CIGNA CORP
Form 10-K/A
February 24, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003
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 1-8323

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.)
One Liberty Place, Philadelphia, Pennsylvania	**19192**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (215) 761-1000

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.25;	New York Stock Exchange, Inc.
Preferred Stock	Pacific Exchange, Inc.
Purchase Rights	Philadelphia Stock Exchange, Inc.

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark 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. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No __

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2003, was approximately $6.4 billion.

As of January 31, 2004, 140,973,691 shares of the registrant's Common Stock were outstanding.

Parts I and II of this Form 10-K incorporate by reference information from the registrant's annual report to shareholders for the year ended December 31, 2003. Part III of this Form 10-K incorporates by reference information from the registrant's proxy statement to be dated on or about March 26, 2004.

Explanatory Note

CIGNA is filing this Form 10-K/A to reflect the restatement of its financial statements for the years ended December 31, 2003, 2002 and 2001. Please see Note 16 to the Consolidated Financial Statements for specific information related to the restatement.

CIGNA historically accounted for stock option grants as fixed awards under Accounting Principles Board (APB) No. 25 and disclosed in the footnotes to the financial statements the expense based on the fair value of stock options pursuant to Statement of Financial Accounting Standards (SFAS) No. 123. While reviewing changes to its equity compensation plans and during the normal 2004 year-end closing process, CIGNA determined that certain stock option grants under these plans required variable rather than fixed accounting treatment under APB No. 25. Variable accounting should have been used because participants were permitted to elect to pay the option exercise price using restricted stock. As a result, CIGNA determined on February 7, 2005 the need to restate its financial statements included in the Form 10-K for the year ended December 31, 2003 and in each of the Form 10-Q filings for the three quarters ended September 30, 2004. CIGNA's management and the Audit Committee of CIGNA's Board of Directors discussed the restatement with CIGNA's independent registered public accounting firm.

This Amended Form 10-K/A does not attempt to modify or update any other disclosures set forth in the Original Form 10-K, except as required to reflect the effects of the restatement as described in Note 16 to the financial statements included in the Amended Form 10-K/A. Additionally, this Amended Form 10-K/A does not purport to provide a general update or discussion of any other developments at the Company after the date of the original filing. All information contained in this Amended Form 10-K/A and the Original Form 10-K is subject to updating and supplementing as provided in the periodic reports that the Company has filed and will file after the original filing date with the Securities and Exchange Commission. In addition, the filing of this Amended Form 10-K/A shall not be deemed an admission that the original filing, when made, included any untrue statement of material fact or omitted to state a material fact necessary to make a statement made therein not misleading. This Amended Form 10-K/A does not include the items from the Original Form 10-K that are not being amended.

Financial information included in reports on Form 10-K, Form 10-Q and Form 8-K (except the Form 8-K with the date of earliest event reported February 7, 2005) previously filed by CIGNA should not be relied upon and are superseded by the information in this Annual Report on Form 10-K/A. CIGNA will also file amended quarterly reports on Form 10-Q/A for each of the first three quarters of 2004.

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The following Items of the Original Filing on Form 10-K are amended as indicated by this Amendment on Form 10-K/A:

PART II

Please note that the information contained in this Amendment, including the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements, does not reflect events occurring after the date of the original filing. Such events include, among others, the events described in our quarterly reports on Form 10-Q for the periods ended March 31, 2004, June 30, 2004 and September 30, 2004 and the events subsequently described in our current reports on Form 8-K. For a description of these events, please read our Exchange Act reports filed since the filing of the Original Form 10-K.

Item 5. *MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS*

The following unaudited consolidated quarterly financial data for the years ended December 31, 2003 and 2002 have been restated.

Quarterly Financial Data *(unaudited)*

The following unaudited quarterly financial data are presented on a consolidated basis for each of the years ended December 31, 2003 and 2002.

Quarterly financial results necessarily rely heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the insurance business, suggest the need to exercise caution in drawing specific conclusions from quarterly consolidated results.

(In millions, except per share amounts)	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(As Restated, See Note 16)			
Consolidated Results				
2003				
Total revenues	$ 4,900	$ 4,634	$ 4,773	$4,501
Income (loss) from continuing operations before income taxes (benefits)	281	(80)	281	394
Net income (loss)	235(1)	(55)(2)	195(3)	275(4)
Net income (loss) per share:				
Basic	1.68	(.39)	1.40	1.97
Diluted	1.68	(.39)	1.39	1.95
2002				
Total revenues	$ 4,780	$ 4,737	$ 5,083	$4,748
Income (loss) from continuing operations before income taxes (benefits)	280	340	(1,189)	66
Net income (loss)	185	223(5)	(818)(6)	55(7)
Net income (loss) per share:				
Basic	1.31	1.58	(5.85)	.39
Diluted	1.29	1.56	(5.85)	.39
Stock and Dividend Data				
2003				
Price range of common stock — high	$ 46.69	$ 57.41	$ 50.00	$58.58
— low	$ 39.10	$ 45.51	$ 40.00	$44.10
Dividends declared per common share	$ .33	$ .33	$ .33	$ .33
2002				
Price range of common stock — high	$101.52	$111.00	$ 98.40	$74.19
— low	$ 87.76	$ 94.85	$ 69.20	$34.15
Dividends declared per common share	$ .33	$ .33	$ .33	$ .33

(1) The first quarter of 2003 includes a $4 million after-tax gain for other postretirement benefits for employees terminated in the first quarter of 2003 under the 2002 restructuring program.

(2) The second quarter of 2003 includes a $286 million after-tax charge related to a review of assumptions underlying guaranteed minimum death benefit contracts, a $9 million after-tax charge related to restructuring certain corporate staff functions, a $10 million after-tax benefit reflecting a reduction in costs associated with the 2002 restructuring program and a $2 million after-tax gain for other postretirement benefits for employees terminated in the second quarter of 2003 under the 2002 restructuring program.

(3) The third quarter of 2003 includes a $37 million after-tax charge to increase the reserve for health care provider class action litigation, a $10 million after-tax charge to write off intangible assets related to certain provider contracts, a $5 million after-tax gain on the sale of CIGNA's interest in a Japanese pension operation and a $1 million after-tax gain for other postretirement benefits for employees terminated in the third quarter of 2003 under the 2002 restructuring program.

(4) The fourth quarter of 2003 includes a $33 million after-tax benefit related to a reduction in the allowance against amounts recoverable from experience-rated pension policyholders and a $9 million after-tax benefit reflecting a

reduction in costs associated with the 2002 and 2001 health care costs reduction programs (including gains on other postretirement benefits).

(5) The second quarter of 2002 includes a $2 million after-tax accelerated gain recognized on the sale of CIGNA's life reinsurance business.

(6) The third quarter of 2002 includes a $720 million after-tax charge to strengthen reserves for guaranteed minimum death benefit contracts as well as the impact of a program adopted by CIGNA to reduce equity market risks related to these contracts, a $317 million after-tax charge for Unicover and London reinsurance matters and a $9 million after-tax charge for a Medicare cost reporting matter associated with Lovelace Health Systems Inc., partially offset by a $1 million after-tax accelerated gain recognized on the sale of CIGNA's life reinsurance business.

(7) The fourth quarter of 2002 includes a net $95 million after-tax restructuring charge, a $50 million after-tax charge related to health care provider litigation and an after-tax credit of $2 million reflecting the adjustment of liabilities associated with events of September 11, 2001.

Item 6. *SELECTED FINANCIAL DATA*

The following Selected Financial Data has been restated.

Highlights

(Dollars in millions, except per share amounts)	**2003**	2002	2001	2000	1999
		(As Restated, See Note 16)			
Revenues					
Premiums and fees and other revenues	**$ 16,063**	$ 16,870	$ 15,940	$ 16,579	$ 15,304
Net investment income	**2,594**	2,716	2,842	2,940	2,958
Realized investment gains (losses)	**151**	(238)	(175)	7	8
Total revenues	**$ 18,808**	$ 19,348	$ 18,607	$ 19,526	$ 18,270
Results of Operations					
Segment earnings (loss):					
Health Care	**$ 447**	$ 455	$ 671	$ 706	$ 582
Disability and Life	**137**	124	59	50	132
Retirement	**260**	231	221	257	265
International	**55**	31	95	48	(342)
Run-off Reinsurance	**(359)**	(1,070)	57	(119)	35
Other Operations	**73**	74	76	93	104
Corporate	**(109)**	(44)	30	(345)	(119)
Total segment earnings (loss)	**504**	(199)	1,209	690	657
Realized investment gains (losses), net of taxes	**98**	(155)	(112)	4	4
Income (loss) from continuing operations	**602**	(354)	1,097	694	661
Income (loss) from discontinued operations	**48**	(1)	18	6	1,163
Cumulative effect of accounting change, net of taxes	**—**	—	—	—	(91)
Net income (loss)	**$ 650**	$ (355)	$ 1,115	$ 700	$ 1,733
Net income (loss) excluding goodwill amortization	**$ 650**	$ (355)	$ 1,163	$ 748	$ 1,781
Income (loss) per share from continuing operations:					
Basic	**$ 4.31**	$ (2.52)	$ 7.42	$ 4.34	$ 3.40
Diluted	**$ 4.28**	$ (2.52)	$ 7.31	$ 4.27	$ 3.35
Net income (loss) per share:					
Basic	**$ 4.65**	$ (2.53)	$ 7.54	$ 4.38	$ 8.91
Diluted	**$ 4.62**	$ (2.53)	$ 7.43	$ 4.31	$ 8.78
Common dividends declared per share	**$ 1.32**	$ 1.32	$ 1.28	$ 1.24	$ 1.20
Total assets	**$ 90,992**	$ 88,980	$ 91,653	$ 95,238	$ 95,371
Long-term debt	**$ 1,500**	$ 1,500	$ 1,626	$ 1,162	$ 1,357
Shareholders' equity	$ **4,558**	$ 3,897	$ 5,119	$ 5,563	$ 6,187
Per share	**$ 32.42**	$ 27.96	$ 36.17	$ 36.60	$ 36.46
Common shares outstanding (*in thousands*)	**140,591**	139,370	141,553	152,005	169,697

Shareholders of record	**9,608**	9,945	10,437	10,947	11,716
Employees	**32,700**	41,200	44,600	43,200	41,900

See Note 16 to the Financial Statements for specific information related to the restatement of results for stock option accounting under Accounting Principles Board (APB) No. 25.

Segment earnings (loss) is defined as net income (loss) excluding: 1) after-tax realized investment results, 2) results of discontinued operations, and 3) in 1999, the cumulative effect of adopting Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments."

In January 2003, CIGNA sold the operations of Lovelace Health Systems, Inc., an integrated health care system and subsidiary of CIGNA. This business has been reported as discontinued operations. Prior period financial information has been reclassified.

In 1999, CIGNA sold its domestic and international property and casualty business and reported this business as discontinued operations.

Item 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

As discussed in Note 16 to the Consolidated Financial Statements, CIGNA's Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001 have been restated. The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to this restatement. For additional information regarding the restatement, please refer to Note 16 to the Consolidated Financial Statements.

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OVERVIEW

CIGNA Corporation's subsidiaries provide employee benefits offered through the workplace. Key product lines include health care products and services (medical, pharmacy, behavioral health, clinical information management, dental and vision benefits, and case and disease management); group disability, life and accident insurance; retirement products and services; and investment management. In addition, CIGNA has an international operation that offers similar products to businesses and individuals in selected markets, and has certain inactive businesses including a run-off reinsurance operation.

CIGNA's results are influenced by a range of economic and other factors, including:

- cost trends and inflation levels for medical and related services;
- patterns of utilization of medical and other services;
- employment levels;
- the tort liability system;

- interest rates and equity market returns;
- regulations and tax rules related to the provision and administration of employee benefit plans; and
- initiatives to increase health care regulation.

CIGNA generates revenues, income and cash flows by maintaining and growing its relationships with employers and consumers, charging prices that reflect emerging experience and investing available cash at attractive rates of return for appropriate durations. CIGNA's ability to increase operating results in terms of growth in revenue, net income and operating cash flow is directly related to its ability to execute plans that address broad economic factors as well as company-specific drivers.

Key company-specific drivers affecting CIGNA’s results include:

- the absolute level of and trends in benefit costs;
- the volume of customers served and the mix of products and services purchased by those customers;
- competitiveness of CIGNA's product design and service quality relative to those of other employee benefit providers;
- the ability to price products and services competitively at levels that appropriately account for underlying cost inflation and utilization patterns; and
- the relationship between administrative costs and revenue.

Management regularly monitors trends in the economic factors listed above and the company-specific drivers of operating results. CIGNA develops strategic and tactical plans designed to improve performance and maximize its competitive position in the markets served. CIGNA's ability to achieve its financial objectives is dependent upon its ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends.

CIGNA's results, excluding realized investment gains and losses and special items (described on page 11), declined in 2003 and 2002 and were below competitive benchmarks due to lower results in the health care operations and losses in the run-off reinsurance operations. CIGNA is focused on improving performance in its health care operations by (1) lowering medical cost trends; (2) continuing to deliver quality service; (3) lowering administrative expenses; and (4) stabilizing and growing membership. CIGNA has also strengthened reserves and reduced certain equity market exposures in its run-off reinsurance operations by selling futures and forward contracts.

CIGNA expects to complete a sale of its retirement business around the end of the first quarter of 2004, subject to regulatory approval. The sale of this business will allow CIGNA to focus on its health care and related operations. The effect of the sale would also improve parent company liquidity and enhance CIGNA's financial flexibility while reducing revenue, net income, cash flows and invested assets.

CONSOLIDATED RESULTS OF OPERATIONS

(In millions) **Financial Summary**	**2003**	2002	**2001**
	(As Restated, See Note 16)		
Premiums and fees	**$15,441**	$15,737	$14,860
Net investment income	**2,594**	2,716	2,842
Other revenues	**622**	1,133	1,080
Realized investment gains (losses)	**151**	(238)	(175)
Total revenues	**18,808**	19,348	18,607
Benefits and expenses	**17,932**	19,851	16,944
Income (loss) from continuing operations before taxes (benefits)	**876**	(503)	1,663
Income taxes (benefits)	**274**	(149)	566
Income (loss) from continuing operations	**602**	(354)	1,097
Income (loss) from discontinued operations	**48**	(1)	18
Net income (loss)	**650**	(355)	1,115
Adjustment to exclude goodwill amortization in 2001	**—**	—	48
Net income (loss) excluding goodwill amortization	**$ 650**	$ (355)	$ 1,163
Realized investment gains (losses),	**$ 98**	$ (155)	$ (112)

net of taxes

As discussed in Note 16 to the Financial Statements, CIGNA's consolidated financial statements for all periods presented have been restated to reflect variable accounting for stock compensation expense in accordance with Accounting Principles Board (APB) No. 25. Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to these restatements in the Corporate segment. For additional information, refer to Note 16 to the Financial Statements.

The significant improvement in income (loss) from continuing operations in 2003 was primarily due to reduced losses in the Run-off Reinsurance segment reflecting lower charges related to specialty life reinsurance contracts that guarantee minimum death benefits. Absent these charges and other special items discussed further below, CIGNA's underlying results declined primarily due to operational difficulties in the health care operations. See page 23 for further discussion on the drivers of these results. Partially offsetting these results were strong realized investment gains from the sale of securities (see page 11 for further discussion).

The loss from continuing operations in 2002, compared with income in 2001, was primarily due to the effects of special items and higher realized investment losses.

In order to facilitate an understanding and comparison of results of operations and permit analysis of trends in underlying revenue, expenses and net income, the following table presents special items, which management believes are not representative of the underlying results of continuing operations. See "Quarterly Financial Data" in CIGNA's 2003 Annual Report to Shareholders for special items reported quarterly in 2003 and 2002.

SPECIAL ITEMS

(In millions)	Pre-Tax Benefit (Charge)	After-Tax Benefit (Charge)
2003		
Reserve charge on guaranteed minimum death benefit contracts (see page 29)	**$ (441)**	**$ (286)**
Health care provider litigation (see page 19)	**(57)**	**(37)**
Reduction in allowance against amounts recoverable from pension policyholders (see page 26)	**51**	**33**
Restructuring items, net[1] (see page 16)	**26**	**17**
Intangible asset write-off for provider contracts (see Note 2(J) to the Financial Statements)	**(16)**	**(10)**
Gain on sale of Japan pension operations (see page 18)	**8**	**5**
Total	**$ (429)**	**$ (278)**
2002		
Reserve charge on guaranteed minimum death benefit contracts	$ (1,108)	$ (720)
Charge for Unicover and London reinsurance matters	(408)	(317)
Restructuring costs, net[2]	(147)	(95)
Health care provider litigation	(77)	(50)
Accelerated recognition of deferred gain on sale of life reinsurance business	4	3
Reduction in charges for the events of September 11, 2001	3	2
Total	$ (1,733)	$ (1,177)
2001		
Restructuring costs	$ (96)	$ (62)
Accelerated recognition of portion of	107	69

deferred gain on sale of life reinsurance business		
Gain on sale of interest in Japanese life insurance operation	54	35
Charges for the events of September 11, 2001	(38)	(25)
Total	$ 27	$ 17

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[1] Restructuring items in 2003 include a pre-tax benefit of $39 million ($26 million after-tax) reflecting a reduction in costs associated with the 2002 and 2001 health care restructuring programs (including gains on other postretirement benefits, see Note 15 to the Financial Statements), and a pre-tax charge of $13 million ($9 million after-tax) related to restructuring certain corporate staff functions.

[2] Restructuring costs in 2002 reflect pre-tax charges of $151 million ($97 million after-tax) associated with the health care restructuring program adopted in the fourth quarter of 2002 (including gains on other postretirement benefits), and a pre-tax reduction of $4 million ($2 million after-tax) in the costs associated with the fourth quarter 2001 restructuring program.

Revenues

Revenues decreased in 2003 primarily because of:

- losses recognized from futures and forward contracts, compared to gains in the prior year, in connection with the program to reduce equity market risks (see Run-off Reinsurance segment on page 29 for further discussion); and
- lower premiums and fees in the Health Care segment primarily due to lower membership.

These factors were partially offset by improved realized investment results (see below).

Revenues increased in 2002 primarily because of higher Health Maintenance Organization (HMO) and medical indemnity premiums and fees due to rate increases.

Realized Investment Results

Realized investment results for 2003 increased primarily because of:

- gains on sales of fixed maturities and equity securities compared with losses in the prior year;
- lower impairments on equities, fixed maturities and real estate investments; and
- higher gains on sales of real estate investments.

These increases were partially offset by impairment losses associated with the settlement annuity business in the Other Operations segment.

Realized investment losses increased in 2002 primarily because of:

- higher losses on sales of fixed maturities;
- losses on sales of equity securities compared to gains in 2001; and
- higher impairments on equity securities and real estate investments.

These losses were partially offset by gains on sales of real estate investments and lower impairments on investments in collateralized debt obligations, which are secured by pools of corporate debt obligations.

For additional information on realized investment results, see Note 10(B) to the Financial Statements. The weakness in certain sectors of the economy may cause additional investment losses. Refer to “Investment Assets” beginning on page 40 for further information.

Outlook for 2004

Subject to the factors noted in the Cautionary Statement on page 45, management expects full year 2004 income from continuing operations excluding realized investment gains (losses) and special items to be lower than the comparable 2003 amount. This outlook for 2004 primarily reflects reduced earnings from the retirement business, which CIGNA expects to sell around the end of the first quarter of 2004.

Information is not available for management to reasonably estimate realized investment gains (losses) or special items for 2004. Special items for 2004 may include:

- the effect of adopting a new accounting standard (see Note 2 to the Financial Statements);
- charges related to expense reduction initiatives (see page 16); and
- effects of the accounting for the sale of the retirement business.

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Critical Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material effect on CIGNA's consolidated results of operations or financial condition.

Management has discussed the development and selection of its critical accounting estimates with the Audit Committee of CIGNA's Board of Directors and the Audit Committee has reviewed the disclosure presented below relating to them.

In addition to the estimates presented in the following table, there are other accounting estimates used in the preparation of CIGNA's consolidated financial statements, including estimates of liabilities for unpaid claims and claim expenses and future policy benefits other than those identified in the following table, as well as estimates with respect to contracts that guarantee a minimum level of income benefits, post-employment and postretirement benefits, certain compensation accruals, and income taxes.

Management believes the current assumptions and other considerations used to estimate amounts reflected in CIGNA's consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in CIGNA's consolidated financial statements, the resulting changes could have a material adverse effect on CIGNA's consolidated results of operations, and in certain situations, could have a material adverse effect on liquidity and CIGNA's financial condition.

See Note 2 to the Financial Statements for further information on key accounting policies that impact CIGNA.

The table that follows presents information about CIGNA's most critical accounting estimates, as well as the effects of hypothetical changes in the material assumptions used to develop each estimate.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect if Different Assumptions Used
Future policy benefits - Guaranteed minimum death benefits Reserves for these liabilities are estimates of the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received. The amounts to be paid represent the excess of the guaranteed death benefit over the values of annuitants' accounts. The death benefits coverage in force at December 31, 2003 (representing the amount payable if all annuitants had died as of that date) was approximately $12.9 billion.	Management estimates these reserves based on assumptions and other considerations, including lapse, partial surrender, mortality, interest rates and volatility. These are based on CIGNA's experience and future expectations. CIGNA monitors actual experience to update these reserve estimates as necessary. Lapse refers to the full surrender of an annuity prior to an annuitant's death. Partial surrender refers to the fact that most annuitants have the ability to withdraw substantially all of their mutual fund investments while retaining any available death benefit coverage in effect at the time of the withdrawal. Volatility refers to market volatility that affects the costs of the program adopted by CIGNA to reduce equity market risks associated with these liabilities. CIGNA completed a review of reserves in 2003 and recognized an after-tax charge of $286 million ($441 million pre-tax) relating to both actual and projected future partial surrenders, as well as updates to other assumptions such as mortality.	If a 10% unfavorable change were to occur for the following assumptions, the approximate after-tax decrease in net income would be as follows: · Mortality - $75 million · Volatility - $55 million · Lapse - $40 million · Interest rates - $30 million · Future partial surrenders - $10 million Management believes the current assumptions and other considerations used to estimate reserves for these liabilities are appropriate. However, if actual experience differs from the assumptions and other considerations (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating reserves, the resulting changes could have a material adverse effect on CIGNA's consolidated results of operations, and in certain situations, could have a material adverse effect on CIGNA's financial condition. The amounts would be reflected in the Run-off Reinsurance segment.

In addition, CIGNA recorded a $720 million after-tax charge ($1.1 billion pre-tax) in 2002 in connection with stock market declines and implementation of a risk reduction program for these liabilities.

See page 30 for further discussion of these charges.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect if Different Assumptions Used
Unpaid claims and claim expenses - Unpaid claims for guaranteed cost and minimum premium programs and retrospectively experience-rated health care products Unpaid claims and related liabilities for these health care products include both reported claims and estimates for losses incurred but not yet reported.	Unpaid claims and related liabilities for these health care products are estimated using actuarial models based on historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors. Reserves for these liabilities for the year ended December 31 were as follows: · 2003 - $1.9 billion · 2002 - $1.8 billion · 2001 - $1.5 billion The above amounts reflect that portion of unpaid claims and claim expenses included in CIGNA's consolidated balance sheets, which are attributable to these health care operations. It excludes amounts for administrative services only business. The estimation process for determining liabilities for unpaid claims for health care products inherently results in adjustments each year for claims incurred (but not paid) in preceding years. During the year ended December 31, CIGNA's net income was increased for such adjustments for prior year claims, as follows (amounts after-tax): · 2003 - $48 million · 2002 - $44 million · 2001 - $36 million	A 1% increase in the assumed medical cost trend would reduce net income by approximately $45 million after-tax annually. This charge would impact the Health Care segment.

Reinsurance recoverables - Reinsurance recoverables in Run-off Reinsurance Collectibility of reinsurance recoverables requires an assessment of risks that such amounts will not be collected, including risks associated with reinsurer default and disputes with reinsurers regarding applicable coverage.	The amount of reinsurance recoverables in the Run-off Reinsurance segment, net of reserves, represents management's best estimate of recoverability, including an assessment of the financial strength of reinsurers. The ultimate amounts received are dependent, in certain cases, on the resolution of disputes with reinsurers, including the outcome of arbitration and litigation proceedings. Net reinsurance recoverables in the Run-off Reinsurance segment for the year ended December 31, were as follows: · 2003 - $621 million · 2002 - $765 million · 2001 - $938 million	A 10% reduction of net reinsurance recoverables at December 31, 2003, would reduce net income by approximately $50 million after-tax. This charge would impact the Run-off Reinsurance segment.

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Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect if Different Assumptions Used
Investments - Fixed maturities ***Recognition of losses from "other than temporary" impairments of public and private placement fixed maturities*** Losses for "other than temporary" impairments of fixed maturities must be recognized in net income based on an estimate of fair value by management. Changes in fair value are reflected as an increase or decrease in shareholders' equity. A decrease in fair value is recognized in net income when the decrease is determined to be "other than temporary." Determining whether a decline in value is "other than temporary" includes an evaluation of the reasons for and the significance of the decrease in value of the security as well as the duration of the decrease.	Management estimates the amount of "other than temporary" impairment when a decline in value is expected to persist, using quoted market prices for public securities with active markets and the present value of future cash flows for private placement bonds. Expected future cash flows are based on historical experience of the issuer and management's expectation of future performance. CIGNA recognized "other than temporary" impairments of investments in fixed maturities as follows (after-tax, excluding policyholder share*): · 2003 - $ 73 million · 2002 - $ 84 million · 2001 - $120 million See Note 8(A) to the Financial Statements for a discussion of review of declines in fair value.	For all fixed maturities with cost in excess of their fair value, the excess of cost which has not been recognized in net income as of December 31, 2003, was approximately $37 million, after-tax. For private placement bonds considered impaired, a decrease of 10% of all expected future cash flows for the impaired bonds would reduce net income by approximately $7 million after-tax.

· *Investment securities are attributable to CIGNA's various business segments; amounts noted are presented from a consolidated perspective and are net of experience-rated pension policyholder share (i.e., these amounts exclude the impact of losses in 2003, 2002 and 2001 on investment assets related to experience-rated pension policyholder contracts because these amounts generally accrue to the policyholders). As of October 1, 2003, investment assets related to experience-rated pension policyholder contracts were reclassified from fixed maturities to "Securities supporting experience-rated pension policyholder contracts" on CIGNA's balance sheet and CIGNA no longer recognizes other than temporary impairments because changes in the fair values of these securities are reported in net income in each period. See Note 8(B) to the Financial Statements for additional discussion*

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SALE OF RETIREMENT BUSINESS

In November 2003, CIGNA entered into an agreement to sell its retirement business, excluding the corporate life insurance business, for cash proceeds of $2.1 billion. The sale, which is subject to regulatory approvals and other conditions prior to closing, is expected to be completed around the end of the first quarter of 2004. The agreement provides that the sale price will be reduced by $250 million if the financial strength rating of Connecticut General Life Insurance Company, a CIGNA subsidiary that underwrites much of the business sold by CIGNA's retirement benefits business, is downgraded to certain levels by S&P and Moody’s before the sale closes. CIGNA considers downgrades to those levels to be unlikely.

The determination of the gain on sale will be affected by transaction costs, changes in net assets through the closing date from the results of operations, and other adjustments. The transaction will be primarily in the form of a reinsurance arrangement, therefore a significant portion of the gain will be deferred and amortized over future periods and reported in results of continuing operations.

Segment earnings for the business to be sold, which includes the special items noted on page 26, were approximately $225 million in 2003, $200 million in 2002, and $195 million in 2001.

OTHER MATTERS

Restructuring Programs

In order to drive productivity improvement, CIGNA is implementing a restructuring program and expects to record a charge in the first quarter of 2004. This charge is associated with planned organizational changes to streamline functional support resources and to adjust its operations to reflect a new operating strategy and current business volumes. Management does not expect the charge to exceed $75 million, after-tax. In addition, CIGNA expects to record additional charges later in 2004 related to this restructuring. The total of all charges is not expected to exceed $100 million after-tax for 2004.

Corporate effectiveness initiative. In 2003, CIGNA adopted a restructuring program to attain certain operational efficiencies in its corporate staff functions and to achieve additional cost savings. As a result, CIGNA recognized in other operating expenses an after-tax charge in Corporate of $9 million ($13 million pre-tax) for severance costs for the expected reduction of approximately 280 employees. As of December 31, 2003, $6 million ($9 million pre-tax) of the severance cost has been paid. Annualized after-tax savings are estimated to be $15 million reflecting the elimination of salary and benefits costs for terminated employees.

Fourth quarter 2002 program. In 2002, CIGNA adopted a restructuring program primarily to realign the organizational structure and operations of its health care business. As a result, CIGNA recognized during 2002 in other operating expenses, a net after-tax charge of $97 million ($151 million pre-tax) in the Health Care segment. These amounts reflect a reduction in costs of $2 million after-tax ($3 million pre-tax) for other postretirement benefits for employees terminated in 2002. The benefit cost reduction continued in 2003 as employees were terminated.

During 2003, CIGNA reduced the remaining liability for this program by $15 million after-tax ($23 million pre-tax) of which $5 million after-tax ($8 million pre-tax) occurred during the fourth quarter of 2003. These reductions were primarily due to higher than expected attrition (which did not result in severance benefits or costs) and lower costs relating to outplacement and other services.

This restructuring program was substantially completed in the fourth quarter of 2003. Cash outlays under this program did not result in, nor are the remaining cash outlays expected to have, a significant effect on liquidity. Net annual after-tax savings from this program were approximately $100 million in 2003 and are expected to be approximately $150 million in 2004, reflecting the elimination of salary and benefit costs for terminated employees and lower facility costs.

The table below shows CIGNA's restructuring activity (pre-tax) related to severance and real estate for this program:

	Severance			
(Dollars in millions)	No. of Employees	Cost	Real Estate	Remaining Liability
Fourth quarter 2002 charge	3,890	$ 116	$ 38	$ 154
Fourth quarter 2002 activity:				
Employees	(713)	(4)		(4)
Lease costs			—	—
Asset write-downs			(4)	(4)
Balance as of December 31, 2002	3,177	112	34	146
2003 activity:				
Employees	**(2,414)**	**(75)**		**(75)**
Lease costs			**(9)**	**(9)**
Reduction of remaining balance	**(708)***	**(22)**	**(1)**	**(23)**
Balance as of December 31, 2003	**55**	**$ 15**	**$ 24**	**$ 39**

*Due to higher than expected attrition.

Fourth quarter 2001 program. In 2001, CIGNA adopted a restructuring program primarily to consolidate existing health service centers into regional service centers. As a result, CIGNA recognized in other operating expenses an after-tax charge of $59 million ($91 million pre-tax) in the Health Care segment and $3 million ($5 million pre-tax) in the Disability and Life segment.

This restructuring program was substantially completed in the fourth quarter of 2002. Cash outlays under this program did not result in, nor are the remaining cash outlays expected to have, a significant effect on CIGNA's liquidity. Beginning in 2003, the program resulted in net annual after-tax savings of approximately $50 million.

The table below shows CIGNA's restructuring activity (pre-tax) for this program:

	Severance			
(Dollars in millions)	No. of Employees	Cost	Real Estate	Remaining Liability
Fourth quarter 2001 charge	3,100	$ 48	$ 48	$ 96
Fourth quarter 2001 activity:				
Employees	(436)	(5)		(5)
Lease costs			(1)	(1)
Asset write-downs			(11)	(11)
Balance as of December 31, 2001	2,664	43	36	79
2002 activity:				
Employees	(2,366)	(36)		(36)
Lease costs			(2)	(2)
Adjustment of remaining balance	(143)	7	(11)	(4)
Balance as of December 31, 2002	155	14	23	37
2003 activity:				
Employees	**(155)**	**(14)**		**(14)**
Lease costs			**(7)**	**(7)**
Reduction of remaining balance	**—**	**—**	**(5)**	**(5)**
Balance as of December 31, 2003	**—**	**$ —**	**$ 11**	**$ 11**

In the fourth quarter of 2003, CIGNA reduced its remaining liability for this program resulting from favorable sublet activity.

Minimum Pension Liability

During 2003, CIGNA's minimum pension liabilities declined resulting in a net after-tax increase to equity of $47 million (of which $60 million after-tax occurred during the fourth quarter of 2003). This decline was primarily due to the effect on plan assets of stock market appreciation, partially offset by a decrease in long-term interest rates used to determine the accumulated benefit obligation. During 2002, CIGNA's minimum pension liabilities increased due to the effect of equity market declines on the value of pension plan assets and reduced long-term interest rates resulting in an after-tax charge to equity of $638 million.

Charges in Run-off Reinsurance

In 2003 and 2002, CIGNA recognized charges to strengthen reserves for guaranteed minimum death benefit contracts and, in 2002, to adopt a program to substantially reduce equity market risks related to these contracts. In 2002, CIGNA also recognized a charge to strengthen reserves for other run-off reinsurance exposures. See the Run-off Reinsurance segment beginning on page 29 for further information on these charges.

Other Acquisitions and Dispositions

CIGNA may from time to time acquire or dispose of assets, subsidiaries or lines of business. Significant transactions are described below.

Sale of Japanese pension operations. In September 2003, CIGNA sold its interest in a Japanese pension operation for cash proceeds of $18 million and recognized an after-tax gain of $5 million in the International segment. The gain is reported in continuing operations since this operation was accounted for under the equity method of accounting.

Sale of Lovelace Health Systems Inc. In January 2003, CIGNA sold the operations of Lovelace, an integrated health care system, for cash proceeds of $209 million and recognized an after-tax gain of $32 million, which was reported in discontinued operations. In 2002, CIGNA began reporting this business as discontinued operations and prior period financial information was reclassified.

Sale of Brazilian health care operations. In January 2003, CIGNA sold its Brazilian health care operations. The sale generated an after-tax gain of $18 million, primarily as a result of the disposition of the net liabilities associated with these operations. The gain is reported in discontinued operations. Prior period financial information has not been reclassified due to immateriality.

Sale of interest in Japanese life insurance operation. In 2001, CIGNA sold its remaining interest in its Japanese life insurance operation for an after-tax gain of $35 million. The gain was reported in the International segment.

Events of September 11, 2001

As a result of claims arising from the events of September 11, 2001, CIGNA recorded after-tax charges of $25 million in 2001. CIGNA reported these charges in certain segments in the following amounts: Health Care, $5 million; Disability and Life, $15 million; Retirement, $3 million; and Run-off Reinsurance, $2 million. During the fourth quarter of 2002, CIGNA reduced its estimate of these liabilities, and recognized an after-tax gain of $2 million in the Run-off Reinsurance segment.

Regulatory and Industry Developments

Health care regulation. The business of administering and insuring employee benefit programs, particularly health care programs, 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 and judicial decisions have resulted in changes to industry and CIGNA's business practices and will continue to do so in the future. In addition, CIGNA's subsidiaries are routinely involved with various claims, lawsuits and regulatory audits and investigations that could result in financial liability, changes in business practices, or both. Health care regulation in its various forms could have an adverse effect on CIGNA's health care operations if it inhibits CIGNA's ability to respond to market demands or results in increased medical or administrative costs without improving the quality of care or services.

The United States Supreme Court has agreed to review a case involving a CIGNA subsidiary in which the issue is preemption by the Employee Retirement Income Security Act (ERISA) of a state law tort claim in circumstances involving a determination, based on medical judgment, that benefits were not covered. A determination that ERISA does not preempt state law would have an adverse effect on the health care industry and on CIGNA.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) and related regulations have created significant regulatory requirements related to, among other things, the privacy of individually identifiable health care information, electronic data interchange and the security of electronic health information. CIGNA has instituted systems enhancements and training, and has undertaken other administrative efforts to satisfy these requirements. CIGNA's incremental technology and business-related after-tax expenses associated with HIPAA compliance efforts were approximately $55 million in 2003 and $20 million in 2002.

Other possible regulatory changes that could have an adverse effect on CIGNA's health care operations include:

- additional mandated benefits or services that increase costs without improving the quality of care;
- narrowing of ERISA preemption of state laws;

- changes in ERISA regulations resulting in increased administrative burdens and costs;
- additional restrictions on the use of prescription drug formularies;
- additional privacy legislation and regulations that interfere with the proper use of medical information for research, coordination of medical care and disease management;
- additional rules establishing the time periods for payment of health care provider claims that vary from state to state; and
- legislation that would exempt independent physicians from antitrust laws.

The health care 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.

Litigation and other legal matters. In January 2004, a Florida federal court handling multi-district health care litigation against CIGNA and several health care industry competitors approved a settlement agreement between the physician class and CIGNA, and dismissed all claims by class members against CIGNA. In February 2004, some class members filed a notice of appeal of the court's approval of the settlement. If affirmed on appeal, the settlement would resolve for CIGNA and the plaintiffs all physician claims reflected in the litigation.

CIGNA recorded an after-tax charge of $37 million ($57 million pre-tax) in 2003 to increase the reserve for this settlement and other non-physician provider health care litigation. CIGNA had previously recognized an after-tax charge of $50 million ($77 million pre-tax) in 2002 for expected costs associated with the multi-district litigation. The reserve reflects expected insurance recoveries.

The U. S. Attorney's Office for the Eastern District of Pennsylvania is investigating compliance with federal laws in connection with pharmaceutical companies' marketing practices and their impact on prices paid by the government to pharmaceutical companies for products under federal health programs. As part of this investigation, CIGNA is responding to subpoenas concerning contractual relationships between pharmaceutical companies and CIGNA's health care operations.

In 2002, several purported class action lawsuits, as well as two shareholder derivative complaints nominally brought on behalf of CIGNA, were filed in federal court in the Eastern District of Pennsylvania against CIGNA and certain of its senior officers and directors. These suits allege securities law violations and breaches of fiduciary duty. Two other purported class action lawsuits asserting violations of ERISA were filed against CIGNA and certain officers in the Eastern District of Pennsylvania by individuals who seek to represent a class of participants in the CIGNA 401(k) Plan who allegedly suffered losses on investments in CIGNA stock.

During 2002, a Connecticut federal court certified a class action lawsuit against CIGNA and the CIGNA Pension Plan. The plaintiffs are participants in the Plan who earned certain Plan benefits prior to 1998. The plaintiffs allege, among other things, that the Plan violated ERISA by impermissibly conditioning certain post-1997 benefit accruals on the amount of pre-1998 benefit accruals, that these conditions are not adequately disclosed to Plan participants, and that the Plan's cash balance formula discriminates against older employees.

See "Unicover and other run-off reinsurance" on page 31 for a description of legal matters arising out of the run-off reinsurance operations.

CIGNA is routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of the business of administering and insuring employee benefit programs. An increasing number of claims are being made for substantial non-economic, extra-contractual or punitive damages. The outcome of litigation and other legal matters is always uncertain, and outcomes that are not justified by the evidence can occur. CIGNA believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to CIGNA's consolidated results of operations, liquidity or financial condition.

Summary. The eventual effect on CIGNA of the changing environment in which it operates remains uncertain. For additional information on contingencies that could affect CIGNA's results, see Note 22 to the Financial Statements.

Accounting Pronouncements

For information on recent accounting pronouncements, see Note 2(B) to the Financial Statements.

Segment Reporting

The impact of the restatement as discussed in Note 16 to the Financial Statements is included in Corporate and is not allocated to the operating segments.

In 2003, CIGNA changed its segment presentation to report its health care operations and its separately managed group disability and life insurance operations as two discrete segments. Previously, results from these operations were combined as a single segment. In addition, CIGNA has renamed its segments as Health Care, Disability and Life, Retirement, International, Run-off Reinsurance and Other Operations.

Disability and life insurance products that were historically sold in connection with certain experience-rated medical accounts and continue to be managed by CIGNA's health care business are reported in the Health Care segment.

Operating segments generally reflect groups of related products, but the International segment is based on geography. CIGNA measures the financial results of its segments using “segment earnings,” which is defined as income (loss) from continuing operations excluding realized investment gains (losses). See Note 20 to the Financial Statements for additional segment information and a reconciliation of segment earnings to CIGNA's consolidated income (loss) from continuing operations.

HEALTH CARE

(In millions) **Financial Summary**	**2003**	2002	2001
Premiums and fees	**$12,265**	$12,624	$11,578
Net investment income	**283**	298	335
Other revenues	**1,145**	924	685
Segment revenues	**13,693**	13,846	12,598
Benefits and expenses	**13,012**	13,146	11,546
Income before taxes	**681**	700	1,052
Income taxes	**234**	245	381
Segment earnings	**447**	455	671
Adjustment to exclude goodwill amortization in 2001	**—**	—	48

Segment earnings, excluding goodwill amortization	**$ 447**	$ 455	$ 719
Realized investment gains (losses), net of taxes	**$ 44**	$ (34)	$ (54)
Special items (after-tax) included in segment earnings:			
Restructuring, net	**$ 26**	$ (95)	$ (59)
Health care provider litigation	**$ (37)**	$ (50)	$ —
Intangible asset write-off for provider contracts	**$ (10)**	$ —	—
Charges for the events of September 11, 2001	**$ —**	$ —	(5)

Results

Segment earnings decreased slightly for 2003 reflecting a deterioration in underlying operations in 2003 somewhat mitigated by lower amounts from special items in 2003. Excluding special items, segment earnings declined 22% due to higher medical costs relative to premiums, lower membership and higher administrative expenses. The declines in these areas were partially offset by improved results in the specialty health care operations, due to significant growth in the pharmacy business.

CIGNA experienced higher medical costs per member in 2003 primarily due to three factors: higher utilization, unit cost increases and costs related to reprocessing certain 2002 claims. Increased utilization largely resulted from certain operational challenges associated with the transition to a new centralized medical management system in the early part of 2003. The increases in unit costs primarily related to certain facility contracts with unfavorable medical reimbursement arrangements. Lastly, as a result of migrating to new systems platforms in 2002, there was a significant increase in the volume of claims submitted for reprocessing in 2003, which resulted in a greater proportion of additional payments than had been experienced historically.

The migration to the new systems platform also created service disruptions in 2002, which caused a decline in membership in 2003. CIGNA is taking steps to address each of these issues and improve performance. See the Operational Improvement discussion below for further discussion of the key areas of focus.

Overall, medical membership, excluding the Medicaid business which CIGNA exited in 2003, declined 11% in 2003 largely resulting from the service disruptions and operational difficulties discussed above. The level of cancellations increased significantly in 2003, and new sales declined. Additional drivers impacting the results of the HMO and Indemnity operations are discussed more fully below.

CIGNA reports the results of this segment in two parts, HMO and Indemnity operations. HMO includes medical managed care and specialty health care operations such as managed behavioral health, medical cost and utilization management, managed dental, managed pharmacy programs and pharmaceutical fulfillment services. Indemnity includes medical and dental indemnity, and that portion of CIGNA's group disability and life insurance business that continues to be managed by the health care business.

Segment earnings, excluding goodwill amortization in 2001, for the HMO and Indemnity operations were as follows:

(In millions)	**2003**	2002	2001
HMO operations	**$ 422**	$ 365	$ 428
Indemnity operations	**25**	90	291
Total	**$ 447**	$ 455	$ 719
Total special items (after-tax) for HMO and Indemnity operations:			
HMO operations	**$ (14)**	$ (90)	$ (39)
Indemnity operations	**$ (7)**	$ (55)	$ (25)

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HMO results, excluding the special items noted above, decreased in 2003 primarily due to lower Commercial HMO (guaranteed cost HMO excluding Medicare and Medicaid) results reflecting reduced membership and increased medical costs per member, partially offset by higher earnings in the specialty health care operations due to significant business growth in pharmacy fulfillment services, resulting from higher prescription volumes in 2003, and effective cost management.

Membership declined 24% in the Commercial HMO business in 2003, primarily due to higher cancellations attributable, in part, to the service disruptions discussed above, as well as lower new sales. The decline in Commercial HMO results also reflects an increase in the commercial medical cost ratio for this product (86.9% for 2003 compared with 84.9% for 2002) due to the medical cost drivers discussed above. These declines were partially offset by an improvement in the administrative expense ratio (12.7% for 2003 compared with 12.9% for 2002) resulting from restructuring actions and rate increases.

HMO results, excluding goodwill amortization in 2001 and special items noted above, decreased 3% in 2002 primarily due to:

- significantly lower earnings in HMO Administrative Services Only (ASO) programs, primarily resulting from higher operating expenses for customer service initiatives; and
- to a lesser extent, lower Medicare earnings.

These declines were partially offset by:

- significantly improved results in the specialty health care operations primarily due to business growth; and
- increased earnings in the guaranteed cost HMO business reflecting rate increases.

Indemnity results, excluding the special items noted above, decreased 78% in 2003 primarily due to:

- lower membership and higher operating expenses per member in indemnity ASO programs;
- higher payments under performance guarantees resulting from the service disruptions discussed above; and
- lower results in the guaranteed cost business primarily reflecting higher unit medical costs.

Membership in Indemnity ASO programs declined 12% in 2003 due to increased cancellations and lower new sales, primarily as a result of the service disruptions and operational challenges. The level of expenses, however, did not decline proportionately with membership, thus contributing to higher losses in ASO programs in 2003.

Indemnity results, excluding goodwill amortization in 2001 and the special items above, decreased 54% in 2002 due to the following factors:

- significantly lower earnings in the experience-rated and guaranteed cost health care businesses primarily due to lower margins on new business, poor performance of certain large new accounts and margin deterioration on renewal business; and
- higher expenses for the indemnity health care business primarily due to technology and customer service initiatives.

Premiums and Fees

Premiums and fees decreased in 2003 primarily reflecting lower revenue due to declining membership, partially offset by rate increases.

Premiums and fees increased in 2002 primarily due to HMO and medical indemnity rate increases.

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Medical Membership

As of December 31, medical membership from continuing operations (excluding Medicare members) was as follows for the HMO and Indemnity operations:

(In millions)	**2003**	2002	2001
HMO	**6.0**	6.7	6.8
Indemnity (estimated)	**5.5**	6.3	6.4

See "HMO" and "Indemnity" results beginning on page 23 for further discussion of declines in medical membership in 2003.

The decline in HMO medical membership in 2002 reflects lower Commercial HMO program membership, partially offset by growth in HMO ASO programs. The decline in Indemnity medical membership in 2002 primarily reflects cancellations in traditional indemnity programs.

Business Mix

Business mix, as measured by premiums and fees, was as follows for the year ended December 31:

	2003	2002	2001
HMO medical and dental	**54%**	55%	54%
Medical indemnity and PPO	**37%**	36%	34%
Life and other insurance coverages	**5%**	5%	7%
Dental indemnity and PPO	**4%**	4%	5%

Operational Improvement

CIGNA continues to focus on improving operational effectiveness and the financial results of its health care operations. Key areas of focus are:

- lowering medical cost trends;
- continuing to deliver quality service;
- lowering administrative expenses; and
- stabilizing and growing membership.

Lowering medical cost trend. In early 2003, CIGNA implemented a new centralized medical management model to help facilitate consistent levels of care to its members and to reduce infrastructure expenses. As a result, inpatient utilization rates, particularly in the Commercial HMO line of business, had declined during 2003.

CIGNA also expects to reduce its medical cost trend by managing unit medical costs more effectively. In 2003, CIGNA focused on contract renegotiations with certain facilities to reduce medical reimbursement costs. Contract renegotiations are expected to continue in 2004 and 2005.

Continuing to deliver quality service. During 2002, CIGNA began transitioning to a new service and systems platform to improve the level and quality of service to its customers. Approximately 65% of health care members were serviced on this new platform by January 1, 2004. While service disruptions occurred in early 2002 as a result of initial migration difficulties with the platform, customer satisfaction levels improved during 2003 and into 2004. Migration to this new platform will continue into 2005.

Lowering administrative expenses. Early in 2004, CIGNA took steps to realign its organization and consolidate support functions in an effort to increase efficiency and responsiveness to customers. Reducing costs and operating more efficiently is a component of CIGNA's plan to improve profitability. See page 16 for further discussion of a charge in first quarter 2004 related to this matter.

Stabilizing and growing membership. CIGNA is working to stabilize and grow membership by:

- sustaining service and medical cost management improvements;
- communicating those improvements to customers, key producers and benefit consultants;
- enhancing product offerings;
- demonstrating the value of CIGNA's medical management and specialty health care capabilities; and
- improving the capabilities of the health care sales force.

CIGNA believes that effective execution in these key areas will accelerate earnings growth and improve profitability.

DISABILITY AND LIFE

(In millions)

Financial Summary	**2003**	2002	2001
Premiums and fees	**$1,807**	$1,712	$1,881
Net investment income	**250**	260	264
Other revenues	**—**	1	1
Segment revenues	**2,057**	1,973	2,146
Benefits and expenses	**1,876**	1,808	2,078
Income before taxes	**181**	165	68
Income taxes	**44**	41	9
Segment earnings	**$ 137**	$ 124	$ 59
Realized investment gains (losses), net of taxes	**$ 39**	$ (50)	$ 5
Special items (after-tax) included in segment earnings:			
Charges for the events of September 11, 2001	**$**	$ —	$ — (15)
	$	$ —	$ — (3)

Restructuring
charge

The Disability and Life segment includes group accident and specialty association business in addition to its disability and life products.

Results

Disability and Life segment earnings in 2003 reflect improvements in the life insurance business due largely to higher margins from rate actions taken in the year as well as lower expense ratios. Disability earnings were slightly higher in 2003 due to continued strong disability management execution.

Excluding special items, segment earnings also increased in 2002 due to increased earnings in both the disability and life insurance businesses. Disability results were higher due to rate actions taken in 2002 as well as improvements in disability management execution. Increased earnings in life insurance were primarily due to a focused effort on lowering operating expenses related to the product.

Premiums and Fees

Premiums and fees increased in 2003 reflecting rate actions in the life insurance business and higher persistency and new sales in both the disability and life insurance businesses.

Premiums and fees decreased in 2002 due to persistency losses, largely resulting from rate actions taken in the year and lower sales.

RETIREMENT

(In millions) **Financial Summary**	**2003**	2002	2001
Premiums and fees	**$ 340**	$ 336	$ 322
Net investment income	**1,574**	1,649	1,668
Other revenues	**(126)**	—	—
Segment revenues	**1,788**	1,985	1,990
Benefits and expenses	**1,411**	1,658	1,681
Income before taxes	**377**	327	309
Income taxes	**117**	96	88
Segment earnings	**$ 260**	$ 231	$ 221
Realized investment gains (losses), net of taxes	**$ 29**	$ (68)	$ (61)
Special items (after-tax) included in segment earnings:			
Reduction in allowance against amounts recoverable from pension policyholders	**$ 33**	$ —	—
Charges for the events of September 11, 2001	**$ —**	$ —	(3)

Results

Retirement segment earnings increased in 2003 primarily due to a reduction in the allowance against amounts recoverable from experience-rated pension policyholders.

Excluding the impact of this special item, results decreased 2% in 2003 reflecting a decline in pension earnings, partially offset by increased results in the corporate life insurance business resulting from favorable mortality. The decline in pension results was primarily due to lower margins in the pension business, partially offset by growth in ending assets under management.

Segment earnings increased in 2002 primarily due to a favorable shift to higher margin products, business growth and effective expense management, partially offset by the negative effect of stock market declines.

Other Revenues

Beginning October 1, 2003, other revenues include changes in fair value for fixed maturities and equity securities supporting experience-rated pension policyholder contracts. Under the experience-rating process, gains and losses on assets related to these contracts generally accrue to policyholders and are offset by amounts included in benefits, losses and settlement expenses. See Note 2(D) to the Financial Statements for further discussion.

Assets Under Management

Assets under management consist of invested and separate account assets, as well as third-party investment advisory account assets of the Retirement segment. Assets under management are a key driver of earnings for this segment because a significant portion of this segment's revenues is based on asset values.

The following table shows assets under management and related activity, including amounts attributable to separate accounts for the year ended December 31.

(In millions)	**2003**	2002
Balance—January 1	**$53,757**	$55,306
Premiums and deposits	**7,342**	8,797
Investment income	**2,433**	2,519