	\$ -	\$ -	\$ -	\$ 1	\$ (2)	\$ 2
Foreign currency swaps	1	6	26	20	(6)	15	(10)	19
Interest rate and foreign	-	-	17	12	(2)	8	(5)	8

currency
swaps

TOTAL \$ 9 \$ 16 \$ 43 \$ 32 \$ (8) \$ 24 \$ (17) \$ 29

(1) Other comprehensive income for foreign currency swaps excludes amounts required to adjust future policy benefits for the run-off settlement annuity business.

Treasury lock

Interest rate component of future interest payments on debt to be issued.	To hedge the variability of and fix at inception date, the benchmark Treasury rate	The Company paid the fair value of the contract at the expiration. Cash flows were reported in operating activities.	Using cash flow hedge accounting, fair values are reported in other assets or other liabilities, with changes in fair value reported in accumulated other comprehensive income and amortized to interest expense over the period of expected cash flows.
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Fair Value Effect on the Financial Statements

During the first quarter of 2009, the remaining treasury locks matured and the Company recognized a gain of \$14 million in other comprehensive income, resulting in net cumulative losses of \$36 million (\$23 million after-tax) recorded in other comprehensive income, that are being amortized over the period of expected cash flows. The remaining unamortized balance in other comprehensive income was \$18 million after-tax as of June 30, 2011 and \$19 million after-tax as of December 31, 2010.

For the three months and six months ended June 30, 2011 and 2010, the amount of gains (losses) reclassified from accumulated other comprehensive income into income was not material. No gains (losses) were recognized due to ineffectiveness and no amounts were excluded from the assessment of hedge ineffectiveness.

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Instrument/Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Not Designated As Accounting Hedges				
Written options (GMIB liability) — \$1,089 million as of June 30, 2011 and \$1,134 million as of December 31, 2010 of maximum potential undiscounted future payments as defined in Note 16	Equity and interest rate	The Company has written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits. According to the contractual terms of written reinsurance contracts, payment by the Company depends on the actual account value in the underlying mutual funds and the level of interest rates when the contractholders elect to receive minimum income payments. The Company purchased reinsurance contracts to reduce a portion of the risks assumed. These contracts are accounted for as written and purchased	The Company periodically receives (pays) fees based on either contractholders' account values or deposits increased at a contractual rate. The Company will also pay (receive) cash depending on changes in account values and interest rates when contractholders first elect to receive minimum income payments. These cash flows are reported in operating activities.	Fair values are reported in other liabilities (GMIB liability) and other assets (GMIB asset). Changes in fair value are reported in GMIB fair value (gain) loss.
Purchased options (GMIB asset) — \$599 million as of June 30, 2011 and \$624 million as of December 31, 2010 of maximum potential undiscounted future receipts as defined in Note 16				

options.

Fair Value Effect on the Financial Statements (In millions)

Instrument	Other Assets, including other intangibles		Accounts Payable, Accrued Expenses and Other Liabilities		GMIB Fair Value		GMIB Fair Value (Gain) Loss	
	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011	As of December 31, 2010	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Written options (GMIB liability)			\$ 917	\$ 903	\$ 85	\$ 351	\$ 48	\$ 347
Purchased options (GMIB asset)	\$ 490	\$ 480			(48)	(187)	(27)	(187)
TOTAL	\$ 490	\$ 480	\$ 917	\$ 903	\$ 37	\$ 164	\$ 21	\$ 160

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Instrument / Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Not Designated As Accounting Hedges				
Futures — \$862 million and \$878 million of U.S. dollar equivalent notional value as of June 30, 2011 and December 31, 2010	Equity and foreign currency	To reduce domestic and international equity market exposures resulting from changes in variable annuity account values based on underlying mutual funds for certain reinsurance contracts that guarantee minimum death benefits (GMDB) (excluding exposures due to partial surrenders) and a portion (approximately one-quarter) of these risks associated with certain reinsurance contracts that guarantee	The Company receives (pays) cash daily in the amount of the change in fair value of the futures contracts. Cash flows are included in operating activities.	Fair value changes are reported in other revenues. Amounts not yet settled from the previous day's fair value change (daily variation margin) are reported in other assets and other liabilities.

minimum
income
benefits
(GMIB).
Currency
futures are
euros,
Japanese
yen and
British
pounds.

Fair Value Effect on the Financial Statements *(In millions)*

Other Revenues

	Three Months		Six Months	
	Ended June 30,		Ended	
	2011	2010	2011	2010
Futures for GMDB exposures	\$ (5)	\$ 92	\$ (49)	\$ 47
Futures for GMIB exposures	-	-	-	-
TOTAL FUTURES	\$ (5)	\$ 92	\$ (49)	\$ 47

Interest rate swaps — \$240 million of swap notional value as of June 30, 2011

Interest rate futures — \$548 million notional value of Eurodollar futures contracts and \$9 million notional value of U.S. Treasury futures contracts as of June 30, 2011

Interest rate To reduce the exposure to changes in interest rates levels on the growth rate for certain contracts that guarantee minimum death benefits and minimum income benefits. The hedge

For interest rate swaps, the Company periodically exchanges cash flows between variable and fixed interest rates. Cash flows are included in operating activities.

For interest rate futures, the Company receives (pays) cash daily in the amount of the change in fair value of the futures contracts. Cash flows are included in operating activities.

For interest rate swaps, fair values are reported in other assets and other liabilities, with changes in fair value and interest income and interest expense reported in other revenues.

For interest rate futures, fair value changes are reported in other revenues. Amounts not yet settled from the previous day's fair value change (daily variation margin) are reported in other assets and other liabilities.

program covers approximately one-third of the GMDB and approximately one-quarter of the GMIB growth interest exposures.

Fair Value Effect on the Financial Statements *(In millions)*

	Other assets, including other intangibles		Other Revenues	
	As of	Three Months Ended	Six Months Ended	
	June 30, 2011	June 30, 2011	June 30, 2011	
Interest rate swaps	\$ 9	\$ 8	\$ 12	
Interest rate futures		(1)	-	
TOTAL SWAPS AND FUTURES	\$	7	\$	12
Derivatives for GMDB exposures	\$	6	\$	10
Derivatives for GMIB exposures		1		2
TOTAL SWAPS AND FUTURES	\$	7	\$	12

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Instrument / Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Not Designated As Accounting Hedges				
Interest rate swaps — \$45 million of par value of related investments as of June 30, 2011 and December 31, 2010	Interest rate	To hedge the interest cash flows of fixed maturities to match associated liabilities.	The Company periodically exchanges cash flows between variable and fixed interest rates and these cash flows are included in investing activities.	Fair values are reported in other long-term investments or other liabilities, with changes in fair value reported in other realized investment gains and losses.

Fair Value Effect on the Financial Statements *(In millions)*

	Other Long-Term Investments		Realized Investment Gains (Losses)			
	As of June 30, 2011	As of December 31, 2010	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
Interest rate swaps	\$ 3	\$ 3	\$ -	\$ 2	\$ -	\$ 2

NOTE 9 Variable Interest Entities

When the Company becomes involved with a variable interest entity and when the nature of the Company's involvement with the entity changes, in order to determine if the Company is the primary beneficiary and must consolidate the entity, it evaluates:

- the structure and purpose of the entity;
- the risks and rewards created by and shared through the entity; and

- the entity's participants' ability to direct the activities, receive its benefits and absorb its losses. Participants include the entity's sponsors, equity holders, guarantors, creditors and servicers.

In the normal course of its investing activities, the Company makes passive investments in securities that are issued by variable interest entities for which the Company is not the sponsor or manager. These investments are predominantly asset-backed securities primarily collateralized by foreign bank obligations and mortgage-backed securities. The asset-backed securities largely represent fixed-rate debt securities issued by trusts that hold perpetual floating-rate subordinated notes issued by foreign banks. The mortgage-backed securities represent senior interests in pools of commercial or residential mortgages created and held by special-purpose entities to provide investors with diversified exposure to these assets. The Company owns senior securities issued by several entities and receives fixed-rate cash flows from the underlying assets in the pools. The Company is not the primary beneficiary and does not consolidate any of these entities because either:

- it had no power to direct the activities that most significantly impact the entities' economic performance; or

- it had no right to receive benefits nor obligation to absorb losses that could be significant to these variable interest entities.

The Company has not provided, and does not intend to provide, financial support to these entities. The Company performs ongoing qualitative analyses of its involvement with these variable interest entities to determine if consolidation is required. The Company's maximum potential exposure to loss related to these entities is limited to the carrying amount of its investment reported in fixed maturities and equity securities, and its aggregate ownership interest is insignificant relative to the total principal amount issued by these entities.

NOTE 10 Reinsurance

The Company's insurance subsidiaries enter into agreements with other insurance companies to assume and cede reinsurance. Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct losses. Reinsurance is also used in acquisition and disposition transactions when the underwriting company is not being acquired. Reinsurance does not relieve the originating insurer of liability. The Company regularly evaluates the financial condition of its reinsurers and monitors its concentrations of credit risk.

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Retirement benefits business. The Company had reinsurance recoverables of \$1.6 billion as of June 30, 2011 and \$1.7 billion as of December 31, 2010 from Prudential Retirement Insurance and Annuity Company resulting from the sale of the retirement benefits business, which was primarily in the form of a reinsurance arrangement. The reinsurance recoverable, that is reduced as the Company's reinsured liabilities are paid or directly assumed by the reinsurer, is secured primarily by fixed maturities whose book value is equal to or greater than 100% of the reinsured liabilities. These fixed maturities are held in a trust established for the benefit of the Company. As of June 30, 2011, the book value of the trust assets exceeded the recoverable.

Individual life and annuity reinsurance. The Company had reinsurance recoverables of \$4.2 billion as of June 30, 2011 and \$4.3 billion as of December 31, 2010 from The Lincoln National Life Insurance Company and Lincoln Life & Annuity of New York resulting from the 1998 sale of the Company's individual life insurance and annuity business through indemnity reinsurance arrangements. At June 30, 2011, \$3.8 billion was recoverable from The Lincoln National Life Insurance Company and was secured by assets held in a trust established for the benefit of the Company, and was less than the market value of the trust assets. The trust was established to allow the Company to take statutory reserve credit in New York for business ceded to Lincoln National Life Insurance Company. Under Section 532 of the Dodd-Frank Act, which became effective July 21, 2011, the trust is no longer required in order for the Company to take statutory reserve credit. Lincoln National Life Insurance Company has informed the Company of their intent to dissolve the trust. The remaining recoverable from Lincoln Life & Annuity of New York of \$392 million is currently unsecured. If either of these reinsurers fails to maintain a specified minimum credit or claims paying rating, they are required to fully secure the outstanding balance pursuant to the reinsurance agreement. As of June 30, 2011 both companies had ratings sufficient to avoid triggering a contractual obligation.

Other Ceded and Assumed Reinsurance

Ceded Reinsurance: Ongoing operations. The Company's insurance subsidiaries have reinsurance recoverables from various reinsurance arrangements in the ordinary course of business for its Health Care, Disability and Life, and International segments as well as the non-leveraged and leveraged corporate-owned life insurance business. Reinsurance recoverables of \$270 million as of June 30, 2011 are expected to be collected from more than 60 reinsurers.

The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of June 30, 2011, the Company's recoverables related to these segments were net of reserves of \$7 million.

Assumed and Ceded reinsurance: Run-off Reinsurance segment. The Company's Run-off Reinsurance operations assumed risks related to GMDB contracts, GMIB contracts, workers' compensation, and personal accident business and also purchased retrocessional coverage to reduce the risk of loss on these contracts. In December 2010, the Company entered into reinsurance arrangements to transfer the remaining liabilities and administration of the workers' compensation and personal accident businesses to a subsidiary of Enstar Group Limited. Under this arrangement, the new reinsurer also assumes the future risk of collection from prior reinsurers. See Note 3 beginning on page 84 of CIGNA's 2010 Form 10-K for further details regarding this arrangement.

Liabilities related to GMDB, workers' compensation and personal accident are included in future policy benefits and unpaid claims. Because the GMIB contracts are treated as derivatives under GAAP, the asset related to GMIB is recorded in the caption Other assets, including other intangibles and the liability related to GMIB is recorded in the caption Accounts payable, accrued expenses, and other liabilities on the Company's Consolidated Balance Sheets (see Notes 6 and 16 for additional discussion of the GMIB assets and liabilities).

The reinsurance recoverables for GMDB, workers' compensation, and personal accident total \$257 million as of June 30, 2011. Of this amount, approximately 94% are secured by assets in trust or letters of credit.

The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of June 30, 2011, the Company's recoverables related to this segment were net of a reserve of \$1 million.

The Company's payment obligations for underlying reinsurance exposures assumed by the Company under these contracts are based on the ceding companies' claim payments. For GMDB, claim payments vary because of changes in equity markets and interest rates, as well as claim mortality and contractholder behavior. Any of these claim payments can extend many years into the future, and the amount of the ceding companies' ultimate claims, and therefore the amount of the Company's ultimate payment obligations and corresponding ultimate collection from retrocessionaires, may not be known with certainty for some time.

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Summary. The Company's reserves for underlying reinsurance exposures assumed by the Company, as well as for amounts recoverable from reinsurers/retrocessionaires for both ongoing operations and the run-off reinsurance operation, are considered appropriate as of June 30, 2011, based on current information. However, it is possible that future developments could have a material adverse effect on the Company's consolidated results of operations and, in certain situations, such as if actual experience differs from the assumptions used in estimating reserves for GMDB, could have a material adverse effect on the Company's financial condition. The Company bears the risk of loss if its retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company.

Effects of reinsurance. In the Company's Consolidated Statements of Income, Premiums and fees were net of ceded premiums, and Total benefits and expenses were net of reinsurance recoveries, in the following amounts:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Ceded premiums and fees				
Individual life insurance and annuity business sold	\$ 49	\$ 49	\$ 96	\$ 95
Other	59	65	117	129
TOTAL	\$ 108	\$ 114	\$ 213	\$ 224
Reinsurance recoveries				
Individual life insurance and annuity business sold	\$ 87	\$ 81	\$ 152	\$ 148
Other	46	49	93	93
TOTAL	\$ 133	\$ 130	\$ 245	\$ 241

NOTE 11 Pension and Other Postretirement Benefit Plans

The Company and certain of its subsidiaries provide pension, health care and life insurance defined benefits to eligible retired employees, spouses and other eligible dependents through various domestic and foreign plans. The effect of its foreign pension and other postretirement benefit plans is immaterial to the Company's results of operations, liquidity and financial position. Effective July 1, 2009, the Company froze its primary domestic defined benefit pension plans.

For the six months ended June 30, 2011, the Company's postretirement benefits liability decreased by \$14 million pre-tax (\$9 million after-tax) resulting in an increase in shareholders' equity. This was primarily a result of net amortization of actuarial losses and prior service cost and, to a lesser extent, the results of the annual actuarial review completed during the second quarter of 2011.

Pension and Other Postretirement Benefits. Components of net pension and net other postretirement benefit costs were as follows:

<i>(In millions)</i>	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
	June 30,			

	June 30,				June 30,		June 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ -	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	57	61	114	120	5	6	10	11
Expected long-term return on plan assets	(68)	(63)	(133)	(126)	(1)	(1)	(1)	(1)
Amortization of:								
Net loss from past experience	10	7	19	14	-	-	-	-
Prior service cost	-	-	-	-	(4)	(5)	(8)	(9)
NET PENSION COST	\$ (1)	\$ 6	\$ 1	\$ 9	\$ 1	\$ 1	\$ 2	\$ 2

The Company funds its qualified pension plans at least at the minimum amount required by the Pension Protection Act of 2006. For the six months ended June 30, 2011, the Company contributed \$189 million, of which \$35 million was required and \$154 million was voluntary. For the remainder of 2011, the Company expects to make additional contributions of \$61 million.

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Short-term and long-term debt were as follows:

<i>(In millions)</i>	June 30, December 31,	
	2011	2010
Short-term:		
Commercial paper	\$ 100	\$ 100
Current maturities of long-term debt	230	452
TOTAL SHORT-TERM DEBT	\$ 330	\$ 552
Long-term:		
Uncollateralized debt:		
5.375% Notes due 2017	\$ 250	\$ 250
6.35% Notes due 2018	131	131
8.5% Notes due 2019	251	251
4.375% Notes due 2020	249	249
5.125% Notes due 2020	299	299
4.5% Notes due 2021	298	-
6.37% Notes due 2021	78	78
7.65% Notes due 2023	100	100
8.3% Notes due 2023	17	17
7.875% Debentures due 2027	300	300
8.3% Step Down Notes due 2033	83	83
6.15% Notes due 2036	500	500
5.875% Notes due 2041	298	-
Other	29	30
TOTAL LONG-TERM DEBT	\$ 2,883	\$ 2,288

In June 2011, the Company entered into a new five-year revolving credit and letter of credit agreement for \$1.5 billion, which permits up to \$500 million to be used for letters of credit. This agreement is diversified among 16 banks, with 3 banks each having 12% of the commitment and the other 13 banks having the remaining 64% of the commitment. The credit agreement includes options, which are subject to consent by the administrative agent and the committing banks, to increase the commitment amount to \$2.0 billion and to extend the term past June of 2016. The credit agreement is available for general corporate purposes, including commercial paper backstop and the issuance of letters of credit. This agreement includes certain covenants, including a financial covenant requiring the Company to maintain a total debt to adjusted capital ratio at or below 0.50 to 1.00. As of June 30, 2011, the Company had \$1.4 billion of borrowing capacity within the maximum debt coverage covenant in the agreement in addition to the \$3.2 billion of debt outstanding. There were letters of credit of \$118 million issued as of June 30, 2011.

On March 7, 2011, the Company issued \$300 million of 10-Year Notes due March 15, 2021 at a stated interest rate of 4.5% (\$298 million, net of discount, with an effective interest rate of 4.683% per year) and \$300 million of 30-Year

Notes due March 15, 2041 at a stated interest rate of 5.875% (\$298 million, net of discount, with an effective interest rate of 6.008% per year). Interest is payable on March 15 and September 15 of each year beginning September 15, 2011. The proceeds of this debt will be used for general corporate purposes, including the repayment of debt maturing in 2011.

The Company may redeem these Notes, at any time, in whole or in part, at a redemption price equal to the greater of:

-

100% of the principal amount of the Notes to be redeemed; or

-

the present value of the remaining principal and interest payments on the Notes being redeemed discounted at the applicable treasury rate plus 20 basis points (10-Year 4.5% Notes due 2021) or 25 basis points (30-Year 5.875% Notes due 2041).

[Back to Contents](#)**NOTE 13** Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss excludes amounts required to adjust future policy benefits for the run-off settlement annuity business. Changes in accumulated other comprehensive loss were as follows:

<i>(In millions)</i>	Tax		
	Pre-Tax	Benefit	After-Tax
		(Expense)	
Three Months Ended June 30, 2011			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the period	\$ 162	\$ (55)	\$ 107
Reclassification adjustment for (gains) included in shareholders' net income	(30)	10	(20)
Net unrealized appreciation, securities	\$ 132	\$ (45)	\$ 87
Net unrealized depreciation, derivatives	\$ (7)	\$ 2	\$ (5)
Net translation of foreign currencies	\$ 54	\$ (8)	\$ 46
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	\$ 6	\$ (3)	\$ 3
Net change due to valuation update	3	(1)	2
Net postretirement benefits liability adjustment	\$ 9	\$ (4)	\$ 5
Three Months Ended June 30, 2010			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the period	\$ 198	\$ (69)	\$ 129
Reclassification adjustment for (gains) included in shareholders' net income	(18)	7	(11)
Net unrealized appreciation, securities	\$ 180	\$ (62)	\$ 118
Net unrealized appreciation, derivatives	\$ 24	\$ (8)	\$ 16
Net translation of foreign currencies	\$ (59)	\$ 16	\$ (43)
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	\$ 2	-	\$ 2
Net change due to valuation update	(157)	55	(102)
Net postretirement benefits liability adjustment	\$ (155)	\$ 55	\$ (100)

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	Tax		
	(Expense)		
<i>(In millions)</i>	Pre-Tax	Benefit	After-Tax
Six Months Ended June 30, 2011			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the year	\$ 177	\$ (60)	\$ 117
Reclassification adjustment for (gains) included in shareholders' net income	(54)	18	(36)
Net unrealized appreciation, securities	\$ 123	\$ (42)	\$ 81
Net unrealized depreciation, derivatives	\$ (15)	\$ 5	\$ (10)
Net translation of foreign currencies	\$ 114	\$ (16)	\$ 98
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	\$ 11	\$ (4)	\$ 7
Net change due to valuation update	3	(1)	2
Net postretirement benefits liability adjustment	\$ 14	\$ (5)	\$ 9
Six Months Ended June 30, 2010			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the year	\$ 325	\$ (111)	\$ 214
Reclassification adjustment for (gains) included in shareholders' net income	(37)	13	(24)
Net unrealized appreciation, securities	\$ 288	\$ (98)	\$ 190
Net unrealized appreciation, derivatives	\$ 30	\$ (10)	\$ 20
Net translation of foreign currencies	\$ (53)	\$ 14	\$ (39)
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	\$ 5	\$ 5	\$ 10
Net change due to valuation update	(157)	55	(102)
Net postretirement benefits liability adjustment	\$ (152)	\$ 60	\$ (92)

NOTE 14 Income Taxes

A. Income Tax Expense

Except for its South Korea and Hong Kong operations, the Company accrues U.S. income taxes on the undistributed earnings of its foreign subsidiaries. The Company computes income taxes attributable to the South Korea and Hong Kong operations using the foreign jurisdiction tax rate, as compared to the higher U.S. statutory tax rate, based upon a determination that the prospective earnings of these operations would be permanently invested overseas. The Company is currently in the process of evaluating the permanent investment of foreign earnings for additional jurisdictions.

As a result, shareholders' net income for the six months ended June 30, 2011 increased by \$15 million, that included \$12 million relative to South Korea and \$3 million relative to Hong Kong. Shareholders' net income for the six months ended June 30, 2010 increased by \$20 million, that included \$11 million relative to South Korea and \$9 million related to Hong Kong (which included \$6 million related to the first quarter 2010 implementation). Permanent investment of foreign operation earnings has resulted in cumulative unrecognized deferred tax liabilities of \$69 million through June 30, 2011.

B. Unrecognized Tax Benefits

During the first quarter of 2011, the IRS completed its examination of the Company's 2007 and 2008 consolidated federal income tax returns, resulting in an increase to shareholders' net income of \$24 million (\$33 million reported in income tax expense, partially offset by a \$9 million pre-tax charge). The increase in shareholders' net income included a reduction in net unrecognized tax benefits of \$11 million and a reduction of interest expense of \$11 million (reported in income tax expense).

Gross unrecognized tax benefits declined for the six months ended June 30, 2011 by \$94 million due primarily to the completion of the 2007 and 2008 IRS examinations. The effect of this change on shareholders' net income was \$9 million, resulting primarily from completion of the IRS examination.

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Within the next twelve months, it is at least reasonably possible there could be a significant increase in the level of unrecognized tax benefits should there be adverse developments relative to certain IRS specific matters, including the tax litigation described below. Any changes are not expected to have a material impact on shareholders' net income.

C. Other Tax Matters

One disputed matter remains unresolved related to the IRS examination of the 2003 and 2004 consolidated federal income tax returns and on June 4, 2009, the Company initiated litigation of this matter by filing a petition in the United States Tax Court. Due to the nature of the litigation process, timing of the resolution of this matter is uncertain, though the Court has now set a trial date for mid-September 2011. This same issue also remains unresolved in the IRS examinations of the 2005 through 2008 consolidated federal income tax returns. Though the Company expects to prevail, an unfavorable resolution of this litigation could result in a significant cash outlay and a charge to shareholders' net income of up to \$25 million, representing net interest on the cumulative incremental tax for all affected years. However, because this dispute relates to the timing of recognition of tax deductions, the Company would expect to recover the cash outlay (except for interest) in future periods.

The Patient Protection & Affordable Care Act, including the Reconciliation Act of 2010, included provisions limiting the tax deductibility of certain future retiree benefit and compensation related payments. The effect of these provisions reduced shareholders' net income by \$4 million for the six months ended June 30, 2011 and \$6 million for the six months ended June 30, 2010. The Company will continue to evaluate guidance as issued relative to these provisions.

NOTE 15 Segment Information

The Company's operating segments generally reflect groups of related products, except for the International segment which is generally based on geography. In accordance with GAAP, operating segments that do not require separate disclosure have been combined into Other Operations. The Company measures the financial results of its segments using "segment earnings (loss)," which is defined as shareholders' net income (loss) excluding after-tax realized investment gains and losses.

Summarized segment financial information was as follows:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30, 2011	2010	June 30, 2011	2010
Premiums and fees, Mail order pharmacy revenues and Other revenues				
Health Care	\$ 3,711	\$ 3,692	\$ 7,430	\$ 7,423
Disability and Life	717	678	1,405	1,368
International	742	550	1,448	1,084
Run-off Reinsurance	10	98	(24)	60
Other Operations	42	45	86	88

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Corporate	(14)	(15)	(29)	(30)
Total	\$ 5,208	\$ 5,048	\$ 10,316	\$ 9,993
Shareholders' net income				
Health Care	\$ 280	\$ 247	\$ 527	\$ 414
Disability and Life	88	89	170	159
International	74	64	151	136
Run-off Reinsurance	(22)	(104)	(9)	(100)
Other Operations	20	24	43	43
Corporate	(43)	(40)	(73)	(86)
Segment Earnings	397	280	809	566
Realized investment gains, net of taxes	11	14	28	11
SHAREHOLDERS' NET INCOME	\$ 408	\$ 294	\$ 837	\$ 577

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Concentration of risk. For the Company's International segment, South Korea is the single largest geographic market. South Korea generated 31% of the segment's revenues for the three months and six months ended June 30, 2011. South Korea generated 55% of the segment's earnings for the second quarter of 2011 and 51% of the segment's earnings for the six months ended June 30, 2011. Due to the concentration of business in South Korea, the International segment is exposed to potential losses resulting from economic, regulatory and geopolitical developments in that country, as well as foreign currency movements affecting the South Korean currency, that could have a material impact on the segment's earnings and the Company's consolidated financial results of operations.

NOTE 16 Contingencies and Other Matters

The Company, through its subsidiaries, is contingently liable for various financial guarantees provided in the ordinary course of business.

Financial Guarantees Primarily Associated with the Sold Retirement Benefits Business

Separate account assets are contractholder funds maintained in accounts with specific investment objectives. The Company records separate account liabilities equal to separate account assets. In certain cases, primarily associated with the sold retirement benefits business (which was sold in April 2004), the Company guarantees a minimum level of benefits for retirement and insurance contracts written in separate accounts. The Company establishes an additional liability if management believes that the Company will be required to make a payment under these guarantees.

The Company guarantees that separate account assets will be sufficient to pay certain retiree or life benefits. The sponsoring employers are primarily responsible for ensuring that assets are sufficient to pay these benefits and are required to maintain assets that exceed a certain percentage of benefit obligations. This percentage varies depending on the asset class within a sponsoring employer's portfolio (for example, a bond fund would require a lower percentage than a riskier equity fund) and thus will vary as the composition of the portfolio changes. If employers do not maintain the required levels of separate account assets, the Company or an affiliate of the buyer has the right to redirect the management of the related assets to provide for benefit payments. As of June 30, 2011, employers maintained assets that exceeded the benefit obligations. Benefit obligations under these arrangements were \$1.7 billion as of June 30, 2011. Approximately 72% of these guarantees are reinsured by an affiliate of the buyer of the retirement benefits business. The remaining guarantees are provided by the Company with minimal reinsurance from third parties. There were no additional liabilities required for these guarantees as of June 30, 2011. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy. See Note 6 for further information on the fair value hierarchy.

The Company does not expect that these financial guarantees will have a material effect on the Company's consolidated results of operations, financial condition or liquidity.

Other Financial Guarantees

Guaranteed minimum income benefit (GMIB) contracts. The Company's reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured minimum income benefits under certain variable annuity contracts issued by other insurance companies. A contractholder can elect to annuitize the benefit within 30 days of any eligible policy anniversary after a specified contractual waiting period. The Company's exposure arises when the guaranteed annuitization benefit exceeds the annuitization benefit based on the policy's current account value. At the time of annuitization, the Company pays the excess (if any) of the guaranteed benefit

over the benefit based on the current account value in a lump sum to the direct writing insurance company.

In periods of declining equity markets or declining interest rates, the Company's GMIB liabilities increase. Conversely, in periods of rising equity markets and rising interest rates, the Company's liabilities for these benefits decrease.

The Company estimates the fair value of the GMIB assets and liabilities using assumptions for market returns and interest rates, volatility of the underlying equity and bond mutual fund investments, mortality, lapse, annuity election rates, nonperformance risk, and risk and profit charges. See Note 6 for additional information on how fair values for these liabilities and related receivables for retrocessional coverage are determined and Note 8 for information on the Company's dynamic equity and growth interest rate hedge programs for this business.

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The Company is required to disclose the maximum potential undiscounted future payments for GMIB contracts. Under these guarantees, the future payment amounts are dependent on equity and bond fund market and interest rate levels prior to and at the date of annuitization election, which must occur within 30 days of a policy anniversary, after the appropriate waiting period. Therefore, the future payments are not fixed and determinable under the terms of the contract. Accordingly, the Company has estimated the maximum potential undiscounted future payments using hypothetical adverse assumptions, defined as follows:

- no annuitants surrendered their accounts;
- all annuitants lived to elect their benefit;
- all annuitants elected to receive their benefit on the next available date (2011 through 2018); and
- all underlying mutual fund investment values remained at the June 30, 2011 value of \$1.2 billion with no future returns.

The maximum potential undiscounted payments that the Company would make under those assumptions would aggregate \$1.1 billion before reinsurance recoveries. The Company expects the amount of actual payments to be significantly less than this hypothetical undiscounted aggregate amount. The Company has retrocessional coverage in place from two external reinsurers which covers 55% of the exposures on these contracts. The receivable from one of these reinsurers is substantially collateralized by assets held in a trust. The Company bears the risk of loss if its retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company.

Certain other guarantees. The Company had indemnification obligations to lenders of up to \$256 million as of June 30, 2011, related to borrowings by certain real estate joint ventures which the Company either records as an investment or consolidates. These borrowings, which are nonrecourse to the Company, are secured by the joint ventures' real estate properties with fair values in excess of the loan amounts and mature at various dates beginning in 2011 through 2021. The Company's indemnification obligations would require payment to lenders for actual damages resulting from certain acts such as unauthorized ownership transfers, misappropriation of rental payments by others or environmental damages. Based on initial and ongoing reviews of property management and operations, the Company does not expect that payments will be required under these indemnification obligations. Any payments that might be required could be recovered through a refinancing or sale of the assets. In some cases, the Company also has recourse to partners for their proportionate share of amounts paid. There were no liabilities required for these indemnification obligations as of June 30, 2011.

As of June 30, 2011, the Company guaranteed that it would compensate the lessors for a shortfall of up to \$44 million in the market value of certain leased equipment at the end of the lease. Guarantees of \$28 million expire in 2012 and \$16 million expire in 2016. The Company had liabilities for these guarantees of \$13 million as of June 30, 2011.

As part of the reinsurance and administrative service arrangements acquired from Great-West Life and Annuity, Inc., the Company is responsible to pay claims for the group medical and long-term disability business of Great-West

Healthcare and collect related amounts due from their third party reinsurers. Any such amounts not collected will represent additional assumed liabilities of the Company and decrease shareholders' net income if and when these amounts are determined uncollectible. At June 30, 2011, there were receivables recorded for paid claims due from third party reinsurers of less than \$1 million and unpaid claims related to this business were estimated at \$19 million.

The Company has agreements with certain banks that provide banking services to settle claim checks processed by the Company for Administrative Services Only ("ASO") and certain minimum premium customers. The customers are responsible for adequately funding their accounts as claim checks are presented for payment. Under these agreements, the Company guarantees that the banks will not incur a loss if a customer fails to properly fund its account. The amount of the guarantee fluctuates daily. As of June 30, 2011, the aggregate maximum exposure under these guarantees was approximately \$361 million and there were no liabilities required. There were no after-tax charges related to these guarantees for the six months ended June 30, 2011 and there were \$3 million in charges for the same period in 2010. Through July 25, 2011, the exposure that existed at June 30, 2011 has been reduced by approximately 89% through customers' funding of claim checks when presented for payment. In addition, the Company can limit its exposure under these guarantees by suspending claim payments for any customer who has not adequately funded their bank account.

The Company contracts on an ASO basis with customers who fund their own claims. The Company charges these customers administrative fees based on the expected cost of administering their self-funded programs. In some cases, the Company provides performance guarantees associated with meeting certain service-related and other performance standards. If these standards are not met, the Company may be financially at risk up to a stated percentage of the contracted fee or a stated dollar amount. The Company establishes liabilities for estimated payouts associated with these performance guarantees. Approximately 14% of ASO fees reported for the six months ended June 30, 2011 were at risk, with reimbursements estimated to be less than 1%.

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The Company had indemnification obligations as of June 30, 2011 in connection with acquisition and disposition transactions. These indemnification obligations are triggered by the breach of representations or covenants provided by the Company, such as representations for the presentation of financial statements, the filing of tax returns, compliance with law or the identification of outstanding litigation. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential amount due is subject to contractual limitations based on a percentage of the transaction purchase price, while in other cases limitations are not specified or applicable. The Company does not believe that it is possible to determine the maximum potential amount due under these obligations, since not all amounts due under these indemnification obligations are subject to limitation. There were no liabilities for these indemnification obligations as of June 30, 2011.

The Company does not expect that these guarantees will have a material adverse effect on the Company's consolidated results of operations, financial condition or liquidity.

Regulatory and Industry Developments

Regulation. The health services industry is heavily regulated by federal and state laws and administrative agencies, such as state departments of insurance and the Federal Departments of Labor and Justice, as well as the courts. Regulation, legislation and judicial decisions have resulted in changes to industry and the Company's business practices and will continue to do so in the future. In addition, the Company's subsidiaries are routinely involved with various claims, lawsuits and regulatory and IRS audits and investigations that could result in financial liability, changes in business practices, or both. Health care regulation and legislation in its various forms, including the implementation of the Patient Protection and Affordable Care Act (including the Reconciliation Act) that was signed into law during the first quarter of 2010, could have an adverse effect on the Company's health care operations if it inhibits the Company's ability to respond to market demands, adversely affects the way the Company does business, or results in increased medical or administrative costs without improving the quality of care or services.

Other possible regulatory and legislative changes or judicial decisions that could have an adverse effect on the Company's businesses include:

- additional mandated benefits or services that increase costs;
- legislation that would grant plan participants broader rights to sue their health plans;
- changes in public policy and in the political environment, which could affect state and federal law, including legislative and regulatory proposals related to health care issues, which could increase cost and affect the market for the Company's health care products and services;
- changes in Employee Retirement Income Security Act of 1974 ("ERISA") regulations resulting in increased administrative burdens and costs;

•

additional restrictions on the use of prescription drug formularies and rulings from pending purported class action litigation, which could result in adjustments to or the elimination of the average wholesale price of pharmaceutical products as a benchmark in establishing certain rates, charges, discounts, guarantees and fees for various prescription drugs;

•

additional privacy legislation and regulations that interfere with the proper use of medical information for research, coordination of medical care and disease and disability management;

•

additional variations among state laws mandating the time periods and administrative processes for payment of health care provider claims;

•

legislation that would exempt independent physicians from antitrust laws; and

•

changes in federal tax laws, such as amendments that could affect the taxation of employer provided benefits.

The health services industry remains under scrutiny by various state and federal government agencies and could be subject to government efforts to bring criminal actions in circumstances that could previously have given rise only to civil or administrative proceedings.

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Guaranty fund assessments. The Company operates in a regulatory environment that may require the Company to participate in assessments under state insurance guaranty association laws. The Company's exposure to assessments is based on its share of business it writes in the relevant jurisdictions for certain obligations of insolvent insurance companies to policyholders and claimants. For the six months ended June 30, 2011 and 2010, charges related to guaranty fund assessments were not material to the Company's results of operations.

The Company is aware of an insurer that is in rehabilitation, an intermediate action before insolvency. As of June 30, 2011, the regulator had petitioned the state court for liquidation and the Company believes it is likely that the state court will rule on insolvency for this insurer within the next nine months. If the insurer is declared insolvent and placed in liquidation, the Company and other insurers may be required to pay a portion of policyholder claims through guaranty fund assessments from various states in which the Company's insurance subsidiaries write premiums. Based on current information available, which is subject to change, the Company has estimated that potential future assessments could decrease its future results of operations by up to \$40 million after-tax. The ultimate amount and timing of any future charges for this potential insolvency will depend on several factors, including the declaration of insolvency and the amount of the potential insolvency, the basis, amount and timing of associated estimated future guaranty fund assessments and the availability and amount of any potential premium tax and other offsets. Cash payments, if any, by the Company's insurance subsidiaries are likely to extend over several years. The Company will continue to monitor the outcome of the court's deliberations and may record a liability and expense in a future reporting period.

Litigation and Other Legal Matters

The Company is routinely involved in numerous claims, lawsuits, regulatory and IRS audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a health services business, including payments to providers and benefit level disputes. Such legal matters include benefit claims, breach of contract claims, tort claims, disputes regarding reinsurance arrangements, employment related suits, employee benefit claims, wage and hour claims, and intellectual property and real estate related disputes. Litigation of income tax matters is accounted for under FASB's accounting guidance for uncertainty in income taxes. Further information can be found in Note 14. The outcome of litigation and other legal matters is always uncertain, and unfavorable outcomes that are not justified by the evidence can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously.

In accordance with applicable accounting guidance, when litigation and regulatory matters present loss contingencies that are both probable and estimable, the Company accrues the estimated loss by a charge to income. In such cases, there may also be an exposure to loss in excess of the amounts accrued. If it is reasonably possible that a material adverse outcome could develop in excess of any amounts accrued, the matter is disclosed. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. As a litigation or regulatory matter develops, the Company monitors the matter for further developments that could affect the amount previously accrued, if any, and updates such amount accrued or disclosures previously provided as appropriate.

Based upon its current knowledge, and taking into consideration its current accruals, the Company believes that the legal actions, proceedings and investigations currently pending against it should not have a material adverse effect on the Company's results of operation, financial condition or liquidity other than possibly the matters referred to in the following paragraphs. However, in light of the uncertainties involved in these matters, there is no assurance that their ultimate resolution will not exceed the amounts currently accrued by the Company and that an adverse outcome in one or more of these matters could be material to the Company's results of operation, financial condition or liquidity for any particular period.

Amara cash balance pension plan litigation. On December 18, 2001, Janice Amara filed a class action lawsuit, captioned *Janice C. Amara, Gisela R. Broderick, Annette S. Glanz, individually and on behalf of all others similarly situated v. CIGNA Corporation and CIGNA Pension Plan*, in the United States District Court for the District of Connecticut against CIGNA Corporation and the CIGNA Pension Plan on behalf of herself and other similarly situated participants in the CIGNA Pension Plan affected by the 1998 conversion to a cash balance formula. The plaintiffs allege various ERISA violations including, among other things, that the Plan's cash balance formula discriminates against older employees; the conversion resulted in a wear away period (during which the pre-conversion accrued benefit exceeded the post-conversion benefit); and these conditions are not adequately disclosed in the Plan.

In 2008, the court issued a decision finding in favor of CIGNA Corporation and the CIGNA Pension Plan on the age discrimination and wear away claims. However, the court found in favor of the plaintiffs on many aspects of the disclosure claims and ordered an enhanced level of benefits from the existing cash balance formula for the majority of the class, requiring class members to receive their frozen benefits under the pre-conversion CIGNA Pension Plan and their post-1997 accrued benefits under the post-conversion CIGNA Pension Plan. The court also ordered, among other things, pre-judgment and post-judgment interest.

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Both parties appealed the court's decisions to the United States Court of Appeals for the Second Circuit which issued a decision on October 6, 2009 affirming the District Court's judgment and order on all issues. On January 4, 2010, both parties filed separate petitions for a writ of certiorari to the United States Supreme Court. CIGNA's petition was granted on June 28, 2010 and was argued on November 30, 2010. On May 16, 2011, the Supreme Court issued its Opinion in which it reversed the lower courts' Opinion and remanded the case to the trial judge for reconsideration of the remedy. The Court unanimously agreed with our position that the lower courts erred in granting a remedy for an inaccurate plan description under an ERISA provision that allows only recovery of plan benefits. However, the decision identified possible avenues of "appropriate equitable relief" that plaintiffs may pursue as an alternative remedy.

The Company will continue to vigorously defend its position in this case. As of June 30, 2011, the Company continues to carry a liability of \$82 million pre-tax (\$53 million after-tax), that reflects the Company's best estimate of the exposure.

Ingenix. On February 13, 2008, State of New York Attorney General Andrew M. Cuomo announced an industry-wide investigation into the use of data provided by Ingenix, Inc., a subsidiary of UnitedHealthcare, used to calculate payments for services provided by out-of-network providers. The Company received four subpoenas from the New York Attorney General's office in connection with this investigation and responded appropriately. On February 17, 2009, the Company entered into an Assurance of Discontinuance resolving the investigation. In connection with the industry-wide resolution, the Company contributed \$10 million to the establishment of a new non-profit company that now compiles and provides the data formerly provided by Ingenix. Since March 2008, the Company has received and responded to inquiries regarding the use of Ingenix data from the Connecticut, Illinois and Texas Attorneys General and the Departments of Insurance in Illinois, Florida, Vermont, Georgia, Pennsylvania, Connecticut, and Alaska.

The Company was named as a defendant in a number of putative nationwide class actions asserting that due to the use of data from Ingenix, Inc., the Company improperly underpaid claims, an industry-wide issue. All of the class actions were consolidated into *Franco v. Connecticut General Life Insurance Company et al.*, that is pending in the United States District Court for the District of New Jersey. The consolidated amended complaint, filed on August 7, 2009, asserts claims under ERISA, the RICO statute, the Sherman Antitrust Act and New Jersey state law on behalf of subscribers, health care providers and various medical associations. CIGNA filed a motion to dismiss the consolidated amended complaint on September 9, 2009, that is fully briefed and pending. Plaintiffs filed a motion for class certification on May 28, 2010, that is also fully briefed and pending. Fact and expert discovery have been completed.

On June 9, 2009, CIGNA filed motions in the United States District Court for the Southern District of Florida to enforce a previous settlement, *In re Managed Care Litigation*, by enjoining the RICO and antitrust causes of action asserted by the provider and medical association plaintiffs in the Ingenix litigation on the ground that they arose previously and were released in the prior settlement. On November 30, 2009, the Court granted the motions and ordered the provider and association plaintiffs to withdraw their RICO and antitrust claims from the Ingenix litigation by December 21, 2009. Those claims have now been withdrawn, although the plaintiffs are pursuing an appeal with the United States Court of Appeals for the Eleventh Circuit.

It is reasonably possible that others could initiate additional litigation or additional regulatory action against the Company with respect to use of data provided by Ingenix, Inc. The Company denies the allegations asserted in the investigations and litigation and will vigorously defend itself in these matters.

Due to numerous uncertain and unpredictable factors presented in these cases, including the lack of any clear basis to determine whether and to what extent the claimants have been injured, it is not possible to estimate a range of loss at this time.

Karp gender discrimination litigation. On March 3, 2011, Bretta Karp filed a class action gender discrimination lawsuit, captioned Bretta Karp on behalf of herself individually and others similarly situated v. CIGNA Healthcare, Inc., in the United States District Court for the District of Massachusetts. The plaintiff alleges systemic discrimination against females in compensation, promotions, training, and performance evaluations in violation of Title VII of the Civil Rights Act of 1964, as amended, and Massachusetts law. Plaintiff seeks monetary damages and various other forms of broad programmatic relief, including injunctive relief, backpay, lost benefits, and preferential rights to jobs. The Company filed a motion to dismiss the lawsuit on May 16, 2011. The Company denies the allegations asserted in the litigation and will vigorously defend itself in this case. Due to numerous uncertain and unpredictable factors presented in this case, including the merits of the case and the lack of any clear basis to determine the definition of a class of claimants, it is not possible to estimate a range of loss (if any) at this time.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

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