UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

o 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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark		**YES**		**NO**
• 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.		R		o
• 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).		R		o

• 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 R	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o

		YES		NO
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).		o		R

As of October 14, 2013, 276,411,976 shares of the issuer's common stock were outstanding.

Table of Contents

Cigna Corporation

INDEX

		Page
PART I	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Income	1
	Consolidated Statements of Comprehensive Income	2
	Consolidated Balance Sheets	3
	Consolidated Statements of Changes in Total Equity	4
	Consolidated Statements of Cash Flows	6
	Notes to the Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	45
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	78
Item 4.	Controls and Procedures	79
PART II	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	80
Item 1.A.	Risk Factors	81
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	82
Item 4.	Mine Safety Disclosures	82
Item 6.	Exhibits	83
SIGNATURE		84
INDEX TO EXHIBITS		E-1

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

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Cigna Corporation

Consolidated Statements of Income

(In millions, except per share amounts)	**Unaudited Three Months Ended September 30, 2013**	**2012**	**Unaudited Nine Months Ended September 30, 2013**	**2012**
Revenues				
Premiums and fees	$ 7,206	$ 6,602	$ 21,692	$ 19,360
Net investment income	297	283	873	854
Mail order pharmacy revenues	471	401	1,333	1,189
Other revenues	65	26	139	76
Realized investment gains (losses):				
Other-than-temporary impairments on fixed maturities, net	(3)	-	(11)	(6)
Other realized investment gains	30	11	203	26
Total realized investment gains	27	11	192	20
Total revenues	**8,066**	**7,323**	**24,229**	**21,499**
Benefits and Expenses				
Global Health Care medical claims expense	3,913	3,561	11,864	10,584
Other benefit expenses	1,031	911	3,890	2,648
Mail order pharmacy cost of goods sold	390	324	1,096	975
GMIB fair value (gains)	-	(53)	-	(33)
Other operating expenses	1,933	1,862	5,739	5,467
Total benefits and expenses	**7,267**	**6,605**	**22,589**	**19,641**

Income before Income Taxes	**799**	**718**	**1,640**	**1,858**
Income taxes:				
Current	205	228	285	574
Deferred	41	24	237	67
Total income taxes	**246**	**252**	**522**	**641**
Net Income	**553**	**466**	**1,118**	**1,217**
Less: Net Income Attributable to Redeemable Noncontrolling Interest	**-**	**-**	**3**	**-**
Shareholders Net Income	**$ 553**	**$ 466**	**$ 1,115**	**$ 1,217**
Shareholders Net Income Per Share:				
Basic	$ 1.99	$ 1.64	$ 3.96	$ 4.27
Diluted	$ 1.95	$ 1.61	$ 3.89	$ 4.20
Dividends Declared Per Share	**$ -**	**$ -**	**$ 0.04**	**$ 0.04**

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

1

Table of Contents

Cigna Corporation

Consolidated Statements of Comprehensive Income

(In millions)	**Unaudited Three Months Ended September 30, 2013**	**2012**	**Unaudited Nine Months Ended September 30, 2013**	**2012**
Shareholders net income	$ 553	$ 466	$ 1,115	$ 1,217
Shareholders other comprehensive income (loss):				
Net unrealized appreciation (depreciation) on securities:				
Fixed maturities	(7)	83	(348)	169
Equity securities	(7)	-	(5)	2
Net unrealized appreciation (depreciation), on securities	(14)	83	(353)	171
Net unrealized appreciation (depreciation), derivatives	(2)	(4)	7	(4)
Net translation of foreign currencies	59	31	(15)	23
Postretirement benefits liability adjustment	12	8	73	44
Shareholders other comprehensive income (loss)	55	118	(288)	234
Shareholders comprehensive income	608	584	827	1,451
Comprehensive income (loss) attributable to redeemable noncontrolling interest:				
Net income attributable to redeemable noncontrolling interest	-	-	3	-
Other comprehensive (loss) attributable to redeemable noncontrolling interest	(6)	-	(15)	-
Total comprehensive income	**$ 602**	**$ 584**	**$ 815**	**$ 1,451**

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

Table of Contents

Cigna Corporation

Consolidated Balance Sheets

(In millions, except per share amounts)		**Unaudited As of September 30, 2013**		**As of December 31, 2012**
Assets				
Investments:				
Fixed maturities, at fair value (amortized cost, $14,295; $15,481)		$ 15,645		$ 17,705
Equity securities, at fair value (cost, $149; $121)		140		111
Commercial mortgage loans		2,404		2,851
Policy loans		1,494		1,501
Real estate		89		83
Other long-term investments		1,260		1,255
Short-term investments		763		154
Total investments		21,795		23,660
Cash and cash equivalents		3,055		2,978
Accrued investment income		258		258
Premiums, accounts and notes receivable, net		1,869		1,777
Reinsurance recoverables		7,371		6,256
Deferred policy acquisition costs		1,339		1,198
Property and equipment		1,451		1,120
Deferred income taxes, net		289		374
Goodwill		6,035		6,001
Other assets, including other intangibles		2,425		2,355
Separate account assets		8,156		7,757
Total assets		**$ 54,043**		**$ 53,734**
Liabilities				
Contractholder deposit funds		$ 8,499		$ 8,508
Future policy benefits		9,370		9,265
Unpaid claims and claim expenses		4,195		4,062
Global Health Care medical claims payable		1,962		1,856
Unearned premiums and fees		588		549
Total insurance and contractholder liabilities		24,614		24,240
Accounts payable, accrued expenses and other liabilities		6,065		6,667
Short-term debt		205		201
Long-term debt		5,034		4,986
Separate account liabilities		8,156		7,757
Total liabilities		**44,074**		**43,851**
Contingencies Note 17				
Redeemable noncontrolling interest		95		114
Shareholders Equity				
Common stock (par value per share, $0.25; shares issued, 366; authorized, 600)		92		92
Additional paid-in capital		3,344		3,295
Net unrealized appreciation, fixed maturities	$ 535		$ 883	
Net unrealized appreciation (depreciation), equity securities	(1)		4	
Net unrealized depreciation, derivatives	(21)		(28)	
Net translation of foreign currencies	54		69	
Postretirement benefits liability adjustment	(1,526)		(1,599)	
Accumulated other comprehensive loss		(959)		(671)
Retained earnings		13,327		12,330
Less treasury stock, at cost		(5,930)		(5,277)

Total shareholders equity	9,874	9,769
Total liabilities and equity	$ 54,043	$ 53,734
Shareholders Equity Per Share	**$ 35.64**	**$ 34.18**

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

Table of Contents

Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the three months ended September 30, 2013** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders' Equity**	**Redeemable Noncontrolling Interest**
Balance at July 1, 2013,	$ 92	$ 3,326	$ (1,014)	$ 12,806	$ (5,435)	$ 9,775	$ 101
Effect of issuing stock for employee benefit plans		18		(32)	64	50	
Other comprehensive income (loss)			55			55	(6)
Net income				553		553	-
Repurchase of common stock					(559)	(559)	
Balance at September 30, 2013	**$ 92**	**$ 3,344**	**$ (959)**	**$ 13,327**	**$ (5,930)**	**$ 9,874**	**$ 95**

For the three months ended September 30, 2012 *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Redeemable Noncontrolling Interest**
Balance at July 1, 2012,	$ 92	$ 3,276	$ (671)	$ 11,501	$ (5,176)	$ 9,022	
Effect of issuing stock for employee benefit plans		6		(5)	8	9	
Other comprehensive income			118			118	
Net income				466		466	
Repurchase of common stock					(85)	(85)	
Balance at September 30, 2012	**$ 92**	**$ 3,282**	**$ (553)**	**$ 11,962**	**$ (5,253)**	**$ 9,530**	

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

Table of Contents

Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited For the nine months ended September 30, 2013 *(In millions)*	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Redeemable Noncontrolling Interest
Balance at January 1, 2013,	$ 92	$ 3,295	$ (671)	$ 12,330	$ (5,277)	$ 9,769	$ 114
Effect of issuing stock for employee benefit plans		49		(107)	210	152	
Other comprehensive loss			(288)			(288)	(15)
Net income				1,115		1,115	3
Common dividends declared (per share: $0.04)				(11)		(11)	
Repurchase of common stock					(863)	(863)	
Distribution to redeemable noncontrolling interest							(7)
Balance at September 30, 2013	**$ 92**	**$ 3,344**	**$ (959)**	**$ 13,327**	**$ (5,930)**	**$ 9,874**	**$ 95**

For the nine months ended September 30, 2012 *(In millions)*	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Redeemable Noncontrolling Interest
Balance at January 1, 2012,	$ 92	$ 3,188	$ (787)	$ 10,787	$ (5,286)	$ 7,994	
Effect of issuing stock for employee benefit plans		94		(31)	118	181	
Other comprehensive income			234			234	
Net income				1,217		1,217	
Common dividends declared (per share: $0.04)				(11)		(11)	
Repurchase of common stock					(85)	(85)	
Balance at September 30, 2012	**$ 92**	**$ 3,282**	**$ (553)**	**$ 11,962**	**$ (5,253)**	**$ 9,530**	

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

Table of Contents

Cigna Corporation

Consolidated Statements of Cash Flows

	Unaudited Nine Months Ended September 30,	
(In millions)	**2013**	**2012**
Cash Flows from Operating Activities		
Net income	$ 1,118	$ 1,217
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	445	406
Realized investment gains	(192)	(20)
Deferred income taxes	237	67
Gains on sale of businesses	(11)	(14)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(64)	(20)
Reinsurance recoverables	348	50
Deferred policy acquisition costs	(183)	(106)
Other assets	368	166
Insurance liabilities	870	75
Accounts payable, accrued expenses and other liabilities	(524)	(394)
Current income taxes	(33)	141
Cash used to effectively exit run-off reinsurance business	(2,196)	-
Other, net	(76)	(11)
Net cash provided by operating activities	**107**	**1,557**
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	1,671	439
Equity securities	3	8
Commercial mortgage loans	324	325
Other (primarily short-term and other long-term investments)	766	649
Investment maturities and repayments:		
Fixed maturities	1,192	1,030
Equity securities	27	-
Commercial mortgage loans	144	311
Investments purchased:		
Fixed maturities	(1,580)	(1,907)
Equity securities	(56)	(8)
Commercial mortgage loans	(26)	(314)
Other (primarily short-term and other long-term investments)	(1,227)	(600)
Property and equipment purchases	(414)	(329)
Acquisitions and dispositions, net of cash acquired	(84)	(3,468)
Net cash provided by / (used in) investing activities	**740**	**(3,864)**
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	1,078	999
Withdrawals and benefit payments from contractholder deposit funds	(1,029)	(927)
Change in cash overdraft position	9	19
Net change in short-term debt	(100)	123
Repayment of long-term debt	(7)	(326)
Repurchase of common stock	(836)	(85)
Issuance of common stock	132	58
Common dividends paid	(11)	(11)
Distribution to redeemable noncontrolling interest	(7)	-

Net cash used in financing activities		**(771)**		**(150)**
Effect of foreign currency rate changes on cash and cash equivalents		1		3
Net increase / (decrease) in cash and cash equivalents		77		(2,454)
Cash and cash equivalents, January 1,		2,978		4,690
Cash and cash equivalents, September 30,	$	3,055	$	2,236
Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	$	289	$	414
Interest paid	$	203	$	186

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

Table of Contents

CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

Cigna Corporation was incorporated in the State of Delaware in 1981. Various businesses that are described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (2012 Form 10-K) are conducted by its insurance and other subsidiaries. As used in this document, Cigna , the Company , we and our may refer to Cigna Corporation itself, one or more of its subsidiaries, or Cigna Corporation and its consolidated subsidiaries. The Consolidated Financial Statements include the accounts of Cigna Corporation and its 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 Company is a global health services organization with a mission to help its customers improve their health, well-being and sense of security. Its insurance subsidiaries are major providers of medical, dental, disability, life and accident insurance and related products and services, the majority of which are offered through employers and other groups (e.g., governmental and non-governmental organizations, unions and associations). Cigna also offers Medicare and Medicaid products and health, life and accident insurance coverages primarily to individuals in the U.S. and selected international markets. In addition to these ongoing operations, the Company also has certain run-off operations, including a Run-off Reinsurance segment.

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 included in the Company s 2012 Form 10-K.

The preparation of interim consolidated financial statements necessarily relies heavily on estimates. This and certain other factors, including 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. Certain reclassifications have been made to prior period amounts to conform to the current presentation. In particular, as a result of the changes in segment reporting discussed further in Note 16, benefits expense amounts previously reported in Other Benefits Expense for the international health care business have been reclassified to Global Health Care Medical Claims Expense in the Consolidated Statement of Income for the three months and nine months ended September 30, 2012.

Note 2 Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI) (ASU 2013-02). Effective January 1, 2013, the Company adopted updated guidance from the Financial Accounting Standards Board (FASB) on reporting items of AOCI reclassified to net income. The updated guidance requires disclosures of the effect of items reclassified out of AOCI into net income on each individual line item in the statement of income. See Note 14 for the Company s updated disclosures.

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). The FASB s new requirements to disclose information on both a gross and net basis for certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with specific criteria or subject to a master netting or similar arrangement became effective January 1, 2013. There were no effects to the Company s financial statements because no transactions or arrangements were subject to these new disclosure requirements.

Investment Company Accounting (ASU 2013-08). The FASB recently issued accounting guidance to change the criteria for reporting as an investment company, clarify the fair value measurement used by an investment company and require additional disclosures. This guidance also confirms that parent company accounting for an investment company should reflect fair value accounting and is effective beginning on January 1, 2014. Adoption of this standard is not expected to have a material impact on the Company s financial statements.

Fees Paid to the Federal Government by Health Insurers (ASU 2011-06). In 2011, the FASB issued accounting guidance for the health insurance industry assessment (the fee) mandated by the Patient Protection and Affordable Care Act of 2010 (Health Care Reform). The fee will be levied on health insurers beginning in 2014 based on a ratio of an insurer s net health insurance premiums written for the previous calendar year compared to the U.S. health insurance industry total. In addition, because these fees will generally not be tax deductible, the Company s effective tax rate is expected to be adversely impacted beginning in 2014. Under the guidance, the liability for the fee will be estimated and recorded in full each year beginning in 2014 when health insurance is first

Table of Contents

provided. A corresponding deferred cost will be recorded and amortized over the calendar year. The amount of the fees is expected to be significant. While the Company anticipates recovering most of the fees through rate increases, because the Company s ultimate share of these fees remains uncertain, management is unable to estimate the impact on shareholders net income.

Note 3 Acquisitions and Dispositions

From time to time the Company may acquire or dispose of assets, subsidiaries or lines of business. For further information on the Company s effective exit from the guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB) business, see Note 6. Other significant transactions are described below.

A. Joint Venture Agreement with Finansbank

On November 9, 2012, the Company acquired 51% of the total shares of Finans Emeklilik ve Hayat A.S. (Finans Emeklilik), a Turkish insurance company, from Finansbank A.S. (Finansbank), a Turkish retail bank, for a cash purchase price of approximately $116 million. Finansbank continues to hold a redeemable noncontrolling 49% interest in Finans Emeklilik, which operates in life insurance, accident insurance and pension product markets. The acquisition provides Cigna opportunities to reach and serve the growing middle class market in Turkey through Finansbank s network of retail banking branches. Results of this business are reported in the Global Supplemental Benefits segment.

In accordance with GAAP, the total purchase price, including the redeemable noncontrolling interest of $111 million, has been allocated to the tangible and intangible net assets acquired based on management s estimates of their fair value. Accordingly, approximately $113 million was allocated to identifiable intangible assets, primarily a distribution relationship and the value of business acquired (VOBA) that represents the present value of the estimated net cash flows from the long duration contracts in force, with the remaining $116 million recorded as goodwill. The identifiable intangible assets will be amortized over an estimated useful life of approximately 10 years. Goodwill has been allocated to the Global Supplemental Benefits segment and is not deductible for federal income tax purposes.

The redeemable noncontrolling interest is classified as temporary equity in the Company s Consolidated Balance Sheet because Finansbank has the right to require the Company to purchase its 49% interest for the value of its net assets and the in-force business in 15 years.

The condensed balance sheet at the acquisition date was as follows:

(In millions)		
Investments	$	23
Cash and cash equivalents		54

Value of business acquired (reported in Deferred policy acquisition costs in the Consolidated Balance Sheet)		26
Goodwill		116
Separate account assets		99
Other assets, including other intangibles		98
Total assets acquired		**416**
Insurance liabilities		58
Accounts payable, accrued expenses and other liabilities		32
Separate account liabilities		99
Total liabilities acquired		**189**
Redeemable noncontrolling interest		111
Net assets acquired	**$**	**116**

The results of Finans Emeklilik have been included in the Company s Consolidated Financial Statements from the date of acquisition. The pro forma effects on total revenues and net income assuming the acquisition had occurred as of January 1, 2012 were not material to the Company for the three months and nine months ended September 30, 2012.

Table of Contents

B. Acquisition of Great American Supplemental Benefits Group

On August 31, 2012, the Company acquired Great American Supplemental Benefits Group (Great American), one of the largest providers of supplemental health insurance products in the United States for $326 million, with cash from internal sources. The acquisition provides the Company with an increased presence in the Medicare supplemental benefits market. It also extends the Company s global direct-to-consumer retail channel and further enhances its distribution network of agents and brokers. Results of this business are reported in the Global Supplemental Benefits segment.

In accordance with GAAP, the total purchase price has been allocated to the tangible and intangible net assets acquired based on management s estimates of their fair value. Approximately $168 million was allocated to intangible assets, primarily the VOBA asset that will be amortized in proportion to premium recognized over the life of the contracts, estimated at 30 years. Amortization will be higher in early years and decline as policies lapse. Goodwill has been allocated to the Global Supplemental Benefits segment. Substantially all of the goodwill is tax deductible and will be amortized over the next 15 years for federal income tax purposes.

The condensed balance sheet at the acquisition date was as follows:

(In millions)		
Investments	$	211
Cash and cash equivalents		36
Reinsurance recoverables		448
Goodwill		168
Value of business acquired (reported in Deferred policy acquisition costs in the Consolidated Balance Sheet)		144
Other assets, including other intangibles		35
Total assets acquired		**1,042**
Insurance liabilities		707
Accounts payable, accrued expenses and other liabilities		9
Total liabilities acquired		**716**
Net assets acquired	**$**	**326**

The results of Great American Supplemental Benefits have been included in the Company s Consolidated Financial Statements from the date of acquisition. The pro forma effects on total revenues and net income assuming the acquisition had occurred as of January 1, 2012 were not material to the Company for the three months and nine months ended September 30, 2012.

C. Acquisition of HealthSpring, Inc.

On January 31, 2012, the Company acquired the outstanding shares of HealthSpring, Inc. (HealthSpring) for $55 per share in cash and Cigna stock awards, representing an aggregate cost of approximately $3.8 billion. HealthSpring provides Medicare Advantage coverage in 15 states and the District of Columbia, as well as a large, national stand-alone Medicare prescription drug business. The acquisition of HealthSpring strengthens the Company s ability to serve individuals across their life stages as well as deepens its presence in a number of geographic markets. The addition of HealthSpring brings industry leading physician partnership capabilities and creates the opportunity to deepen the Company s existing client and customer relationships, as well as facilitates a broader deployment of its range of health and wellness capabilities and product

offerings. The Company funded the acquisition primarily with its existing cash resources.

Table of Contents

Purchase price allocation. In accordance with GAAP, the total purchase price has been allocated to the tangible and intangible net assets acquired based on management s estimates of their fair values. Goodwill is not deductible for federal income tax purposes and is allocated to the Government operating segment. The condensed balance sheet of HealthSpring at the acquisition date was as follows:

(In millions)		
Investments	$	612
Cash and cash equivalents		492
Premiums, accounts and notes receivable		320
Goodwill		2,541
Intangible assets		795
Other		96
Total assets acquired		**4,856**
Insurance liabilities		505
Deferred income taxes		214
Debt		326
Total liabilities acquired		**1,045**
Net assets acquired	**$**	**3,811**

In accordance with debt covenants, HealthSpring s debt obligation was paid immediately following the acquisition. This repayment is reported as a financing activity in the Consolidated Statement of Cash Flows for the nine months ended September 30, 2012.

The results of HealthSpring have been included in the Government operating segment from the date of the acquisition. Revenues of HealthSpring included in the Company s results for the nine months ended September 30, 2012 were approximately $4.0 billion.

Pro forma information. The following table presents selected unaudited pro forma information for the Company assuming the acquisition of HealthSpring had occurred as of January 1, 2012. This pro forma information does not purport to represent what the Company s actual results would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods.

(In millions, except per share amounts)		**Nine Months Ended September 30, 2012**
Total revenues	$	22,092
Shareholders net income	$	1,227
Earnings per share:		
Basic	$	4.30
Diluted	$	4.23

Table of Contents

Note 4 Earnings Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

(Dollars in millions, except per share amounts)		Basic		Effect of Dilution		Diluted
Three Months Ended September 30,						
2013						
Shareholders net income	$	553			$	553
Shares *(in thousands):*						
Weighted average		278,054				278,054
Common stock equivalents				5,509		5,509
Total shares		278,054		5,509		283,563
EPS	$	1.99	$	(0.04)	$	1.95
2012						
Shareholders net income	$	466			$	466
Shares *(in thousands):*						
Weighted average		284,891				284,891
Common stock equivalents				4,984		4,984
Total shares		284,891		4,984		289,875
EPS	$	1.64	$	(0.03)	$	1.61

(Dollars in millions, except per share amounts)		Basic		Effect of Dilution		Diluted
Nine Months Ended September 30,						
2013						
Shareholders net income	$	1,115			$	1,115
Shares *(in thousands):*						
Weighted average		281,279				281,279
Common stock equivalents				5,336		5,336
Total shares		281,279		5,336		286,615
EPS	$	3.96	$	(0.07)	$	3.89
2012						
Shareholders net income	$	1,217			$	1,217
Shares *(in thousands):*						
Weighted average		285,247				285,247
Common stock equivalents				4,560		4,560
Total shares		285,247		4,560		289,807
EPS	$	4.27	$	(0.07)	$	4.20

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).

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2013**	**2012**	**2013**	**2012**

Antidilutive options	-	3.9	1.2	3.4

The Company held 89,059,772 shares of common stock in Treasury as of September 30, 2013, and 79,439,106 shares as of September 30, 2012.

Table of Contents

Note 5 GlobalHealth Care Medical Claims Payable

Medical claims payable for the Global 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 expenses payable that is primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities, as follows:

(In millions)		**September 30, 2013**		**December 31, 2012**
Incurred but not yet reported	$	1,669	$	1,541
Reported claims in process		210		243
Physician incentives and other medical expense payable		83		72
Medical claims payable	**$**	**1,962**	**$**	**1,856**

Activity in medical claims payable was as follows:

	For the period ended			
(In millions)		**September 30, 2013**		**December 31, 2012**
Balance at January 1,	$	1,856	$	1,305
Less: Reinsurance and other amounts recoverable		242		249
Balance at January 1, net		1,614		1,056
Acquired net:		-		504
Incurred claims related to:				
Current year		12,039		14,428
Prior years		(175)		(200)
Total incurred		11,864		14,228
Paid claims related to:				
Current year		10,351		12,854
Prior years		1,344		1,320
Total paid		11,695		14,174
Ending Balance, net		1,783		1,614
Add: Reinsurance and other amounts recoverable		179		242
Ending Balance	$	1,962	$	1,856

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 6 for additional information on reinsurance. For the nine months ended September 30, 2013, actual experience differed from the Company s key assumptions resulting in favorable incurred claims related to prior years medical claims payable of $175 million, or 1.2% of the current year incurred claims as reported for the year ended December 31, 2012. Actual completion factors accounted for $70 million, or 0.5% of the favorability while actual medical cost trend resulted in the remaining $105 million, or 0.7%.

For the year ended December 31, 2012, actual experience differed from the Company s key assumptions, resulting in favorable incurred claims related to prior years medical claims payable of $200 million, or 2.2% of the current year incurred claims as reported for the year ended December 31, 2011. Actual completion factors accounted for $91 million, or 1.0% of favorability while actual medical cost trend resulted in the

remaining $109 million, or 1.2%.

The impact of prior year development on shareholders net income was $77 million for the nine months ended September 30, 2013 compared with $64 million for the nine months ended September 30, 2012. The favorable effect of prior year development for both years primarily reflects low utilization of medical services, and to a lesser extent, the impact of the medical loss ratio (MLR) rebate accrual. 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

Table of Contents

by actuarial standards of practice that require the liabilities be adequate under moderately adverse conditions. As the Company establishes the liability for each incurral 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, as a result of the MLR provisions of the Patient Protection and Affordable Care Act, changes in medical claim estimates due to prior year development may be offset by a change in the MLR rebate accrual.

Third, changes in reserves for the Company s retrospectively experience-rated business for accounts in surplus do not usually impact shareholders net income because such amounts are generally offset by a change in the liability to the policyholder. An account is in surplus when the accumulated premium received exceeds the accumulated medical costs and administrative charges, including profit charges. For additional information regarding the Company s retrospectively experience rated business, see page 6 of the Company s 2012 Form 10-K.

The determination of liabilities for Global 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 2012 Form 10-K.

Note 6 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 or assumed 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.

Effective Exit of GMDB and GMIB Business

On February 4, 2013, the Company entered into an agreement with Berkshire Hathaway Life Insurance Company of Nebraska (Berkshire) to effectively exit the GMDB and GMIB business via a reinsurance transaction. Berkshire reinsured 100% of the Company s future claim payments in these businesses, net of retrocessional arrangements existing at that time. The reinsurance agreement is subject to an overall limit of approximately $3.8 billion plus future premiums collected under the contracts being reinsured that will be paid to Berkshire. The Company estimates that these future premium amounts will be from $0.1 to $0.3 billion and, accordingly, expects future claims of approximately $4 billion to be covered by the agreement.

This transaction resulted in an after-tax charge to shareholders net income in the first quarter of 2013 of $507 million ($781 million pre-tax reported as follows: $727 million in other benefits expense; $45 million in GMIB fair value loss; and $9 million in other operating expenses). The reinsurance premium due to Berkshire under the agreement was $2.2 billion, of which $1.5 billion was paid in the first quarter of 2013. The remaining premium was paid in April 2013. The reinsurance premium was ultimately funded from the sale of investment assets, tax benefits related to the transaction and available parent cash.

Recoverables for GMDB and GMIB Business

The Company had reinsurance recoverables related to the GMDB business of $1.4 billion and GMIB assets of $853 million as of September 30, 2013. Approximately 88% of the combined GMDB recoverables and GMIB assets of $2.2 billion are secured by assets in trust, letters of credit, or are not subject to collection risk. Approximately $1.7 billion of the combined GMDB recoverables and GMIB assets relate to the February 4, 2013 reinsurance arrangement with Berkshire, including $0.7 billion for the cost of reinsurance (excess of premium over recorded reserves).

The following disclosures for the reinsured GMDB and GMIB business provide further context to prior year results, as well as activity in the assets and liabilities for these businesses, including the impact of the reinsurance transaction with Berkshire.

GMDB

The Company has historically estimated its liabilities for assumed and ceded GMDB exposures with an internal model 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 an extended period, consistent with the long-term nature of this product.

Table of Contents

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. Each quarter, the Company tests for premium deficiency by reviewing its reserve 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. The premium attributable to GMDB from the Berkshire reinsurance transaction was approximately $1.6 billion. Because this premium exceeded the recorded reserve on February 4, 2013, the Company recorded a reserve strengthening of $0.7 billion ($0.5 billion after-tax) in the first quarter of 2013. Reserve increases after February 4, 2013 are expected to have a corresponding increase in the recorded reinsurance recoverable, provided that the increased recoverable remains within the overall limit (including the GMIB asset).

The Company s dynamic hedge programs were discontinued during the first quarter of 2013 due to the Berkshire reinsurance transaction. These programs had been used to reduce certain equity and interest rate exposures associated with this business. These hedge programs generated losses (included in Other Revenues) of $32 million for the nine months ended September 30, 2013, $35 million for the three months ended September 30, 2012 and $94 million for the nine months ended September 30, 2012. Prior to discontinuing the hedge programs, amounts representing corresponding increases or reductions in liabilities for GMDB contracts were included in benefits and expenses. As a result of discontinuing the hedge programs, the growth rate assumption for the underlying equity funds was changed to use long-term historical averages, resulting in a decrease in the gross reserve liability and the offsetting reinsurance recoverable.

For the year ended December 31, 2012, a reserve strengthening of $43 million ($27 million after-tax) was due primarily to reductions to the lapse rate assumptions, adverse interest rate impacts, and, to a lesser extent, an increase in the volatility and correlation assumptions, partially offset by favorable equity market conditions. The adverse interest rate impacts reflected management s consideration of the anticipated impact of continued low short-term interest rates.

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

	For the period ended	
(In millions)	**September 30, 2013**	**December 31, 2012**
Balance at January 1	$ 1,090	$ 1,170
Add: Unpaid claims	24	40
Less: Reinsurance and other amounts recoverable	42	53
Balance at January 1, net	1,072	1,157
Add: Incurred benefits	700	17
Less: Paid benefits (including $1,647 premium for Berkshire reinsurance transaction)	1,675	102
Ending balance, net	97	1,072
Less: Unpaid claims	20	24
Add: Reinsurance and other amounts recoverable	1,367	42
Ending balance	**$ 1,444**	**$ 1,090**

Benefits paid and incurred are net of ceded amounts. For the nine months ended September 30, 2013, incurred benefits reflect the February 4, 2013 reinsurance transaction. The ending net retained reserve as of September 30, 2013 is to cover ongoing administrative expenses, as well as claims retained by the Company. Incurred benefits reflect the favorable or unfavorable impact of a rising or falling equity market on the liability, and include the charges discussed above.

The death benefit coverage in force for GMDB contracts assumed by the Company (and reinsured as of February 4, 2013) was $3.2 billion as of September 30, 2013 and $4.0 billion as of December 31, 2012. 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 400,000 as of September 30, 2013 and 435,000 as of December 31, 2012). The aggregate value of the underlying mutual fund investments for these GMDB contracts, assuming no reinsurance, was $13.7 billion as of September 30, 2013 and $13.3 billion as of December 31, 2012.

Table of Contents

GMIB

As discussed further in Note 8, because GMIB contracts are without significant life insurance risk, they are not accounted for as insurance products. Instead, the Company reports GMIB liabilities and assets as derivatives at fair value. The GMIB asset is classified in Other assets, including other intangibles, and the GMIB liability is classified in Accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheet. Disclosures related to fair value are included in Note 8 and derivatives are further described in Note 10.

The Berkshire reinsurance transaction resulted in an increase in GMIB assets, representing the increased receivable from that transaction. As of September 30, 2013, GMIB assets included $0.4 billion from Berkshire.

In addition, the GMIB business had GMIB assets of $0.5 billion (classified in Other assets, including other intangibles in the Consolidated Balance Sheet) from two other retrocessionaires as of September 30, 2013.

Other Run-off

The Company s Run-off Reinsurance operations also assumed risks related to workers compensation and personal accident business, and purchased reinsurance coverage to reduce the risk of loss on these contracts. The reinsurance recoverables were $118 million as of September 30, 2013 and 100% secured by assets in trust or letters of credit.

Other Reinsurance

Supplemental benefits business. The Company had reinsurance recoverables of $380 million as of September 30, 2013 and $402 million as of December 31, 2012 from Great American Life Insurance Company resulting from the acquisition of Great American on August 31, 2012. The life insurance and annuity lines of business written by the acquired legal entities were fully reinsured by the seller as part of the transaction. The resulting reinsurance recoverables are secured primarily by fixed maturities with book value equal to 96% of the reinsured policy liabilities. These fixed maturities are held in a trust established for the benefit of the Company.

Retirement benefits business. The Company had reinsurance recoverables of $1.2 billion as of September 30, 2013 and $1.3 billion as of December 31, 2012 from Prudential Retirement Insurance and Annuity Company resulting from the sale of the retirement benefits business, primarily in the form of a reinsurance arrangement. The reinsurance recoverable is reduced as the Company s reinsured liabilities are paid or directly assumed by the reinsurer and 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 September 30, 2013, the book value of the trust assets exceeded the recoverable.

Individual life and annuity reinsurance. The Company had reinsurance recoverables of $3.9 billion as of September 30, 2013 and $4.0 billion as of December 31, 2012 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. The Lincoln National Life Insurance Company and Lincoln Life & Annuity of New York must maintain a specified minimum credit or claims paying rating, or they will be required to fully secure the outstanding balance. As of September 30, 2013, both companies had ratings sufficient to avoid triggering this contractual obligation.

Ceded Reinsurance: Ongoing operations. The Company s insurance subsidiaries have reinsurance recoverables from various reinsurance arrangements in the ordinary course of business for its Global Health Care, Global Supplemental Benefits and Group Disability and Life segments as well as the non-leveraged and leveraged corporate-owned life insurance business. Reinsurance recoverables of $351 million as of September 30, 2013 are expected to be collected from more than 80 reinsurers.

The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of September 30, 2013, the Company s recoverables related to these segments were net of a reserve of $3 million.

Summary. The Company s reserves for underlying reinsurance exposures assumed by the Company, as well as for amounts recoverable from reinsurers and retrocessionaires for both ongoing operations and the run-off reinsurance operation, are considered appropriate as of September 30, 2013, based on current information. The Company bears the risk of loss if its reinsurers and retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company.

Table of Contents

***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:

(In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Ceded premiums and fees				
Individual life insurance and annuity business sold	$ 39	$ 41	$ 130	$ 138
Other	90	72	273	208
Total	**$ 129**	**$ 113**	**$ 403**	**$ 346**
Reinsurance recoveries				
Individual life insurance and annuity business sold	$ 74	$ 79	$ 256	$ 216
Other	125	54	(69)	150
Total	**$ 199**	**$ 133**	**$ 187**	**$ 366**

As noted in the GMDB section above, recoveries for the nine months ended September 30, 2013 are net of the impact of a decrease in reinsurance recoverables due to a change in the growth rate assumption, resulting from the discontinuance of the hedge programs following the reinsurance transaction with Berkshire.

Note 7 Realignment and Efficiency Plan

During the third quarter of 2012, in connection with the execution of its strategy, the Company committed to a series of actions to further improve its organizational alignment, operational effectiveness, and efficiency. As a result, the Company recognized charges in other operating expenses of $77 million pre-tax ($50 million after-tax) in the third quarter of 2012 consisting primarily of severance costs that are expected to be mostly paid by the end of 2013. The Global Health Care segment reported $65 million pre-tax ($42 million after-tax). The remainder was reported as follows: $9 million pre-tax ($6 million after-tax) in Global Supplemental Benefits and $3 million pre-tax ($2 million after-tax) in Group Disability and Life. Summarized below is activity in the liability for the nine months ended September 30, 2013:

(In millions)	Severance	Real estate	Total
Balance, January 1, 2013	$ 67	$ 4	$ 71
Less: First Quarter 2013 Payments	8	1	9
Less: Second Quarter 2013 Payments	16	-	16
Less: Third Quarter 2013 Payments	15	-	15
Balance, September 30, 2013	$ 28	$ 3	$ 31

Note 8 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.

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).

Table of Contents

The Company estimates fair values using prices from third parties or internal pricing methods. Fair value estimates received from third-party pricing services are based on reported trade activity and quoted market prices when available, and other market information that a market participant may use to estimate fair value. The internal pricing methods are performed by the Company s investment professionals and generally involve using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality, as well as other qualitative factors. In instances where there is little or no market activity for the same or similar instruments, fair value is estimated 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 that becomes significant with increasingly complex instruments or pricing models.

The Company is responsible for determining fair value, as well as the appropriate level within the fair value hierarchy, based on the significance of unobservable inputs. The Company reviews methodologies, processes and controls of third-party pricing services and compares prices on a test basis to those obtained from other external pricing sources or internal estimates. The Company performs ongoing analyses of both prices received from third-party pricing services and those developed internally to determine that they represent appropriate estimates of fair value. The controls completed by the Company and third-party pricing services include reviewing to ensure that prices do not become stale and whether changes from prior valuations are reasonable or require additional review. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates. Exceptions identified during these processes indicate that adjustments to prices are infrequent and do not significantly impact valuations.

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of September 30, 2013 and December 31, 2012 about the Company s financial assets and liabilities carried at fair value. Separate account assets that are also recorded at fair value on the Company s Consolidated Balance Sheets are reported separately under the heading Separate account assets as gains and losses related to these assets generally accrue directly to policyholders.

September 30, 2013 *(In millions)*	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 93	$ 631	$ -	$ 724
State and local government	-	2,196	-	2,196
Foreign government	-	1,154	23	1,177
Corporate	-	9,973	534	10,507
Federal agency mortgage-backed	-	83	-	83
Other mortgage-backed	-	66	1	67
Other asset-backed	-	284	607	891
Total fixed maturities (1)	93	14,387	1,165	15,645
Equity securities	8	71	61	140
Subtotal	101	14,458	1,226	15,785
Short-term investments	-	763	-	763
GMIB assets (2)	-	-	853	853
Other derivative assets (3)	-	3	-	3
Total financial assets at fair value, excluding separate accounts	**$ 101**	**$ 15,224**	**$ 2,079**	**$ 17,404**
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 841	$ 841
Other derivative liabilities (3)	-	21	-	21
Total financial liabilities at fair value	$ -	$ 21	$ 841	$ 862

(1) Fixed maturities included $517 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $65 million of appreciation for securities classified in Level 3.

(2) The GMIB assets represent retrocessional contracts in place from three external reinsurers that cover the exposures on these contracts. See Note 6 for additional information.

(3) Other derivative assets and other derivative liabilities reflected foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 10 for additional information.

Table of Contents

December 31, 2012 *(In millions)*	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 156	$ 746	$ -	$ 902
State and local government	-	2,437	-	2,437
Foreign government	-	1,298	24	1,322
Corporate	-	11,201	695	11,896
Federal agency mortgage-backed	-	122	-	122
Other mortgage-backed	-	88	1	89
Other asset-backed	-	340	597	937
Total fixed maturities (1)	156	16,232	1,317	17,705
Equity securities	4	73	34	111
Subtotal	160	16,305	1,351	17,816
Short-term investments	-	154	-	154
GMIB assets (2)	-	-	622	622
Other derivative assets (3)	-	41	-	41
Total financial assets at fair value, excluding separate accounts	**$ 160**	**$ 16,500**	**$ 1,973**	**$ 18,633**
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 1,170	$ 1,170
Other derivative liabilities (3)	-	31	-	31
Total financial liabilities at fair value	$ -	$ 31	$ 1,170	$ 1,201

(1) Fixed maturities included $875 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $108 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 included $5 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $36 million of interest rate swaps not designated as accounting hedges. Other derivative liabilities reflected foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 10 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.

Fixed maturities and equity securities. Approximately 92% 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 do not trade daily, third-party pricing services and internal methods often use 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

Table of Contents

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 represent foreign bonds that are valued using a single unadjusted market-observable input derived by averaging multiple broker-dealer quotes, consistent with local market practice.

Short-term investments are carried at fair value which approximates cost. On a regular basis the Company compares market prices for these securities to recorded amounts 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 September 30, 2013 or December 31, 2012. The nature and use of these other derivatives are described in Note 10.

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 8% of fixed maturities and equity securities are priced using significant unobservable inputs and classified in this category, including:

(In millions)	**September 30, 2013**	**December 31, 2012**
Other asset and mortgage-backed securities - valued using pricing models	$ 608	$ 598
Corporate and government fixed maturities - valued using pricing models	430	596
Corporate fixed maturities - valued at transaction price	127	123
Equity securities - valued at transaction price	61	34
Total	**$ 1,226**	**$ 1,351**

Fair values of other asset and mortgage-backed securities, corporate and government fixed maturities are primarily 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 other asset and mortgage-backed securities, inputs and assumptions for 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. Approximately 10% of fixed maturities classified in Level 3 represent single, unadjusted, non-binding broker quotes that are not considered market observable. Certain private equity investments and subordinated corporate fixed maturities, representing approximately 15% of securities included in Level 3, are valued at transaction price in the absence of market data indicating a change in the estimated fair values.

Quantitative Information about Unobservable Inputs

The following tables summarize the fair value and significant unobservable inputs used in pricing Level 3 securities that were developed directly by the Company as of September 30, 2013 and December 31, 2012. The range and weighted average basis point amounts reflect the Company s best estimates of the unobservable adjustments a market participant would make to the market observable spreads (adjustment to discount rates) used to calculate the fair values in a discounted cash flow analysis.

Other asset and mortgage-backed securities. The significant unobservable inputs used to value the following other asset and mortgage-backed securities are liquidity and weighting of credit spreads. When there is limited trading activity for the security, an adjustment for liquidity is made as of the measurement date that considers current market conditions, issuer circumstances and complexity of the security structure. An adjustment to weight credit spreads is needed to value a more complex bond structure with

Table of Contents

multiple underlying collateral and no standard market valuation technique. The weighting of credit spreads is primarily based on the underlying collateral s characteristics and their proportional cash flows supporting the bond obligations. The resulting wide range of unobservable adjustments in the table below is due to the varying liquidity and quality of the underlying collateral, ranging from high credit quality to below investment grade.

Corporate and government fixed maturities. The significant unobservable input used to value the following corporate and government fixed maturities is an adjustment for liquidity. When there is limited trading activity for the security, an adjustment is needed to reflect current market conditions and issuer circumstances.

As of September 30, 2013 *(In millions except basis points)*		**Fair Value**	**Unobservable Input**	**Unobservable Adjustment to Discount Rates Range (Weighted Average)** ***in Basis Points***
Other asset and mortgage-backed securities	$	595	Liquidity	60 - 610 (170)
			Weighting of credit spreads	120 - 2,170 (310)
Corporate and government fixed maturities	$	295	Liquidity	70 - 350 (170)

As of December 31, 2012 *(In millions except basis points)*		**Fair Value**	**Unobservable Input**	**Unobservable Adjustment to Discount Rates Range (Weighted Average)** ***in Basis Points***
Other asset and mortgage-backed securities	$	584	Liquidity	60 - 410 (140)
			Weighting of credit spreads	50 - 4,540 (410)
Corporate and government fixed maturities	$	439	Liquidity	20 - 640 (190)

Significant increases in any of these inputs would result in a lower fair value measurement while decreases in these inputs would result in a higher fair value measurement. Generally, the unobservable inputs are not interrelated and a change in the assumption used for one unobservable input is not accompanied by a change in the other unobservable input. The tables do not include Level 3 securities when fair value and significant unobservable inputs were not developed directly by the Company, including securities using single, unadjusted non-binding broker quotes and securities valued at transaction price. See the preceding discussion regarding the Company s valuation processes and controls.

Guaranteed minimum income benefit contracts. The Company reports GMIB liabilities and assets as derivatives at fair value because cash flows of these 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. Under the terms of these written and purchased contracts, the Company periodically receives and pays fees based on either contractholders account values or deposits increased at a contractual rate. The Company will also pay and receive cash depending on changes in account values and interest rates when contractholders first elect to receive minimum income payments. The Company estimates the fair value of the assets and liabilities for GMIB contracts by calculating the results for many scenarios run through a model utilizing various assumptions that include non-performance risk, among other things.

As discussed in Note 6, the Company effectively exited the GMIB business as a result of the February 4, 2013 agreement with Berkshire. Although these GMIB assets and liabilities must continue to be reported as derivatives at fair value, the only assumption that is expected to impact future net income is the risk of non-performance. This assumption reflects a market participant s view of (a) the risk of the Company not fulfilling its GMIB obligations (GMIB liability) and (b) the reinsurers credit risk (GMIB asset).

The non-performance risk adjustment is incorporated by adding an additional spread to the discount rate in the calculation of both (a) the GMIB liability to reflect a market participant s view of the risk of the Company not fulfilling its GMIB obligations, and (b) the GMIB asset to reflect a market participant s view of the reinsurers credit risk, after considering collateral. The estimated market-implied spread is (i) company-specific for each party involved to the extent that company-specific market data is available or (ii) is based on industry averages for similarly-rated companies when company-specific data is not available. The estimated 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 with a weighted average of 50 basis points and ranged from 0 to 85 basis points for the GMIB reinsurance asset with a weighted average of 15 basis points for that portion of the interest rate curve most relevant to these policies.

Table of Contents

Other assumptions that affect the GMIB asset and liability include capital market assumptions (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments) and future annuitant behavior (including mortality, lapse, and annuity election rates). 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 regularly evaluates each of the assumptions used in establishing these assets and liabilities. Significant decreases in assumed lapse rates or spreads used to calculate nonperformance risk, or increases in assumed annuity election rates would result in higher fair value measurements. A change in one of these assumptions is not necessarily accompanied by a change in another assumption.

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 three 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 months and nine months ended September 30, 2013 and 2012. Separate account asset changes are reported separately under the heading Separate account assets as the changes in the 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.

For the Three Months Ended September 30, 2013 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at July 1, 2013	$ 1,209	$ 945	$ (922)	$ 23
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	-	(81)	81	-
Other	3	10	(16)	(6)
Total gains (losses) included in shareholders net income	3	(71)	65	(6)
Losses included in other comprehensive income	(1)	-	-	-
Losses required to adjust future policy benefits for settlement annuities (1)	(8)	-	-	-
Purchases, sales and settlements:				
Purchases	64	-	-	-
Sales	(18)	-	-	-
Settlements	(35)	(21)	16	(5)
Total purchases, sales and settlements	11	(21)	16	(5)
Transfers into/(out of) Level 3:				
Transfers into Level 3	32	-	-	-
Transfers out of Level 3	(20)	-	-	-
Total transfers into/(out of) Level 3	12	-	-	-
Balance at September 30, 2013	$ 1,226	$ 853	$ (841)	$ 12
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	**$ 2**	**$ (71)**	**$ 65**	**$ (6)**

(1) Amounts do not accrue to shareholders.

21

Table of Contents

For the Three Months Ended September 30, 2012 *(In millions)*		**Fixed Maturities & Equity Securities**		**GMIB Assets**		**GMIB Liabilities**		**GMIB Net**
Balance at July 1, 2012	$	1,128	$	707	$	(1,332)	$	(625)
Gains (losses) included in shareholders net income:								
GMIB fair value gain/(loss)		-		(78)		131		53
Other		1		-		-		-
Total gains (losses) included in shareholders net income		1		(78)		131		53
Gains included in other comprehensive income		11		-		-		-
Losses required to adjust future policy benefits for settlement annuities (1)		(15)		-		-		-
Purchases and settlements:								
Purchases		39		-		-		-
Settlements		(15)		(4)		17		13
Total purchases and settlements		24		(4)		17		13
Transfers into/(out of) Level 3:								
Transfers into Level 3		36		-		-		-
Transfers out of Level 3		(4)		-		-		-
Total transfers into/(out of) Level 3		32		-		-		-
Balance at September 30, 2012	$	1,181	$	625	$	(1,184)	$	(559)
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	**$**	**2**	**$**	**(78)**	**$**	**131**	**$**	**53**

(1) Amounts do not accrue to shareholders.

Table of Contents

For the Nine Months Ended September 30, 2013 *(In millions)*	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at January 1, 2013	$ 1,351	$ 622	$ (1,170)	$ (548)
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	-	(286)	286	-
Other	13	12	(16)	(4)
Total gains (losses) included in shareholders net income	13	(274)	270	(4)
Losses included in other comprehensive income	(18)	-	-	-
Losses required to adjust future policy benefits for settlement annuities (1)	(46)	-	-	-
Purchases, sales and settlements:				
Purchases	104	-	-	-
Sales	(48)	-	-	-
Settlements	(96)	505	59	564
Total purchases, sales and settlements	(40)	505	59	564
Transfers into/(out of) Level 3:				
Transfers into Level 3	101	-	-	-
Transfers out of Level 3	(135)	-	-	-
Total transfers into/(out of) Level 3	(34)	-	-	-
Balance at September 30, 2013	$ 1,226	$ 853	$ (841)	$ 12
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	**$ 6**	**$ (274)**	**$ 270**	**$ (4)**

(1) Amounts do not accrue to shareholders.

For the Nine Months Ended September 30, 2012 *(In millions)*	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at January 1, 2012	$ 1,002	$ 712	$ (1,333)	$ (621)
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	-	(65)	98	33
Other	4	-	-	-
Total gains (losses) included in shareholders net income	4	(65)	98	33
Gains included in other comprehensive income	16	-	-	-
Losses required to adjust future policy benefits for settlement annuities (1)	(19)	-	-	-
Purchases and settlements:				
Purchases	106	-	-	-
Settlements	(44)	(22)	51	29
Total purchases and settlements	62	(22)	51	29
Transfers into/(out of) Level 3:				
Transfers into Level 3	155	-	-	-
Transfers out of Level 3	(39)	-	-	-
Total transfers into/(out of) Level 3	116	-	-	-
Balance at September 30, 2012	$ 1,181	$ 625	$ (1,184)	$ (559)
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	**$ 2**	**$ (65)**	**$ 98**	**$ 33**

(1) Amounts do not accrue to shareholders.

Table of Contents

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 realized investment gains (losses) for the impact of changes in non-performance risk related to GMIB assets and liabilities beginning February 4, 2013, similar to hedge ineffectiveness; and

- GMIB fair value (gain) loss for amounts related to GMIB assets and liabilities, except for the impact of changes in non-performance risk subsequent to February 4, 2013.

In the tables above, gains and losses included in other comprehensive income are reflected in net unrealized appreciation (depreciation) on securities in the Consolidated Statements of Comprehensive Income.

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 nine months ended September 30, 2013 and September 30, 2012, transfers between Level 2 and Level 3 primarily reflect the change in significance of the unobservable inputs used to value certain public and private corporate bonds, principally related to liquidity of the securities and credit risk of the issuers.

Because GMIB 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.

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 September 30, 2013 and December 31, 2012 separate account assets were as follows:

	Total

September 30, 2013 *(In millions)*		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**		
Guaranteed separate accounts (See Note 17)	$	260	$	281	$	-	$	541
Non-guaranteed separate accounts (1)		1,784		4,816		1,015		7,615
Total separate account assets	**$**	**2,044**	**$**	**5,097**	**$**	**1,015**	**$**	**8,156**

(1) As of September 30, 2013, non-guaranteed separate accounts included $3.8 billion in assets supporting the Company s pension plans, including $965 million classified in Level 3.

December 31, 2012 *(In millions)*		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**		**Total**
Guaranteed separate accounts (See Note 17)	$	245	$	324	$	-	$	569
Non-guaranteed separate accounts (1)		1,925		4,258		1,005		7,188
Total separate account assets	**$**	**2,170**	**$**	**4,582**	**$**	**1,005**	**$**	**7,757**

(1) As of December 31, 2012, non-guaranteed separate accounts included $3.4 billion in assets supporting the Company s pension plans, including $956 million classified in Level 3.

Table of Contents

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

- 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 which is the 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.

The following tables summarize the changes in separate account assets reported in Level 3 for the three months and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,	
(In millions)	**2013**	**2012**
Balance at July 1	$ 1,049	$ 952
Policyholder gains (1)	17	21
Purchases, sales and settlements:		
Purchases	18	30
Sales	(2)	-
Settlements	(69)	(20)
Total purchases, sales and settlements	(53)	10
Transfers into/(out of) Level 3:		
Transfers into Level 3	5	2
Transfers out of Level 3	(3)	-
Total transfers into/(out of) Level 3	2	2
Balance at September 30,	**$ 1,015**	**$ 985**

(1) Included in this amount are gains of $17 million attributable to instruments still held at September 30, 2013 and gains of $20 million attributable to instruments still held at September 30, 2012.

	Nine Months Ended September 30,	
(In millions)	**2013**	**2012**
Balance at January 1	$ 1,005	$ 750
Policyholder gains (1)	46	48
Purchases, sales and settlements:		
Purchases	106	230
Sales	(2)	-
Settlements	(138)	(49)
Total purchases, sales and settlements	(34)	181
Transfers into/(out of) Level 3:		
Transfers into Level 3	5	7
Transfers out of Level 3	(7)	(1)

Total transfers into/(out of) Level 3		(2)		6
Balance at September 30,	**$**	**1,015**	**$**	**985**

(1) Included in this amount are gains of $46 million attributable to instruments still held at September 30, 2013 and gains of $41 million attributable to instruments still held at September 30, 2012.

Table of Contents

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 real estate entities and commercial mortgage loans when they become impaired. During the nine months ended September 30, 2013, impaired mortgage loans and real estate entities representing less than 1% of total investments were written down to their fair values resulting in realized investment losses of $5 million, after-tax.

For the nine months ended September 30, 2012, impaired mortgage loans representing less than 1% of total investments were written down to their fair values, resulting in realized investment losses of $7 million, after-tax.

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 September 30, 2013 and December 31, 2012.

(In millions)	Classification in the Fair Value Hierarchy	September 30, 2013 Fair Value	September 30, 2013 Carrying Value	December 31, 2012 Fair Value	December 31, 2012 Carrying Value
Commercial mortgage loans	Level 3	$ 2,507	$ 2,404	$ 2,999	$ 2,851
Contractholder deposit funds, excluding universal life products	Level 3	$ 1,082	$ 1,070	$ 1,082	$ 1,056
Long-term debt, including current maturities, excluding capital leases	Level 2	$ 5,529	$ 4,992	$ 5,821	$ 4,986

The fair values presented in the table above have been estimated using market information when available. The following valuation methodologies and inputs are 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. The fair value measurements were classified in Level 3 because the cash flow models incorporate significant unobservable inputs.

Contractholder deposit funds, excluding universal life products**.** Generally, these funds do not have stated maturities. Approximately 60% 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. These instruments were classified in Level 3 because certain inputs are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement.

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. These measurements were classified in Level 2 because the fair values are based on quoted market prices or other inputs that are market observable or can be corroborated by market data.

Fair values of off-balance-sheet financial instruments were not material as of September 30, 2013 and December 31, 2012.

Table of Contents

Note 9 Investments

Total Realized Investment Gains and Losses

The following total realized gains and losses on investments exclude amounts required to adjust future policy benefits for the run-off settlement annuity business:

(In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Fixed maturities	$ 16	$ 8	$ 105	$ 23
Equity securities	-	1	4	5
Commercial mortgage loans	-	1	(4)	(9)
Real estate	-	-	-	(1)
Other investments, including derivatives	11	1	87	2
Realized investment gains before income taxes	27	11	192	20
Less income taxes	10	4	65	4
Net realized investment gains	**$ 17**	**$ 7**	**$ 127**	**$ 16**

Included in the above realized investment gains (losses) before income taxes, are changes in valuation reserves, asset write-downs and other-than-temporary impairments on fixed maturities as follows:

(In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Credit-related (1)	$ -	$ -	$ (8)	$ (14)
Other	(3)	-	(11)	(2)
Total	**$ (3)**	**$ -**	**$ (19)**	**$ (16)**

(1) Credit related losses include other-than-temporary declines in fair value of fixed maturities and changes in valuation reserves and asset write-downs related to commercial mortgage loans and real estate entities. There were no credit losses on fixed maturities for which a portion of the impairment was recognized in other comprehensive income.

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. Hybrid investments include preferred stock or debt securities with call or conversion features.

(In millions)		As of September 30, 2013		As of December 31, 2012
Included in fixed maturities:				
Trading securities (amortized cost: $1; $1)	$	1	$	1
Hybrid securities (amortized cost: $5; $15)		5		15
Total	**$**	**6**	**$**	**16**
Included in equity securities:				
Hybrid securities (amortized cost: $70; $84)	$	56	$	70

Table of Contents

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 September 30, 2013:

(In millions)		Amortized Cost		Fair Value
Due in one year or less	$	1,057	$	1,077
Due after one year through five years		5,023		5,407
Due after five years through ten years		4,665		4,982
Due after ten years		2,596		3,133
Mortgage and other asset-backed securities		948		1,040
Total	**$**	**14,289**	**$**	**15,639**

Actual maturities of these securities could differ from contractual maturities used in the table above. This could occur because issuers may have the right to call or prepay obligations, with or without penalties, or because in certain cases the Company may have the option to unilaterally extend the contractual maturity date.

Gross unrealized appreciation (depreciation) on fixed maturities (excluding trading securities and hybrid securities with a fair value of $6 million at September 30, 2013 and $16 million at December 31, 2012) by type of issuer is shown below.

	September 30, 2013							
(In millions)		Amortized Cost		Gross Unrealized Appreciation		Gross Unrealized Depreciation		Fair Value
Federal government and agency	$	443	$	282	$	(1)	$	724
State and local government		2,018		183		(5)		2,196
Foreign government		1,116		70		(9)		1,177
Corporate		9,763		802		(63)		10,502
Federal agency mortgage-backed		83		-		-		83
Other mortgage-backed		67		4		(4)		67
Other asset-backed		799		94		(3)		890
Total	**$**	**14,289**	**$**	**1,435**	**$**	**(85)**	**$**	**15,639**

(In millions)	December 31, 2012							
Federal government and agency	$	509	$	393	$	-	$	902
State and local government		2,169		270		(2)		2,437
Foreign government		1,197		126		(1)		1,322
Corporate		10,590		1,308		(17)		11,881
Federal agency mortgage-backed		121		1		-		122
Other mortgage-backed		82		11		(4)		89
Other asset-backed		797		145		(6)		936
Total	**$**	**15,465**	**$**	**2,254**	**$**	**(30)**	**$**	**17,689**

The above table includes investments with a fair value of $2.7 billion supporting the Company s run-off settlement annuity business, with gross unrealized appreciation of $535 million and gross unrealized depreciation of $18 million at September 30, 2013. 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, 2012, investments supporting this business had a fair value of $3.1 billion, gross unrealized appreciation of $883 million and gross unrealized depreciation of $8 million.

Table of Contents

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

(In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Proceeds from sales	$ 402	$ 92	$ 1,674	$ 447
Gross gains on sales	$ 10	$ 6	$ 93	$ 25
Gross losses on sales	$ 1	$ -	$ 4	$ 1

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.

As of September 30, 2013, fixed maturities (excluding trading and hybrid securities) with a decline in fair value from amortized cost (primarily corporate, and other asset and mortgage-backed securities) were by length of time of decline, as follows:

(In millions)	Fair Value	Amortized Cost	Unrealized Depreciation	Number of Issues
Fixed maturities:				
One year or less:				
Investment grade	$ 1,464	$ 1,515	$ (51)	623
Below investment grade	$ 393	$ 403	$ (10)	345
More than one year:				
Investment grade	$ 207	$ 225	$ (18)	80
Below investment grade	$ 46	$ 52	$ (6)	14

The unrealized depreciation of investment grade fixed maturities is due primarily to increases in market yields since purchase. There were no equity securities with a fair value significantly lower than cost as of September 30, 2013.

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 generally issued at a fixed rate of interest and are secured by high quality, primarily completed and substantially leased operating properties.

Credit quality. The Company regularly evaluates and monitors credit risk, beginning with the initial underwriting of a mortgage loan and continuing throughout the investment holding period. Mortgage origination professionals employ an internal credit quality rating system designed to evaluate the relative risk of the transaction at each loan s origination that is then updated each year as part of the annual portfolio loan review. The Company evaluates and 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 our evaluation of a number of key inputs related to the loan, 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 with a ratio below 1.0 indicating that there is not enough cash flow to cover the required 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.

Table of Contents

The following tables summarize the credit risk profile of the Company s commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios, as of September 30, 2013 and December 31, 2012:

(In millions)	September 30, 2013 Debt Service Coverage Ratio					
Loan-to-Value Ratios	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
Below 50%	$ 312	$ -	$ -	$ 56	$ -	$ 368
50% to 59%	591	132	-	18	-	741
60% to 69%	438	16	70	-	24	548
70% to 79%	116	114	-	-	22	252
80% to 89%	58	61	34	28	122	303
90% to 99%	-	-	58	50	67	175
100% or above	-	-	-	-	17	17
Total	**$ 1,515**	**$ 323**	**$ 162**	**$ 152**	**$ 252**	**$ 2,404**

(In millions)	December 31, 2012 Debt Service Coverage Ratio					
Loan-to-Value Ratios	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
Below 50%	$ 297	$ 8	$ -	$ 50	$ -	$ 355
50% to 59%	614	104	25	52	-	795
60% to 69%	562	75	-	66	-	703
70% to 79%	194	143	132	4	16	489
80% to 89%	45	42	131	18	58	294
90% to 99%	14	30	-	-	58	102
100% or above	-	-	30	17	66	113
Total	**$ 1,726**	**$ 402**	**$ 318**	**$ 207**	**$ 198**	**$ 2,851**

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 2013 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, and considering updates for loans where material changes were subsequently identified, the portfolio s average loan-to-value ratio improved to 63% at September 30, 2013 from 65% at December 31, 2012. The portfolio s average debt service coverage ratio was estimated to be 1.59 at September 30, 2013, an improvement from 1.56 at December 31, 2012.

Quality ratings are adjusted between annual reviews if new property information is received or an event such as delinquency or a borrower s request for restructure causes 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 2013, the Company restructured its subordinate interest in two cross-collateralized pools of industrial loans totaling $31 million by extending the maturity dates and reducing the interest rates. This modification was considered a troubled debt restructuring and the loans were classified as problem mortgage loans because the borrower was experiencing financial difficulties and an interest rate concession was granted. No valuation reserves were required because the fair values of the underlying properties exceeded the carrying values of the outstanding loans.

During 2012, the Company restructured a $119 million problem mortgage loan, net of a valuation reserve, into two notes carried at $100 million and $19 million. The $100 million note was reclassified to impaired commercial mortgage loans with no valuation reserves and the $19 million note was classified as an other long-term investment. This modification was considered a troubled debt restructuring because the borrower was experiencing financial difficulties and an interest rate concession was granted. No valuation

Table of Contents

reserve was required because the fair value of the underlying property equaled the carrying value of the outstanding loan. Following the restructuring, the $100 million note was reclassified to good standing based on the results of the 2012 annual loan review and has been subsequently paid in full.

Certain other loans were modified during the nine months ended September 30, 2013 and the twelve months ended December 31, 2012. However, these were not considered troubled debt restructures and the impact of such modifications 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, estimated loan-to-value ratios increasing to 100% or more, downgrade in quality rating and requests 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 $160 million at September 30, 2013 and $215 million at December 31, 2012. At September 30, 2013 and December 31, 2012, mortgage loans located in the South Atlantic region represented the most significant component of problem and potential problem mortgage loans. Loans collateralized by industrial properties represented the most significant concentration by property type at September 30, 2013, with no significant concentration by property type at December 31, 2012.

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. These loans are included in either problem or potential problem loans. The Company assesses each loan individually for impairment, using 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 real estate. In some cases when it is probable that the Company will not collect the interest due under the original agreements, the loan will be considered impaired but a related valuation reserve will not be recorded because the fair value of the underlying real estate is higher than the remaining carrying value of the loan.

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

	September 30, 2013			December 31, 2012		
(In millions)	**Gross**	**Reserves**	**Net**	**Gross**	**Reserves**	**Net**
Impaired commercial mortgage loans with valuation reserves	$ 93	$ (11)	$ 82	$ 72	$ (7)	$ 65
Impaired commercial mortgage loans with no valuation reserves	31	-	31	60	-	60
Total	**$ 124**	**$ (11)**	**$ 113**	**$ 132**	**$ (7)**	**$ 125**

The average recorded investment in impaired loans was $128 million at September 30, 2013 and $176 million at September 30, 2012. Because of the risk profile of the underlying investment, the Company recognizes interest income on problem mortgage loans only when payment is

actually received. 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 nine months ended September 30, 2013 or 2012. Interest income on impaired commercial mortgage loans was not significant for the nine months ended September 30, 2013 or 2012.

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

(In millions)		**2013**		**2012**
Reserve balance, January 1,	$	7	$	19
Increase in valuation reserves		4		10
Charge-offs upon sales and repayments, net of recoveries		-		(3)
Transfers to other long-term investments		-		(16)
Transfers to real estate		-		(3)
Reserve balance, September 30,	**$**	**11**	**$**	**7**

Table of Contents

Short-term investments and cash equivalents. Short-term investments and cash equivalents include corporate securities of $1.8 billion, federal government securities of $544 million and money market funds of $142 million as of September 30, 2013. The Company s short-term investments and cash equivalents as of December 31, 2012 included corporate securities of $1.1 billion, federal government securities of $167 million and money market funds of $217 million.

Note 10 Derivative Financial Instruments

The Company uses derivative financial instruments to manage the characteristics of investment assets to meet the varying demands of the related insurance and contractholder liabilities. The Company has written and purchased reinsurance contracts under its Run-off Reinsurance segment that are accounted for as free standing derivatives. The Company also has used derivative financial instruments to manage the equity, foreign currency, and certain interest rate risk exposures of its Run-off Reinsurance segment until February 4, 2013 (for further information, see Note 6). For information on the Company s accounting policy for derivative financial instruments see Note 2 to the Financial Statements contained in the Company s 2012 Form 10-K. Derivatives in the Company s separate accounts are excluded from the following discussion because associated gains and losses generally accrue directly to separate account policyholders.

Collateral and termination features. 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. Certain of the Company s over-the-counter derivative instruments contain provisions requiring either the Company or the counterparty to post collateral or demand immediate payment depending on the amount of the net liability position and predefined financial strength or credit rating thresholds. Collateral posting requirements vary by counterparty. The net liability positions of these derivatives were not material as of September 30, 2013 or December 31, 2012.

Derivative instruments used in the Company s investment risk management.

The Company uses derivative financial instruments 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 in this strategy to reduce interest rate and foreign currency risks.

Investment Cash Flow Hedges

Purpose. The Company uses interest rate, foreign currency, and combination (interest rate and foreign currency) swap contracts to hedge the interest and foreign currency cash flows of its fixed maturity bonds to match associated insurance liabilities.

Accounting policy. 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.

Cash flows. Under the terms of these various contracts, the Company periodically exchanges cash flows between variable and fixed interest rates and/or between two currencies for both principal and interest. Foreign currency swaps are primarily Euros, Australian dollars, Canadian dollars, Japanese yen, and British pounds, and have terms for periods of up to eight years. Net interest cash flows are reported in operating activities.

Volume of activity. The following table provides the notional values of these derivative instruments for the indicated periods:

	Notional Amount *(In millions)*	
Instrument	**As of September 30, 2013**	**As of December 31, 2012**
Interest rate swaps	$ 48	$ 58
Foreign currency swaps	133	133
Combination interest rate and foreign currency swaps	50	64
Total	**$ 231**	**$ 255**

Table of Contents

The following table provides the effect of these derivative instruments on the financial statements for the indicated periods:

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

	Other Long-Term Investments		Accounts Payable, Accrued Expenses and Other Liabilities		Gain (Loss) Recognized in Other Comprehensive Income (1)			
	As of	As of	As of	As of	For the three months ended September 30,		For the nine months ended September 30,	
Instrument	**September 30, 2013**	**December 31, 2012**	**September 30, 2013**	**December 31, 2012**	**2013**	**2012**	**2013**	**2012**
Interest rate swaps	$ 2	$ 4	$ -	$ -	$ (1)	$ (1)	$ (2)	$ (2)
Foreign currency swaps	1	1	16	18	(4)	(3)	-	(1)
Combination interest rate and foreign currency swaps	-	-	5	13	(1)	(2)	8	(1)
Total	**$ 3**	**$ 5**	**$ 21**	**$ 31**	**$ (6)**	**$ (6)**	**$ 6**	**$ (4)**

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

For the three months and nine months ended September 30, 2013 and 2012, the gains (losses) reclassified from accumulated other comprehensive income into net income were not material. No gains (losses) were recognized due to hedge ineffectiveness and no amounts were excluded from the assessment of hedge effectiveness.

Derivative instruments associated with the Company s Run-off Reinsurance segment.

As explained in Note 6, on February 4, 2013, the Company entered into an agreement to effectively exit the GMIB and GMDB business. As a result, the following disclosures related to derivative instruments associated with the GMIB and GMDB business are provided for context, including a description of the derivative accounting for the GMIB contracts. Cash flows on derivative instruments associated with the GMIB and GMDB business are reported in operating activities.

Guaranteed Minimum Income Benefits (GMIB)

As described further in Note 6, in 2013, the Company effectively exited the GMIB business by purchasing additional reinsurance coverage for these contracts. The fair value effects on the financial statements are included in Note 8 and the volume of activity is included in Note 17.

Purpose. 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). According to the contractual terms of the 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.

GMDB and GMIB Hedge Programs

As a result of the reinsurance agreement with Berkshire to effectively exit the GMDB and GMIB business, the GMDB and GMIB hedge programs were terminated beginning February 4, 2013. See Note 6 for further details regarding this business.

Table of Contents

Note 11 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, 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 its 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 or 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.

To provide certain services to its Medicare Advantage customers, the Company contracts with independent physician associations (IPAs) that are variable interest entities. Physicians provide health care services to the Medicare Advantage customers and the Company provides medical management and administrative services to the IPAs.

The Company is not the primary beneficiary and does not consolidate these entities because either:

- it had no power to direct the activities that most significantly impact the entities economic performance; or
- it had neither the right to receive benefits nor the 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 that it is not contractually required to provide. 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 the investment 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. The Company s maximum exposure to loss related to the IPA arrangements is limited to their liability for incurred but not reported claims for the Company s Medicare Advantage customers. These liabilities are not material and are generally secured by deposits maintained by the IPAs.

Table of Contents

Note 12 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.

During the first quarter of 2013, the Company announced two changes to its postretirement medical plan that the Company intends to implement as follows:

- Effective March 31, 2013, the Company froze active employees future benefit accruals. A curtailment of benefits occurred as a result of this action because benefits for future services for active employees in the plan were eliminated. Accordingly, during the first quarter of 2013, the Company recorded a pre-tax curtailment gain of $19 million ($12 million after-tax) in net income to recognize the remaining prior service cost.

- In the first quarter of 2013, the Company also announced a change in the cost sharing arrangement with retirees for pharmacy subsidy payments received from the U.S. Government effective January 1, 2014. As a result of this plan amendment, the plan was re-measured as of March 31, 2013 resulting in a reduced other post retirement benefit obligation of $57 million. This reduction was recorded in accumulated other comprehensive income, net of deferred taxes, resulting in an after-tax increase to shareholders equity of $37 million.

As a result of these actions, changes in the Company s disclosures at December 31, 2012 were as follows:

- The Company disclosed in Note 10 to the Consolidated Financial Statements in its 2012 Form 10-K that it expected to record pre-tax amortization of prior service costs of $9 million in 2013. The Company had been amortizing these unrecognized gains over a weighted average remaining amortization period of approximately 2.5 years. As a result of the plan changes announced in the first quarter, pre-tax amortization for 2013 is now expected to be $4 million. The $57 million negative prior service cost resulting from the plan amendment is being amortized over the average life expectancy of frozen plan participants of approximately 25 years.

For the nine months ended September 30, 2013, the Company s unrecognized actuarial losses and prior service costs (reported in accumulated other comprehensive income) decreased by $ 113 million pre-tax in the aggregate ($ 73 million after-tax) resulting in an increase in shareholders equity. This change was primarily a result of the plan amendment described above, normal amortization, and the results of the annual actuarial review completed during the second quarter of 2013, partially offset by the effect of the curtailment.

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

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(In millions)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Service cost	$ 1	$ 1	$ 2	$ 2	$ 1	$ -	$ 1	$ 1
Interest cost	45	50	136	149	3	4	9	12
Expected long-term return on plan assets	(68)	(69)	(204)	(203)	(1)	-	(1)	-
Amortization of:								
Net loss from past experience	19	15	56	45		-		-
Prior service cost		-		-	-	(3)	(3)	(9)
Curtailment gain		-		-		-	(19)	-
Settlement loss		-		6		-		-
Net cost	**$ (3)**	**$ (3)**	**$ (10)**	**$ (1)**	**$ 3**	**$ 1**	**$ (13)**	**$ 4**

The Company funds its domestic qualified pension plans at least at the minimum amount required by the Pension Protection Act of 2006. For the nine months ended September 30, 2013, the Company contributed $174 million of which $64 million was required and $110 million was voluntary. In October of 2013, the Company made its final required 2013 contribution of $21 million. The Company does not expect to make additional contributions for the remainder of 2013.

Table of Contents

Note 13 Debt

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

(In millions)		September 30, 2013		December 31, 2012
Short-term:				
Commercial paper	$	100	$	200
Current maturities of long-term debt		-		1
Other		105		-
Total short-term debt	**$**	**205**	**$**	**201**
Long-term:				
Uncollateralized debt:				
2.75% Notes due 2016	$	600	$	600
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
6.37% Notes due 2021		78		78
4.5% Notes due 2021		299		299
4% Notes due 2022		743		743
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		298
5.375% Notes due 2042		750		750
Other		86		38
Total long-term debt	**$**	**5,034**	**$**	**4,986**

As described in Note 3, the Company acquired HealthSpring on January 31, 2012. At the acquisition date, HealthSpring had $326 million of debt outstanding. In accordance with debt covenants, HealthSpring s debt obligation was paid immediately following the acquisition. This repayment was reported as a financing activity in the statement of cash flows for the nine months ended September 30, 2012.

In December 2012, the Company extended the term of its June 2011 five-year revolving credit and letter of credit agreement for $1.5 billion that permits up to $500 million to be used for letters of credit. This agreement is diversified among 16 banks, with three banks each having 12% of the commitment and the remainder spread among 13 banks. The credit agreement includes options that are subject to consent by the administrative agent and the committing banks, to increase the commitment amount to $2 billion and to extend the term past December 2017. The credit agreement is available for general corporate purposes, including as a commercial paper backstop and for the issuance of letters of credit. This agreement has 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 September 30, 2013, the Company had $5.7 billion of borrowing capacity within the maximum debt coverage covenant in the agreement in addition to the $5.2 billion of debt outstanding. There were letters of credit of $39 million issued as of September 30, 2013.

The Company was in compliance with its debt covenants as of September 30, 2013.

Table of Contents

Note 14 Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss excludes amounts required to adjust future policy benefits for the run-off settlement annuity business and a portion of deferred acquisition costs associated with the corporate owned life insurance business. As required by GAAP, the Company parenthetically identifies the income statement line item affected by reclassification adjustments in the table below. Changes in the components of accumulated other comprehensive loss were as follows:

Three Months Ended September 30, 2013			
Net unrealized depreciation on securities arising during the period	$ (4)	$ -	$ (4)
	(16)	6	(10)
Net unrealized depreciation, securities	$ (20)	$ 6	$ (14)
	$ (4)	**$ 2**	**$ (2)**
Net translation of foreign currencies	**$ 68**	**$ (9)**	**$ 59**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)	$ 19	$ (7)	$ 12
	$ 19	$ (7)	$