CIGNA CORP
Form 10-Q
October 28, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from ______________ TO ______________

Commission file number 1-08323

CIGNA CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**06-1059331**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
900 Cottage Grove Road	
Bloomfield, Connecticut	**06002**
(Address of principal executive offices)	*(Zip Code)*

(860) 226-6000

(Registrant's telephone number, including area code)

(860) 226-6741

(Registrant's facsimile number, including area code)

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.		
• 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).		

• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company

• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).		

As of October 14, 2011, 270,222,950 shares of the issuer's common stock were outstanding.

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ITEM 1 Financial Statements

Cigna Corporation

Consolidated Statements of Income

(In millions, except per share amounts)	**Unaudited Three Months Ended September 30, 2011**	**2010**	**Unaudited Nine Months Ended September 30, 2011**	**2010**
Revenues				
Premiums and fees	$ 4,748	$ 4,621	$ 14,267	$ 13,668
Net investment income	297	280	860	829
Mail order pharmacy revenues	368	354	1,056	1,053
Other revenues	187	(17)	296	230
Realized investment gains (losses):				
Other-than-temporary impairments on fixed maturities, net	(23)	-	(25)	(1)
Other realized investment gains	36	28	81	45
Total realized investment gains	13	28	56	44
TOTAL REVENUES	**5,613**	**5,266**	**16,535**	**15,824**
Benefits and Expenses				
Health Care medical claims expense	2,014	2,148	6,125	6,435
Other benefit expenses	1,272	892	3,324	2,748
Mail order pharmacy cost of goods sold	309	291	874	866
GMIB fair value loss	224	22	245	182
Other operating expenses	1,497	1,449	4,454	4,268
TOTAL BENEFITS AND EXPENSES	**5,316**	**4,802**	**15,022**	**14,499**
Income before Income Taxes	297	464	1,513	1,325
Income taxes:				
Current	114	101	274	256
Deferred	(17)	55	201	182

TOTAL TAXES		**97**		**156**		**475**		**438**
Net Income		**200**		**308**		**1,038**		**887**
Less: Net Income Attributable to Noncontrolling Interest		**-**		**1**		**1**		**3**
Shareholders' Net Income	**$**	**200**	**$**	**307**	**$**	**1,037**	**$**	**884**
Shareholders' Net Income Per Share:								
Basic	$	0.74	$	1.13	$	3.85	$	3.23
Diluted	$	0.74	$	1.13	$	3.80	$	3.20
Dividends Declared Per Share	**$**	**-**	**$**	**-**	**$**	**0.040**	**$**	**0.040**

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

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Cigna Corporation

Consolidated Balance Sheets

(In millions, except per share amounts)	**Unaudited As of September 30, 2011**	**As of December 31, 2010**
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, $14,373; $13,445)	$ 16,272	$ 14,709
Equity securities, at fair value (cost, $158; $144)	134	127
Commercial mortgage loans	3,299	3,486
Policy loans	1,610	1,581
Real estate	112	112
Other long-term investments	884	759
Short-term investments	290	174
Total investments	22,601	20,948
Cash and cash equivalents	1,902	1,605
Accrued investment income	276	235
Premiums, accounts and notes receivable, net	1,439	1,318
Reinsurance recoverables	6,305	6,495
Deferred policy acquisition costs	1,259	1,122
Property and equipment	978	912
Deferred income taxes, net	485	782
Goodwill	3,116	3,119
Other assets, including other intangibles	1,525	1,238
Separate account assets	7,918	7,908
TOTAL ASSETS	**$ 47,804**	**$ 45,682**
LIABILITIES		
Contractholder deposit funds	$ 8,528	$ 8,509
Future policy benefits	8,654	8,147
Unpaid claims and claim expenses	4,131	4,017
Health Care medical claims payable	1,145	1,246
Unearned premiums and fees	522	416

Total insurance and contractholder liabilities		22,980			22,335
Accounts payable, accrued expenses and other liabilities		5,932			5,936
Short-term debt		330			552
Long-term debt		2,883			2,288
Separate account liabilities		7,918			7,908
TOTAL LIABILITIES		**40,043**			**39,019**
Contingencies — Note 17					
SHAREHOLDERS' EQUITY					
Common stock (par value per share, $0.25; shares issued, 351)		88			88
Additional paid-in capital		2,561			2,534
Net unrealized appreciation, fixed maturities	$ 704			$ 529	
Net unrealized appreciation, equity securities	-			3	
Net unrealized depreciation, derivatives	(21)			(24)	
Net translation of foreign currencies	10			25	
Postretirement benefits liability adjustment	(1,134)			(1,147)	
Accumulated other comprehensive loss		(441)			(614)
Retained earnings		10,855			9,879
Less treasury stock, at cost		(5,302)			(5,242)
Total shareholders' equity		7,761			6,645
Noncontrolling interest		-			18
Total equity		7,761			6,663
Total liabilities and equity		$ 47,804			$ 45,682
SHAREHOLDERS' EQUITY PER SHARE		**$ 28.72**			**$ 24.44**

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

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Consolidated Statements of Comprehensive Income and Changes in Total Equity

	Unaudited			
	2011		2010	
(In millions, except per share amounts) **Three Months Ended September 30,**	**Comprehensive Income**	**Total Equity**	**Comprehensive Income**	**Total Equity**
Common Stock, July 1 and September 30,		**$ 88**		**$ 88**
Additional Paid-In Capital, July 1,		**2,556**		**2,526**
Effects of stock issuance for employee benefit plans		5		4
Additional Paid-In Capital, September 30,		**2,561**		**2,530**
Accumulated Other Comprehensive Loss, July 1,		**(436)**		**(539)**
Net unrealized appreciation, fixed maturities	$ 94	94	$ 198	198
Net unrealized depreciation, equity securities	(3)	(3)	-	-
Net unrealized appreciation on securities	91		198	
Net unrealized appreciation (depreciation), derivatives	13	13	(11)	(11)
Net translation of foreign currencies	(113)	(113)	66	66
Postretirement benefits liability adjustment	4	4	1	1
Other comprehensive income (loss)	(5)		254	
Accumulated Other Comprehensive Loss, September 30,		**(441)**		**(285)**
Retained Earnings, July 1,		**10,658**		**9,129**
Shareholders' net income	200	200	307	307
Effects of stock issuance for employee benefit plans		(3)		(15)
Retained Earnings, September 30,		**10,855**		**9,421**
Treasury Stock, July 1,		**(5,318)**		**(5,228)**
Repurchase of common stock		-		(78)
		16		21

Other, primarily issuance of treasury stock for employee benefit plans				
Treasury Stock, September 30,		**(5,302)**		**(5,285)**
Shareholders' Comprehensive Income and Shareholders' Equity	**195**	**7,761**	**561**	**6,469**
Noncontrolling interest, July 1,		**-**		**15**
Net income attributable to noncontrolling interest	-	-	1	1
Accumulated other comprehensive income attributable to noncontrolling interest	-	-	1	1
Noncontrolling interest, September 30,	**-**	**-**	**2**	**17**
TOTAL COMPREHENSIVE INCOME AND TOTAL EQUITY	**$ 195**	**$ 7,761**	**$ 563**	**$ 6,486**

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

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Cigna Corporation

Consolidated Statements of Comprehensive Income and Changes in Total Equity

(In millions, except per share amounts)	**Unaudited**			
	2011		**2010**	
Nine Months Ended September 30,	**Comprehensive Income**	**Total Equity**	**Comprehensive Income**	**Total Equity**
Common Stock, January 1 and September 30,		**$ 88**		**$ 88**
Additional Paid-In Capital, January 1,		**2,534**		**2,514**
Effects of stock issuance for employee benefit plans		23		16
Effects of acquisition of noncontrolling interest		4		-
Additional Paid-In Capital, September 30,		**2,561**		**2,530**
Accumulated Other Comprehensive Loss, January 1,		**(614)**		**(618)**
Net unrealized appreciation, fixed maturities	$ 175	175	$ 389	389
Net unrealized depreciation, equity securities	(3)	(3)	(1)	(1)
Net unrealized appreciation on securities	172		388	
Net unrealized appreciation, derivatives	3	3	9	9
Net translation of foreign currencies	(15)	(15)	27	27
Postretirement benefits liability adjustment	13	13	(91)	(91)
Other comprehensive income	173		333	
Accumulated Other Comprehensive Loss, September 30,		**(441)**		**(285)**
Retained Earnings, January 1,		**9,879**		**8,625**
Shareholders' net income	1,037	1,037	884	884
Effects of stock issuance for employee benefit plans		(50)		(77)

Common dividends declared (per share: \$0.04; \$0.04)		(11)		(11)
Retained Earnings, September 30,		**10,855**		**9,421**
Treasury Stock, January 1,		**(5,242)**		**(5,192)**
Repurchase of common stock		(225)		(201)
Other, primarily issuance of treasury stock for employee benefit plans		165		108
Treasury Stock, September 30,		**(5,302)**		**(5,285)**
Shareholders' Comprehensive Income and Shareholders' Equity	**1,210**	**7,761**	**1,217**	**6,469**
Noncontrolling interest, January 1,		**18**		**12**
Net income attributable to noncontrolling interest	1	1	3	3
Accumulated other comprehensive income attributable to noncontrolling interest	-	-	2	2
Acquisition of noncontrolling interest	-	(19)		-
Noncontrolling interest, September 30,	**1**	**-**	**5**	**17**
TOTAL COMPREHENSIVE INCOME AND TOTAL EQUITY	**\$ 1,211**	**\$ 7,761**	**\$ 1,222**	**\$ 6,486**

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

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Cigna Corporation

Consolidated Statements of Cash Flows

	Unaudited	
	Nine Months Ended September 30,	
(In millions)	2011	2010
Cash Flows from Operating Activities		
Net income	$ 1,038	$ 887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	252	204
Realized investment gains	(56)	(44)
Deferred income taxes	201	182
Gains on sale of businesses (excluding discontinued operations)	(20)	(20)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(133)	(55)
Reinsurance recoverables	8	12
Deferred policy acquisition costs	(168)	(118)
Other assets	(299)	(191)
Insurance liabilities	380	409
Accounts payable, accrued expenses and other liabilities	293	16
Current income taxes	(202)	38
Other, net	(51)	(37)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,243**	**1,283**
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	452	685
Equity securities	5	3
Commercial mortgage loans	166	45
Other (primarily short-term and other long-term investments)	999	800
Investment maturities and repayments:		
Fixed maturities	943	575
Commercial mortgage loans	274	60

Investments purchased:				
Fixed maturities		(2,309)		(2,047)
Equity securities		(18)		(5)
Commercial mortgage loans		(279)		(160)
Other (primarily short-term and other long-term investments)		(1,169)		(473)
Property and equipment purchases		(291)		(209)
Acquisitions and dispositions, net		1		(332)
NET CASH USED IN INVESTING ACTIVITIES		**(1,226)**		**(1,058)**
Cash Flows from Financing Activities				
Deposits and interest credited to contractholder deposit funds		1,002		1,019
Withdrawals and benefit payments from contractholder deposit funds		(895)		(920)
Change in cash overdraft position		(57)		38
Net change in short-term debt		(222)		-
Issuance of long-term debt		587		296
Repayment of long-term debt		(2)		(2)
Repurchase of common stock		(225)		(201)
Issuance of common stock		100		31
Common dividends paid		(11)		(11)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**277**		**250**
Effect of foreign currency rate changes on cash and cash equivalents		3		5
Net increase in cash and cash equivalents		297		480
Cash and cash equivalents, January 1,		1,605		924
Cash and cash equivalents, September 30,	$	1,902	$	1,404
Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	$	466	$	215
Interest paid	$	124	$	116

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

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Cigna Corporation

Notes to the Consolidated Financial Statements (unaudited)

NOTE 1 Basis of Presentation

Cigna Corporation is a holding company and is not an insurance company. As used in this document, “Cigna” or “the Company” may refer to Cigna Corporation itself, one or more of its subsidiaries, or Cigna Corporation and its consolidated subsidiaries. The Company is a global health services organization with subsidiaries that are major providers of medical, dental, disability, life and accident insurance and related products and services. The Consolidated Financial Statements include the accounts of Cigna Corporation and its significant subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

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

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

In the first quarter of 2011, the Company acquired the noncontrolling interest in a majority-owned subsidiary that the Company continues to consolidate.

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

NOTE 2 Recent Accounting Pronouncements

Deferred acquisition costs. In October 2010, the Financial Accounting Standards Board (“FASB”) amended guidance (ASU 2010-26) for the accounting of costs related to the acquisition or renewal of insurance contracts to require costs such as certain sales compensation or telemarketing costs that are related to unsuccessful efforts to acquire or retain business and any indirect costs to be expensed as incurred. This new guidance must be implemented on January 1, 2012 and any changes to the Company’s Consolidated Financial Statements may be recognized prospectively for acquisition costs incurred beginning in 2012 or through retrospective adjustment of comparative prior periods.

The Company expects to implement the new requirements on January 1, 2012 through retrospective adjustment of prior periods. The Company’s deferred acquisition costs arise from sales and renewal activities primarily in its International segment and, to an immaterial extent, the Health Care and corporate-owned life insurance businesses. Because the new requirements further restrict the types of costs that are deferrable, more of the Company’s acquisition costs will be expensed as incurred. The Company expects the cumulative effect of implementing this new guidance to decrease shareholders’ equity as of January 1, 2011 by a range of $250 million to $300 million. In addition, as a result of certain acquisition costs no longer eligible for deferral under the new guidance, the Company expects that full-year 2011 shareholders' net income on a retrospectively adjusted basis will decrease by a range of $60 million to $70 million from that projected under current GAAP, primarily in its International segment. The Company expects the effect of the new guidance on shareholders' net income to be generally comparable in future years to that estimated for 2011. Implementation of this new guidance will have no impact on the underlying economic value, revenues or cash flows of the Company's businesses, nor will it impact the Company's liquidity or the statutory surplus of its insurance subsidiaries.

Troubled debt restructurings. In April 2011, the FASB amended guidance (ASU 2011-02) to clarify for lenders that a troubled debt restructuring occurs when a debt modification is a concession to the borrower and the borrower is experiencing financial difficulties. The amendments are effective July 1, 2011 and are to be applied retrospectively to loan restructurings occurring on or after January 1, 2011. The amendment also requires new disclosures beginning in the third quarter 2011 addressing certain troubled debt restructurings. On adoption, there was no material effect to the Company's results of operations or financial condition. See Note 8 for additional information related to commercial mortgage loans.

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Fair value measurements. In May 2011, the FASB amended guidance (ASU 2011-04) to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments, including expanded disclosures about Level 3 measurements, are effective January 1, 2012 and are to be applied prospectively. On adoption, the Company does not expect a material effect to its results of operations or financial condition.

NOTE 3 Acquisitions

The Company may from time to time acquire or dispose of assets, subsidiaries or lines of business.

Acquisition of FirstAssist.

In September 2011, the Company entered into a stock purchase agreement to acquire FirstAssist Group Holdings Limited ("FirstAssist") from Barclays Private Equity for approximately $110 million. The acquisition is expected to close in the fourth quarter of 2011, pending regulatory approval. FirstAssist is based in the United Kingdom and provides travel and protection insurance services that the Company expects will enhance its individual business in the U.K. and around the world. The Company expects to use available cash on hand for the purchase.

Acquisition of Vanbreda International.

On August 31, 2010, the Company acquired 100% of the voting stock of Vanbreda International NV (Vanbreda International), based in Antwerp, Belgium for a cash purchase price of $412 million. Vanbreda International specializes in providing worldwide medical insurance and employee benefits to intergovernmental and non-governmental organizations, including international humanitarian operations, as well as corporate clients. Vanbreda International's strong presence in Europe complements the Company's position in providing expatriate benefits primarily to corporate clients in North America, as well as in Europe and Asia.

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. Accordingly, approximately $210 million was allocated to intangible assets, primarily customer relationships. The weighted average amortization period is 15 years. The condensed balance sheet at the acquisition date was as follows:

(In millions)		
Investments	$	39
Cash and cash equivalents		73
Premiums, accounts and notes receivable		22
Property and equipment		1
Deferred income taxes		(71)
Goodwill		229
Other assets, including other intangibles		220
Total assets acquired		513
Accounts payable, accrued expenses and other liabilities		101

Total liabilities acquired		101
Net assets acquired	$	412

Goodwill is allocated to the International segment. For foreign tax purposes, the acquisition of Vanbreda International is being treated as a stock purchase. Accordingly, goodwill and other intangible assets will not be amortized for foreign tax purposes but may reduce the taxability of earnings repatriated to the U.S. by Vanbreda International.

The results of Vanbreda International are included in the Company's Consolidated Financial Statements from the date of acquisition. The pro forma effect on total revenues and net income assuming the acquisition had occurred as of January 1, 2009 was not material to the Company's total revenues and shareholders' net income for the three months and nine months ended September 30, 2010.

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NOTE 4 Earnings Per Share (“EPS”)

Basic and diluted earnings per share were computed as follows:

Three Months Ended September 30,						
(Dollars in millions, except per share amounts)		**Basic**		**Effect of Dilution**		**Diluted**
2011						
Shareholders’ net income	$	200			$	200
Shares *(in thousands):*						
Weighted average		268,569				268,569
Common stock equivalents				3,491		3,491
Total shares		268,569		3,491		272,060
EPS	$	0.74	$	-	$	0.74
2010						
Shareholders’ net income	$	307			$	307
Shares *(in thousands):*						
Weighted average		270,497				270,497
Common stock equivalents				2,343		2,343
Total shares		270,497		2,343		272,840
EPS	$	1.13	$	-	$	1.13

Nine Months Ended September 30,						
(Dollars in millions, except per share amounts)		**Basic**		**Effect of Dilution**		**Diluted**
2011						
Shareholders’ net income	$	1,037			$	1,037
Shares *(in thousands):*						
Weighted average		269,163				269,163
Common stock equivalents				3,721		3,721
Total shares		269,163		3,721		272,884
EPS	$	3.85	$	(0.05)	$	3.80
2010						
Shareholders’ net income	$	884			$	884
Shares *(in thousands):*						
Weighted average		273,748				273,748
Common stock equivalents				2,395		2,395
Total shares		273,748		2,395		276,143

EPS	$	3.23	$	(0.03)	$	3.20

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) as their exercise price was greater than the average share price of the Company's common stock for the period.

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
(In millions)	**2011**	**2010**	**2011**	**2010**
Antidilutive options	3.9	6.7	3.6	6.2

The Company held 80,697,257 shares of common stock in Treasury as of September 30, 2011, and 80,096,166 shares as of September 30, 2010.

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NOTE 5 Health Care Medical Claims Payable

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

(In millions)	**September 30, 2011**	**December 31, 2010**
Incurred but not yet reported	$ 981	$ 1,067
Reported claims in process	147	164
Other medical expense payable	17	15
MEDICAL CLAIMS PAYABLE	**$ 1,145**	**$ 1,246**

Activity in medical claims payable was as follows:

	For the period ended	
(In millions)	**September 30, 2011**	**December 31, 2010**
Balance at January 1,	$ 1,246	$ 921
Less: Reinsurance and other amounts recoverable	236	206
Balance at January 1, net	1,010	715
Incurred claims related to:		
Current year	6,249	8,663
Prior years	(124)	(93)
Total incurred	6,125	8,570
Paid claims related to:		
Current year	5,352	7,682
Prior years	830	593
Total paid	6,182	8,275
Ending Balance, net	953	1,010
Add: Reinsurance and other amounts recoverable	192	236
ENDING BALANCE	**$ 1,145**	**$ 1,246**

Reinsurance and other amounts recoverable reflect amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for minimum premium products and certain administrative services only business where the right of offset does not exist. See Note 11 for additional information on reinsurance. For the nine months ended September 30, 2011, actual experience differed from the Company's key assumptions resulting in favorable incurred claims related to prior years' medical claims payable of $124 million, or 1.4% of the current year incurred claims as reported for the year ended December 31, 2010. Actual completion factors resulted in a reduction in medical claims payable of $84 million, or 0.9% of the current year incurred claims as reported for the year ended

December 31, 2010 for the insured book of business. Actual medical cost trend resulted in a reduction in medical claims payable of $40 million, or 0.5% of the current year incurred claims as reported for the year ended December 31, 2010 for the insured book of business.

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

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The corresponding impact of prior year development on shareholders' net income was $52 million for the nine months ended September 30, 2011 compared with $26 million for the nine months ended September 30, 2010. The favorable effects of prior year development on net income in 2011 and 2010 primarily reflect low medical services utilization trend. The change in the amount of the incurred claims related to prior years in the medical claims payable liability does not directly correspond to an increase or decrease in the Company's shareholders' net income recognized for the following reasons.

First, the Company consistently recognizes the actuarial best estimate of the ultimate liability within a level of confidence, as required by actuarial standards of practice, that require the liabilities to be adequate under moderately adverse conditions. As the Company establishes the liability for each 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, changes in reserves for the Company's retrospectively experience-rated business do not always impact shareholders' net income. For the Company's retrospectively experience-rated business, only adjustments to medical claims payable on accounts in deficit affect shareholders' net income. An increase or decrease to medical claims payable on accounts in deficit, in effect, accrues to the Company and directly impacts shareholders' net income. An account is in deficit when the accumulated medical costs and administrative charges, including profit charges, exceed the accumulated premium received. Adjustments to medical claims payable on accounts in surplus accrue directly to the policyholder with no impact on the Company's shareholders' net income. An account is in surplus when the accumulated premium received exceeds the accumulated medical costs and administrative charges, including profit charges.

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

NOTE 6 Guaranteed Minimum Death Benefit Contracts

The Company had future policy benefit reserves for guaranteed minimum death benefit ("GMDB") contracts of $1.3 billion as of September 30, 2011 and $1.1 billion as of December 31, 2010. The determination of liabilities for GMDB requires the Company to make critical accounting estimates. The Company estimates its liabilities for GMDB exposures using an internal model run using many scenarios and based on assumptions regarding lapse, future partial surrenders, claim mortality (deaths that result in claims), interest rates (mean investment performance and discount rate) and volatility. These assumptions are based on the Company's experience and future expectations over the long-term period, consistent with the long-term nature of this product. The Company regularly evaluates these assumptions and changes its estimates if actual experience or other evidence suggests that assumptions should be revised. If actual experience differs from the assumptions used in estimating these liabilities, the result could have a material adverse effect on the Company's consolidated results of operations, and in certain situations, could have a material adverse effect on the Company's financial condition.

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

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

See Note 9 for further information on the Company’s dynamic hedge programs that are used to reduce certain equity and interest rate exposures associated with this business.

Since December 31, 2010, the Company updated its long-term assumption for assumed mean investment performance (“growth interest rate”) of the underlying equity mutual funds to use the market-observable LIBOR swap curve for the portion of the liability that is covered by the Company’s recently implemented growth interest rate hedge program.

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During the third quarter of 2011, the Company completed its normal review of reserves (including assumptions) and recorded additional other benefit expenses of $70 million ($45 million after-tax) to strengthen GMDB reserves. The reserve strengthening was driven primarily by:

- adverse volatility-related impacts of $34 million ($22 million after-tax) due to turbulent equity market conditions. Volatility risk is not covered by the hedging programs. Also, the equity market volatility reduced the effectiveness of the hedging program for equity market exposures, in part because the market does not offer futures contracts that exactly match the diverse mix of equity fund investments held by contractholders.

- adverse interest rate impacts of $23 million ($15 million after-tax) reflecting management's consideration of the anticipated impact of continuing low current short-term interest rates. This evaluation also led management to lower the mean investment performance assumption for equity funds from 5% to 4.75% for those funds not subject to the growth interest rate hedge program.

- adverse impacts of overall market declines of $13 million ($8 million after-tax), that includes an increase in the provision for expected future partial surrenders and declines in the value of contractholders' non-equity investments such as bond funds, neither of which are included in the hedge programs.

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

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

	For the period ended	
(In millions)	**September 30, 2011**	**December 31, 2010**
Balance at January 1	$ 1,138	$ 1,285
Add: Unpaid Claims	37	36
Less: Reinsurance and other amounts recoverable	51	53
Balance at January 1, net	1,124	1,268
Add: Incurred benefits	213	(20)
Less: Paid benefits	78	124
Ending balance, net	1,259	1,124
Less: Unpaid Claims	40	37
Add: Reinsurance and other amounts recoverable	58	51
ENDING BALANCE	**$ 1,277**	**$ 1,138**

Benefits paid and incurred are net of ceded amounts. Incurred benefits reflect the favorable or unfavorable impact of a rising or falling equity markets and interest rates on the liability, and include the 2011 and 2010 charges discussed above.

The aggregate value of the underlying mutual fund investments was $13.3 billion as of September 30, 2011 and $16.6 billion as of December 31, 2010. The death benefit coverage in force was $6.2 billion as of September 30, 2011 and $5.2 billion as of December 31, 2010. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the value of the underlying mutual fund investments for all contractholders (approximately 495,000 as of September 30, 2011 and 530,000 as of December 31, 2010).

The Company has also written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits (“GMIB”). All reinsured GMIB policies also have a GMDB benefit reinsured by the Company. See Note 7 for further information.

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NOTE 7 Fair Value Measurements

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

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

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

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

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

Financial Assets and Financial Liabilities Carried at Fair Value

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

September 30, 2011	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	
(In millions)	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 218	$ 726	$ 3	$ 947
State and local government	-	2,461	-	2,461
Foreign government	-	1,219	21	1,240
Corporate	-	10,228	395	10,623
Federal agency mortgage-backed	-	9	-	9
Other mortgage-backed	-	80	1	81
Other asset-backed	-	358	553	911
Total fixed maturities (1)	218	15,081	973	16,272
Equity securities	4	96	34	134
Subtotal	222	15,177	1,007	16,406
Short-term investments	-	290	-	290
GMIB assets (2)	-	-	741	741
Other derivative assets (3)	-	45	-	45
TOTAL FINANCIAL ASSETS AT FAIR VALUE, EXCLUDING SEPARATE ACCOUNTS	**$ 222**	**$ 15,512**	**$ 1,748**	**$ 17,482**

Financial liabilities at fair value:								
GMIB liabilities	$	-	$	-	$	1,384	$	1,384
Other derivative liabilities (3)		-		24		-		24
Total financial liabilities at fair value	$	-	$	24	$	1,384	$	1,408

(1) Fixed maturities includes $819 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $112 million of appreciation for securities classified in Level 3.

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

(3) Other derivative assets includes $10 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $35 million of interest rate swaps not designated as accounting hedges. Other derivative liabilities reflect foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 9 for additional information.

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December 31, 2010	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
(In millions)	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 133	$ 550	$ 4	$ 687
State and local government	-	2,467	-	2,467
Foreign government	-	1,137	17	1,154
Corporate	-	9,080	364	9,444
Federal agency mortgage-backed	-	10	-	10
Other mortgage-backed	-	85	3	88
Other asset-backed	-	348	511	859
Total fixed maturities (1)	133	13,677	899	14,709
Equity securities	6	87	34	127
Subtotal	139	13,764	933	14,836
Short-term investments	-	174	-	174
GMIB assets (2)	-	-	480	480
Other derivative assets (3)	-	19	-	19
TOTAL FINANCIAL ASSETS AT FAIR VALUE, EXCLUDING SEPARATE ACCOUNTS	**$ 139**	**$ 13,957**	**$ 1,413**	**$ 15,509**
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 903	$ 903
Other derivative liabilities (3)	-	32	-	32
Total financial liabilities at fair value	$ -	$ 32	$ 903	$ 935

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

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

(3) Other derivative assets include $16 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $3 million of interest rate swaps not designated as

accounting hedges. Other derivative liabilities reflect foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 9 for additional information.

Level 1 Financial Assets

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

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

Level 2 Financial Assets and Financial Liabilities

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

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

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

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

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties, and determined that no adjustment for credit risk was required as of September 30, 2011 or December 31, 2010. The nature and use of these other derivatives are described in Note 9.

Level 3 Financial Assets and Financial Liabilities

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

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

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

(In millions)	**September 30, 2011**	**December 31, 2010**
Other asset and mortgage-backed securities - valued using pricing models	$ 554	$ 514
Corporate and government bonds - valued using pricing models	358	312

Corporate bonds - valued at transaction price	61	73
Equity securities - valued at transaction price	34	34
TOTAL	**$ 1,007**	**$ 933**

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

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

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

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

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

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

- The projected interest rate used to calculate the reinsured income benefits is indexed to the 7-year Treasury Rate at the time of annuitization (claim interest rate) based on contractual terms. That rate was 1.43% at September 30, 2011 and must be projected for future time periods. These projected rates vary by economic scenario and are determined by an interest rate model using current interest rate curves and the prices of instruments available in the market including various interest rate caps and zero-coupon bonds. For a subset of the business, there is a contractually guaranteed floor of 3% for the claim interest rate.

- The market volatility assumptions for annuitants' underlying mutual fund investments that are modeled based on the S&P 500, Russell 2000 and NASDAQ Composite are based on the market-implied volatility for these indices for three to seven years grading to historical volatility levels thereafter. For the remaining 53% of underlying mutual fund investments modeled based on other indices (with insufficient market-observable data), volatility is based on the average historical level for each index over the past 10 years. Using this approach, volatility ranges from 16% to 39% for equity funds, 4% to 11% for bond funds, and 1% to 2% for money market funds.

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

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

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

- The nonperformance risk adjustment is incorporated by adding an additional spread to the discount rate in the calculation of both (1) the GMIB liability to reflect a hypothetical market participant's view of the risk of the Company not fulfilling its GMIB obligations, and (2) the GMIB asset to reflect a hypothetical market participant's view of the reinsurers' credit risk, after considering collateral. The estimated market-implied spread is company-specific for each party involved to the extent that company-specific market data is available and is based on industry averages for similarly rated companies when company-specific data is not available. The spread is impacted by the credit default swap spreads of the specific parent companies, adjusted to reflect subsidiaries' credit ratings relative to their parent company and any available collateral. The additional spread over LIBOR incorporated into the discount rate ranged from 10 to 160 basis points for the GMIB liability and from 10 to 145 basis points for the GMIB reinsurance asset for that portion of the interest rate curve most relevant to these policies.

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

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

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

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

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

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For the Three Months Ended September 30, 2011 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at July 1, 2011	$ 950	$ 490	$ (917)	$ (427)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	259	(483)	(224)
Other	(2)	-	-	-
Total gains (losses) included in shareholders' net income	(2)	259	(483)	(224)
Losses included in other comprehensive income	(1)	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	34	-	-	-
Purchases, sales and settlements:				
Purchases	9	-	-	-
Sales	(1)	-	-	-
Settlements	(3)	(8)	16	8
Total purchases, sales and settlements	5	(8)	16	8
Transfers into/(out of) Level 3:				
Transfers into Level 3	33	-	-	-
Transfers out of Level 3	(12)	-	-	-
Total transfers into/(out of) Level 3	21	-	-	-
Balance at September 30, 2011	$ 1,007	$ 741	$ (1,384)	$ (643)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ (2)**	**$ 259**	**$ (483)**	**$ (224)**

(1) Amounts do not accrue to shareholders.

For the Three Months Ended September 30, 2010 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at July 1, 2010	$ 945	$ 658	$ (1,221)	$ (563)

Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	24	(46)	(22)
Other	5	-	-	-
Total gains (losses) included in shareholders' net income	5	24	(46)	(22)
Gains included in other comprehensive income	9	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	30	-	-	-
Purchases, sales and settlements:				
Purchases	19	-	-	-
Settlements	(22)	(9)	21	12
Total purchases, sales and settlements	(3)	(9)	21	12
Transfers into/(out of) Level 3:				
Transfers into Level 3	27	-	-	-
Transfers out of Level 3	(24)	-	-	-
Total transfers into/(out of) Level 3	3	-	-	-
Balance at September 30, 2010	$ 989	$ 673	$ (1,246)	$ (573)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 5**	**$ 24**	**$ (46)**	**$ (22)**

(1) Amounts do not accrue to shareholders.

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For the Nine Months Ended September 30, 2011 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at January 1, 2011	$ 933	$ 480	$ (903)	$ (423)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	286	(531)	(245)
Other	5	-	-	-
Total gains (losses) included in shareholders' net income	5	286	(531)	(245)
Gains included in other comprehensive income	7	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	39	-	-	-
Purchases, sales and settlements:				
Purchases	58	-	-	-
Sales	(1)	-	-	-
Settlements	(34)	(25)	50	25
Total purchases, sales and settlements	23	(25)	50	25
Transfers into/(out of) Level 3:				
Transfers into Level 3	52	-	-	-
Transfers out of Level 3	(52)	-	-	-
Total transfers into/(out of) Level 3	-	-	-	-
Balance at September 30, 2011	$ 1,007	$ 741	$ (1,384)	$ (643)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 4**	**$ 286**	**$ (531)**	**$ (245)**

(1) Amounts do not accrue to shareholders.

For the Nine Months Ended September 30, 2010 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at January 1, 2010	$ 845	$ 482	$ (903)	$ (421)

Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	211	(393)	(182)
Other	17	-	-	-
Total gains (losses) included in shareholders' net income	17	211	(393)	(182)
Gains included in other comprehensive income	30	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	91	-	-	-
Purchases, sales and settlements:				
Purchases	39	-	-	-
Sales	(1)	-	-	-
Settlements	(67)	(20)	50	30
Total purchases, sales and settlements	(29)	(20)	50	30
Transfers into/(out of) Level 3:				
Transfers into Level 3	99	-	-	-
Transfers out of Level 3	(64)	-	-	-
Total transfers into/(out of) Level 3	35	-	-	-
Balance at September 30, 2010	$ 989	$ 673	$ (1,246)	$ (573)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 14**	**$ 211**	**$ (393)**	**$ (182)**

(1) Amounts do not accrue to shareholders.

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

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

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

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

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

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

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

GMIB fair value losses of $224 million for the three months ended September 30, 2011 and $245 million for the nine months ended September 30, 2011 were primarily due to declining interest rates. The fair value losses for the three months ended September 30, 2011 were also impacted by decreases in underlying account values.

Beginning in February 2011, the Company implemented a dynamic equity hedge program to reduce a portion of the equity market exposures related to GMIB contracts ("GMIB equity hedge program") by entering into exchange-traded futures contracts. The Company also implemented a dynamic interest rate hedge program that reduces a portion of the interest rate exposure related to GMIB contracts ("GMIB growth interest rate hedge program") using LIBOR swap contracts and interest rate futures contracts. See Note 9 for further information.

GMIB fair value losses of $22 million for the three months ended September 30, 2010 and $182 million for the nine months ended September 30, 2010, were primarily a result of declining interest rates, partially offset by increases in underlying account values that occurred during those periods.

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Separate account assets

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

September 30, 2011	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	
(In millions)	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Guaranteed separate accounts (See Note 17)	$ 238	$ 1,446	$ -	$ 1,684
Non-guaranteed separate accounts [1]	1,545	3,936	753	6,234
TOTAL SEPARATE ACCOUNT ASSETS	**$ 1,783**	**$ 5,382**	**$ 753**	**$ 7,918**

(1) As of September 30, 2011, non-guaranteed separate accounts include $2.9 billion in assets supporting the Company's pension plans, including $708 million classified in Level 3.

December 31, 2010	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	
(In millions)	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Guaranteed separate accounts (See Note 17)	$ 286	$ 1,418	$ -	$ 1,704
Non-guaranteed separate accounts [1]	1,947	3,663	594	6,204
TOTAL SEPARATE ACCOUNT ASSETS	**$ 2,233**	**$ 5,081**	**$ 594**	**$ 7,908**

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

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

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

-

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

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

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

(In millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Balance at July 1	$ 644	$ 534
Policyholder gains (1)	23	17
Purchases, sales and settlements:		
Purchases	111	118
Sales	(10)	(97)
Settlements	(18)	(9)
Total purchases, sales and settlements	83	12
Transfers into/(out of) Level 3:		
Transfers into Level 3	4	3
Transfers out of Level 3	(1)	(2)
Total transfers into/(out of) Level 3	3	1
BALANCE AT SEPTEMBER 30	**$ 753**	**$ 564**

(1) Included in this amount are gains of $23 million at September 30, 2011 and $5 million at September 30, 2010 attributable to instruments still held.

(In millions)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Balance at January 1	$ 594	$ 550
Policyholder gains (1)	101	31
Purchases, sales and settlements:		
Purchases	226	161
Sales	(51)	(124)
Settlements	(111)	(36)
Total purchases, sales and settlements	64	1
Transfers into/(out of) Level 3:		
Transfers into Level 3	4	4
Transfers out of Level 3	(10)	(22)
Total transfers into/(out of) Level 3	(6)	(18)
BALANCE AT SEPTEMBER 30	**$ 753**	**$ 564**

(1) Included in this amount are gains of $84 million at September 30, 2011 and $16 million at September 30, 2010 attributable to instruments still held.

Assets and Liabilities Measured at Fair Value under Certain Conditions

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

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

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

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Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

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

	September 30, 2011		December 31, 2010	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Commercial mortgage loans	$ 3,395	$ 3,299	$ 3,470	$ 3,486
Contractholder deposit funds, excluding universal life products	$ 1,038	$ 1,019	$ 1,001	$ 989
Long-term debt, including current maturities, excluding capital leases	$ 3,478	$ 3,087	$ 2,926	$ 2,709

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

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

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

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

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

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NOTE 8 Investments

Total Realized Investment Gains and Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Fixed maturities	$ (14)	$ 14	$ 36	$ 48
Equity securities	(9)	4	(5)	7
Commercial mortgage loans	-	(1)	(16)	(16)
Other investments, including derivatives	36	11	41	5
Realized investment gains before income taxes	13	28	56	44
Less income taxes	4	10	19	15
NET REALIZED INVESTMENT GAINS	**$ 9**	**$ 18**	**$ 37**	**$ 29**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Credit-related (1)	$ 5	$ 1	$ 21	$ 31
Other (2)	22	-	24	1
TOTAL	**$ 27**	**$ 1**	**$ 45**	**$ 32**

(1) Credit-related losses include other-than-temporary declines in fair value of fixed maturities and equity securities, and changes in valuation reserves and asset write-downs related to commercial mortgage loans and investments in real estate entities.

(2) Other primarily represents the impact of rising market yields on investments where the Company could not demonstrate the intent and ability to hold until recovery.

Fixed Maturities and Equity Securities

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

(In millions)		**As of September 30, 2011**		**As of December 31, 2010**
Included in fixed maturities:				
Trading securities (amortized cost: $2; $3)	$	2	$	3
Hybrid securities (amortized cost: $29; $45)		31		52
TOTAL	**$**	**33**	**$**	**55**
Included in equity securities:				
Hybrid securities (amortized cost: $112; $108)	$	87	$	86

Fixed maturities included $81 million at September 30, 2011, that were pledged as collateral to brokers as required under certain futures contracts. These fixed maturities were primarily federal government securities.

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

(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 954	$ 966
Due after one year through five years	4,738	5,069
Due after five years through ten years	5,200	5,746
Due after ten years	2,605	3,459
Other asset and mortgage-backed securities	845	999
TOTAL	**$ 14,342**	**$ 16,239**

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

Gross unrealized appreciation (depreciation) on fixed maturities (excluding trading securities and hybrid securities with a fair value of $33 million at September 30, 2011 and $55 million at December 31, 2010) by type of issuer is shown below.

	September 30, 2011			
(In millions)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Federal government and agency	$ 549	$ 398	$ -	$ 947
State and local government	2,214	251	(4)	2,461
Foreign government	1,148	94	(2)	1,240
Corporate	9,586	1,047	(41)	10,592
Federal agency mortgage-backed	9	-	-	9
Other mortgage-backed	75	10	(4)	81
Other asset-backed	761	158	(10)	909
TOTAL	**$ 14,342**	**$ 1,958**	**$ (61)**	**$ 16,239**

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

Other asset-backed		752		117		(12)		857
TOTAL	**$**	**13,397**	**$**	**1,336**	**$**	**(79)**	**$**	**14,654**

The above table includes investments with a fair value of $2.9 billion supporting the Company's run-off settlement annuity business, with gross unrealized appreciation of $842 million and gross unrealized depreciation of $23 million at September 30, 2011. Such unrealized amounts are required to support future policy benefit liabilities of this business and, as such, are not included in accumulated other comprehensive income. At December 31, 2010, investments supporting this business had a fair value of $2.5 billion, gross unrealized appreciation of $476 million and gross unrealized depreciation of $33 million.

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

(In millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Proceeds from sales	$ 153	$ 239	$ 457	$ 688
Gross gains on sales	$ 8	$ 9	$ 36	$ 36
Gross losses on sales	$ (3)	$ -	$ (4)	$ (3)

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

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

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

(In millions)	Fair Value	Amortized Cost	Unrealized Depreciation	Number of Issues
Fixed maturities:				
One year or less:				
Investment grade	$ 635	$ 654	$ (19)	232
Below investment grade	$ 381	$ 388	$ (7)	195
More than one year:				
Investment grade	$ 234	$ 261	$ (27)	56
Below investment grade	$ 25	$ 33	$ (8)	15

The unrealized depreciation of investment grade fixed maturities is primarily due to increases in market yields since purchase. Equity securities with a fair value lower than cost were not material as of September 30, 2011.

Commercial Mortgage Loans

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

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

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

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

(Dollars in millions)	**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%	$ 274	$ -	$ 4	$ 50	$ 9	$ 337
50% to 59%	368	102	26	-	53	549
60% to 69%	517	140	42	-	74	773
70% to 79%	150	133	142	159	37	621
80% to 89%	112	81	115	72	72	452
90% to 99%	36	35	30	59	116	276
100% or above	-	10	50	87	144	291
TOTAL	**$ 1,457**	**$ 501**	**$ 409**	**$ 427**	**$ 505**	**$ 3,299**

The Company's annual in-depth review of its commercial mortgage loan investments is the primary mechanism for identifying emerging risks in the portfolio. The most recent review was completed by the Company's investment professionals in the second quarter of 2011 and included an analysis of each underlying property's most recent annual financial statements, rent rolls, operating plans, budgets, a physical inspection of the property and other pertinent factors. Based on historical results, current leases, lease expirations and rental conditions in each market, the Company estimates the current year and future stabilized property income and fair value, and categorizes the investments as loans in good standing, potential problem loans or problem loans. Based on property valuations and cash flows estimated as part of this review, and considering updates for loans where material changes were subsequently identified, the portfolio's average loan-to-value ratio improved to 71% at September 30, 2011, decreasing from 74% as of December 31, 2010. The portfolio's average debt service coverage ratio was estimated to be 1.36 as of September 30, 2011, a decrease from 1.38 as of December 31, 2010, reflecting payoff activity on loans with high debt service coverage ratios.

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

During the nine months ended September 30, 2011, the Company restructured a $65 million potential problem mortgage loan. The original loan was modified into two notes, including a $55 million loan at current market terms and a $10 million loan issued at a below market interest rate. This modification is considered a troubled debt restructuring because the borrower was experiencing financial difficulties and a concession was granted as the second loan was issued at a below market interest rate. No valuation reserve was required because the fair value of the underlying property exceeds the total outstanding loans. As a part of this restructuring, both the borrower and the Company have committed to fund additional capital for leasing and capital requirements.

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

Potential problem mortgage loans are considered current (no payment more than 59 days past due), but exhibit certain characteristics that increase the likelihood of future default. The characteristics management considers include, but are not limited to, the deterioration of debt service coverage below 1.0, an increase of estimated loan-to-value ratios to 100% or more, downgrade in quality rating and request from the borrower for restructuring. In addition, loans are considered potential problems if principal or interest payments are past due by more than 30 but less than 60 days. Problem mortgage loans are either in default by 60 days or more or have been restructured as to terms, which could include concessions on interest rate, principal payment or maturity date. The Company monitors each problem and potential problem mortgage loan on an ongoing basis, and updates the loan categorization and quality rating when warranted.

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

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

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

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

The average recorded investment in impaired loans was $166 million for the nine months ended September 30, 2011 and $185 million for the nine months ended September 30, 2010. The Company recognizes interest income on problem mortgage loans only when payment is actually received because of the risk profile of the underlying investment. Interest income that would have been reflected in net income if interest on non-accrual commercial mortgage loans had been received in accordance with the original terms was not significant for the nine months ended September 30, 2011 or 2010. Interest income on impaired commercial mortgage loans was not significant for the nine months ended September 30, 2011 or 2010.

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

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

Short-Term Investments and Cash Equivalents

Short-term investments and cash equivalents include corporate securities of $1.5 billion, federal government securities of $203 million and money market funds of $33 million as of September 30, 2011. The Company's short-term investments and cash equivalents as of December 31, 2010 included corporate securities of $1.1 billion, federal government securities of $137 million and money market funds of $40 million.

NOTE 9 Derivative Financial Instruments

Derivative instruments associated with the Company's run-off reinsurance segment. GMIB liabilities and assets are considered derivatives because cash flows are affected by equity markets and interest rates, but are without significant life insurance risk and are settled in lump sum payments. The Company reports these GMIB liabilities and assets as derivatives at fair value; see Note 7 for further details.

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

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The Company manages these hedge programs using exchange-traded equity, foreign currency and interest rate futures contracts, and interest rate swap contracts. These contracts are generally expected to rise in value as equity markets and interest rates decline, and decline in value as equity markets and interest rates rise.

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

See Notes 6 and 7 for further details regarding these businesses.

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

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

The Company accounts for derivative instruments as follows:

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

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

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

Collateral and termination features. Certain of the Company's over-the-counter derivative instruments contain provisions requiring either the Company or the counterparty to post collateral 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, 2011 and December 31, 2010.

The following tables present information about the Company's primary derivative financial instruments, excluding derivatives in the Company's separate accounts because those associated gains and losses generally accrue directly to policyholders.

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Instrument / Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Designated as Accounting Hedges - Cash Flow Hedges				
Interest rate swaps — $136 million as of September 30, 2011 and $153 million as of December 31, 2010 of par value of related investments **Foreign currency swaps — $134 million as of September 30, 2011 and $159 million as of December 31, 2010 of U.S. dollar equivalent par value of related investments** **Combination swaps (interest rate and foreign currency) — $64 million as of September 30, 2011 and December 31, 2010 of U.S. dollar equivalent par value of related investments**	Interest rate and foreign currency	To hedge the interest and/or foreign currency cash flows of fixed maturities to match associated liabilities. Currency swaps are primarily euros, Australian dollars, Canadian dollars, Japanese yen, and British pounds for periods of up to 10 years.	The Company periodically exchanges cash flows between variable and fixed interest rates and/or between two currencies for both principal and interest. Net interest cash flows are reported in operating activities.	Using cash flow hedge accounting, fair values are reported in other long-term investments or other liabilities and accumulated other comprehensive income and amortized into net investment income or reported in other realized investment gains and losses as interest or principal payments are received.

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**	**Three Months Ended**		**Nine Months Ended**	
Instrument	**September 30, 2011**	**December 31, 2010**	**September 30, 2011**	**December 31, 2010**	**September 30, 2011**	**2010**	**September 30, 2011**	**2010**
Interest rate swaps	$ 8	$ 10	$ -	$ -	$ -	$ 1	$ (2)	$ 4
Foreign currency swaps	2	6	16	20	10	(11)	-	7

Interest rate and foreign currency swaps	-	-	8	12	9	(9)	4	(1)
TOTAL	**$ 10**	**$ 16**	**$ 24**	**$ 32**	**$ 19**	**$ (19)**	**$ 2**	**$ 10**

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

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

Fair Value Effect on the Financial Statements

During the first quarter of 2009, the remaining treasury locks matured and the Company recognized a gain of $14 million in other comprehensive income, resulting in net cumulative losses of $36 million ($23 million after-tax) recorded in other comprehensive income, that are being amortized over the period of expected cash flows. The remaining unamortized balance in other comprehensive income was $17 million after-tax as of September 30, 2011 and $19 million after-tax as of December 31, 2010.

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

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Instrument / Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Not Designated As Accounting Hedges				
Written options (GMIB liability) — $1,318 million as of September 30, 2011 and $1,134 million as of December 31, 2010 of maximum potential undiscounted future payments as defined in Note 17 **Purchased options (GMIB asset) — $725 million as of September 30, 2011 and $624 million as of December 31, 2010 of maximum potential undiscounted future receipts as defined in Note 17**	Equity and interest rate	The Company has written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits. According to the contractual terms of written reinsurance contracts, payment by the Company depends on the actual account value in the underlying mutual funds and the level of interest rates when the contractholders elect to receive minimum income payments. The Company purchased reinsurance contracts to reduce a portion of the risks assumed. These contracts are accounted for as written and purchased	The Company periodically receives (pays) fees based on either contractholders' account values or deposits increased at a contractual rate. The Company will also pay (receive) cash depending on changes in account values and interest rates when contractholders first elect to receive minimum income payments. These cash flows are reported in operating activities.	Fair values are reported in other liabilities (GMIB liability) and other assets (GMIB asset). Changes in fair value are reported in GMIB fair value (gain) loss.

options.

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

	Other Assets, including other intangibles		Accounts Payable, Accrued Expenses and Other Liabilities		GMIB Fair Value (Gain) Loss			
					Three Months Ended		Nine Months Ended	
	As of	As of	As of	As of	September 30,		September 30,	
Instrument	**September 30, 2011**	**December 31, 2010**	**September 30, 2011**	**December 31, 2010**	**2011**	**2010**	**2011**	**2010**
Written options (GMIB liability)			$ 1,384	$ 903	$ 483	$ 46	$ 531	$ 393
Purchased options (GMIB asset)	$ 741	$ 480			(259)	(24)	(286)	(211)
TOTAL	**$ 741**	**$ 480**	**$ 1,384**	**$ 903**	**$ 224**	**$ 22**	**$ 245**	**$ 182**

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Instrument / Volume of Activity	**Primary Risk**	**Purpose**	**Cash Flows**	**Accounting Policy**
Derivatives Not Designated As Accounting Hedges				
Futures — $1,056 million and $878 million of U.S. dollar equivalent notional value as of September 30, 2011 and December 31, 2010	Equity and foreign currency	To reduce domestic and international equity market exposures resulting from changes in variable annuity account values based on underlying mutual funds for certain reinsurance contracts that guarantee minimum death benefits (GMDB) (excluding exposures due to partial surrenders) and a portion (approximately one-quarter) of these risks associated with certain reinsurance contracts	The Company receives (pays) cash daily in the amount of the change in fair value of the futures contracts. Cash flows are included in operating activities.	Fair value changes are reported in other revenues. Amounts not yet settled from the previous day's fair value change (daily variation margin) are reported in other assets and other liabilities.

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

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

	Other Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Futures for GMDB exposures	$ 100	$ (119)	$ 51	$ (72)
Futures for GMIB exposures	10		10	
TOTAL FUTURES	**$ 110**	**$ (119)**	**$ 61**	**$ (72)**

Interest rate swaps — $240 million of swap notional value as of September 30, 2011	Interest rate	To reduce the exposure to changes in interest rate levels on the growth rate for certain contracts that guarantee minimum death benefits and minimum	For interest rate swaps, the Company periodically exchanges cash flows between variable and fixed interest rates. Cash flows are included in operating activities.	For interest rate swaps, fair values are reported in other assets and other liabilities, with changes in fair value and interest income and interest expense reported in other revenues.

	income benefits. The hedge program covers approximately one-third of the GMDB and approximately one-quarter of the GMIB growth interest exposures.		
Interest rate futures — $656 million notional value of Eurodollar futures contracts and $34 million notional value of U.S. Treasury futures contracts as of September 30, 2011		For interest rate futures, the Company receives (pays) cash daily in the amount of the change in fair value of the futures contracts. Cash flows are included in operating activities.	For interest rate futures, fair value changes are reported in other revenues. Amounts not yet settled from the previous day's fair value change (daily variation margin) are reported in other assets and other liabilities.

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

	Other assets, including other intangibles	Other Revenues	
	As of	Three Months Ended	Nine Months Ended
	September 30, 2011	September 30, 2011	September 30, 2011
Interest rate swaps	$ 33	$ 25	$ 37
Interest rate futures		(2)	(2)
TOTAL SWAPS		**$ 23**	**$ 35**

AND FUTURES		
Derivatives for GMDB exposures	$ 20	$ 30
Derivatives for GMIB exposures	3	5
TOTAL SWAPS AND FUTURES	**$ 23**	**$ 35**

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Instrument / Volume of Activity	**Primary Risk**	**Purpose**	**Cash Flows**	**Accounting Policy**
Derivatives Not Designated As Accounting Hedges				
Interest rate swaps — $40 million and $45 million of par value of related investments as of September 30, 2011 and December 31, 2010	Interest rate	To hedge the interest cash flows of fixed maturities to match associated liabilities.	The Company periodically exchanges cash flows between variable and fixed interest rates and these cash flows are included in investing activities.	Fair values are reported in other long-term investments or other liabilities, with changes in fair value reported in other realized investment gains and losses.

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

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

NOTE 10 Variable Interest Entities

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

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

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

In the normal course of its investing activities, the Company makes passive investments in securities that are issued by variable interest entities for which the Company is not the sponsor or manager. These investments are predominantly asset-backed securities primarily collateralized by foreign bank obligations 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. The Company is not the primary beneficiary and does not consolidate any of these entities because either:

- it had no power to direct the activities that most significantly impact the entities' economic performance; or
- it had 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. The Company performs ongoing qualitative analyses of its involvement with these variable interest entities to determine if consolidation is required. The Company's maximum potential exposure to loss related to these entities is limited to the carrying amount of its investment reported in fixed maturities and equity securities, and its aggregate ownership interest is insignificant relative to the total principal amount issued by these entities.

NOTE 11 Reinsurance

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

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Retirement benefits business. The Company had reinsurance recoverables of $1.5 billion as of September 30, 2011 and $1.7 billion as of December 31, 2010 from Prudential Retirement Insurance and Annuity Company resulting from the sale of the retirement benefits business, which was primarily in the form of a reinsurance arrangement. The reinsurance recoverable, that is reduced as the Company's reinsured liabilities are paid or directly assumed by the reinsurer, is secured primarily by fixed maturities whose book value is equal to or greater than 100% of the reinsured liabilities. These fixed maturities are held in a trust established for the benefit of the Company. As of September 30, 2011, the book value of the trust assets exceeded the recoverable.

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

Other Ceded and Assumed Reinsurance

Ceded Reinsurance: Ongoing operations. The Company's insurance subsidiaries have reinsurance recoverables from various reinsurance arrangements in the ordinary course of business for its Health Care, Disability and Life, and International segments as well as the non-leveraged and leveraged corporate-owned life insurance business. Reinsurance recoverables of $269 million as of September 30, 2011 are expected to be collected from more than 60 reinsurers.

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

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

Liabilities related to GMDB, workers' compensation and personal accident are included in future policy benefits and unpaid claims. The reinsurance recoverables for GMDB, workers' compensation, and personal accident total $271 million as of September 30, 2011. Of this amount, over 90% are secured by assets in trust or letters of credit. Because the GMIB contracts are treated as derivatives under GAAP, the asset related to GMIB is recorded in Other assets, including other intangibles and the liability is recorded in Accounts payable, accrued expenses and other liabilities (see Notes 7 and 17 for additional discussion of these GMIB assets and liabilities).

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, 2011, the Company's recoverables related to this segment were net of a reserve of $1 million.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Ceded premiums and fees				
Individual life insurance and annuity business sold	$ 50	$ 47	$ 146	$ 142
Other	62	52	179	181
TOTAL	**$ 112**	**$ 99**	**$ 325**	**$ 323**
Reinsurance recoveries				
Individual life insurance and annuity business sold	$ 67	$ 87	$ 219	$ 235
Other	64	45	157	138
TOTAL	**$ 131**	**$ 132**	**$ 376**	**$ 373**

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. Effective July 1, 2009, the Company froze its primary domestic defined benefit pension plans.

For the nine months ended September 30, 2011, the Company's postretirement benefits liability decreased by $20 million pre-tax ($13 million after-tax) resulting in an increase in shareholders' equity. This was primarily a result of net amortization of actuarial losses and prior service cost and, to a lesser extent, the results of the annual actuarial review completed during the second quarter of 2011.

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

	Pension Benefits		Other Postretirement Benefits	
(In millions)	**Three Months Ended**	**Nine Months Ended**	**Three Months Ended**	**Nine Months Ended**

	September 30,		September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	$ -	$ -	$ 1	$ 1	$ -	$ -	$ 1	$ 1
Interest cost	57	61	171	181	5	7	15	17
Expected long-term return on plan assets	(67)	(63)	(200)	(189)	-	(1)		(1)
Amortization of:								
Net loss from past experience	10	7	29	21	-	-	-	-
Prior service cost	-	-	-	-	(4)	(5)	(12)	(14)
NET PENSION COST	**$ -**	**$ 5**	**$ 1**	**$ 14**	**$ 1**	**$ 1**	**$ 4**	**$ 3**

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, 2011, the Company contributed $231 million, of which $77 million was required and $154 million was voluntary. For the remainder of 2011, the Company expects to make additional contributions of $19 million.

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NOTE 13 Debt

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

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

In June 2011, the Company entered into a new five-year revolving credit and letter of credit agreement for $1.5 billion, which permits up to $500 million to be used for letters of credit. This agreement is diversified among 16 banks, with 3 banks each having 12% of the commitment and the remaining 13 banks having 64% of the commitment. The credit agreement includes options, which are subject to consent by the administrative agent and the committing banks, to increase the commitment amount to $2.0 billion and to extend the term past June of 2016. The credit agreement is available for general corporate purposes, including as a commercial paper backstop and for the issuance of letters of credit. This agreement includes certain covenants, including a financial covenant requiring the Company to maintain a total debt to adjusted capital ratio at or below 0.50. As of September 30, 2011, the Company had $1.4 billion of borrowing capacity under the bank line facility, reflecting $118 million of letters of credit issued as of September 30, 2011. Within the maximum debt coverage covenant in the agreement, the Company has approximately $4.8 billion of additional borrowing capacity in addition to the $3.2 billion of debt outstanding.

On March 7, 2011, the Company issued $300 million of 10-Year Notes due March 15, 2021 at a stated interest rate of 4.5% ($298 million, net of discount, with an effective interest rate of 4.683% per year) and $300 million of 30-Year Notes due March 15, 2041 at a stated interest rate of 5.875% ($298 million, net of discount, with an effective interest rate of 6.008% per year). Interest is payable on March 15 and September 15 of each year beginning September 15, 2011. The proceeds of this debt will be used for general corporate purposes, including the repayment of debt maturing in 2011.

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

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

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

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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. Changes in accumulated other comprehensive loss were as follows:

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Three Months Ended September 30, 2011			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the period	$ 115	$ (39)	$ 76
Reclassification adjustment for losses included in shareholders' net income	23	(8)	15
Net unrealized appreciation, securities	$ 138	$ (47)	$ 91
Net unrealized depreciation, derivatives	**$ 20**	**$ (7)**	**$ 13**
Net translation of foreign currencies	**$ (131)**	**$ 18**	**$ (113)**
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	$ 6	$ (2)	$ 4
Net postretirement benefits liability adjustment	$ 6	$ (2)	$ 4
Three Months Ended September 30, 2010			
Net unrealized appreciation, securities:			