CIGNA CORP
Form 10-Q
August 05, 2010

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from _____ to _____
Commission file number 1-08323
CIGNA Corporation
(Exact name of registrant as specified in its charter)

Delaware	**06-1059331**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Two Liberty Place, 1601 Chestnut Street
Philadelphia, Pennsylvania 19192
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code **(215) 761-1000**

Registrant s facsimile number, including area code **(215) 761-3596**
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark 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). Yes þ No o
Indicate by check mark 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 þ Accelerated filer o Non-accelerated filer o Smaller Reporting Company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of July 16, 2010, 272,188,406 shares of the issuer s common stock were outstanding.

CIGNA CORPORATION
INDEX

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Statements of Income	1
Consolidated Balance Sheets	2
Consolidated Statements of Comprehensive Income and Changes in Total Equity	3
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	45
Item 3. Quantitative and Qualitative Disclosures About Market Risk	78
Item 4. Controls and Procedures	79
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	80
Item 1. A. Risk Factors	81
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	82
Item 6. Exhibits	83
SIGNATURE	84
INDEX TO EXHIBITS	E-1

Exhibit 10.1
Exhibit 10.2
Exhibit 10.3
Exhibit 12
Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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

Table of Contents

Part I. ***FINANCIAL INFORMATION***
Item 1. ***FINANCIAL STATEMENTS***
CIGNA Corporation
Consolidated Statements of Income

(In millions, except per share amounts)	Unaudited Three Months Ended June 30, **2010**	2009	Unaudited Six Months Ended June 30, **2010**	2009
Revenues				
Premiums and fees	**$ 4,504**	$ 4,013	**$ 9,047**	$ 8,064
Net investment income	**283**	260	**549**	489
Mail order pharmacy revenues	**351**	316	**699**	628
Other revenues	**193**	(83)	**247**	134
Realized investment gains (losses):				
Other-than-temporary impairments on debt securities, net		(9)	**(1)**	(26)
Other realized investment gains (losses)	**22**	(9)	**17**	(28)
Total realized investment gains (losses)	**22**	(18)	**16**	(54)
Total revenues	**5,353**	4,488	**10,558**	9,261
Benefits and Expenses				
Health Care medical claims expense	**2,078**	1,748	**4,287**	3,528
Other benefit expenses	**977**	689	**1,856**	1,797
Mail order pharmacy cost of goods sold	**290**	255	**575**	507
GMIB fair value (gain) loss	**164**	(164)	**160**	(196)
Other operating expenses	**1,405**	1,330	**2,819**	2,722
Total benefits and expenses	**4,914**	3,858	**9,697**	8,358
Income from Continuing Operations before Income Taxes	**439**	630	**861**	903
Income taxes:				
Current	**68**	155	**155**	70
Deferred	**76**	40	**127**	190
Total taxes	**144**	195	**282**	260
Income from Continuing Operations	**295**	435	**579**	643
Income from Discontinued Operations, Net of Taxes				1
Net Income	**295**	435	**579**	644
Less: Net Income Attributable to Noncontrolling Interest	**1**		**2**	1

Shareholders Net Income	**$**	**294**	**$**	435	**$**	**577**	**$**	643
Basic Earnings Per Share:								
Shareholders income from continuing operations	**$**	**1.07**	$	1.59	**$**	**2.10**	$	2.35
Shareholders income from discontinued operations								
Shareholders net income	**$**	**1.07**	$	1.59	**$**	**2.10**	$	2.35
Diluted Earnings Per Share:								
Shareholders income from continuing operations	**$**	**1.06**	$	1.58	**$**	**2.08**	$	2.34
Shareholders income from discontinued operations								
Shareholders net income	**$**	**1.06**	$	1.58	**$**	**2.08**	$	2.34
Dividends Declared Per Share	**$**		$		**$**	**0.040**	$	0.040
Amounts Attributable to CIGNA:								
Shareholders income from continuing operations	**$**	**294**	**$**	435	**$**	**577**	**$**	642
Shareholders income from discontinued operations								1
Shareholders Net Income	**$**	**294**	$	435	**$**	**577**	$	643

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

Table of Contents

CIGNA Corporation
Consolidated Balance Sheets

(In millions, except per share amounts)	**Unaudited As of June 30, 2010**	As of December 31, 2009
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost, $13,322; $12,580)	**$ 14,744**	$ 13,443
Equity securities, at fair value (cost, $138; $137)	**117**	113
Commercial mortgage loans	**3,409**	3,522
Policy loans	**1,558**	1,549
Real estate	**195**	124
Other long-term investments	**608**	595
Short-term investments	**153**	493
Total investments	**20,784**	19,839
Cash and cash equivalents	**1,449**	924
Accrued investment income	**231**	238
Premiums, accounts and notes receivable, net	**1,457**	1,361
Reinsurance recoverables	**6,483**	6,597
Deferred policy acquisition costs	**997**	943
Property and equipment	**875**	862
Deferred income taxes, net	**868**	1,029
Goodwill	**2,879**	2,876
Other assets, including other intangibles	**1,195**	1,056
Separate account assets	**7,214**	7,288
Total assets	**$ 44,432**	$ 43,013
Liabilities		
Contractholder deposit funds	**$ 8,519**	$ 8,484
Future policy benefits	**8,358**	8,136
Unpaid claims and claim expenses	**3,947**	3,968
Health Care medical claims payable	**1,268**	921
Unearned premiums and fees	**410**	427
Total insurance and contractholder liabilities	**22,502**	21,936
Accounts payable, accrued expenses and other liabilities	**5,866**	5,797
Short-term debt	**326**	104
Long-term debt	**2,510**	2,436
Nonrecourse obligations	**23**	23
Separate account liabilities	**7,214**	7,288
Total liabilities	**38,441**	37,584

Contingencies Note 17				
Shareholders Equity				
Common stock (par value per share, $0.25; shares issued, 351)		**88**		88
Additional paid-in capital		**2,526**		2,514
Net unrealized appreciation, fixed maturities	**$ 569**		$ 378	
Net unrealized appreciation, equity securities	**3**		4	
Net unrealized depreciation, derivatives	**(10)**		(30)	
Net translation of foreign currencies	**(51)**		(12)	
Postretirement benefits liability adjustment	**(1,050)**		(958)	
Accumulated other comprehensive loss		**(539)**		(618)
Retained earnings		**9,129**		8,625
Less treasury stock, at cost		**(5,228)**		(5,192)
Total shareholders equity		**5,976**		5,417
Noncontrolling interest		**15**		12
Total equity		**5,991**		5,429
Total liabilities and equity		**$ 44,432**		$ 43,013
Shareholders Equity Per Share		**$ 21.89**		$ 19.75

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

Table of Contents

CIGNA Corporation
Consolidated Statements of Comprehensive Income and Changes in Total Equity

	Unaudited			
	2010		2009	
(In millions, except per share amounts)	Compre-hensive Income	Total Equity	Compre-hensive Income	Total Equity
Three Months Ended June 30,				
Common Stock, April 1 and June 30,		**$ 88**		$ 88
Additional Paid-In Capital, April 1,		**2,522**		2,505
Effects of stock issuance for employee benefit plans		**4**		1
Additional Paid-In Capital, June 30,		**2,526**		2,506
Accumulated Other Comprehensive Loss, April 1,		**(530)**		(1,036)
Implementation effect of updated guidance on other-than-temporary impairments				(18)
Net unrealized appreciation, fixed maturities	**$ 119**	**119**	$ 212	212
Net unrealized appreciation (depreciation), equity securities	**(1)**	**(1)**	2	2
Net unrealized appreciation on securities	**118**		214	
Net unrealized appreciation (depreciation), derivatives	**16**	**16**	(19)	(19)
Net translation of foreign currencies	**(43)**	**(43)**	42	42
Postretirement benefits liability adjustment	**(100)**	**(100)**	(20)	(20)
Other comprehensive income (loss)	**(9)**		217	
Accumulated Other Comprehensive Loss, June 30,		**(539)**		(837)
Retained Earnings, April 1,		**8,840**		7,536
Shareholders net income	**294**	**294**	435	435
Effects of stock issuance for employee benefit plans		**(5)**		(3)
Implementation effect of updated guidance on other-than-temporary impairment				18
Retained Earnings, June 30,		**9,129**		7,986
Treasury Stock, April 1,		**(5,119)**		(5,262)
Repurchase of common stock		**(123)**		
Other, primarily issuance of treasury stock for employee benefit plans		**14**		8

Treasury Stock, June 30,		**(5,228)**		(5,254)
Shareholders Comprehensive Income and Shareholders Equity	**285**	**5,976**	652	4,489
Noncontrolling interest, April 1,		**14**		7
Net income attributable to noncontrolling interest	**1**	**1**		
Accumulated other comprehensive income attributable to noncontrolling interest			2	2
Noncontrolling interest, June 30,	**1**	**15**	2	9
Total Comprehensive Income and Total Equity	**$ 286**	**$ 5,991**	$ 654	$ 4,498

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

Table of Contents

CIGNA Corporation
Consolidated Statements of Comprehensive Income and Changes in Total Equity

	Unaudited			
	2010		2009	
(In millions, except per share amounts)	Compre-hensive Income	Total Equity	Compre-hensive Income	Total Equity
Six Months Ended June 30,				
Common Stock, January 1 and June 30,		**$ 88**		$ 88
Additional Paid-In Capital, January 1,		**2,514**		2,502
Effects of stock issuance for employee benefit plans		**12**		4
Additional Paid-In Capital, June 30,		**2,526**		2,506
Accumulated Other Comprehensive Loss, January 1,		**(618)**		(1,074)
Implementation effect of updated guidance on other-than-temporary impairments				(18)
Net unrealized appreciation, fixed maturities	**$ 191**	**191**	$ 265	265
Net unrealized depreciation, equity securities	**(1)**	**(1)**		
Net unrealized appreciation on securities	**190**		265	
Net unrealized appreciation (depreciation), derivatives	**20**	**20**	(8)	(8)
Net translation of foreign currencies	**(39)**	**(39)**	14	14
Postretirement benefits liability adjustment	**(92)**	**(92)**	(16)	(16)
Other comprehensive income	**79**		255	
Accumulated Other Comprehensive Loss, June 30,		**(539)**		(837)
Retained Earnings, January 1,		**8,625**		7,374
Shareholders net income	**577**	**577**	643	643
Effects of stock issuance for employee benefit plans		**(62)**		(38)
Implementation effect of updated guidance on other-than-temporary impairments				18
Common dividends declared (per share: $0.04; $0.04)		**(11)**		(11)
Retained Earnings, June 30,		**9,129**		7,986
Treasury Stock, January 1,		**(5,192)**		(5,298)
Repurchase of common stock		**(123)**		
Other, primarily issuance of treasury stock for employee benefit plans		**87**		44

Treasury Stock, June 30,		**(5,228)**		(5,254)
Shareholders Comprehensive Income and Shareholders Equity	**656**	**5,976**	898	4,489
Noncontrolling interest, January 1,		**12**		6
Net income attributable to noncontrolling interest	**2**	**2**	1	1
Accumulated other comprehensive income attributable to noncontrolling interest	**1**	**1**	2	2
Noncontrolling interest, June 30,	**3**	**15**	3	9
Total Comprehensive Income and Total Equity	**$ 659**	**$ 5,991**	$ 901	$ 4,498

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

Table of Contents

CIGNA Corporation
Consolidated Statements of Cash Flows

(In millions)	Unaudited Six Months Ended June 30, **2010**	2009
Cash Flows from Operating Activities		
Net income	**$ 579**	$ 644
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**128**	145
Realized investment (gains) losses	**(16)**	54
Deferred income taxes	**127**	190
Gains on sale of businesses (excluding discontinued operations)	**(12)**	(16)
Income from discontinued operations, net of taxes		(1)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	**(100)**	(90)
Reinsurance recoverables	**17**	10
Deferred policy acquisition costs	**(87)**	(38)
Other assets	**(165)**	292
Insurance liabilities	**375**	(72)
Accounts payable, accrued expenses and other liabilities	**(87)**	(1,076)
Current income taxes	**18**	41
Other, net	**(4)**	29
Net cash provided by operating activities	**773**	112
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	**446**	397
Equity securities	**3**	13
Commercial mortgage loans	**37**	18
Other (primarily short-term and other long-term investments)	**641**	432
Investment maturities and repayments:		
Fixed maturities	**426**	640
Commercial mortgage loans	**51**	12
Investments purchased:		
Fixed maturities	**(1,617)**	(1,612)
Equity securities	**(4)**	
Commercial mortgage loans	**(65)**	(51)
Other (primarily short-term and other long-term investments)	**(329)**	(361)
Property and equipment purchases	**(120)**	(136)
Other (primarily other acquisitions/dispositions)	**(5)**	
Net cash used in investing activities	**(536)**	(648)
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	**701**	706
Withdrawals and benefit payments from contractholder deposit funds	**(629)**	(618)
Change in cash overdraft position	**32**	(13)

Net change in short-term debt				(197)
Issuance of long-term debt		**296**		346
Repayment of long-term debt		**(3)**		(2)
Repurchase of common stock		**(113)**		
Issuance of common stock		**28**		
Common dividends paid		**(11)**		(11)
Net cash provided by financing activities		**301**		211
Effect of foreign currency rate changes on cash and cash equivalents		**(13)**		5
Net increase (decrease) in cash and cash equivalents		**525**		(320)
Cash and cash equivalents, January 1,		**924**		1,342
Cash and cash equivalents, June 30,	**$**	**1,449**	$	1,022
Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	**$**	**134**	$	33
Interest paid	**$**	**84**	$	75

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

Table of Contents

CIGNA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

The Consolidated Financial Statements include the accounts of CIGNA Corporation and its significant subsidiaries (referred to collectively as the Company). 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 Form 10-K for the year ended December 31, 2009.

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.

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

Discontinued operations for the six months ended June 30, 2009 primarily represented a tax benefit associated with a past divestiture related to the completion of the 2005 and 2006 IRS examinations.

Unless otherwise indicated, amounts in these Notes exclude the effects of discontinued operations.

Note 2 Recent Accounting Pronouncements

Variable interest entities. Effective January 1, 2010, the Company adopted the Financial Accounting Standards Board s (FASB) amended guidance that requires ongoing qualitative analysis to determine whether a variable interest entity must be consolidated based on the entity s purpose and design, the Company s ability to direct the entity s activities that most significantly impact its economic performance, and the Company s right or obligation to participate in that performance (ASC 810). A variable interest entity is insufficiently capitalized or is not controlled by its equity owners through voting or similar rights. These amendments must be applied to qualifying special-purpose entities and troubled debt restructures formerly excluded from such analysis. On adoption and through June 30, 2010, the Company was not required to consolidate any variable interest entities and there were no effects to its results of operations or financial condition. Although consolidation was not required, disclosures about the Company s involvement with variable interest entities have been provided in Note 10.

Transfers of financial assets. Effective January 1, 2010, the Company adopted the FASB s guidance for accounting for transfers of financial assets (ASC 860) that changes the requirements for recognizing the transfer of financial assets and requires additional disclosures about a transferor s continuing involvement in transferred financial assets. The guidance also eliminates the concept of a qualifying special purpose entity when assessing transfers of financial instruments. On adoption, there were no effects to the Company s results of operations or financial condition.

Fair value measurements. The Company adopted the FASB s updated guidance on fair value measurements (ASU 2010-06) in the first quarter of 2010, which requires separate disclosures of significant transfers between levels in the fair value hierarchy. See Note 7 for additional information.

Other-than-temporary impairments. On April 1, 2009, the Company adopted the FASB s updated guidance for evaluating whether an impairment is other than temporary for fixed maturities with declines in fair value below amortized cost (ASC 320). A reclassification adjustment from retained earnings to accumulated other comprehensive income was required for previously impaired fixed maturities that had a non-credit loss as of the date of adoption, net of related tax effects.

The cumulative effect of adoption increased the Company s retained earnings in the second quarter of 2009 with an offsetting decrease to accumulated other comprehensive income of $18 million, with no overall change to shareholders equity. See Note 8 for information on the Company s other-than-temporary impairments including additional required disclosures.

Table of Contents

Note 3 Earnings Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

(Dollars in millions, except per share amounts)	**Basic**	**Effect of Dilution**	**Diluted**
Three Months Ended June 30,			
2010			
Shareholders income from continuing operations	**$ 294**		**$ 294**
Shares (in thousands):			
Weighted average	**275,107**		**275,107**
Common stock equivalents		**2,429**	**2,429**
Total shares	**275,107**	**2,429**	**277,536**
EPS	**$ 1.07**	**$ (0.01)**	**$ 1.06**
2009			
Shareholders income from continuing operations	$ 435		$ 435
Shares (in thousands):			
Weighted average	274,086		274,086
Common stock equivalents		969	969
Total shares	274,086	969	275,055
EPS	$ 1.59	$ (0.01)	$ 1.58

(Dollars in millions, except per share amounts)	**Basic**	**Effect of Dilution**	**Diluted**
Six Months Ended June 30,			
2010			
Shareholders income from continuing operations	**$ 577**		**$ 577**
Shares (in thousands):			
Weighted average	**275,398**		**275,398**
Common stock equivalents		**2,421**	**2,421**
Total shares	**275,398**	**2,421**	**277,819**
EPS	**$ 2.10**	**$ (0.02)**	**$ 2.08**
2009			
Shareholders income from continuing operations	$ 642		$ 642
Shares (in thousands):			
Weighted average	273,342		273,342
Common stock equivalents		623	623

Total shares	273,342	623	273,965
EPS	$ 2.35	$ (0.01)	$ 2.34

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 June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Antidilutive options	**6.8**	9.9	**6.0**	10.6

The Company held 77,905,033 shares of common stock in Treasury as of June 30, 2010, and 78,223,221 shares as of June 30, 2009.

Table of Contents

Note 4 Health Care Medical Claims Payable

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

(In millions)	**June 30, 2010**	December 31, 2009
Incurred but not yet reported	**$ 1,133**	$ 790
Reported claims in process	**116**	114
Other medical expense payable	**19**	17
Medical claims payable	**$ 1,268**	$ 921

Activity in medical claims payable was as follows:

	For the period ended	
(In millions)	**June 30, 2010**	December 31, 2009
Balance at January 1,	**$ 921**	$ 924
Less: Reinsurance and other amounts recoverable	**206**	211
Balance at January 1, net	**715**	713
Incurred claims related to:		
Current year	**4,362**	6,970
Prior years	**(75)**	(43)
Total incurred	**4,287**	6,927
Paid claims related to:		
Current year	**3,397**	6,278
Prior years	**567**	647
Total paid	**3,964**	6,925
Ending Balance, net	**1,038**	715
Add: Reinsurance and other amounts recoverable	**230**	206
Ending Balance	**$ 1,268**	$ 921

Table of Contents

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 six months ended June 30, 2010, actual experience differed from the Company s key assumptions resulting in favorable incurred claims related to prior years medical claims payable of $75 million, or 1.1% of the current year incurred claims as reported for the year ended December 31, 2009. Actual completion factors resulted in a reduction in medical claims payable of $39 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. Actual medical cost trend resulted in a reduction in medical claims payable of $36 million, or 0.5% of the current year incurred claims as reported for the year ended December 31, 2009 for the insured book of business.

For the year ended December 31, 2009, actual experience differed from the Company s key assumptions, resulting in favorable incurred claims related to prior years medical claims payable of $43 million, or 0.6% of the current year incurred claims as reported for the year ended December 31, 2008. Actual completion factors resulted in a reduction of the medical claims payable of $21 million, or 0.3% of the current year incurred claims as reported for the year ended December 31, 2008 for the insured book of business. Actual medical cost trend resulted in a reduction of the medical claims payable of $22 million, or 0.3% of the current year incurred claims as reported for the year ended December 31, 2008 for the insured book of business.

The favorable impacts in 2010 and 2009 relating to completion factors and medical cost trend variances are primarily due to the release of the provision for moderately adverse conditions, which is a component of the assumptions for both completion factors and medical cost trend, established for claims incurred related to prior years. This release was substantially offset by the provision for moderately adverse conditions established for claims incurred related to the current year.

The corresponding impact of prior year development on shareholders net income was not material for the six months ended June 30, 2010 and 2009. 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, due to the nature of 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.

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

The determination of liabilities for Health Care medical claims payable required the Company to make critical accounting estimates. See Note 2(N) to the Consolidated Financial Statements in the Company s 2009 Form 10-K.

Table of Contents

Note 5 Cost Reduction

As part of its strategy, the Company has undertaken several initiatives to realign its organization and consolidate support functions in an effort to increase efficiency and responsiveness to customers and to reduce costs.

During 2008 and 2009, the Company conducted a comprehensive review to reduce the operating expenses of its ongoing businesses (cost reduction program). As a result, the Company recognized severance-related and real estate charges in other operating expenses. As a result, in the second quarter of 2009 the Company recognized in other operating expenses a total charge of $14 million pre-tax ($9 million after-tax), for severance resulting from reductions of 465 positions in its workforce. There have been no charges in 2010.

Substantially all of these charges were recorded in the Health Care segment, and are expected to be paid in cash by the end of 2010.

Cost reduction activity for 2010 was as follows:

(In millions)	Severance	Real estate	Total
Balance, January 1, 2010	$ 33	$ 8	$ 41
Less:			
First quarter payments	10	1	11
Second quarter payments	8	5	13
Balance, June 30, 2010	$ 15	$ 2	$ 17

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 June 30, 2010 and December 31, 2009. The determination of liabilities for GMDB requires the Company to make critical accounting estimates. The Company estimates its liabilities for GMDB exposures using a complex internal model run using many scenarios and based on assumptions regarding lapse, future partial surrenders, claim mortality (deaths that result in claims), interest rates (mean investment performance and discount rate) and volatility. These assumptions are based on the Company s experience and future expectations over the long-term period, consistent with the long-term nature of this product. The Company regularly evaluates these assumptions and changes its estimates if actual experience or other evidence suggests that assumptions should be revised. If actual experience differs from the assumptions (including lapse, future partial surrenders, claim mortality, interest rates and volatility) 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.

The following provides updates to the Company s long-term assumptions for GMDB since December 31, 2009:

The annual election rates used to estimate the provision for partial surrenders that essentially lock in the death benefit for a particular policy were updated from 0%-22% at December 31, 2009 to 0%-21% at June 30, 2010. The range of rates reflects the variation in the net amount at risk for each policy and whether surrender charges apply.

The volatility assumption is based on a review of historical monthly returns for each key index (e.g. S&P 500) over a period of at least ten years. Volatility represents the dispersion of historical returns compared to the average historical return (standard deviation) for each index. The volatility assumption for equity fund types has been updated from 16%-30% at December 31, 2009 to 16%-27% at June 30, 2010.

Table of Contents

The claim mortality assumption has been updated from 70%-75% of the 1994 Group Annuity Mortality table at December 31, 2009 to 65%-89% at June 30, 2010, with 1% annual improvement beginning January 1, 2000 applying to both periods. The update reflects that for certain contracts, a spousal beneficiary is allowed to elect to continue a contract by becoming its new owner, thereby postponing the death claim rather than receiving the death benefit currently. For certain issuers of these contracts, the claim mortality assumption depends on age, gender, and net amount at risk for the policy. Overall assumed claim mortality rates have increased since December 31, 2009.

The lapse rate assumption has been updated from 0%-21% at December 31, 2009 to 0%-24% at June 30, 2010, depending on contract type, policy duration and the ratio of the net amount at risk to account value. Although the upper end of the range has increased, there is also a higher proportion of policies experiencing lower lapse rates, so overall, assumed lapse rates have declined since December 31, 2009.

In the first quarter of 2009, the Company reported a charge of $73 million pre-tax ($47 million after-tax) to strengthen GMDB reserves. The reserve strengthening primarily reflected an increase in the provision for future partial surrenders due to market declines, adverse volatility-related impacts due to turbulent equity market conditions, and interest rate impacts.

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

	For the period ended	
(In millions)	**June 30, 2010**	December 31, 2009
Balance at January 1	**$ 1,285**	$ 1,609
Add: Unpaid Claims	**36**	34
Less: Reinsurance and other amounts recoverable	**53**	83
Balance at January 1, net	**1,268**	1,560
Add: Incurred benefits	**90**	(122)
Less: Paid benefits	**61**	170
Ending balance, net	**1,297**	1,268
Less: Unpaid Claims	**36**	36
Add: Reinsurance and other amounts recoverable	**61**	53
Ending balance	**$ 1,322**	$ 1,285

Benefits paid and incurred are net of ceded amounts. Incurred benefits reflect the favorable or unfavorable impact of a rising or falling equity market on the liability, and include the charge discussed above. As discussed below, losses or gains have been recorded in other revenues as a result of the GMDB equity hedge program to reduce equity market exposures.

The aggregate value of the underlying mutual fund investments was $15.3 billion as of June 30, 2010 and $17.2 billion as of December 31, 2009. The death benefit coverage in force was $7.4 billion as of June 30, 2010 and $7.0 billion as of December 31, 2009. 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 560,000 as of June 30, 2010 and 590,000 as of December 31, 2009).

The Company operates a GMDB equity hedge program to substantially reduce the equity market exposures of this business by selling exchange-traded futures contracts, which are expected to rise in value as the equity market declines, and decline in value as the equity market rises. In addition, the Company uses foreign currency futures contracts to reduce the international equity market and foreign currency risks associated with this business. The notional amount of futures contract positions held by the Company at June 30, 2010 was $1.2 billion. The Company recorded in other revenues pre-tax gains of $92 million for the three months and $47 million for the six months ended

June 30, 2010, and pre-tax losses of $188 million for the three months and $71 million for the six months ended June 30, 2009.

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.

Table of Contents

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).

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. These procedures are overseen by the Company s investment professionals.

Table of Contents

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of June 30, 2010 and December 31, 2009 about the Company s financial assets and liabilities carried at fair value. Similar disclosures for separate account assets, which are also recorded at fair value on the Company s Consolidated Balance Sheets, are provided separately as gains and losses related to these assets generally accrue directly to policyholders.

June 30, 2010

(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 139	$ 614	$ 5	$ 758
State and local government		2,545		2,545
Foreign government		1,079	17	1,096
Corporate		9,190	361	9,551
Federal agency mortgage-backed		26		26
Other mortgage-backed		88	8	96
Other asset-backed		152	520	672
Total fixed maturities (1)	139	13,694	911	14,744
Equity securities	2	81	34	117
Subtotal	141	13,775	945	14,861
Short-term investments		153		153
GMIB assets (2)			658	658
Other derivative assets (3)		30		30
Total financial assets at fair value, excluding separate accounts	$ 141	$ 13,958	$ 1,603	$ 15,702
Financial liabilities at fair value:				
GMIB liabilities	$	$	$ 1,221	$ 1,221
Other derivative liabilities (3)		15		15
Total financial liabilities at fair value	$	$ 15	$ 1,221	$ 1,236

(1) Fixed maturities includes $544 million of net appreciation required to adjust future policy benefits

for the run-off settlement annuity business including $99 million of appreciation for securities classified in Level 3.

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

(3) Other derivative assets includes $26 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $4 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.

Table of Contents

December 31, 2009

(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 43	$ 527	$ 1	$ 571
State and local government		2,521		2,521
Foreign government		1,056	14	1,070
Corporate		8,241	344	8,585
Federal agency mortgage-backed		34		34
Other mortgage-backed		114	7	121
Other asset-backed		92	449	541
Total fixed maturities [1]	43	12,585	815	13,443
Equity securities	2	81	30	113
Subtotal	45	12,666	845	13,556
Short-term investments		493		493
GMIB assets [2]			482	482
Other derivative assets [3]		16		16
Total financial assets at fair value, excluding separate accounts	$ 45	$ 13,175	$ 1,327	$ 14,547
Financial liabilities at fair value:				
GMIB liabilities	$	$	$ 903	$ 903
Other derivative liabilities [3]		30		30
Total financial liabilities at fair value	$	$ 30	$ 903	$ 933

(1) Fixed maturities includes $274 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $38 million of

appreciation for securities classified in Level 3.

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

(3) *Other derivative assets include $12 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $4 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.

Table of Contents

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 compares market prices for these securities to recorded amounts to validate that current carrying amounts approximate exit prices. The short-term nature of the investments and corroboration of the reported amounts over the holding period support their classification in Level 2.

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties, and determined that no adjustment for credit risk was required as of June 30, 2010 or December 31, 2009. 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)	**June 30, 2010**	December 31, 2009
Other asset and mortgage-backed securities	**$ 528**	$ 456
Corporate bonds	**310**	288
Subordinated loans and private equity investments	**107**	101
Total	**$ 945**	$ 845

Fair values of mortgage and asset-backed securities and corporate bonds are determined using pricing models that incorporate the specific characteristics of each asset and related assumptions including the investment type and structure, credit quality, industry and maturity date in comparison to current market indices, spreads and liquidity of assets with similar characteristics. For mortgage and asset-backed securities, inputs and assumptions to pricing may also include collateral attributes and prepayment speeds. Recent trades in the subject security or similar securities are assessed when available, and the Company may also review published research as well as the issuer s financial

statements in its evaluation. Subordinated loans and private equity investments are valued at transaction price in the absence of market data indicating a change in the estimated fair values.

Table of Contents

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 (primarily related to future annuitant behavior) used to estimate fair values for these contracts are largely unobservable, 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 a complex internal model using many scenarios to determine the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received adjusted for risk and profit charges that the Company estimates a hypothetical market participant would require to assume this business. Net amounts expected to be paid include the excess of the expected value of the income benefits over the values of the annuitants accounts at the time of annuitization. Generally, market return, interest rate and volatility assumptions are based on market observable information. Assumptions related to annuitant behavior reflect the Company s belief that a hypothetical market participant would consider the actual and expected experience of the Company as well as other relevant and available industry resources in setting policyholder behavior assumptions. The significant assumptions used to value the GMIB assets and liabilities as of June 30, 2010 were as follows:

The market return 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 2.42% at June 30, 2010 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 56% 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 17% to 37% for equity funds, 4% to 12% 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. This range has been updated from 2% to 17% at December 31, 2009 to 1% to 19% as of June 30, 2010, and depends on the time since contract issue and the relative value of the guarantee. Although the upper end of the range has increased, there is also a higher proportion of policies experiencing lower lapse rates, so overall, assumed lapse rates have declined since December 31, 2009.

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 30%. Actual data is still emerging for the Company as well as the industry and the estimates are based on this limited data.

Table of Contents

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 20 to 110 basis points for the GMIB liability and from 15 to 95 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.

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.

Table of Contents

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

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three and six months ended June 30, 2010 and 2009. 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.

For the Three Months Ended June 30, 2010

(In millions)	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at April 1, 2010	**$ 884**	**$ 479**	**$ (886)**	**$ (407)**
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)		**187**	**(351)**	**(164)**
Other	**8**			
Total gains (losses) included in shareholders net income	**8**	**187**	**(351)**	**(164)**
Gains included in other comprehensive income	**9**			
Gains required to adjust future policy benefits for settlement annuities [1]	**43**			
Purchases, issuances, settlements	**(15)**	**(8)**	**16**	**8**
Transfers into/(out of) Level 3:				
Transfers into Level 3	**18**			
Transfers out of Level 3	**(2)**			
Total transfers into/(out of) Level 3	**16**			
Balance at June 30, 2010	**$ 945**	**$ 658**	**$ (1,221)**	**$ (563)**
Total gains (losses) included in income attributable to instruments held at the reporting date	**$ 5**	**$ 187**	**$ (351)**	**$ (164)**

(1) Amounts do not accrue to shareholders.

For the Three Months Ended June 30, 2009

(In millions)	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at April 1, 2009	$ 910	$ 908	$ (1,641)	$ (733)

Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)		(198)	362	164
Other	(6)			
Total gains (losses) included in shareholders net income	(6)	(198)	362	164
Gains included in other comprehensive income	29			
Losses required to adjust future policy benefits for settlement annuities [(1)]	(31)			
Purchases, sales, settlements	(7)	(25)	55	30
Transfers into/(out of) Level 3:				
Transfers into Level 3	80			
Transfers out of Level 3	(52)			
Total transfers into/(out of) Level 3	28			
Balance at June 30, 2009	$ 923	$ 685	$ (1,224)	$ (539)
Total gains (losses) included in income attributable to instruments held at the reporting date	$ (6)	$ (198)	$ 362	$ 164

(1) Amounts do not accrue to shareholders.

Table of Contents

For the Six Months Ended June 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)		**187**	**(347)**	**(160)**
Other	**12**			
Total gains (losses) included in shareholders net income	**12**	**187**	**(347)**	**(160)**
Gains included in other comprehensive income	**21**			
Gains required to adjust future policy benefits for settlement annuities [1]	**61**			
Purchases, issuances, settlements	**(26)**	**(11)**	**29**	**18**
Transfers into/(out of) Level 3:				
Transfers into Level 3	**72**			
Transfers out of Level 3	**(40)**			
Total transfers into/(out of) Level 3	**32**			
Balance at June 30, 2010	**$ 945**	**$ 658**	**$ (1,221)**	**$ (563)**
Total gains (losses) included in income attributable to instruments held at the reporting date	**$ 9**	**$ 187**	**$ (347)**	**$ (160)**

(1) Amounts do not accrue to shareholders.

For the Six Months Ended June 30, 2009

(In millions)	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at January 1, 2009	$ 889	$ 953	$ (1,757)	$ (804)
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)		(236)	432	196
Other	(10)			

Total gains (losses) included in shareholders net income	(10)	(236)	432	196
Gains included in other comprehensive income	10			
Losses required to adjust future policy benefits for settlement annuities [1]	(107)			
Purchases, issuances, settlements	(10)	(32)	101	69
Transfers into/(out of) Level 3:				
Transfers into Level 3	235			
Transfers out of Level 3	(84)			
Total transfers into/(out of) Level 3	151			
Balance at June 30, 2009	$ 923	$ 685	$ (1,224)	$ (539)
Total gains (losses) included in income attributable to instruments held at the reporting date	$ (10)	$ (236)	$ 432	$ 196

(1) Amounts do not accrue to shareholders.

As noted in the tables above, total gains and losses included in 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.

Table of Contents

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company s best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. For the six months ended June 30, 2009, 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 table 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 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 $164 million for the three months ended June 30, 2010, and $160 million for the six months ended June 30, 2010, were primarily due to declining interest rates and decreases in underlying account values that occurred during the second quarter of 2010.

GMIB fair value gains of $164 million for the three months ended June 30, 2009 and $196 million for the six months ended June 30, 2009, were primarily a result of increases in interest rates and underlying account values during the second quarter of 2009, partially offset by increases to the annuitization assumption, and in the six months ended June 30, 2009, updates to the lapse assumption.

Table of Contents

Separate account assets

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are excluded from the Company s revenues and expenses. As of June 30, 2010 and December 31, 2009 separate account assets were as follows:

June 30, 2010

(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Guaranteed separate accounts (See Note 17)	**$ 241**	**$ 1,489**	**$**	**$ 1,730**
Non-guaranteed separate accounts [1]	**1,680**	**3,270**	**534**	**5,484**
Total separate account assets	**$ 1,921**	**$ 4,759**	**$ 534**	**$ 7,214**

(1) As of June 30, 2010, non-guaranteed separate accounts include $2.5 billion in assets supporting the Company s pension plans, including $515 million classified in Level 3.

December 31, 2009

(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Guaranteed separate accounts (See Note 17)	$ 275	$ 1,480	$	$ 1,755
Non-guaranteed separate accounts [1]	1,883	3,100	550	5,533
Total separate account assets	$ 2,158	$ 4,580	$ 550	$ 7,288

(1) As of December 31, 2009, non-guaranteed separate accounts include $2.6 billion in assets supporting the Company s pension plans, including $517 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 which is their exit price.

Separate account assets classified in Level 3 include investments primarily in securities partnerships and real estate 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 the net asset values are classified in Level 3 due to restrictions on their withdrawal.

The following tables summarize the changes in separate account assets reported in Level 3 for the three months and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,	
(In millions)	**2010**	2009
Balance at April 1	**$ 544**	$ 597
Policyholder losses [1]	**(2)**	(21)
Purchases, issuances, settlements	**(8)**	49
Transfers into/(out of) Level 3:		
Transfers into Level 3	**1**	
Transfers out of Level 3	**(1)**	
Net transfers into/(out of) Level 3		
Balance at June 30	**$ 534**	$ 625

(1) Includes losses of $3 million attributable to instruments still held at June 30, 2010 and losses

of $21 million attributable to instruments still held at June 30, 2009.

Table of Contents

	Six Months Ended June 30,	
(In millions)	**2010**	2009
Balance at January 1	**$ 550**	$ 475
Policyholder gains (losses) [1]	**14**	(67)
Purchases, issuances, settlements	**(11)**	57
Transfers into/(out of) Level 3:		
Transfers into Level 3	**1**	174
Transfers out of Level 3	**(20)**	(14)
Net transfers into/(out of) Level 3	**(19)**	160
Balance at June 30	**$ 534**	$ 625

(1) Includes gains of $12 million attributable to instruments still held at June 30, 2010 and losses of $67 million attributable to instruments still held at June 30, 2009.

For the six months ended June 30, 2009, transfers into Level 3 primarily represented fixed income funds that are priced using the net asset value where restrictions were placed on withdrawal.

Assets and Liabilities Measured at Fair Value under Certain Conditions

Some financial assets and liabilities are not carried at fair value each reporting period, but may be measured using fair value only under certain conditions, such as investments in real estate entities and commercial mortgage loans when they become impaired. During the three months ended June 30, 2010, impaired commercial mortgage loans with carrying values of $27 million were written down to their fair values of $22 million, resulting in pre-tax realized investment losses of $5 million. During the six months ended June 30, 2010, impaired commercial mortgage loans with carrying values of $91 million were written down to their fair values of $75 million, resulting in pre-tax realized investment losses of $16 million. Also during the six months ended June 30, 2010, impaired real estate entities carried at cost of $35 million were written down to their fair values of $21 million, resulting in pre-tax realized investment losses of $14 million.

During 2009, impaired commercial mortgage loans with carrying values of $143 million were written down to their fair values of $126 million, resulting in pre-tax realized investment losses of $17 million. Also during 2009, impaired real estate entities with carrying values of $48 million were written down to their fair values of $12 million, resulting in pre-tax realized investment losses of $36 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.

Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

Most financial instruments that are subject to fair value disclosure requirements are carried in the Company s consolidated financial statements at amounts that approximate fair value. The following table provides the fair values and carrying values of the Company s financial instruments not recorded at fair value that are subject to fair value disclosure requirements at June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
(In millions)	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Commercial mortgage loans	**$ 3,370**	**$ 3,409**	$ 3,323	$ 3,522
Contractholder deposit funds, excluding universal life products	**$ 1,001**	**$ 988**	$ 940	$ 941
Long-term debt, including current maturities, excluding capital leases	**$ 3,004**	**$ 2,727**	**$** 2,418	**$** 2,427

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.

Table of Contents

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 45% 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.

Note 8 Investments

Total Realized Investment Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Fixed maturities	**$ 19**	$ 5	**$ 34**	$ (11)
Equity securities	**(1)**	11	**3**	(6)
Commercial mortgage loans	**(4)**	1	**(15)**	
Other investments, including derivatives	**8**	(35)	**(6)**	(37)
Realized investment gains (losses), before income taxes	**22**	(18)	**16**	(54)
Less income taxes (benefits)	**8**	(9)	**5**	(21)
Net realized investment gains (losses)	**$ 14**	$ (9)	**$ 11**	$ (33)

Table of Contents

Included in pre-tax realized investment gains (losses) above were other-than-temporary impairments on debt securities, asset write-downs and changes in valuation reserves as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Credit-related [1]	**$ 5**	$ 43	**$ 30**	$ 54
Other [2]		(1)	**1**	9
Total [3]	**$ 5**	$ 42	**$ 31**	$ 63

(1) Credit-related losses include other-than-temporary declines in value of fixed maturities and equity securities, impairments of commercial mortgage loans and real estate entities. The amount related to credit losses on fixed maturities for which a portion of the impairment was recognized in other comprehensive income was not significant.

(2) Prior to adoption of GAAP guidance for other-than-temporary impairments on April 1, 2009, other primarily represented the impact of rising market yields on investments where the Company could not demonstrate the intent and ability to hold until recovery.

(3) Includes other-than-temporary impairments on debt

securities of $1 million for the six months ended June 30, 2010 and $9 million for the three months ended June 30, 2009 and $26 million for the six months ended June 30, 2009. These impairments are included in the other category in 2010 and in both the credit-related and other categories for 2009.

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 and interest and dividends reported in net investment income. The Company s hybrid investments include preferred stock or debt securities with call or conversion features.

(In millions)	**As of June 30, 2010**	As of December 31, 2009
Included in fixed maturities:		
Trading securities (amortized cost: $7; $8)	**$ 7**	$ 8
Hybrid securities (amortized cost: $33; $37)	**37**	43
Total	**$ 44**	$ 51
Included in equity securities:		
Hybrid securities (amortized cost: $106; $109)	**$ 81**	$ 81

Fixed maturities included $173 million at June 30, 2010, which were pledged as collateral to brokers as required under certain futures contracts. These fixed maturities were primarily corporate securities.

The following information about fixed maturities excludes trading and hybrid securities. The amortized cost and fair value by contractual maturity periods for fixed maturities were as follows at June 30, 2010:

(In millions)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 797	$ 814
Due after one year through five years	4,272	4,556
Due after five years through ten years	4,952	5,411
Due after ten years	2,589	3,126
Other asset and mortgage-backed securities	672	793
Total	$ 13,282	$ 14,700

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.

Table of Contents

Mortgage-backed securities consist principally of commercial mortgage-backed securities and collateralized mortgage obligations of which $29 million of fair value were residential mortgages and home equity lines of credit, all of which were originated using standard underwriting practices and are not sub-prime loans.

Gross unrealized appreciation (depreciation) on fixed maturities (excluding trading securities and hybrid securities with a fair value of $44 million at June 30, 2010 and $51 million at December 31, 2009) by type of issuer is shown below.

	June 30, 2010			
(In millions)	**Amortized Cost**	**Unrealized Appre-ciation**	**Unrealized Depre-ciation**	**Fair Value**
Federal government and agency	**$ 496**	**$ 262**	**$**	**$ 758**
State and local government	**2,336**	**213**	**(4)**	**2,545**
Foreign government	**1,036**	**62**	**(2)**	**1,096**
Corporate	**8,742**	**809**	**(43)**	**9,508**
Federal agency mortgage-backed	**24**	**2**		**26**
Other mortgage-backed	**93**	**8**	**(6)**	**95**
Other asset-backed	**555**	**123**	**(6)**	**672**
Total	**$ 13,282**	**$ 1,479**	**$ (61)**	**$ 14,700**

	December 31, 2009			
(In millions)				
Federal government and agency	$ 398	$ 174	$ (1)	$ 571
State and local government	2,341	188	(8)	2,521
Foreign government	1,040	38	(8)	1,070
Corporate	8,104	529	(98)	8,535
Federal agency mortgage-backed	33	1		34
Other mortgage-backed	125	5	(10)	120
Other asset-backed	494	55	(8)	541
Total	$ 12,535	$ 990	$ (133)	$ 13,392

The above table includes investments with a fair value of $2.6 billion supporting the Company s run-off settlement annuity business, with gross unrealized appreciation of $568 million and gross unrealized depreciation of $24 million at June 30, 2010. 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, 2009, investments supporting this business had a fair value of $2.3 billion, gross unrealized appreciation of $326 million and gross unrealized depreciation of $52 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Proceeds from sales	**$ 209**	$ 291	**$ 449**	$ 410
Gross gains on sales	**$ 12**	$ 12	**$ 27**	$ 15
Gross losses on sales	**$ (2)**	$	**$ (3)**	$ (3)

25

Table of Contents

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

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

Excluding trading and hybrid securities, as of June 30, 2010, fixed maturities with a decline in fair value from amortized cost (which 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	$ 320	$ 326	$ (6)	94
Below investment grade	$ 170	$ 177	$ (7)	105
More than one year:				
Investment grade	$ 392	$ 431	$ (39)	75
Below investment grade	$ 62	$ 71	$ (9)	30

The unrealized depreciation of investment grade fixed maturities is primarily due to increases in market yields since purchase. There were no equity securities with a fair value significantly lower than cost as of June 30, 2010.

Short-term investments and cash equivalents. Short-term investments and cash equivalents includes corporate securities of $1.0 billion, federal government securities of $116 million and money market funds of $113 million at June 30, 2010. The Company s short-term investments and cash equivalents at December 31, 2009 included corporate securities of $624 million, federal government securities of $402 million and money market funds of $104 million.

Table of Contents

Note 9 Derivative Financial Instruments

The Company s investment strategy is 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). As part of this investment strategy, the Company typically uses derivatives to minimize interest rate, foreign currency and equity price 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 credit risk. From time to time, the Company has used derivatives to enhance investment returns. In addition, the Company has written or sold contracts to guarantee minimum income benefits.

The Company uses hedge accounting when derivatives are designated, qualified and 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 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 net income (generally as part of realized investment gains and losses).

Certain subsidiaries of the Company are parties to over-the-counter derivative instruments that contain provisions requiring both parties to such instruments to post collateral depending on net liability thresholds and the party s financial strength or credit rating. The collateral posting requirements vary by counterparty. The aggregate fair value of derivative instruments with such credit-risk-related contingent features where a subsidiary of the Company was in a net liability position as of June 30, 2010 was $15 million for which the Company was not required to post collateral with its counterparties. If the various contingent features underlying the agreements were triggered as of June 30, 2010, the Company would be required to post collateral equal to the total net liability. Such subsidiaries are parties to certain other derivative instruments that contain termination provisions for which the counterparties could demand immediate payment of the total net liability position if the financial strength rating of the subsidiary were to decline below specified levels. As of June 30, 2010, there was no net liability position under such derivative instruments.

See Note 6 for a discussion of derivatives associated with GMDB contracts and Note 7 for a discussion of derivatives associated with GMIB contracts. The effects of other derivatives were not material to the Company s consolidated results of operations, liquidity or financial condition for the six months ended June 30, 2010 and 2009.

The tables below present information about the nature and accounting treatment of the Company s primary derivative financial instruments including the Company s purpose for entering into specific derivative transactions, and their locations in and effect on the financial statements as of June 30, 2010 and December 31, 2009 and for the three and six months ended June 30, 2010 and 2009. Derivatives in the Company s separate accounts are excluded from the tables because associated gains and losses generally accrue directly to policyholders.

Table of Contents

Instrument / Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Designated as Accounting Hedges	**Cash Flow Hedges**			
Interest rate swaps $158 million of par value of related investments	Interest rate and foreign currency	To hedge the interest and/or foreign currency cash flows of fixed maturities and commercial mortgage loans to match associated liabilities. Currency swaps are primarily euros, Australian dollars, Canadian dollars and British pounds for periods of up to 11 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 net investment income and included in operating activities.	Using cash flow hedge accounting, fair values are reported in other long-term investments or other liabilities and accumulated other comprehensive income and amortized into net investment income or reported in other realized investment gains and losses as interest or principal payments are received.
Foreign currency swaps $179 million of U.S. dollar equivalent par value of related investments				
Combination swaps (interest rate and foreign currency) $54 million of U.S. dollar equivalent par value of related investments				

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			
					Three Months Ended June 30,		Six Months Ended June 30,	
Instrument	**As of June 30, 2010**	As of December 31, 2009	**As of June 30, 2010**	As of December 31, 2009	**2010**	2009	**2010**	2009
Interest rate swaps	**$ 10**	$ 8	**$**	$	**$ 1**	$ (4)	**$ 2**	$ (5)
Foreign currency swaps	**13**	4	**14**	24	**15**	(17)	**19**	(15)
Interest rate and foreign currency	**3**		**1**	6	**8**	(9)	**8**	(7)

swaps									
Total	**$ 26**	$ 12	**$ 15**	$ 30	**$ 24**	$ (30)	**$ 29**	$ (27)	

Purchased options $315 million of cash surrender value of related life insurance policies	Interest rate	To hedge the possibility of early policyholder cash surrender when the amortized cost of underlying invested assets is greater than their fair values.	The Company pays a fee and may receive or pay cash, based on the difference between the amortized cost and fair values of underlying invested assets at the time of policyholder surrender. These cash flows will be reported in financing 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 other benefit expenses over the life of the underlying invested assets.

Fair Value Effect on the Financial Statements

Fair values reported in other assets and other comprehensive income were not significant.

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 life of the debt issued.

Fair Value Effect on the Financial Statements

In the first quarter of 2009, all treasury locks matured and the Company recognized a gain of $14 million in other comprehensive income, resulting in net cumulative losses of $26 million, to be amortized to interest expense over the life of the debt. In the second quarter of 2009, the Company issued debt and began amortizing this loss to interest expense.

For the three and six month periods ended June 30, 2010 and 2009, the amount of gains (losses) reclassified from accumulated other comprehensive income into income was not significant. No gains (losses) were recognized due to ineffectiveness and no amounts were excluded from the assessment of hedge ineffectiveness.

Table of Contents

Instrument / Volume of Activity	Primary Risk	Purpose	Cash Flows	Accounting Policy
Derivatives Not Designated As Accounting Hedges				
Futures $1,205 million of U.S. dollar equivalent market price of outstanding contracts	Equity and foreign currency	To reduce domestic and international equity market exposures for certain reinsurance contracts that guarantee minimum death benefits (GMDB) resulting from changes in variable annuity account values based on underlying mutual funds. Currency futures are primarily euros, Japanese yen and British pounds.	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 premiums, accounts and notes receivable, net or accounts payable, accrued expenses and other liabilities.

Fair Value Effect on the Financial Statements (In millions)

	Other Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Futures	**$ 92**	$ (188)	**$ 47**	$ (71)

Interest rate swaps $45 million of par value of related investments	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 for both principal and interest. Net interest cash flows are reported in other realized investment gains (losses) and included in operating 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)	
		Three Months	Six Months Ended

				Three Months Ended June 30,		Six Months Ended June 30,	
	As of June 30, 2010	As of December 31, 2009		**2010**	2009	**2010**	2009
Interest rate swaps	**$ 4**	$ 4		**$ 2**	$ 1	**$ 2**	$ 1

Written options (GMIB liability) $1,360 million of maximum potential undiscounted future payments 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 of minimum income benefits, resulting from the level of variable annuity account values compared with a contractually guaranteed amount. 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 market risks assumed. These contracts are accounted for as written and purchased options.	The Company periodically receives (pays) fees based on either contractholders account values or deposits increased at a contractual rate. The Company will also pay (receive) cash depending on changes in account values and interest rates when contractholders first elect to receive minimum income payments. These cash flows are reported in operating activities.	Fair values are reported in other liabilities (GMIB liability) and other assets (GMIB asset). Changes in fair value are reported in GMIB fair value (gain)/loss.
Purchased options (GMIB asset) $748 million of maximum potential undiscounted future receipts as defined in Note 17				

Fair Value Effect on the Financial Statements (In millions)

	Other Assets		**Accounts Payable, Accrued Expenses and Other Liabilities**		**GMIB Fair Value (Gain)/Loss**			
					Three Months Ended June 30,		Six Months Ended June 30,	
Instrument	**As of June 30, 2010**	As of December 31, 2009	**As of June 30, 2010**	As of December 31, 2009	**2010**	2009	**2010**	2009
Written options (GMIB liability)	**$**	$	**$ 1,221**	$ 903	**$ 351**	$ (362)	**$ 347**	$ (432)
Purchased options	**658**	482			**(187)**	198	**(187)**	236

(GMIB asset)												
Total	**$ 658**	$ 482	**$ 1,221**	$ 903	**$ 164**	$ (164)	**$ 160**	$ (196)

Table of Contents

Note 10 Variable Interest Entities

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

- the structure and purpose of the entity;
- the risks and rewards created by and shared through the entity; and
- the entity s participants ability to direct the activities, receive its benefits and absorb its losses. Participants include the entity s sponsors, equity holders, guarantors, creditors and servicers.

In the normal course of its investing activities, the Company makes passive investments in debt and equity securities that are issued by variable interest entities. The Company does not consolidate these entities because either:

- it was not the sponsor or manager and had no power to direct the activities that most significantly impacted the entities economic performance; or
- it had no right to receive benefits nor obligation to absorb losses that could be significant to these variable interest entities.

The Company s maximum exposure to loss related to these entities is limited to the carrying amount of its investment. The Company performs ongoing qualitative analyses of its involvement with these variable interest entities to determine if consolidation is required.

The Company recorded pre-tax income of $5 million for the three months ended June 30, 2010 and $13 million for the six months ended June 30, 2010 from these investments. Additional information about the nature and activities of these unconsolidated variable interest entities is provided below.

Variable Interests	Nature, Purpose and Activities	Factors Considered in Determining Consolidation Not Required	Risk Exposure and Effect on the Financial Statements
Fixed maturities Foreign bank obligations $409 million par value interest of total $1,131 million par value	To create a more active market for perpetual floating-rate subordinated notes issued by foreign banks, special-purpose trusts are formed to purchase these notes and sell participation interests to investors in the form of fixed-rate debt securities and equity interests. The trusts also purchase derivative contracts to exchange the floating-rate cash flows for fixed-rate and obtain guarantees from third parties to support these fixed-rate payments to its debt holders. In certain trusts, the foreign bank perpetual notes were replaced with U.S. government-sponsored bonds. The Company owns a share of the debt securities issued by the trust and receives fixed-rate cash flows for a stated period.	The third-party guarantors of the debt securities issued by the trust generally control the activities that most significantly impact the trusts economic performance, are obligated to absorb any losses, and are the primary beneficiaries.	The Company s maximum exposure to loss is equal to the fair value of its variable interests reported on the balance sheet in fixed maturities. Unrealized changes in fair value are reported in accumulated other comprehensive income. Realized changes in fair value (impairment or sale) are reported in realized investment gains (losses), and interest earned is reported in net investment income.

Effect on the Financial Statements (In millions)

Fixed Maturities	Gain (Loss) Recognized in Other Comprehensive Income [1]		Income from Continuing Operations before Income Taxes [1]	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
As of June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010
$ 498	$ 5	$ 7	$ 1	$ 2

(1) Other comprehensive income excludes gains of $40 million for the three months and gains of $57 million for the six months ended June 30, 2010 and income from continuing operations before income taxes excludes gains of $6 million for the three months and gains of $13 million for the six months ended June 30, 2010 of amounts required to adjust future policy benefits for the run-off settlement annuity business.

Table of Contents

Variable Interests	Nature, Purpose and Activities	Factors Considered in Determining Consolidation Not Required	Risk Exposure and Effect on the Financial Statements
Fixed maturities Mortgage and other asset backed securities $360 million par value interest of total $47,369 million par value	Special-purpose entities are created by third-party sponsors to increase the availability of financing for commercial or residential mortgages or other assets and provide investors with diversified exposure to these assets. Generally, the entities purchase mortgage loans or other assets, assemble pools of these assets and sell senior or subordinated securities to investors based on their risk tolerance. The securities represent a right to a share of the cash flows from the underlying assets in the pool. Typically, the most subordinate holder bears the first risk of loss and potential for higher returns. The Company owns a minority share of senior securities and receives fixed-rate cash flows.	Third-party sponsors generally control the activities that most significantly impact the entities economic performance, bear the first risk of loss and receive any residual returns, and are primary beneficiaries. In certain circumstances (such as when unexpected losses occur), the sponsor may lose the power to direct the entity s activities and control would rest with the next most subordinate investor.	The Company s maximum exposure to loss is equal to the fair value of its variable interests reported on the balance sheet in fixed maturities. Unrealized changes in fair value are reported in accumulated other comprehensive income. Realized changes in fair value (impairment or sale) are reported in realized investment gains (losses), and interest earned is reported in net investment income.

Effect on the Financial Statements (In millions)

Fixed Maturities	Gain (Loss) Recognized in Other Comprehensive Income		Income from Continuing Operations before Income Taxes	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
As of June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010
$ 336	$ 6	$ 15	$ 5	$ 9

Equity securities and fixed maturities Other $56 million par value interest of	Special-purpose trust entities are created by banks to gain access to capital markets, maintain required regulatory capital and receive tax deductions for interest paid on	The banks that create these trusts control the activities that most significantly impact their economic performance, are obligated to absorb any losses and are the primary beneficiaries.	The Company s maximum exposure to loss is equal to the fair value of its variable interests reported on the balance sheet in equity securities and fixed maturities. Unrealized changes in fair value are reported in accumulated other comprehensive income. Realized

total $6,145 million par value	debt obligations. These entities purchase subordinated notes issued and guaranteed by the sponsoring banks and sell debt or equity securities. Equity interests in these entities are held by their sponsoring banks. The Company owns a minority share of these debt and equity securities and receives fixed cash flows.	changes in fair value (impairment or sale) are reported in realized investment gains (losses), and interest earned is reported in net investment income.

Effect on the Financial Statements (In millions)				
Equity Securities and Fixed Maturities	**Gain (Loss) Recognized in Other Comprehensive Income [1]**		**Income from Continuing Operations before Income Taxes [1]**	
	Three Months Ended	**Six Months Ended**	**Three Months Ended**	**Six Months Ended**
As of June 30, 2010	**June 30, 2010**	**June 30, 2010**	**June 30, 2010**	**June 30, 2010**
$ 46	$	$	$ (1)	$ 2

(1) Other comprehensive income excludes losses of $1 million for the three months and gains of $4 million for the six months ended June 30, 2010 and income from continuing operations before income taxes excludes gains of $1 million for the six months ended June 30, 2010 of amounts

required to adjust future policy benefits for the run-off settlement annuity business.

Table of Contents

In addition to the variable interest entities described above, as of June 30, 2010 the Company was also involved in:

- trusts that are variable interest entities controlled by contractual provisions and holding investments that secure certain reinsurance recoverables resulting from the sales of the retirement benefits and individual life insurance and annuity businesses (see Note 11 for further information);
- real estate joint ventures with carrying values of $10 million where all decisions significantly affecting the entities economic performance are subject to unanimous approval by the equity holders. As a result, the Company determined that the power over these entities is shared equally, and there is no primary beneficiary. The Company s maximum exposure to loss was equal to its carrying value; and
- certain fixed maturities with an aggregate fair value of $13 million issued by entities subject to troubled debt restructurings or bankruptcy proceedings. As a result, the equity owners no longer have the power to direct the significant activities of the entities. The Company s maximum exposure to loss was equal to its fair value.

The Company does not have the power to direct these entities activities; therefore, it was not the primary beneficiary and did not consolidate 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.

Retirement benefits business. The Company had reinsurance recoverables of $1.7 billion as of June 30, 2010 and December 31, 2009 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, which is reduced as the Company s reinsured liabilities are paid or directly assumed by the reinsurer, is secured primarily by fixed maturities whose book value is equal to or greater than 100% of the reinsured liabilities. These fixed maturities are held in a trust established for the benefit of the Company. As of June 30, 2010, the book value of the trust assets exceeded the recoverable.

Individual life and annuity reinsurance. The Company had reinsurance recoverables of $4.4 billion as of June 30, 2010 and December 31, 2009 from The Lincoln National Life Insurance Company and Lincoln Life & Annuity of New York resulting from the 1998 sale of the Company s individual life insurance and annuity business through indemnity reinsurance arrangements. At June 30, 2010, the $4 billion reinsurance recoverable from The Lincoln National Life Insurance Company was secured by assets held in a trust established for the benefit of the Company, and was less than the market value of the trust assets. The remaining recoverable from Lincoln Life & Annuity of New York of $411 million is currently unsecured, however, if this reinsurer does not maintain a specified minimum credit or claims paying rating, it is required to fully secure the outstanding balance. As of June 30, 2010 both companies had ratings sufficient to not trigger 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 $284 million as of June 30, 2010 are expected to be collected from more than 90 reinsurers.

The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of June 30, 2010, the Company s recoverables related to these segments were net of a reserve of $9 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. The Company s Run-off Reinsurance operations also purchased retrocessional coverage to reduce the risk of loss on these contracts.

Liabilities related to GMDB, workers compensation and personal accident are included in future policy benefits and unpaid claims. Because the GMIB contracts are treated as derivatives under GAAP, the asset related to GMIB is recorded in the caption Other assets, including other intangibles and the liability related to GMIB is recorded in the caption Accounts payable, accrued expenses, and other liabilities on the Company s Consolidated Balance Sheets (see Notes 7 and 17 for additional discussion of the GMIB assets and liabilities).

Table of Contents

The reinsurance recoverables for GMDB, workers compensation, and personal accident of $114 million as of June 30, 2010 are expected to be collected from approximately 80 retrocessionaires.

The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of June 30, 2010, the Company s recoverables related to this segment were net of a reserve of $6 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. For workers compensation and personal accident, the payments relate to accidents and injuries. 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.

Summary. The Company s reserves for underlying reinsurance exposures assumed by the Company, as well as for amounts recoverable from reinsurers/retrocessionaires for both ongoing operations and the run-off reinsurance operation, are considered appropriate as of June 30, 2010, 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 June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Ceded premiums and fees				
Individual life insurance and annuity business sold	**$ 49**	$ 50	**$ 95**	$ 101
Other	**65**	55	**129**	115
Total	**$ 114**	$ 105	**$ 224**	$ 216
Reinsurance recoveries				
Individual life insurance and annuity business sold	**$ 81**	$ 59	**$ 148**	$ 127
Other	**49**	24	**93**	82
Total	**$ 130**	$ 83	**$ 241**	$ 209

Table of Contents

Note 12 Pension and Other Postretirement Benefit Plans

The Company and certain of its subsidiaries provide pension, health care and life insurance defined benefits to eligible retired employees, spouses and other eligible dependents through various domestic and foreign plans. The effect of its foreign pension and other postretirement benefit plans is immaterial to the Company s results of operations, liquidity and financial position. Effective July 1, 2009, the Company froze its primary domestic defined benefit pension plans. During the second quarter of 2010, the annual actuarial study was completed. Based on the results of the 2010 study, the Company updated its mortality assumption to provide for mortality improvement. Primarily as a result of this mortality assumption change, the Company increased its postretirement benefits liability and decreased shareholders equity by $155 million pre-tax ($100 million after-tax) for the three months ended June 30, 2010 and by $152 million pre-tax ($92 million after-tax) for the six months ended June 30, 2010.

As a result of the 2009 plan freeze discussed above, a curtailment of benefits occurred in the second quarter of 2009 because it eliminated all future service for active employees in the domestic plans. Accordingly, the Company recognized a pre-tax curtailment gain of $46 million ($30 million after-tax) during the second quarter of 2009, which was the remaining unamortized negative prior service cost at May 31, 2009.

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

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Service cost	**$ 1**	$ 21	**$ 1**	$ 42	**$ 1**	$	**$ 1**	$
Interest cost	**61**	62	**120**	123	**6**	6	**11**	12
Expected long-term return on plan assets	**(63)**	(60)	**(126)**	(120)	**(1)**	(1)	**(1)**	(1)
Amortization of:								
Net loss from past experience	**7**	10	**14**	27				(2)
Prior service cost		(1)		(4)	**(5)**	(4)	**(9)**	(9)
Curtailment gain		(46)		(46)				
Net pension cost	**$ 6**	$ (14)	**$ 9**	$ 22	**$ 1**	$ 1	**$ 2**	$

The Company funds its qualified pension plans at least at the minimum amount required by the Pension Protection Act of 2006, which requires companies to fully fund defined benefit pension plans over a seven-year period beginning in 2008. For the six months ended June 30, 2010, the Company contributed $212 million, of which $69 million was required and $143 million was voluntary. For the remainder of 2010, the Company is not required to make any additional contributions.

Table of Contents

Note 13 Debt

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

(In millions)	**June 30, 2010**	December 31, 2009
Short-term:		
Commercial paper	**$ 100**	$ 100
Current maturities of long-term debt	**226**	4
Total short-term debt	**$ 326**	$ 104
Long-term:		
Uncollateralized debt:		
7% Notes due 2011	**$**	$ 222
6.375% Notes due 2011	**226**	226
5.375% Notes due 2017	**250**	250
6.35% Notes due 2018	**300**	300
8.5% Notes due 2019	**349**	349
5.125% Notes due 2020	**299**	
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
Other	**8**	11
Total long-term debt	**$ 2,510**	$ 2,436

In the first quarter of 2010, the 7% Notes due 2011 were reclassified into current maturities of long-term debt because they will mature in less than one year.

On May 12, 2010, the Company issued $300 million of 5.125% Notes ($299 million, net of discount, with an effective interest rate of 5.36% per year). Interest is payable on June 15 and December 15 of each year beginning December 15, 2010. The proceeds of this debt were used for general corporate purposes. These Notes will mature on June 15, 2020.

On May 4, 2009, the Company issued $350 million of 8.5% Notes ($349 million, net of debt discount, with an effective interest rate of 9.90% per year). The difference between the stated and effective interest rates primarily reflects the effect of a treasury lock. Interest is payable on May 1 and November 1 of each year beginning November 1, 2009. The proceeds of this debt were used for general corporate purposes, including the repayment of some of the Company s outstanding commercial paper. These Notes will mature on May 1, 2019.

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 25 basis points (5.125% Notes due 2020) or 50 basis points (8.5% Notes due 2019).

Table of Contents

Note 14 Accumulated Other Comprehensive Loss

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

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Three Months Ended June 30, 2010			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the period	**$ 198**	**$ (69)**	**$ 129**
Reclassification adjustment for (gains) included in shareholders net income	**(18)**	**7**	**(11)**
Net unrealized appreciation, securities	**$ 180**	**$ (62)**	**$ 118**
Net unrealized appreciation, derivatives	**$ 24**	**$ (8)**	**$ 16**
Net translation of foreign currencies	**$ (59)**	**$ 16**	**$ (43)**
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	**$ 2**	**$**	**$ 2**
Net change due to valuation update	**(157)**	**55**	**(102)**
Net postretirement benefits liability adjustment	**$ (155)**	**$ 55**	**$ (100)**
Three Months Ended June 30, 2009			
Net unrealized appreciation, securities:			
Implementation effect of updated guidance on other-than-temporary impairments	$ (27)	$ 9	$ (18)
Net unrealized appreciation on securities arising during the period	345	(119)	226
Reclassification adjustment for (gains) included in shareholders net income	(16)	4	(12)
Net unrealized appreciation, securities	$ 302	$ (106)	$ 196
Net unrealized depreciation, derivatives	$ (30)	$ 11	$ (19)
Net translation of foreign currencies	$ 66	$ (24)	$ 42
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	$ 5	$ (1)	$ 4
Curtailment gain	(46)	16	(30)
Reclassification adjustment for (gains) included in shareholders net income	(41)	15	(26)
Net change due to valuation update	10	(4)	6

Net postretirement benefits liability adjustment	$ (31)	$ 11	$ (20)

Table of Contents

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Six Months Ended June 30, 2010			
Net unrealized appreciation, securities:			
Net unrealized appreciation on securities arising during the year	**$ 325**	**$ (111)**	**$ 214**
Reclassification adjustment for (gains) included in shareholders net income	**(37)**	**13**	**(24)**
Net unrealized appreciation, securities	**$ 288**	**$ (98)**	**$ 190**
Net unrealized appreciation, derivatives	**$ 30**	**$ (10)**	**$ 20**
Net translation of foreign currencies	**$ (53)**	**$ 14**	**$ (39)**
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	**$ 5**	**$ 5**	**$ 10**
Net change due to valuation update	**(157)**	**55**	**(102)**
Net postretirement benefits liability adjustment	**$ (152)**	**$ 60**	**$ (92)**
Six Months Ended June 30, 2009			
Net unrealized appreciation, securities:			
Implementation effect of updated guidance on other-than-temporary impairments	$ (27)	$ 9	$ (18)
Net unrealized appreciation on securities arising during the year	388	(132)	256
Reclassification adjustment for losses included in shareholders net income	17	(8)	9
Net unrealized appreciation, securities	$ 378	$ (131)	$ 247
Net unrealized depreciation, derivatives	$ (13)	$ 5	$ (8)
Net translation of foreign currencies	$ 22	$ (8)	$ 14
Postretirement benefits liability adjustment:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	$ 12	$ (4)	$ 8
Curtailment gain	(46)	16	(30)
Reclassification adjustment for (gains) included in shareholders net income	(34)	12	(22)
Net change due to valuation update	10	(4)	6
Net postretirement benefits liability adjustment	$ (24)	$ 8	$ (16)

Note 15 Income Taxes

A. Income Tax Expense

The Company has historically accrued U.S. income taxes on the undistributed earnings of foreign subsidiaries. Though this practice continues relative to most of the Company s foreign subsidiaries, it recently began computing income taxes attributable to its South Korea and Hong Kong operations using the foreign jurisdiction tax rate as compared to the higher U.S. statutory tax rate. The change was made because the Company determined that the prospective earnings of these operations are to be permanently invested overseas.

As a result, shareholders net income for the six months ended June 30, 2010 increased by $20 million, which included $11 million relative to South Korea and $9 million related to Hong Kong (which includes $6 million associated with first quarter implementation). Shareholders net income for the six months ended June 30, 2009 included $20 million attributable to South Korea. As of June 30, 2010, deferred tax liabilities not recognized as a result of the permanent investment of South Korea and Hong Kong operation earnings was $43 million.

B. Unrecognized Tax Benefits

Gross unrecognized tax benefits declined for the six months ended June 30, 2010 by $60 million which was primarily due to the reversal of previously established liabilities that were reevaluated in light of new factors and regulatory guidance. The effect on shareholders net income was not material.

Table of Contents

During the first quarter of 2009, the IRS completed its examination of the Company s 2005 and 2006 consolidated federal income tax returns, resulting in an increase to shareholders net income of $21 million ($20 million in continuing operations and $1 million in discontinued operations). This increase reflected a reduction in net unrecognized tax benefits of $8 million ($17 million reported in income tax expense, partially offset by a $9 million pre-tax charge) and a reduction of interest and penalties of $13 million (reported in income tax expense).

Over the next twelve months, the Company has determined it is reasonably possible that the level of unrecognized tax benefits could increase or decrease significantly, subject to developments in certain matters in dispute with the IRS. It is also reasonably possible there could be a significant decline in the level of valuation allowances recorded against deferred tax benefits of the reinsurance operations within the next twelve months. A potential decline in these unrecognized tax benefits and valuation allowances could increase shareholders net income by approximately $30 million in the second half of 2010, subject to the settlement of certain disputed matters for tax years 2005 and 2006. It is also reasonably possible that additional shareholders net income of approximately $60 million could be recognized for tax years after 2006; the timing of which is uncertain.

C. Other Tax Matters

During the first quarter of 2009, final resolution was reached in one of the two disputed issues associated with the IRS examination of the Company s 2003 and 2004 consolidated federal income tax returns. The second of these disputed matters remains unresolved and on June 4, 2009 the Company initiated litigation of this matter by filing a petition in the United States Tax Court. Due to the nature of the litigation process, the timing of the resolution of this matter is uncertain. Though the Company expects to prevail, an unfavorable resolution of this litigation would result in a charge to shareholders net income of up to approximately $20 million, representing net interest expense on the cumulative incremental tax for all affected years**.** In addition, two issues remain unresolved from the IRS examination of the Company s 2005 and 2006 consolidated federal income tax returns. One of these unresolved issues is the same matter that remains in dispute from the prior IRS examination. The Company is attempting to resolve the other matter through the administrative appeals process, and filed a formal protest of the proposed adjustments on March 31, 2009.

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

Table of Contents

Note 16 Segment Information

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

Beginning in 2010, the Company began reporting the expense associated with its frozen pension plans in Corporate. Prior periods were not restated. The effect on prior periods is not material.

Summarized segment financial information was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees, Mail order pharmacy revenues and Other revenues				
Health Care	**$ 3,692**	$ 3,240	**$ 7,423**	$ 6,529
Disability and Life	**678**	689	**1,368**	1,390
International	**550**	467	**1,084**	906
Run-off Reinsurance	**98**	(183)	**60**	(62)
Other Operations	**45**	46	**88**	90
Corporate	**(15)**	(13)	**(30)**	(27)
Total	**$ 5,048**	$ 4,246	**$ 9,993**	$ 8,826
Shareholders income from continuing operations				
Health Care	**$ 247**	$ 194	**$ 414**	$ 349
Disability and Life	**89**	93	**159**	156
International	**64**	64	**136**	106
Run-off Reinsurance	**(104)**	112	**(100)**	86
Other Operations	**24**	21	**43**	40
Corporate	**(40)**	(40)	**(86)**	(62)
Segment Earnings	**280**	444	**566**	675
Realized investment gains (losses), net of taxes	**14**	(9)	**11**	(33)
Shareholders income from continuing operations	**$ 294**	$ 435	**$ 577**	$ 642

Table of Contents

Note 17 Contingencies and Other Matters

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

Financial Guarantees Primarily Associated with the Sold Retirement Benefits Business

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

The Company guarantees that separate account assets will be sufficient to pay certain retiree or life benefits. The sponsoring employers are primarily responsible for ensuring that assets are sufficient to pay these benefits and are required to maintain assets that exceed a certain percentage of benefit obligations. This percentage varies depending on the asset class within a sponsoring employer s portfolio (for example, a bond fund would require a lower percentage than a riskier equity fund) and thus will vary as the composition of the portfolio changes. If employers do not maintain the required levels of separate account assets, the Company or an affiliate of the buyer has the right to redirect the management of the related assets to provide for benefit payments. As of June 30, 2010, employers maintained assets that exceeded the benefit obligations. Benefit obligations under these arrangements were $1.7 billion as of June 30, 2010. Approximately 76% of these guarantees are reinsured by an affiliate of the buyer of the retirement benefits business. The remaining guarantees are provided by the Company with minimal reinsurance from third parties. There were no additional liabilities required for these guarantees as of June 30, 2010. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy. See Note 7 for further information on the fair value hierarchy.

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

Other Financial Guarantees

Guaranteed minimum income benefit contracts. The Company s reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured minimum income benefits under certain variable annuity contracts issued by other insurance companies. A contractholder can elect the guaranteed minimum income benefit (GMIB) within 30 days of any eligible policy anniversary after a specified contractual waiting period. The Company s exposure arises when the guaranteed annuitization benefit exceeds the annuitization benefit based on the policy s current account value. At the time of annuitization, the Company pays the excess (if any) of the guaranteed benefit over the benefit based on the current account value in a lump sum to the direct writing insurance company. In periods of declining equity markets or declining interest rates, the Company s GMIB liabilities increase. Conversely, in periods of rising equity markets and rising interest rates, the Company s liabilities for these benefits decrease.

The Company estimates the fair value of the GMIB assets and liabilities using assumptions for market returns and interest rates, volatility of the underlying equity and bond mutual fund investments, mortality, lapse, annuity election rates, nonperformance risk, and risk and profit charges. See Note 7 for additional information on how fair values for these liabilities and related receivables for retrocessional coverage are determined.

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

- no annuitants surrendered their accounts;
- all annuitants lived to elect their benefit;
- all annuitants elected to receive their benefit on the next available date (2010 through 2014); and

all underlying mutual fund investment values remained at the June 30, 2010 value of $1.2 billion with no future returns.

Table of Contents

The maximum potential undiscounted payments that the Company would make under those assumptions would aggregate $1.4 billion before reinsurance recoveries. The Company expects the amount of actual payments to be significantly less than this hypothetical undiscounted aggregate amount. The Company has retrocessional coverage in place from two external reinsurers which covers 55% of the exposures on these contracts. The receivable from one of these reinsurers is substantially collateralized by assets held in a trust. The Company bears the risk of loss if its retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company.

Certain other guarantees. The Company had indemnification obligations to lenders of up to $229 million as of June 30, 2010, related to borrowings by certain real estate joint ventures which the Company either records as an investment or consolidates. These borrowings, which are nonrecourse to the Company, are secured by the joint ventures real estate properties with fair values in excess of the loan amounts and mature at various dates beginning in 2011 through 2017. The Company s indemnification obligations would require payment to lenders for actual damages resulting from certain acts such as unauthorized ownership transfers, misappropriation of rental payments by others or environmental damages. Based on initial and ongoing reviews of property management and operations, the Company does not expect that payments will be required under these indemnification obligations. Any payments that might be required could be recovered through a refinancing or sale of the assets. In some cases, the Company also has recourse to partners for their proportionate share of amounts paid. There were no liabilities required for these indemnification obligations as of June 30, 2010.

As of June 30, 2010, the Company guaranteed that it would compensate the lessors for a shortfall of up to $44 million in the market value of certain leased equipment at the end of the lease. Guarantees of $28 million expire in 2012 and $16 million expire in 2016. The Company had liabilities for these guarantees of $9 million as of June 30, 2010.

As part of the reinsurance and administrative service arrangements acquired from Great-West Life and Annuity, Inc., the Company is responsible to pay claims for the group medical and long-term disability business of Great-West Healthcare and collect related amounts due from their third party reinsurers. Any such amounts not collected will represent additional assumed liabilities of the Company and decrease shareholders net income if and when these amounts are determined uncollectible. At June 30, 2010, there were no receivables recorded for paid claims due from third party reinsurers for this business and unpaid claims related to this business were estimated at $20 million.

The Company had indemnification obligations as of June 30, 2010 in connection with acquisition and disposition transactions. These indemnification obligations are triggered by the breach of representations or covenants provided by the Company, such as representations for the presentation of financial statements, the filing of tax returns, compliance with law or the identification of outstanding litigation. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential amount due is subject to contractual limitations based on a percentage of the transaction purchase price, while in other cases limitations are not specified or applicable. The Company does not believe that it is possible to determine the maximum potential amount due under these obligations, since not all amounts due under these indemnification obligations are subject to limitation. There were no liabilities required for these indemnification obligations as of June 30, 2010.

The Company has agreements with certain banks that provide banking services to settle claim checks processed by the Company for ASO and certain minimum premium customers. The customers are responsible for adequately funding their accounts as claim checks are presented for payment. Under these agreements, the Company guarantees that the banks will not incur a loss if a customer fails to properly fund its account. The guarantee fluctuates daily. As of June 30, 2010, the aggregate maximum exposure under these guarantees was approximately $411 million and there were no liabilities required. After-tax charges related to this guarantee were approximately $3 million for the six months ended June 30, 2010 and there were no charges for the same period in 2009. Through July 28, 2010, the exposure that existed at June 30, 2010 has been reduced by approximately 92% through customers funding of claim checks when presented for payment. In addition, the Company can limit its exposure under these guarantees by suspending claim payments for any customer who has not adequately funded their bank account.

The Company contracts on an administrative services only (ASO) basis with customers who fund their own claims. The Company charges these customers administrative fees based on the expected cost of administering their self-funded programs. In some cases, the Company provides performance guarantees associated with meeting certain service related and other performance standards. If these standards are not met, the Company may be financially at

risk up to a stated percentage of the contracted fee or a stated dollar amount. The Company establishes liabilities for estimated payouts associated with these performance guarantees. Approximately 12% of reported ASO fees are at risk, with actual reimbursements of less than 1% of reported ASO fees.

Table of Contents

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

Regulatory and Industry Developments

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

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

- additional mandated benefits or services that increase costs;
- legislation that would grant plan participants broader rights to sue their health plans;
- changes in public policy and in the political environment, which could affect state and federal law, including legislative and regulatory proposals related to health care issues, which could increase cost and affect the market for the Company s health care products and services;
- changes in Employee Retirement Income Security Act of 1974 (ERISA) regulations resulting in increased administrative burdens and costs;
- additional restrictions on the use of prescription drug formularies and rulings from pending purported class action litigation, which could result in adjustments to or the elimination of the average wholesale price of pharmaceutical products as a benchmark in establishing certain rates, charges, discounts, guarantees and fees for various prescription drugs;
- additional privacy legislation and regulations that interfere with the proper use of medical information for research, coordination of medical care and disease and disability management;
- additional variations among state laws mandating the time periods and administrative processes for payment of health care provider claims;
- legislation that would exempt independent physicians from antitrust laws; and
- changes in federal tax laws, such as amendments that could affect the taxation of employer provided benefits.

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

Concentration of risk. For the Company s International segment, South Korea is the single largest geographic market. South Korea generated 32% of the segment s revenues and 44% of the segment s earnings for the three months ended June 30, 2010. For the six months ended June 30, 2010, South Korea generated 32% of the segment s revenues and 41% of the segment s earnings. Due to the concentration of business in South Korea, the International segment is exposed to potential losses resulting from economic and geopolitical developments in that country, as well as foreign currency movements affecting the South Korean currency, which could have a significant impact on the segment s results and the Company s consolidated financial results.

Table of Contents

Litigation and Other Legal Matters

The Company is routinely involved in numerous claims, lawsuits, regulatory and IRS audits, investigations and other legal matters arising, for the most part, in the ordinary course of the business of administering and insuring employee benefit programs including payments to providers and benefit level disputes. Litigation of income tax matters is accounted for under FASB s accounting guidance for uncertainty in income taxes. Further information can be found in Note 15. An increasing number of claims are being made for substantial non-economic, extra-contractual or punitive damages. The outcome of litigation and other legal matters is always uncertain, and outcomes that are not justified by the evidence can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously and has recorded accruals in accordance with GAAP. Nevertheless, it is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to the Company s consolidated results of operations, liquidity or financial condition.

Managed care litigation. On April 7, 2000, several pending actions were consolidated in the United States District Court for the Southern District of Florida in a multi-district litigation proceeding captioned *In re Managed Care Litigation* challenging, in general terms, the mechanisms used by managed care companies in connection with the delivery of or payment for health care services. The consolidated cases include *Shane v. Humana, Inc., et al.*, *Mangieri v. CIGNA Corporation*, *Kaiser and Corrigan v. CIGNA Corporation, et al.* and *Amer. Dental Ass n v. CIGNA Corp. et al.*

In 2004, the court approved a settlement agreement between the physician class and CIGNA. However, a dispute over disallowed claims under the settlement submitted by a representative of certain class member physicians is in arbitration. Separately, in 2005, the court approved a settlement between CIGNA and a class of non-physician health care providers. Only the American Dental Association case remains unresolved. On March 2, 2009, the Court dismissed with prejudice five of the six counts of the complaint. On March 20, 2009, the Court declined to exercise supplemental jurisdiction over the remaining state law claim and dismissed the case. Plaintiffs filed a notice of appeal with the Eleventh Circuit Court of Appeals on April 17, 2009. On May 14, 2010, the Court of Appeals issued a decision affirming the District Court s dismissal.

CIGNA has received insurance recoveries related to the *In re Managed Care Litigation*. In 2008, the Court of Common Pleas of Philadelphia County ruled that the Company is not entitled to insurance recoveries from one of the two insurers from which the Company is pursuing further recoveries. CIGNA appealed that decision and on June 3, 2009, the Superior Court of Pennsylvania reversed the trial court s decision, remanding the case to the trial court for further proceedings.

Broker compensation. Beginning in 2004, the Company, other insurance companies and certain insurance brokers received subpoenas and inquiries from various regulators, including the New York and Connecticut Attorneys General, the Florida Office of Insurance Regulation, the U.S. Attorney s Office for the Southern District of California and the U.S. Department of Labor relating to their investigations of insurance broker compensation. CIGNA cooperated with the inquiries and investigations.

On August 1, 2005, two CIGNA subsidiaries, Connecticut General Life Insurance Company and Life Insurance Company of North America, were named as defendants in a multi-district litigation proceeding, *In re Insurance Brokerage Antitrust Litigation*, consolidated in the United States District Court for the District of New Jersey. The complaint alleges that brokers and insurers conspired to hide commissions, thus increasing the cost of employee benefit plans, and seeks treble damages and injunctive relief. Numerous insurance brokers and other insurance companies are named as defendants. In 2008, the court ordered the clerk to enter judgment against plaintiffs and in favor of the defendants. Plaintiffs appealed. CIGNA denies the allegations and will continue to vigorously defend itself.

Amara cash balance pension plan litigation. On December 18, 2001, Janice Amara filed a class action lawsuit, captioned *Janice C. Amara, Gisela R. Broderick, Annette S. Glanz, individually and on behalf of all others similarly situated v. CIGNA Corporation and CIGNA Pension Plan,* in the United States District Court for the District of Connecticut against CIGNA Corporation and the CIGNA Pension Plan on behalf of herself and other similarly situated participants in the CIGNA Pension Plan affected by the 1998 conversion to a cash balance formula. The plaintiffs allege various ERISA violations including, among other things, that the Plan s cash balance formula

discriminates against older employees; the conversion resulted in a wear away period (during which the pre-conversion accrued benefit exceeded the post-conversion benefit); and these conditions are not adequately disclosed in the Plan.

Table of Contents

In 2008, the court issued a decision finding in favor of CIGNA Corporation and the CIGNA Pension Plan on the age discrimination and wear away claims. However, the court found in favor of the plaintiffs on many aspects of the disclosure claims and ordered an enhanced level of benefits from the existing cash balance formula for the majority of the class, requiring class members to receive their frozen benefits under the pre-conversion CIGNA Pension Plan and their accrued benefits under the post-conversion CIGNA Pension Plan. The court also ordered, among other things, pre-judgment and post-judgment interest. Both parties appealed the court s decisions to the United States Court of Appeals for the Second Circuit which issued a decision on October 6, 2009 affirming the District Court s judgment and order on all issues. On January 4, 2010, the Company and the plaintiffs filed separate petitions for a writ of certiorari to the United States Supreme Court. On June 28, 2010, CIGNA s petition was granted and is scheduled to be argued at the December 2010 session. The Unites States Supreme Court held the plaintiffs petition for writ of certiorari and the Company expects it to be disposed of when an opinion is issued. The implementation of the judgment is currently stayed. The Company will continue to vigorously defend itself in this case. In the second quarter of 2008, the Company recorded a charge of $80 million pre-tax ($52 million after-tax), which principally reflects the Company s best estimate of the liabilities related to the court order.

Ingenix. On February 13, 2008, State of New York Attorney General Andrew M. Cuomo announced an industry-wide investigation into the use of data provided by Ingenix, Inc., a subsidiary of UnitedHealthcare, used to calculate payments for services provided by out-of-network providers. The Company received four subpoenas from the New York Attorney General s office in connection with this investigation and responded appropriately. On February 17, 2009, the Company entered into an Assurance of Discontinuance resolving the investigation. In connection with the industry-wide resolution, the Company contributed $10 million to the establishment of a new non-profit company that will compile and provide the data currently provided by Ingenix. In addition, on March 28, 2008, the Company received a voluntary request for production of documents from the Connecticut Attorney General s office seeking certain out-of-network claim payment information. The Company has responded appropriately. Since January 2009, the Company has received and responded to inquiries regarding the use of Ingenix data from the Illinois and Texas Attorneys General and the Departments of Insurance in Illinois, Florida, Vermont, Georgia, Pennsylvania, Connecticut, and Alaska.

The Company was named as a defendant in eight putative nationwide class actions asserting that due to the use of data from Ingenix, Inc., the Company improperly underpaid claims, an industry-wide issue. Three actions were brought on behalf of members, (*Franco v. CIGNA Corp. et al., Chazen v. CIGNA Corp. et al* and *Nelson v. Connecticut General Life Insurance Co. et al.*.), and five actions were brought on behalf of providers, (*American Medical Association et al. v. CIGNA Corp. et al., Shiring et al. v. CIGNA Corp. et al.*; *Higashi et al. v. CGLIC et al.; Pain Management and Surgery Center of Southern Indiana v. CGLIC et al.;* and *North Peninsula Surgical Center v. Connecticut General Life Insurance Co. et al.*), all of which were consolidated into the *Franco* case pending in the United States District Court for the District of New Jersey. The consolidated amended complaint, filed on August 7, 2009, asserts claims under ERISA, the RICO statute, the Sherman Antitrust Act and New Jersey state law. CIGNA filed a motion to dismiss the consolidated amended complaint on September 9, 2009, which is now fully briefed and pending. Plaintiffs filed their motion for class certification on May 28, 2010, and CIGNA filed an opposition on July 2, 2010.

On June 9, 2009, CIGNA filed motions in the United States District Court for the Southern District of Florida to enforce the *In re Managed Care Litigation* settlement described above by enjoining the RICO and antitrust causes of action asserted by the provider and medical association plaintiffs in the *Ingenix* litigation on the ground that they arose prior to and were released in the April 2004 settlement. On November 30, 2009, the Court granted the motions and ordered the provider and association plaintiffs to withdraw their RICO and antitrust claims from the *Ingenix* litigation by December 21, 2009. The plaintiffs filed notices of appeal with the United States Court of Appeals for the Eleventh Circuit on December 10 and 11, 2009. On April 21, 2010 and June 16, 2010, the appeals were dismissed for lack of appellate jurisdiction. Plaintiffs filed a motion for rehearing on July 6, 2010.

Two of the provider plaintiffs, Higashi and Pain Management and Surgery Center of Southern Indiana, have voluntarily dismissed their claims.

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

investigations and litigation and will vigorously defend itself in these matters.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

INDEX

Introduction	45
Consolidated Results of Operations	48
Critical Accounting Estimates	52
Segment Reporting	
Health Care	53
Disability and Life	57
International	59
Run-off Reinsurance	61
Other Operations	63
Corporate	64
Discontinued Operations	64
Industry Developments	65
Liquidity and Capital Resources	66
Investment Assets	70
Market Risk	75
Cautionary Statement	76

INTRODUCTION

In this filing and in other marketplace communications, CIGNA Corporation and its subsidiaries (the Company) make certain forward-looking statements relating to the Company s financial condition and results of operations, as well as to trends and assumptions that may affect the Company. Generally, forward-looking statements can be identified through the use of predictive words (e.g., Outlook for 2010). Actual results may differ from the Company s predictions. Some factors that could cause results to differ are discussed throughout Management s Discussion and Analysis (MD&A), including in the Cautionary Statement beginning on page 76. The forward-looking statements contained in this filing represent management s current estimate as of the date of this filing. Management does not assume any obligation to update these estimates.

The following discussion addresses the financial condition of the Company as of June 30, 2010, compared with December 31, 2009, and its results of operations for the three and six months ended June 30, 2010 compared with the same periods last year. This discussion should be read in conjunction with MD&A included in the Company s 2009 Form 10-K, to which the reader is directed for additional information.

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.

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

Overview

The Company constitutes one of the largest investor-owned health service organizations in the United States. Its subsidiaries are major providers of health care and related benefits, the majority of which are offered through the workplace. In addition, the Company has an international operation that offers supplemental health, life and accident insurance products as well as international health care products and services to businesses and individuals in selected markets. The Company also has certain inactive businesses, including a Run-off Reinsurance segment.

Table of Contents

Ongoing Operations

The Company s ability to increase revenue, shareholders net income and operating cash flow from ongoing operations is directly related to progress in executing on its strategic initiatives, the success of which is measured by certain key factors, including the Company s ability to:

- profitably price products and services at competitive levels that reflect emerging experience;
- maintain and grow its customer base;
- cross sell its various health and related benefit products;
- invest available cash at attractive rates of return for appropriate durations;
- reduce other operating expenses in the Health Care segment; and
- effectively deploy capital.

Strategy

As a global health service organization, CIGNA s mission remains focused on helping the people it serves improve their health, well-being and sense of security. CIGNA s long-term growth strategy is based on: (1) growth in targeted geographies, product lines, buying segments and distribution channels; (2) pursuing additional opportunities in high-growth markets with particular focus on individuals; and (3) improving its strategic and financial flexibility. CIGNA expects to focus on the following areas it believes represent the markets or areas with the most potential for profitable growth:

- In the Health Care segment, the Company is concentrating on: (1) further enhancing its geographic focus in the middle market in order to create geographic density; (2) growing the Select market, which generally includes employers with more than 50 but fewer than 250 employees, by leveraging the Company s customer knowledge, differentiated service model, product portfolio and distribution model; and (3) engaging those national account employers who share and will benefit from the Company s value proposition of using health advocacy and employee engagement to increase productivity, performance and the health outcomes of their employees.
- In the Disability and Life segment, CIGNA s strategy is to grow its disability business by fully leveraging the key components of its industry-leading disability management model to reduce medical costs for its clients and return their employees to work sooner through: (1) early claim notification and outreach; (2) a full suite of clinical and return-to-work resources; and (3) specialized case management services.
- In the International segment, the Company is targeting growth through: (1) product and channel expansion in its supplemental health, life and accident insurance business in key Asian geographies; (2) the introduction of new expatriate benefits products; and (3) further geographic expansion.

The Company plans to improve its strategic and financial flexibility by driving further reductions in its Health Care operating expenses, improving its medical cost competitiveness in targeted markets and effectively managing balance sheet exposures.

In addition, the Company is focused on improving its strategic and financial flexibility in an effort to optimize value for its shareholders. The Company is continually evaluating various strategic options and risk mitigation alternatives related to the Run-off Reinsurance business including expanding its current hedging program to cover unhedged equity risks and interest rate risk inherent in our growth assumptions related to the GMDB and GMIB products.

Also, in connection with CIGNA s long-term business strategy, the Company remains committed to health advocacy as a means of creating sustainable solutions for employers, improving the health of the individuals that the Company serves, and lowering the costs of health care for all constituencies.

Health Care Reform

In the first quarter of 2010, the Patient Protection and Affordable Care Act, including the Reconciliation Act of 2010, (collectively, the Act) was signed into law. The Act mandates broad changes in the delivery of health care benefits that may impact the Company s current business model, including its relationship with current and future customers, producers and health care providers, products, services, processes and technology. The Act includes provisions for mandatory coverage of benefits and a minimum medical loss ratio, eliminates lifetime and annual benefit limits and creates health insurance exchanges. These provisions are expected to take effect over the next several years from 2010 to 2018 and several have yet to be finalized. Given the broad scope of these changes, many of which have yet to be finalized, it is possible that the effects of the Act could have a material impact on the Company s results of operations.

The Company is evaluating potential business opportunities resulting from the Act that will enable it to leverage the strengths and capabilities of its broad health and wellness portfolio.

Table of Contents

The Act will require that health services companies such as CIGNA and others in the healthcare industry help fund the additional insurance benefits and coverages provided from this legislation through the assessment of fees and excise taxes. The amount which the Company will be required to pay starting in 2014 for these fees and excise taxes will result in charges to the Company s financial statements in future periods. In addition, since these fees and excise taxes will not be tax deductible, the Company s effective tax rate is expected to increase in future periods. However, the Company is unable to estimate the amount of these fees and excise taxes or the increase in the effective tax rate because guidance for their calculation has not been finalized.

The Act also changes certain tax laws which affect the Company s 2010 financial statements. Although these provisions do not become effective until 2013, they are expected to limit the tax deductibility of certain future retiree benefit and compensation-related payments. The Company recorded after-tax charges of approximately $1 million for the three months ended and $6 million for the six months ended June 30, 2010 related to these changes. The Company expects to record additional after-tax charges of approximately $4 million for the balance of the year with respect to the known effects of the tax provisions, but will continue to evaluate their impact as further guidance is made available.

Management is currently unable to estimate the ultimate impact of the Act on the Company s results of operations**,** and its financial condition and liquidity due to the uncertainties of interpretation, implementation and timing of the many provisions of the Act. It is possible, however, that this impact could be material to results of operations. Management is closely monitoring this legislation and has formed a task force to implement and report on the Company s compliance with the Act, to actively engage with regulators to assist with the conversion of legislation to regulation and to assess potential opportunities arising from the Act.

Run-off Operations

Effectively managing the various exposures of its run-off operations is important to the Company s ongoing profitability, operating cash flows and available capital. The results are influenced by a range of economic factors, especially movements in equity markets and interest rates. In order to substantially reduce the impact of equity market movements on the liability for guaranteed minimum death benefits (GMDB , also known as VADBe), the Company operates an equity hedge program. The Company actively monitors the performance of the hedge program, and evaluates the cost/benefit of hedging other risks. Results are also influenced by behavioral factors, including future partial surrender election rates for GMDB contracts, annuity election rates for guaranteed minimum income benefits (GMIB) contracts, annuitant lapse rates, as well as the collection of amounts recoverable from retrocessionaires. The Company actively studies policyholder behavior experience and adjusts future expectations based on the results of the studies, as warranted. The Company also performs regular audits of ceding companies to ensure that premiums received and claims paid properly reflect the underlying risks, and to maximize the probability of subsequent collection of claims from retrocessionaires. Finally, the Company monitors the financial strength and credit standing of its retrocessionaires and requests or collects collateral when warranted.

Summary

The Company s overall results are influenced by a range of economic and other factors, especially:

- cost trends and inflation for medical and related services;
- utilization patterns of medical and other services;
- employment levels;
- the tort liability system;
- developments in the political environment both domestically and internationally;
- interest rates, equity market returns, foreign currency fluctuations and credit market volatility, including the availability and cost of credit in the future; and
- federal, state and international regulation, including the implementation of U.S. health care reform.

The Company regularly monitors the trends impacting operating results from the above mentioned key factors and economic and other factors affecting its operations. The Company develops strategic and tactical plans designed to improve performance and maximize its competitive position in the markets it serves. The Company s ability to achieve its financial objectives is dependent upon its ability to effectively execute on these plans and to appropriately respond to emerging economic and company-specific trends.

47

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

The Company measures the financial results of its segments using segment earnings (loss) , which is defined as shareholders income (loss) from continuing operations before after-tax realized investment results. Adjusted income from operations is defined as consolidated segment earnings (loss) excluding special items (defined below) and the results of the GMIB business. Adjusted income from operations is another measure of profitability used by the Company s management because it presents the underlying results of operations of the Company s businesses and permits analysis of trends in underlying revenue, expenses and shareholders net income. This measure is not determined in accordance with accounting principles generally accepted in the United States (GAAP) and should not be viewed as a substitute for the most directly comparable GAAP measure, which is shareholders income from continuing operations.

Summarized below is a reconciliation between shareholders income from continuing operations and adjusted income from operations.

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees	**$ 4,504**	$ 4,013	**$ 9,047**	$ 8,064
Net investment income	**283**	260	**549**	489
Mail order pharmacy revenues	**351**	316	**699**	628
Other revenues	**193**	(83)	**247**	134
Total realized investment gains (losses)	**22**	(18)	**16**	(54)
Total revenues	**5,353**	4,488	**10,558**	9,261
Benefits and expenses	**4,914**	3,858	**9,697**	8,358
Income from continuing operations before taxes	**439**	630	**861**	903
Income taxes	**144**	195	**282**	260
Income from continuing operations	**295**	435	**579**	643
Less: Net income attributable to noncontrolling interest	**1**		**2**	1
Shareholders income from continuing operations	**294**	435	**577**	642
Less: realized investment gains (losses), net of taxes	**14**	(9)	**11**	(33)
Segment earnings	**280**	444	**566**	675
Less adjustments to reconcile to adjusted income from operations:				
Results of GMIB business (after-tax)	**(104)**	110	**(99)**	133
Special items (after-tax):				
Curtailment gain (See Note 12 to the Consolidated Financial Statements)		30		30
Cost reduction charge (See Note 5 to the Consolidated Financial Statements)		(9)		(9)
Completion of IRS examination (See Note 15 to the Consolidated Financial Statements)				20

Adjusted income from operations	**$ 384**	$ 313	**$ 665**	$ 501

Summarized below is adjusted income from operations by segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Adjusted Income (Loss) From Operations				
Health Care	**$ 247**	$ 177	**$ 414**	$ 331
Disability and Life	**89**	90	**159**	148
International	**64**	63	**136**	104
Run-off Reinsurance		2	**(1)**	(47)
Other Operations	**24**	21	**43**	39
Corporate	**(40)**	(40)	**(86)**	(74)
Total	**$ 384**	$ 313	**$ 665**	$ 501

Table of Contents

Overview of June 30, 2010 Consolidated Results of Operations

Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009

Adjusted income from operations increased for the three months ended June 30, 2010 compared to the same period in 2009, due to higher earnings in the Health Care segment as well as continued strong results from the Disability and Life and International segments. See the individual segment sections of this MD&A for further discussion.

Shareholders income from continuing operations decreased for the three months ended June 30, 2010 compared with the same period in 2009 due to a loss in the GMIB business in 2010 compared to a gain in 2009 as well as the absence in 2010 of a pension curtailment gain that was recognized in 2009. See the Run-off Reinsurance section of this MD&A beginning on page 61 for further discussion about the GMIB business. These effects were partially offset by higher adjusted income from operations as discussed above.

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

Adjusted income from operations increased for the six months ended June 30, 2010 compared to the same period in 2009, primarily reflecting strong earnings growth in the ongoing business segments (Health Care, Disability and Life and International) as well as improved results in the Run-off Reinsurance segment primarily due to the absence of a charge in the first quarter of 2009 related to the GMDB business.

Shareholders income from continuing operations decreased for the six months ended June 30, 2010 compared with the same period in 2009 due to a loss in the GMIB business in 2010 compared to a gain in 2009 as well as the absence in 2010 of a pension curtailment gain and a benefit from the completion of an IRS examination recognized in 2009. See the Special Items and GMIB section below for further description of these special items. These effects were partially offset by higher adjusted income from operations as discussed above.

Special Items and GMIB

Management does not believe that the special items noted in the table above are representative of the Company s underlying results of operations. Accordingly, the Company excluded these special items from adjusted income from operations in order to facilitate an understanding and comparison of results of operations and permit analysis of trends in underlying revenue, expenses and shareholders income from continuing operations.

There were no special items for the three or six months ended June 30, 2010.

The special items for the three months ended June 30, 2009 reflect the benefit associated with the pension curtailment and charges related to cost reduction actions. The special items for the six months ended June 30, 2009 reflect benefits for the pension curtailment and completion of the 2005 and 2006 IRS examination and charges related to cost reduction actions. See Notes 5, 12 and 15 to the Consolidated Financial Statements for additional information.

The Company also excludes the results of the GMIB business from adjusted income from operations because the fair value of GMIB assets and liabilities must be recalculated each quarter using updated capital market assumptions. The resulting changes in fair value, which are reported in shareholders net income, are volatile and unpredictable. See the Critical Accounting Estimates section of the MD&A beginning on page 55 of the Company s 2009 Form 10-K for more information on the effect of capital market assumption changes on shareholders net income. Because of this volatility, and since the GMIB business is in run-off, management does not believe that its results are meaningful in assessing underlying results of operations.

Table of Contents

Outlook for 2010

The Company expects 2010 adjusted income from operations to be higher than 2009. Information is not available for management to reasonably estimate the future results of the GMIB business or realized investment results due in part to interest rate and stock market volatility and other internal and external factors. This outlook reflects approximately break-even results for GMDB (also known as VADBe) for full-year 2010. This assumes that actual experience, including capital markets performance, will be consistent with long term reserve assumptions. However, if the current environment of sustained equity market volatility and low levels of interest rates persists, the Company may increase reserves, which could result in losses in the second half of 2010 for GMDB. See Note 6 to the Consolidated Financial Statements and the Critical Accounting Estimates section on page 56 of the MD&A of the Company s 2009 Form 10-K for more information on the effect of capital market assumption changes on shareholders net income. In addition, the Company is not able to identify or reasonably estimate the financial impact of special items in 2010; however they may include potential adjustments associated with cost reduction, litigation, and tax-related items. This outlook reflects the Company s best estimate of the impacts of Health Care Reform (the Act , see the Introduction section of this MD&A beginning on page 45) on its 2010 results of operations subject to the factors cited in the Cautionary Statement beginning on page 76 of the MD&A. If unfavorable equity market and interest rate movements occur, the Company could experience losses related to investment impairments and the GMIB and GMDB businesses. These losses could adversely impact the Company s consolidated results of operations and financial condition by potentially reducing the capital of the Company s insurance subsidiaries and reducing their dividend-paying capabilities.

Revenues

Total revenues increased by 19% for the three months and 14% for the six months ended June 30, 2010, compared with the same periods in 2009. Changes in the components of total revenue are described more fully below.

Premiums and Fees

Premiums and fees increased by 12% for the three and six months ended June 30, 2010, compared with the same periods in 2009, primarily reflecting membership growth in the Health Care segment s risk businesses as well as growth in the International segment.

Net Investment Income

Net investment income increased by 9% for the three months and 12% for the six months ended June 30, 2010, compared with the same periods in 2009, primarily reflecting higher assets due to business growth and improved results from security partnerships and real estate investments.

Mail Order Pharmacy Revenues

Mail order pharmacy revenues increased by 11% for the three and six months ended June 30, 2010, compared with the same periods in 2009, primarily reflecting increases in volume and price.

Other Revenues

Other revenues included the impact of the futures contracts associated with the GMDB equity hedge program. Losses on futures contracts reflect stock market gains, whereas gains reflect stock market losses. The Company reported gains of $92 million for the three months ended June 30, 2010 compared to losses of $188 million in the same period of 2009 associated with the GMDB equity hedge program. The Company recorded gains of $47 million for the six months ended June 30, 2010 compared to losses of $71 million for the same period in 2009 associated with the GMDB equity hedge program. Excluding the impact of these futures contracts, other revenues decreased slightly for the three and six months ended June 30, 2010 compared with the same periods in 2009 reflecting lower other revenues in the Health Care segment.

Table of Contents

Realized Investment Results

Realized investment results improved for the three months ended June 30, 2010, compared with the same period in 2009 primarily due to:

- the absence in 2010 of impairments on real estate funds and fixed maturities recorded in 2009;
- prepayment fees on fixed maturities received in 2010 as a result of debt restructurings; and
- gain on the sale of a real estate joint venture in 2010.

These favorable effects were partially offset by decreases in the value of hybrid securities in 2010, compared with increases in 2009. Changes in the fair value of hybrid securities are reported in realized investment results. In addition, the Company recorded commercial mortgage loan impairments in 2010 compared with none in 2009.

Realized investment results improved for the six months ended June 30, 2010, compared with the same period in 2009 primarily due to:

- lower impairments on real estate funds and fixed maturities in 2010;
- prepayment fees on fixed maturities received in 2010 as a result of debt restructurings;
- higher gains on sales of fixed maturities; and
- gains on sale of a real estate joint venture and other investments in 2010.

These favorable effects were partially offset by commercial mortgage loan impairments recorded in 2010, reflecting the continued weakness in the commercial real estate markets, compared with none in 2009.

See Note 8 to the Consolidated Financial Statements for additional information.

Table of Contents

CRITICAL ACCOUNTING ESTIMATES

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

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

Management has discussed the development and selection of its critical accounting estimates with the Audit Committee of the Company s Board of Directors and the Audit Committee has reviewed the disclosures presented below.

The Company s most critical accounting estimates, as well as the effects of hypothetical changes in material assumptions used to develop each estimate, are described in the Company s 2009 Form 10-K beginning on page 55 and are as follows:

- future policy benefits guaranteed minimum death benefits;
- Health Care medical claims payable;
- accounts payable, accrued expenses and other liabilities, and other assets guaranteed minimum income benefits;
- reinsurance recoverables for Run-off Reinsurance;
- accounts payable, accrued expenses and other liabilities pension liabilities;
- investments fixed maturities; and
- investments commercial mortgage loans valuation reserves.

The Company regularly evaluates items which may impact critical accounting estimates. As of June 30, 2010, there are no significant changes to the critical accounting estimates from what was reported in the Company s 2009 Form 10-K.

Summary

There are other accounting estimates used in the preparation of the Company s Consolidated Financial Statements, including estimates of liabilities for future policy benefits other than those identified above, as well as estimates with respect to goodwill, unpaid claims and claim expenses, post-employment and postretirement benefits other than pensions, certain compensation accruals and income taxes.

Management believes the current assumptions used to estimate amounts reflected in the Company s Consolidated Financial Statements are appropriate. However, if actual experience differs from the assumptions used in estimating amounts reflected in the Company s Consolidated Financial Statements, the resulting changes 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 liquidity and the Company s financial condition.

SEGMENT REPORTING

Operating segments generally reflect groups of related products, but the International segment is generally based on geography. The Company measures the financial results of its segments using segment earnings (loss), which is defined as shareholders income (loss) from continuing operations excluding after-tax realized investment gains and losses. Adjusted income from operations for each segment is defined as segment earnings excluding special items and the results of the Company s GMIB business. Adjusted income from operations is another measure of profitability used by the Company s management because it presents the underlying results of operations of the segment and permits analysis of trends. This measure is not determined in accordance with GAAP and should not be viewed as a substitute for the most directly comparable GAAP measure, which is segment earnings. Each segment provides a reconciliation between segment earnings and adjusted income from operations.

Beginning in 2010, the Company began reporting the expense associated with its frozen pension plans in Corporate. Prior periods were not restated; the effect on prior periods is not material.

Table of Contents

Health Care Segment

Segment Description

The Health Care segment includes medical, dental, behavioral health, prescription drug and other products and services that may be integrated to provide consumers with comprehensive health care solutions. This segment also includes group disability and life insurance products that were historically sold in connection with certain experience-rated medical products. These products and services are offered through a variety of funding arrangements such as guaranteed cost, retrospectively experience-rated and administrative services only arrangements.

The Company measures the operating effectiveness of the Health Care segment using the following key factors:

- segment earnings and adjusted income from operations;
- membership growth;
- sales of specialty products to core medical customers;
- changes in operating expenses per member; and
- medical expense as a percentage of premiums (medical care ratio) in the guaranteed cost business.

Results of Operations

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees	**$ 3,276**	$ 2,855	**$ 6,595**	$ 5,766
Net investment income	**64**	46	**118**	80
Mail order pharmacy revenues	**351**	316	**699**	628
Other revenues	**65**	69	**129**	135
Segment revenues	**3,756**	3,286	**7,541**	6,609
Mail order pharmacy cost of goods sold	**290**	255	**575**	507
Benefits and other expenses	**3,082**	2,729	**6,322**	5,562
Benefits and expenses	**3,372**	2,984	**6,897**	6,069
Income before taxes	**384**	302	**644**	540
Income taxes	**137**	108	**230**	191
Segment earnings	**247**	194	**414**	349
Less special items (after-tax) included in segment earnings:				
Curtailment gain (See Note 12 to the Consolidated Financial Statements)		25		25
Cost reduction charge (See Note 5 to the Consolidated Financial Statements)		(8)		(8)
Completion of IRS examination (See Note 15 to the Consolidated Financial Statements)				1
Adjusted income from operations	**$ 247**	$ 177	**$ 414**	$ 331
Realized investment gains (losses), net of taxes	**$ 8**	$ (11)	**$ 5**	$ (16)

53

Table of Contents

The Health Care segment s adjusted income from operations for the three months ended June 30, 2010 increased by 40%, compared with the same period in 2009 primarily due to:

- increased membership in risk businesses, as well as higher specialty earnings;
- a lower guaranteed cost medical care ratio and higher experience-rated margins driven by favorable prior year and first quarter 2010 claim development due, in part, to lower fourth quarter utilization benefiting from fewer large dollar claims. In addition, results reflect favorable H1N1 claim experience, as well as the impact of a change in business mix resulting from significant growth in high deductible plans, which generally experience lower dollar value of claims in the first half of the year followed by higher dollar value of claims in the second half of the year; and
- higher net investment income due to higher assets driven by membership growth and improved real estate and security partnership income.

These favorable effects were partially offset by a higher medical care ratio in stop loss products due to unfavorable claim experience.

The Health Care segment s adjusted income from operations for the six months ended June 30, 2010 increased by 25%, compared with the same period in 2009 primarily due to:

- increased membership in risk businesses, as well as higher specialty earnings;
- a lower guaranteed cost medical care ratio and higher experience-rated margins driven by favorable prior year claim development due, in part, to lower fourth quarter utilization benefiting from fewer large dollar claims. In addition, results reflect the impact of a change in business mix resulting from significant growth in high deductible plans, which generally experience lower dollar value of claims in the first half of the year followed by higher dollar value of claims in the second half of the year; and
- higher net investment income due to higher assets driven by membership growth and improved real estate and security partnership income, as well as higher underlying yields.

These favorable effects were partially offset by a higher medical care ratio in stop loss products due to unfavorable claim experience.

Table of Contents

Revenues

The table below shows premiums and fees for the Health Care segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Medical:				
Guaranteed cost [1],[2]	**$ 955**	$ 844	**$ 1,883**	$ 1,701
Experience-rated[2],[3]	**427**	426	**910**	858
Stop loss	**321**	320	**642**	653
Dental	**198**	185	**398**	371
Medicare	**371**	153	**733**	291
Medicare Part D	**146**	92	**316**	202
Other [4]	**133**	127	**271**	258
Total medical	**2,551**	2,147	**5,153**	4,334
Life and other non-medical	**29**	46	**62**	96
Total premiums	**2,580**	2,193	**5,215**	4,430
Fees[2],[5]	**696**	662	**1,380**	1,336
Total premiums and fees	**$ 3,276**	$ 2,855	**$ 6,595**	$ 5,766

(1) Includes guaranteed cost premiums primarily associated with open access, commercial HMO and voluntary/limited benefits, as well as other risk-related products.

(2) Premiums and/or fees associated with certain specialty products are also included.

(3) Includes minimum premium members who have a risk profile similar to

experience-rated funding arrangements. The risk portion of minimum premium revenue is reported in experience-rated medical premium whereas the self funding portion of minimum premium revenue is recorded in fees. Also, includes certain non-participating cases for which special customer level reporting of experience is required.

(4) Other medical premiums include risk revenue for specialty products.

(5) Represents administrative service fees for medical members and related specialty product fees for non-medical members as well as fees related to Medicare Part D of $12 million for the three months and $22 million for the six months ended June 30, 2010 and $9 million for three months and $17 million for the six months ended June 30,

2009.

Premiums and fees increased by 15% for the three months and 14% for the six months ended June 30, 2010 compared with the same periods of 2009 primarily reflecting membership growth in most products, predominantly in Medicare and guaranteed cost products, as well as rate increases, partially offset by lower service membership. The membership growth was driven by strong retention and new sales in targeted market segments. These increases also reflect the Company s efforts to enhance customer access, improve the quality of care and provide products and services on a cost effective basis.

Net investment income increased by 39% for the three months and 48% for the six months ended June 30, 2010 compared with the same periods of 2009 reflecting higher assets driven by membership growth, as well as improved real estate and security partnership income. In addition, the year-to-date results reflect higher underlying yields.

Other revenues for the Health Care segment consist of revenues earned on direct channel sales of certain specialty products, including behavioral health and disease management.

Table of Contents

Benefits and Expenses

Health Care segment benefits and expenses consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Medical claims expense	**$ 2,078**	$ 1,748	**$ 4,287**	$ 3,528
Other benefit expenses	**29**	38	**57**	86
Mail order pharmacy cost of goods sold	**290**	255	**575**	507
Other operating expenses excluding special item(s)	**975**	969	**1,978**	1,974
Special item(s) [(1)]		(26)		(26)
Total benefits and expenses	**$ 3,372**	$ 2,984	**$ 6,897**	$ 6,069

(1) Pre-tax special items of $26 million for the three and six months ended June 30, 2009 included a $39 million curtailment gain associated with the freeze of the Company s pension plan, partially offset by a $13 million cost reduction charge. For further discussion of special items, see the Consolidated Results of Operations section of this MD&A beginning on page 48.

Medical claims expense increased by 19% for the three months and 22% for the six months ended June 30, 2010 compared with the same periods in 2009 largely due to higher medical membership, particularly in the Medicare Private Fee For Service (Medicare PFFS) which resulted in an increase of approximately $200 million for the three months ended and approximately $405 million for the six months ended June 30, 2010 compared with the same periods last year. The increases also reflect higher membership in the commercial risk business as well as increases in medical cost inflation.

Other operating expenses for the three and six months ended June 30, 2010 were higher than the same periods in 2009 primarily reflecting the impact of membership growth in risk products, largely offset by the effect of cost reduction initiatives including pension plan changes and staffing reductions, as well as lower amortization expenses.

Other Items Affecting Health Care Results

Health Care Medical Claims Payable

Medical claims payable increased $347 million for the six months ended June 30, 2010 largely driven by medical membership growth, particularly in the Medicare PFFS and commercial risk business as noted above, reflecting new business growth, as well as seasonality in the Stop Loss products (see Note 4 to the Consolidated Financial Statements for additional information).

Medical Membership

The Health Care segment s medical membership includes any individual for whom the Company retains medical underwriting risk, who uses the Company s network for services covered under their medical coverage or for whom the Company administers medical claims. As of June 30, estimated medical membership was as follows:

(In thousands)	**2010**	2009
Guaranteed cost [1]	**1,113**	992
Experience-rated [2]	**826**	773
Total commercial risk	**1,939**	1,765
Medicare	**147**	49
Total risk	**2,086**	1,814
Service	**9,279**	9,375
Total medical membership	**11,365**	11,189

(1) Includes members primarily associated with open access, commercial HMO and voluntary/limited benefits as well as other risk-related products.

(2) Includes minimum premium members, who have a risk profile similar to experience-rated members. Also, includes certain non-participating cases for which special customer level reporting of experience is

required.

Table of Contents

The Company s overall medical membership as of June 30, 2010 increased 2% when compared with June 30, 2009, primarily driven by significant new business sales and improved persistency in the risk businesses, offset by a decline in service membership largely reflecting disenrollment after June 30, 2009.

Disability and Life Segment

Segment Description

The Disability and Life segment includes group disability, life, accident and specialty insurance and case management services for disability and workers compensation.

Key factors for this segment are:

- premium and fee growth, including new business and customer retention;
- net investment income;
- benefits expense as a percentage of earned premium (loss ratio); and
- other operating expense as a percentage of earned premiums and fees (expense ratio).

Results of Operations

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees	**$ 650**	$ 661	**$ 1,311**	$ 1,333
Net investment income	**67**	61	**131**	118
Other revenues	**28**	28	**57**	57
Segment revenues	**745**	750	**1,499**	1,508
Benefits and expenses	**618**	618	**1,274**	1,296
Income before taxes	**127**	132	**225**	212
Income taxes	**38**	39	**66**	56
Segment earnings	**89**	93	**159**	156
Less special items (after-tax) included in segment earnings:				
Curtailment gain (See Note 12 to the Consolidated Financial Statements)		4		4
Cost reduction charge (See Note 5 to the Consolidated Financial Statements)		(1)		(1)
Completion of IRS examination (See Note 15 to the Consolidated Financial Statements)				5
Adjusted income from operations	**$ 89**	$ 90	**$ 159**	$ 148
Realized investment gains (losses), net of taxes	**$ 2**	$ 3	**$ 3**	$ (7)

Segment adjusted income from operations for the three months ended June 30, 2010 are in line with the same period in 2009 reflecting:

- continued strong disability claims management;
- higher net investment income; and
- favorable life claims experience.

These favorable impacts were offset by life and accident claims associated with the Gulf of Mexico oil rig accident ($5 million after-tax) and less favorable accident claims experience. Disability claim experience in 2010 includes the

$29 million after-tax favorable impact of disability reserve studies as compared with the $20 million after-tax favorable impact of reserve studies in 2009. The impact of the reserve studies reflects strong operational performance from disability claims management.

Table of Contents

Segment adjusted income from operations increased 7% for the six months ended June 30, 2010 compared with the same period in 2009 reflecting:

- continued strong disability claims management;
- favorable accident claims experience; and
- higher net investment income.

These favorable impacts were partially offset by less favorable life claims experience, the impact of life and accident claims associated with the Gulf of Mexico oil rig accident and a slightly higher expense ratio. Results in 2010 include the $39 million after-tax favorable impact of reserve studies as compared with the $29 million after-tax favorable impact of reserve studies in 2009.

Revenues

Premiums and fees declined 2% for the three and six months ended June 30, 2010 compared with the same periods of 2009 reflecting the Company s decision to exit a large, low margin assumed government life insurance program (a reduction of $38 million for the three months and $77 million for the six months ended June 30, 2010) and the sale of the renewal rights to the student and participant accident business (a reduction of $5 million for the three months and $11 million for the six months ended June 30, 2010). Excluding the impact of these two items, premiums and fees increased 5% for the three and six months ended June 30, 2010 compared to the same periods in 2009 as a result of disability and life sales growth and continued solid persistency.

Net investment income increased 10% for the first three months and 11% for the six months of 2010 compared with the same periods of 2009 due to higher security partnership income and invested assets.

Benefits and Expenses

Benefits and expenses excluding special items for the three months ended June 30, 2010 were level compared with the same period of 2009, primarily as a result of the Company s exit from the government life insurance program and the sale of renewal rights to the student and participant accident business. Excluding the impact of these two items, benefits and expenses increased 6%, reflecting disability and life business growth, less favorable accident claims experience partially offset by favorable disability and life claims experience. The less favorable accident claims experience was driven by the impact of the Gulf of Mexico oil rig accident and slightly higher new claim counts. The favorable disability claims expenses was due to the $43 million pre-tax favorable impact of reserve studies as compared to the $29 million favorable pre-tax impact of reserve studies in 2009, partially offset by higher paid claims. The favorable life claims experience reflects lower mortality experience.

Benefits and expenses excluding special items for the six months ended June 30, 2010 declined 2% compared with the same period of 2009, primarily as a result of the Company s exit from the government life insurance program and the sale of renewal rights to the student and participant accident business. Excluding the impact of those two items, benefits and expenses increased 5%, reflecting disability and life business growth, less favorable life claims experience and a higher expense ratio, partially offset by favorable disability claims experience. The less favorable life claims experience was primarily driven by higher new claim counts. The higher operating expense ratio reflects the Company s strategic investments in information technology and the claims operations. The favorable disability claims experience is due to the impact of the reserve studies, partially offset by higher paid claims. Benefits and expenses in 2010 include the $58 million pre-tax favorable impact of reserve studies as compared to the $42 million favorable pre-tax impact of reserve studies in 2009.

Table of Contents

International Segment

Segment Description

The International segment includes supplemental health, life and accident insurance products and international health care products and services, including those offered to expatriate employees of multinational corporations.

The key factors for this segment are:

- premium growth, including new business and customer retention;
- benefits expense as a percentage of earned premium (loss ratio);
- operating expense as a percentage of earned premium (expense ratio); and
- impact of foreign currency movements.

Results of Operations

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees	**$ 542**	$ 462	**$ 1,069**	$ 896
Net investment income	**20**	17	**39**	33
Other revenues	**8**	5	**15**	10
Segment revenues	**570**	484	**1,123**	939
Benefits and expenses	**479**	414	**938**	804
Income before taxes	**91**	70	**185**	135
Income taxes	**26**	6	**47**	28
Income attributable to noncontrolling interest	**1**		**2**	1
Segment earnings	**64**	64	**136**	106
Less special items (after-tax) included in segment earnings:				
Curtailment gain (See Note 12 to the Consolidated Financial Statements)		1		1
Completion of IRS examination (See Note 15 to the Consolidated Financial Statements)				1
Adjusted income from operations	**$ 64**	$ 63	**$ 136**	$ 104
Impact of foreign currency movements on current period segment earnings	**$ 4**		**$ 11**	
Impact of permanent investment of overseas earnings:				
Implementation effect	**$**	$ 14	**$ 5**	$ 14
Effect of recording taxes at the tax rates of respective foreign jurisdictions	**6**	5	**14**	5
Total	**$ 6**	$ 19	**$ 19**	$ 19
Realized investment gains, net of taxes	**$**	$ 3	**$ 2**	$ 1

Table of Contents

During the first quarter of 2010, the Company s International segment implemented a capital management strategy to permanently invest the earnings of its Hong Kong operation overseas. Income taxes for this operation, and the South Korean operation that implemented a similar strategy in the second quarter of 2009, are recorded at the tax rate of the respective foreign jurisdiction. Excluding the impact of these tax adjustments and foreign currency movements (presented in the table above), the International segment s adjusted income from operations increased 23% for the three months and 25% for the six months ended June 30, 2010 compared with the same periods last year. The increases for the three and six months ended June 30, 2010, were primarily due to strong revenue growth and higher persistency in the supplemental health, life and accident insurance business, particularly in South Korea, as well as favorable loss ratios and membership growth in the expatriate employee benefits business. Both businesses continue to deliver competitively strong margins. Throughout this discussion, the impact of foreign currency movements was calculated by comparing the reported results to what the results would have been had the exchange rates remained constant with the prior year s comparable period exchange rates.

Revenues

Premiums and fees. Excluding the effect of foreign currency movements, premiums and fees were $523 million for the second quarter of 2010, compared with reported premiums of $462 million for the second quarter of 2009, an increase of 13%, and $1.0 billion for the six months ended June 30, 2010, compared with reported premiums of $896 million for the same period last year, an increase of 12%. These increases were primarily attributable to new sales growth in the supplemental health, life and accident insurance operations, particularly in South Korea, and rate increases and membership growth in the expatriate employee benefits business.

Net investment income increased by 18% for the three months and the six months ended June 30, 2010, compared with the same periods last year. The increase was primarily due to favorable foreign currency movements and asset growth, particularly in South Korea.

Benefits and Expenses

Excluding the impact of foreign currency movements, benefits and expenses were $464 million for the second quarter of 2010, compared with reported benefits and expenses of $414 million for the second quarter of 2009, an increase of 12% and $880 million for the six months ended June 30, 2010, compared to reported benefits and expenses of $804 million for the six months ended June 30, 2009, an increase of 9%. These increases were primarily due to business growth and higher claims in the supplemental health, life and accident insurance business, particularly in South Korea.

Loss ratios were flat for the three months and increased for the six months ended June 30, 2010 in the supplemental health, life and accident insurance business compared to the same periods last year. In the expatriate benefits business, loss ratios improved for the three and six months ended June 30, 2010, compared to the same periods last year, reflecting favorable claim experience and rate increases on renewal business.

Policy acquisition expenses increased for the three and six months ended June 30, 2010, reflecting foreign currency movements and business growth partially offset by lower amortization of deferred acquisition costs associated with higher persistency in the supplemental health, life and accident insurance business.

Expense ratios increased for the second quarter of 2010 and were flat for the six months ended June 30, 2010, compared to the same periods last year. The increase for the three months ended June 30, 2010, reflects spending related to geographic and product expansion.

Other Items Affecting International Results

For the Company s International segment, South Korea is the single largest geographic market. South Korea generated 32% of the segment s revenues for the three and six months ended June 30, 2010. South Korea generated 44% of the segment s earnings for the second quarter of 2010 and 41% of the segment s earnings for the six months ended June 30, 2009. Due to the concentration of business in South Korea, the International segment is exposed to potential losses resulting from economic and geopolitical developments in that country, as well as foreign currency movements affecting the South Korean currency, which could have a significant impact on the segment s results and the Company s consolidated financial results.

60

Table of Contents

Run-off Reinsurance Segment

Segment Description

The Company s reinsurance operations were discontinued and are now an inactive business in run-off mode since the sale of the U.S. individual life, group life and accidental death reinsurance business in 2000. This segment is predominantly comprised of guaranteed minimum death benefit (GMDB , also known as VADBe), guaranteed minimum income benefit (GMIB), workers compensation and personal accident reinsurance products.

The determination of liabilities for GMDB and GMIB requires the Company to make assumptions and critical accounting estimates. The Company describes the assumptions used to develop the reserves for GMDB in Note 6 to the Consolidated Financial Statements and for the assets and liabilities associated with GMIB in Note 7 to the Consolidated Financial Statements. The Company also provides the effects of hypothetical changes in assumptions in the Critical Accounting Estimates section of the MD&A beginning on page 55 of the Company s 2009 Form 10-K.

The Company excludes the results of the GMIB business from adjusted income from operations because the fair value of GMIB assets and liabilities must be recalculated each quarter using updated capital market assumptions. The resulting changes in fair value, which are reported in shareholders net income, are volatile and unpredictable.

Results of Operations

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees	**$ 6**	$ 6	**$ 14**	$ 12
Net investment income	**28**	34	**56**	58
Other revenues	**92**	(189)	**46**	(74)
Segment revenues	**126**	(149)	**116**	(4)
Benefits and expenses	**285**	(321)	**268**	(136)
Income (loss) before income taxes	**(159)**	172	**(152)**	132
Income taxes (benefits)	**(55)**	60	**(52)**	46
Segment earnings (loss)	**(104)**	112	**(100)**	86
Less: results of GMIB business	**(104)**	110	**(99)**	133
Adjusted income (loss) from operations	**$**	$ 2	**$ (1)**	$ (47)
Realized investment gains (losses), net of taxes	**$ 2**	$ (3)	**$ 1**	$ (6)

Segment results for the three and six months ended June 30, 2010 reflect significant losses for the GMIB business (presented in the table above) compared with significant earnings for the GMIB business for the same periods last year. Excluding the results of the GMIB business and the charge taken to strengthen GMDB reserves in the six months ended June 30, 2009, results were essentially break-even for all periods presented.

See the Benefits and Expenses section for further discussion around the results of the GMIB and GMDB businesses.

Other Revenues

Other revenues included pre-tax gains of $92 million for the three months and $47 million for the six months ended June 30, 2010 from futures contracts used in the GMDB equity hedge program (see Note 6 to the Consolidated Financial Statements), compared with losses of $188 million for the three months and $71 million for the six months ended June 30, 2009. Amounts reflecting corresponding changes in liabilities for GMDB contracts were included in benefits and expenses consistent with GAAP when a premium deficiency exists (see below Other Benefits and Expenses). The Company held futures contract positions related to this program with a notional amount of $1.2 billion

at June 30, 2010.

Table of Contents

Benefits and Expenses

Benefits and expenses were comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
GMIB fair value (gain) loss	**$ 164**	$ (164)	**$ 160**	$ (196)
Other benefits and expenses	**121**	(157)	**108**	60
Benefits and expenses	**$ 285**	$ (321)	**$ 268**	$ (136)

GMIB fair value (gain) loss. Under the GAAP guidance for fair value measurements, the Company s results of operations are expected to be volatile in future periods because capital market assumptions needed to estimate the assets and liabilities for the GMIB business are based largely on market-observable inputs at the close of each reporting period including interest rates (LIBOR swap curve) and market-implied volatilities. See Note 7 to the Consolidated Financial Statements for additional information about assumptions and asset and liability balances related to GMIB.

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

GMIB fair value gains of $164 million for the three months ended June 30, 2009, and $196 million and for the six months ended June 30, 2009, were primarily a result of increases in interest rates and underlying account values during the second quarter of 2009, partially offset by increases to the annuitization assumption and for the six months ended June 30, 2009, updates to the lapse assumption.

The GMIB liabilities and related assets are calculated using a complex internal model and assumptions from the viewpoint of a hypothetical market participant. This resulting liability (and related asset) is higher than the Company believes will ultimately be required to settle claims primarily because market-observable interest rates are used to project growth in account values of the underlying mutual funds to estimate fair value from the viewpoint of a hypothetical market participant. The Company s payments for GMIB claims are expected to occur over the next 15 to 20 years and will be based on actual values of the underlying mutual funds and the 7-year Treasury rate at the dates benefits are elected. Management does not believe that current market-observable interest rates reflect actual growth expected for the underlying mutual funds over that timeframe, and therefore believes that the recorded liability and related asset do not represent what management believes will ultimately be required as this business runs off. However, significant declines in mutual fund values that underlie the contracts (increasing the exposure to the Company) together with declines in the 7-year Treasury rates (used to determine claim payments) similar to what occurred periodically during the last few years would increase the expected amount of claims that would be paid out for contractholders who choose to annuitize. It is also possible that such unfavorable market conditions would have an impact on the level of contractholder annuitizations, particularly if such unfavorable market conditions persisted for an extended period.

Other Benefits and Expenses. Other benefits and expenses reflected expense for the three months and six months ended June 30, 2010, compared to income for the three months and expense for the six months ended June 30, 2009. These fluctuations reflect the impacts of changes in equity markets on the Company s liabilities for guaranteed minimum death benefit contracts. Equity market declines during the second quarter 2010 decreased the underlying annuity account values, which increased the exposure under the contracts and related benefits expense for the three and six months ended June 30, 2010. Equity market improvements during the second quarter of 2009 increased the underlying annuity account values, which decreased the exposure under the contracts and related benefits expense. For the six months ended June 30, 2009, this activity was partially offset by the impacts of equity market declines during the first quarter of 2009, in addition to a pre-tax charge of $73 million to strengthen GMDB reserves (see below). These changes in benefits expense are partially offset by futures gains and losses, discussed in Other Revenues above.

For the three and six months ended June 30, 2010, no reserve strengthening for GMDB reserves was required. In the first quarter of 2009, the Company recorded additional other benefits and expenses of $73 million ($47 million after-tax) to strengthen GMDB reserves. The amounts were primarily due to an increase in the provision for future partial surrenders due to overall market declines, adverse volatility-related impacts due to turbulent equity market conditions and adverse interest rate impacts.

Table of Contents

See Note 6 to the Consolidated Financial Statements for additional information about assumptions and reserve balances related to GMDB.

Segment Summary

The Company s payment obligations for underlying reinsurance exposures assumed by the Company under these contracts are based on ceding companies claim payments. For GMDB and GMIB, claim payments vary because of changes in equity markets and interest rates, as well as mortality and policyholder behavior. For workers compensation and personal accident, the claim payments relate to accidents and injuries. 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 its retrocessionaires may not be known with certainty for some time.

The Company s reserves for underlying reinsurance exposures assumed by the Company, as well as for amounts recoverable from retrocessionaires, are considered appropriate as of June 30, 2010, based on current information. However, it is possible that future developments, which could include but are not limited to worse than expected claim experience and higher than expected volatility, could have a material adverse effect on the Company s consolidated results of operations and could have a material adverse effect on the Company s financial condition. The Company bears the risk of loss if its payment obligations to cedents increase or if its retrocessionaires are unable to meet, or successfully challenge, their reinsurance obligations to the Company.

Other Operations Segment

Segment Description

Other Operations consist of:

- non-leveraged and leveraged corporate-owned life insurance (COLI);
- deferred gains recognized from the 1998 sale of the individual life insurance and annuity business and the 2004 sale of the retirement benefits business; and
- run-off settlement annuity business.

Results of Operations

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Premiums and fees	**$ 30**	$ 29	**$ 58**	$ 57
Net investment income	**104**	102	**205**	200
Other revenues	**15**	17	**30**	33
Segment revenues	**149**	148	**293**	290
Benefits and expenses	**114**	116	**229**	242
Income before taxes	**35**	32	**64**	48
Income taxes	**11**	11	**21**	8
Segment earnings	**24**	21	**43**	40
Less special item (after-tax) included in segment earnings:				
Completion of IRS examination (See Note 15 to the Consolidated Financial Statements)				1
Adjusted income from operations	**$ 24**	$ 21	**$ 43**	$ 39
Realized investment gains (losses), net of taxes	**$ 2**	$ (1)	**$**	$ (5)

Adjusted income from operations for Other Operations increased for the three and six months ended June 30, 2010 compared with the same periods in 2009, reflecting higher COLI earnings driven by higher investment income and favorable mortality, offset by a continued decline in deferred gain amortization associated with the sold businesses.

Table of Contents

Revenues

Net investment income. Net investment income increased 2% for the three months and 3% for the six months ended June 30, 2010, compared with the same periods in 2009, reflecting higher COLI average invested assets and higher income on partnership investments, offset by lower settlement annuity average invested assets and yields.

Other revenues. Other revenues decreased 12% for three months and 9% for the six months ended June 30, 2010, compared with the same periods in 2009 primarily due to lower deferred gain amortization related to the sold retirement benefits and individual life insurance and annuity businesses. The amount of the deferred gain amortization recorded was $6 million in the three months and $12 million in the six months ended June 30, 2010, compared to $8 million in the three months and $16 million in the six months ended June 30, 2009.

Corporate

Description

Corporate reflects amounts not allocated to segments, such as net interest expense (defined as interest on corporate debt less net investment income on investments not supporting segment operations), interest on uncertain tax positions, certain litigation matters, intersegment eliminations, compensation cost for stock options and certain corporate overhead expenses such as directors expenses and, beginning in 2010, pension expense related to the Company s frozen pension plans.

FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Segment loss	**$ (40)**	$ (40)	**$ (86)**	$ (62)
Less special item (after-tax) included in segment loss:				
Completion of IRS examination (See Note 15 to the Consolidated Financial Statements)				12
Adjusted loss from operations	**$ (40)**	$ (40)	**$ (86)**	$ (74)

Corporate s adjusted loss from operations was flat for the three months ended June 30, 2010 compared with the same period in 2009 reflecting:

- higher net interest expense, primarily driven by a higher long-term debt balance; and
- pension expense related to the Company s frozen pension plans which was reported in Corporate beginning in 2010.

These two unfavorable items were offset by lower expenses, including lower directors expense resulting from a lower stock price in 2010 compared to 2009.

Corporate s adjusted loss from operations was greater for the six months ended June 30, 2010 compared with the same period in 2009, primarily reflecting:

- higher net interest expense, primarily driven by a higher long-term debt balance;
- pension expense related to the Company s frozen pension plans which was reported in Corporate beginning in 2010; and
- for the six months ended June 30, 2010, tax expense for postretirement benefits resulting from health care reform (the Act , see the Introduction section of the MD&A beginning on page 45).

DISCONTINUED OPERATIONS

Description

Discontinued operations represent results associated with certain investments or businesses that have been sold or are held for sale.

Discontinued operations for the six months ended 2009 primarily represented a tax benefit from a past divestiture resolved at the completion of the 2005 and 2006 IRS examinations.

Table of Contents

INDUSTRY DEVELOPMENTS

There have been inquiries by regulators and legislators with respect to offset practices regarding Social Security Disability Insurance (SSDI), specifically as to the industry s role in providing assistance to individuals with their applications for SSDI. The Company has received one Congressional inquiry and has responded to the information request. Also, legislation prohibiting the offset of SSDI payments against private disability insurance payments for prospectively issued policies was introduced but not enacted in the Connecticut state legislature. The Company was involved in related pending litigation which was resolved in the second quarter of 2010.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company maintains liquidity at two levels: the subsidiary level and the parent company level.

Liquidity requirements at the subsidiary level generally consist of:

- claim and benefit payments to policyholders; and
- operating expense requirements, primarily for employee compensation and benefits.

The Company s subsidiaries normally meet their operating requirements by:

- maintaining appropriate levels of cash, cash equivalents and short-term investments;
- using cash flows from operating activities;
- selling investments;
- matching investment durations to those estimated for the related insurance and contractholder liabilities; and
- borrowing from its parent company.

Liquidity requirements at the parent company level generally consist of:

- debt service and dividend payments to shareholders; and
- pension plan funding.

The parent normally meets its liquidity requirements by:

- maintaining appropriate levels of cash, cash equivalents and short-term investments;
- collecting dividends from its subsidiaries;
- using proceeds from issuance of debt and equity securities; and
- borrowing from its subsidiaries.

Cash flows for the six months ended June 30, were as follows:

(In millions)	**2010**	2009
Operating activities	**$ 773**	$ 112
Investing activities	**$ (536)**	$ (648)
Financing activities	**$ 301**	$ 211

Cash flows from operating activities consist of cash receipts and disbursements for premiums and fees, mail order pharmacy and other revenues, gains (losses) recognized in connection with the Company s GMDB equity hedge program, investment income, taxes, and benefits and expenses.

Because certain income and expense transactions do not generate cash, and because cash transactions related to revenue and expenses may occur in periods different from when those revenues and expenses are recognized in shareholders net income, cash flows from operating activities can be significantly different from shareholders net income.

Cash flows from investing activities generally consist of net investment purchases or sales and net purchases of property and equipment, which includes capitalized software, as well as cash used to acquire businesses.

Cash flows from financing activities are generally comprised of issuances and re-payment of debt at the parent company level, proceeds on the issuance of common stock resulting from stock option exercises, and stock repurchases. In addition, the subsidiaries report net deposits/withdrawals to/from investment contract liabilities (which include universal life insurance liabilities) because such liabilities are considered financing activities with policyholders.

Table of Contents

2010:

Operating activities

For the six months ended June 30, 2010, cash flows from operating activities were higher than net income by $194 million. Net income contains certain after-tax non-cash income and expense items, including:

- unfavorable results of the GMIB business of $99 million;
- depreciation and amortization charges of $83 million; and
- realized investment gains of $11 million.

Cash flows from operating activities were higher than net income excluding the non-cash items noted above by $23 million. Excluding cash inflows of $47 million associated with the GMDB equity hedge program (which did not affect shareholders net income), cash flows from operating activities were lower than net income by $24 million. This result primarily reflects pension contributions of $212 million offset by premium growth in the Health Care segment s risk businesses due to significant new business in 2010.

Cash flows from operating activities increased by $661 million compared with the six months ended June 30, 2009. Excluding the results of the GMDB equity hedge program (which did not affect shareholders net income), cash flows from operating activities increased by $543 million. This increase primarily reflects premium growth in the Health Care segment s risk businesses as noted above and earnings growth in the Health Care, Disability and Life and International segments as well as lower contributions to the qualified domestic pension plan ($212 million for the six months ended June 30, 2010, compared with $320 million for the six months ended June 30, 2009). These favorable effects were partially offset by higher management compensation and income tax payments for the six months ended June 30, 2010 compared with the same period last year.

Investing activities

Cash used in investing activities was $536 million. This use of cash consisted primarily of net purchases of investments of $411 million and net purchases of property and equipment of $120 million.

Financing activities

Cash provided from financing activities consisted primarily of net proceeds from the issuance of long-term debt of $296 million, changes in cash overdraft position of $32 million, proceeds from issuances of common stock from employee benefit plans of $28 million and net deposits to contractholder deposit funds of $72 million. These inflows were partially offset by cash used for common stock repurchases of $113 million.

2009:

Operating activities

For the six months ended June 30, 2009, cash flows from operating activities were less than net income by $532 million. Net income contains certain after-tax non-cash income and expense items, including:

- favorable results of the GMIB business of $133 million;
- a curtailment gain of $30 million, net of a cost reduction charge of $9 million;
- tax benefits related to the IRS examination of $20 million;
- depreciation and amortization charges of $94 million; and
- realized investment losses of $33 million.

Cash flows from operating activities were lower than net income excluding the non-cash items noted above by $485 million. This decrease was primarily due to cash outflows of $71 million associated with the GMDB equity hedge program which did not affect shareholders net income, contributions to the qualified domestic pension plan of approximately $320 million and increases in receivables.

67

Table of Contents

Investing activities

Cash used in investing activities was $648 million. This use of cash consisted primarily of net purchases of investments of $512 million and net purchases of property and equipment of $136 million.

Financing activities

Cash provided from financing activities consisted primarily of proceeds from the net issuance of long-term debt of $346 million, offset by repayments of short-term debt, primarily commercial paper, of $197 million. Financing activities also included net deposits to contractholder deposit funds of $88 million.

Interest Expense

Interest expense on long-term debt, short-term debt and capital leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Interest expense	**$ 45**	$ 41	**$ 88**	$ 79

The increase in interest expense for the three and six months ended June 30, 2010 was primarily due to higher long-term debt outstanding in 2010, resulting from the issuance of debt in May, 2010 and May, 2009 used for general corporate purposes.

Capital Resources

The Company s capital resources (primarily retained earnings and the proceeds from the issuance of debt and equity securities) provide protection for policyholders, furnish the financial strength to underwrite insurance risks and facilitate continued business growth.

Management, guided by regulatory requirements and rating agency capital guidelines, determines the amount of capital resources that the Company maintains. Management allocates resources to new long-term business commitments when returns, considering the risks, look promising and when the resources available to support existing business are adequate.

The Company prioritizes its use of capital resources to:

- provide capital necessary to support growth and maintain or improve the financial strength ratings of subsidiaries which includes evaluating potential solutions for the Company s run-off reinsurance business and pension funding obligations;
- consider acquisitions that are strategically and economically advantageous; and
- return capital to investors through share repurchase.

The availability of capital resources will be impacted by equity and credit market conditions. Extreme volatility in credit or equity market conditions may reduce the Company s ability to issue debt or equity securities.

On May 12, 2010, the Company issued $300 million of 5.125% Notes ($299 million, net of discount, with an effective interest rate of 5.36% per year). Interest is payable on June 15 and December 15 of each year beginning December 15, 2010. The proceeds of this debt were used for general corporate purposes. These Notes will mature on June 15, 2020.

On May 4, 2009, the Company issued $350 million of 8.5% Notes ($349 million, net of debt discount, with an effective interest rate of 9.90% per year). The difference between the stated and effective interest rates primarily reflects the effect of a treasury lock. See Note 13 to the Consolidated Financial Statements for further information. Interest is payable on May 1 and November 1 of each year beginning November 1, 2009. The proceeds of this debt were used for general corporate purposes, including the repayment of some of the Company s outstanding commercial paper. These Notes will mature on May 1, 2019.

Table of Contents

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 25 basis points (5.125% Notes due 2020) or 50 basis points (8.5% Notes due 2019).

Share Repurchase

The Company maintains a share repurchase program, which was authorized by its Board of Directors. The decision to repurchase shares depends on market conditions and alternate uses of capital. The Company has, and may continue from time to time, to repurchase shares on the open market through a Rule 10b5-1 plan which permits a company to repurchase its shares at times when it otherwise might be precluded from doing so under insider trading laws or because of self-imposed trading blackout periods. The Company suspends activity under this program from time to time and also removes such suspensions, generally without public announcement.

Through August 4, 2010, the Company repurchased 6.2 million shares for approximately $200 million but did not repurchase any shares during 2009. The total remaining share repurchase authorization as of August 5, 2010 was $247 million.

Liquidity and Capital Resources Outlook

At June 30, 2010, there was approximately $720 million in cash and short-term investments available at the parent company level. For the remainder of 2010, the parent company s cash requirements include scheduled interest payments of approximately $90 million on outstanding long-term debt (including current maturities) of $2.6 billion at June 30, 2010. In addition, approximately $100 million of commercial paper will mature over the next month and scheduled long-term debt repayments of $222 million are due in January of 2011. The Company made pension plans contributions of $212 million through June 30, 2010 and is not required to make any additional contributions for the remainder of the year. The parent company expects to fund these cash requirements by using available cash, subsidiary dividends and by refinancing the maturing commercial paper borrowings with new commercial paper.

The availability of resources at the parent company level is partially dependent on dividends from the Company s subsidiaries, most of which are subject to regulatory restrictions and rating agency capital guidelines, and partially dependent on the availability of liquidity from the issuance of debt or equity securities.

The Company expects, based on current projections for cash activity, to have sufficient liquidity to meet its obligations.

However, the Company s cash projections may not be realized and the demand for funds could exceed available cash if:

- ongoing businesses experience unexpected shortfalls in earnings;
- regulatory restrictions or rating agency capital guidelines reduce the amount of dividends available to be distributed to the parent company from the insurance and HMO subsidiaries (including the impact of equity market deterioration and volatility on subsidiary capital);
- significant disruption or volatility in the capital and credit markets reduces the Company s ability to raise capital or creates unexpected losses related to the GMDB and GMIB businesses;
- a substantial increase in funding over current projections is required for the Company s pension plans; or
- a substantial increase in funding is required for the Company s GMDB equity hedge program.

In those cases, the Company expects to have the flexibility to satisfy liquidity needs through a variety of measures, including intercompany borrowings and sales of liquid investments. The parent company may borrow up to $600 million from Connecticut General Life Insurance Company (CGLIC) without prior state approval. As of June 30, 2010, the parent company had no outstanding borrowings from CGLIC.

Table of Contents

In addition, the Company may use short-term borrowings, such as the commercial paper program and the committed revolving credit and letter of credit agreement of up to $1.75 billion subject to the maximum debt leverage covenant in its line of credit agreement. This agreement permits up to $1.25 billion to be used for letters of credit. As of June 30, 2010, there were two letters totaling $82 million issued out of the credit facility. As of June 30, 2010, the Company had an additional $1.5 billion of borrowing capacity under the credit facility.

Though the Company believes it has adequate sources of liquidity, continued significant disruption or volatility in the capital and credit markets could affect the Company s ability to access those markets for additional borrowings or increase costs associated with borrowing funds.

Guarantees and Contractual Obligations

The Company, through its subsidiaries, is contingently liable for various contractual obligations entered into in the ordinary course of business. See Note 17 to the Consolidated Financial Statements for additional information.

Contractual obligations. The Company has updated its contractual obligations previously provided on page 85 of the Company s 2009 Form 10-K for certain items as follows:

- Future policy benefit liabilities associated with GMDB contracts as a result of an unfavorable equity market during the second quarter of 2010;
- Long-term debt, primarily due to the issuance of new debt on May 12, 2010. See Note 13 to the Consolidated Financial Statements for additional information; and
- Other long-term liabilities associated with GMIB contracts primarily as a result of declining interest rates as well as the unfavorable equity market environment during the second quarter of 2010.

(In millions, on an undiscounted basis)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
On-Balance Sheet:					
Future policy benefits	$ 11,355	$ 484	$ 925	$ 902	$ 9,044
Long-term debt	$ 5,072	$ 174	$ 799	$ 309	$ 3,790
Other long-term liabilities	$ 1,546	$ 614	$ 329	$ 165	$ 438

INVESTMENT ASSETS

The Company s investment assets do not include separate account assets. Additional information regarding the Company s investment assets and related accounting policies is included in Notes 2, 7, 8, 9, 10 and 14 to the Consolidated Financial Statements. More detailed information about the fixed maturities and mortgage loan portfolios by type of issuer, maturity dates, and, for mortgages by property type and location is included in Note 8 to the Consolidated Financial Statements and Notes 2, 11, 12 and 17 to the Consolidated Financial Statements in the Company s 2009 Form 10-K.

As of June 30, 2010, the Company s mix of investments and their primary characteristics had not materially changed since December 31, 2009. The Company s fixed maturity portfolio is diversified by issuer and industry type, with no single industry constituting more than 10% of total invested assets as of June 30, 2010. The Company s commercial mortgage loan portfolio is diversified by property type, location and borrower to reduce exposure to potential losses.

Fixed Maturities

Investments in fixed maturities (bonds) include publicly traded and privately placed debt securities, mortgage and other asset-backed securities, preferred stocks redeemable by the investor and trading securities. Fixed maturities and equity securities include hybrid securities. 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.

70

Table of Contents

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. These procedures are overseen by the Company s investment professionals.

The value of the Company s fixed maturity portfolio increased $403 million in the three months and $559 million in the six months ended June 30, 2010 driven by a decline in market yields. Although overall asset values are well in excess of amortized cost, there are specific securities with amortized cost in excess of fair value by $61 million as of June 30, 2010.

As of June 30, 2010, approximately 63% or $1,595 million of the Company s total investments in state and local government securities of $2,545 million were guaranteed by monoline bond insurers. The quality ratings of these investments with and without this guaranteed support as of June 30, 2010 were as follows:

		As of June 30, 2010 Fair Value	
		With	Without
(In millions)	**Quality Rating**	**Guarantee**	**Guarantee**
State and local governments	Aaa	$ 91	$ 88
	Aa1-Aa3	1,214	1,131
	A1-A3	244	267
	Baa1-Baa3	46	54
	Not available		55
Total state and local governments		$ 1,595	$ 1,595

As of June 30, 2010, approximately 74% or $498 million of the Company s total investments in other asset-backed securities of $672 million were guaranteed by monoline bond insurers. All of these securities had quality ratings of Baa2 or better. Quality ratings without considering the guarantees for these other asset-backed securities were not available.

As of June 30, 2010, the Company had no direct investments in monoline bond insurers. Guarantees provided by various monoline bond insurers for certain of the Company s investments in state and local governments and other asset-backed securities as of June 30, 2010 were:

(In millions)	As of June 30, 2010
Guarantor	**Indirect Exposure**
AMBAC	$ 189
National Public Finance Guarantee (formerly MBIA, Inc.)	1,264
Assured Guaranty Municipal Corp (formerly Financial Security Assurance)	600
Financial Guaranty Insurance Co.	40
Total	$ 2,093

The Company continues to underwrite investments in these securities focusing on the underlying issuer s credit quality, without regard for guarantees. As such, this portfolio of state and local government securities, guaranteed by monoline bond insurers is of high quality with approximately 93% rated A3 or better without their guarantees.

Commercial Mortgage Loans

The Company s commercial mortgage loans are fixed rate loans, diversified by property type, location and borrower to reduce exposure to potential losses. Loans are secured by the related property and are generally made at less than 75%

of the property s value at origination of the loan. In addition to property value, debt service coverage, which is the ratio of the estimated cash flows from the property to the required loan payments (principal and interest), is an important underwriting consideration.

Table of Contents

The Company completed its annual in depth review of its commercial mortgage loan portfolio in July, 2010. This review included an analysis of each property s year-end 2009 financial statements, rent rolls and operating plans and budgets for 2010, a physical inspection of the property and other pertinent factors. Based on property values and cash flows estimated as part of this review, the portfolio s average loan-to-value ratio modestly improved, decreasing from 77% as of December 31, 2009 to 76% at June 30, 2010. The portfolio s average debt service coverage ratio was estimated to be 1.36 as of June 30, 2010, down from 1.48 at completion of the previous review.

Values estimated for the properties in CIGNA s mortgage portfolio reflect improving commercial real estate capital markets, with stabilizing, and in some instances, increasing values, for well leased, quality commercial real estate located in strong institutional investment markets, the quality reflected by the vast majority of properties securing our mortgages. The deterioration in property cash flows (and resulting debt service coverage levels) estimated as part of the review were as expected, reflecting weak fundamentals (higher vacancy and reduced rental rates) across property types and markets. While there are some early signs of improvement in commercial real estate fundamentals, a sustained recovery will be dependent on continued improvement in local markets and the broader national economy.

The following table reflects the commercial mortgage loan portfolio as of June 30, 2010 summarized by loan-to-value ratio based on the annual loan review completed in July, 2010.

Loan-to-Value Distribution

Loan-to-Value Ratios	**Amortized Cost**			
(In millions)	**Senior**	**Subordinated**	**Total**	**% of Mortgage Loans**
Below 50%	$ 180	$ 158	$ 338	10%
50% to 59%	420	33	453	13%
60% to 69%	526	60	586	17%
70% to 79%	298	34	332	10%
80% to 89%	811	34	845	25%
90% to 99%	573	27	600	18%
100% or above	255		255	7%
Totals	$ 3,063	$ 346	$ 3,409	100%

As summarized above, $346 million or 10% of the commercial mortgage loan portfolio is comprised of subordinated notes and loans, including $312 million of loans secured by first mortgages, which were fully underwritten and originated by the Company using its standard underwriting procedures. Senior interests in these first mortgage loans were then sold to other institutional investors. This strategy allowed the Company to effectively utilize its origination capabilities to underwrite high quality loans with strong borrower sponsorship, limit individual loan exposures, and achieve attractive risk adjusted yields. In the event of a default, the Company will pursue remedies up to and including foreclosure jointly with the holders of the senior interest, but will receive repayment only after satisfaction of the senior interest.

There are seven loans where the aggregate carrying value of the mortgage loans exceeds the value of the underlying properties by $17 million. Five of these loans have current debt service coverage of 1.0 or greater and two with debt service coverage below 1.0 have other mitigating factors including strong borrower sponsorship. All but three of the approximately 160 loans that comprise the Company s total mortgage loan portfolio continue to perform under their contractual terms, and the actual aggregate default rate is 3%. Given the quality and diversity of the underlying real estate, positive debt service coverage, significant borrower cash investment averaging nearly 30%, and with only $228 million of loans maturing in the next twelve months, the Company remains confident that the vast majority of borrowers will continue to perform as required. While considered unlikely, a scenario where property values were to decrease 10% from those levels estimated during the annual in-depth loan review would cause approximately 20% of the portfolio s carrying values to exceed the fair values of their underlying properties by approximately $85 million.

72

Table of Contents

Other Long-term Investments

The Company s other long-term investments include $561 million in private equity and real estate funds as well as direct investments in real estate joint ventures. The funds typically invest in mezzanine debt or equity of privately held companies and equity real estate. Because these investments have a subordinate position in the capital structure, the Company assumes a higher level of risk for higher expected returns. Many of these entities have experienced a decline in value over the last several quarters due to economic weakness and the disruption in the capital markets, particularly in the commercial real estate market. These total asset values exceeded their carrying values as of June 30, 2010. However, the fair value of the Company s ownership interest in certain funds (those carried at cost) was less than its carrying value by $55 million. The Company believes these declines in value are temporary and expects to recover its carrying value over the remaining lives of the funds. To mitigate risk, these investments are diversified across approximately 60 separate partnerships, and approximately 35 general partners who manage one or more of these partnerships. Also, the funds underlying investments are diversified by industry sector or property type, and geographic region. No single partnership investment exceeds 8% of the Company s private equity and real estate partnership portfolio. Given the current economic environment, future impairments are possible; however, management does not expect those losses to have a material effect on the Company s financial condition.

Problem and Potential Problem Investments

Problem bonds and commercial mortgage loans are either delinquent by 60 days or more or have been restructured as to terms (interest rate or maturity date). Potential problem bonds and commercial mortgage loans are considered current (no payment more than 59 days past due), but management believes they have certain characteristics that increase the likelihood that they may become problems. The characteristics management considers include, but are not limited to, the following:

- request from the borrower for restructuring;
- principal or interest payments past due by more than 30 but fewer than 60 days;
- downgrade in credit rating;
- collateral losses on asset-backed securities; and
- for commercial mortgages, deterioration of debt service coverage below 1.0 or estimated loan-to-value ratios increasing to 100% or more.

The Company recognizes interest income on problem bonds and commercial mortgage loans only when payment is actually received because of the risk profile of the underlying investment. The additional amount that would have been reflected in net income if interest on non-accrual investments had been recognized in accordance with the original terms was not significant for the six months ended June 30, 2010 and 2009.

The following table shows problem and potential problem investments at amortized cost, net of valuation reserves and write-downs:

	June 30, 2010			December 31, 2009		
(In millions)	**Gross**	**Reserve**	**Net**	Gross	Reserve	Net
Problem bonds	**$ 97**	**$ (46)**	**$ 51**	$ 103	$ (49)	$ 54
Problem commercial mortgage loans	**111**	**(5)**	**106**	169	(11)	158
Foreclosed real estate	**142**	**(12)**	**130**	59		59
Total problem investments	**$ 350**	**$ (63)**	**$ 287**	$ 331	$ (60)	$ 271
Potential problem bonds	**$ 39**	**$ (10)**	**$ 29**	$ 94	$ (10)	$ 84
Potential problem commercial mortgage loans	**355**	**(5)**	**350**	245	(6)	239
	$ 394	**$ (15)**	**$ 379**	$ 339	$ (16)	$ 323

Total potential problem investments	

Table of Contents

Net problem investments represent 1.5% of total investments excluding policy loans. Net problem investments increased $16 million during the six months ended June 30, 2010 primarily reflecting the reclassification of two commercial mortgage loans totaling $53 million from potential problem loans to problem loans, partially offset by the subsequent sale of one of the reclassified loans.

Net potential problem investments represent 2.0% of total investments excluding policy loans. Net potential problem investments increased $56 million during the six months ended June 30, 2010 reflecting the addition of eight commercial mortgage loans totaling $188 million, five of which were identified as a result of management s in-depth portfolio loan review completed in July 2010. These additions were exhibiting signs of distress such as an elevated loan-to-value ratio or a low or negative debt service coverage. All eight loans are performing according to their original contractual terms as of June 30, 2010. This increase to potential problem investments was partially offset by the removal of two commercial mortgage loans totaling $64 million, one of which was sold and the other foreclosed, and by a decline in potential problem bonds of $55 million primarily due to improved bond performance as well as redemption activity.

Commercial mortgage loans are considered impaired when it is probable that the Company will not collect all amounts due according to the terms of the original loan agreement. In the above table, problem and potential problem commercial mortgage loans totaling $129 million, at June 30, 2010, are considered impaired. In 2010, the Company recorded a $16 million pre-tax ($10 million after-tax) increase to valuation reserves on impaired commercial mortgage loans.

Summary

The Company recorded after-tax realized investment losses for investment asset write-downs and changes in valuation reserves as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Credit-related [1]	**$ 3**	$ 28	**$ 19**	$ 35
Other [2]		(1)	**1**	6
Total [3]	**$ 3**	$ 27	**$ 20**	$ 41

(1) Credit-related losses include other-than-temporary declines in value of fixed maturities and equity securities, and impairments of commercial mortgage loans and real estate entities. The amount related to credit losses on fixed maturities for which a portion of the impairment was recognized in other comprehensive income was not

significant.

(2) Prior to adoption of new GAAP guidance for other-than-temporary impairments on April 1, 2009, Other primarily represented the impact of rising market yields on investments where the Company could not demonstrate the intent and ability to hold until recovery.

(3) Includes other-than-temporary impairments on debt securities of $1 million in the six months ended June 30, 2010 and $6 million in the three months and $17 million in the six months ended June 30, 2009. These impairments are included in the other category in 2010 and in both the credit related and other categories in 2009.

Table of Contents

The financial markets were generally stable during the three and six months ended June 30, 2010 although equity markets experienced increased volatility during the second quarter. Both investment grade and below investment grade corporate credit indices remained fairly consistent with the fourth quarter of 2009 and the S&P 500 posted a loss of approximately 7% during this period. While credit spreads were relatively stable in the three and six months ended June 30, 2010, asset values increased reflecting lower treasury yields. As a result of this economic environment, risks in the Company s investment portfolio, while declining, remain elevated.

Continued economic weakness for an extended period could cause default rates to increase and recoveries to decline resulting in additional impairment losses for the Company. Future realized and unrealized investment results will be impacted largely by market conditions that exist when a transaction occurs or at the reporting date. These future conditions are not reasonably predictable. Management believes that the vast majority of the Company s fixed maturity investments will continue to perform under their contractual terms, and that declines in their fair values below carrying value are temporary. Based on the strategy to match the duration of invested assets to the duration of insurance and contractholder liabilities, the Company expects to hold a significant portion of these assets for the long term. Future credit-related losses are not expected to have a material adverse effect on the Company s liquidity or financial condition.

While management believes the commercial mortgage loan portfolio is positioned to perform well due to its solid aggregate loan-to-value ratio, strong debt service coverage and minimal underwater position, the commercial real estate market continues to exhibit significant signs of distress and if these conditions remain for an extended period or worsen substantially, it could result in an increase in problem and potential problem loans. Given the current economic environment, future impairments are possible; however, management does not expect those losses to have a material effect on the Company s financial condition.

MARKET RISK

Financial Instruments

The Company s assets and liabilities include financial instruments subject to the risk of potential losses from adverse changes in market rates and prices. The Company s primary market risk exposures are interest-rate risk, foreign currency exchange rate risk and equity price risk.

The Company uses futures contracts as part of a GMDB equity hedge program to substantially reduce the effect of equity market changes on certain reinsurance contracts that guarantee minimum death benefits based on unfavorable changes in underlying variable annuity account values. The hypothetical effect of a 10% increase in the S&P 500, S&P 400, Russell 2000, NASDAQ, TOPIX (Japanese), EUROSTOXX and FTSE (British) equity indices and a 10% weakening in the U.S. dollar to the Japanese yen, British pound and euro would have been a decrease of approximately $120 million in the fair value of the futures contracts outstanding under this program as of June 30, 2010. A corresponding decrease in liabilities for GMDB contracts would result from the hypothetical 10% increase in these equity indices and 10% weakening in the U.S. dollar. See Note 6 to the Consolidated Financial Statements for further discussion of this program and related GMDB contracts.

Stock Market Performance

The performance of equity markets can have a significant effect on the Company s businesses, including on:

- risks and exposures associated with GMDB (see Note 6 to the Consolidated Financial Statements) and GMIB contracts (see Note 7 to the Consolidated Financial Statements); and
- pension liabilities since equity securities comprise a significant portion of the assets of the Company s employee pension plans. See Liquidity and Capital Resources section of the MD&A beginning on page 66 for further information.

Table of Contents

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company s filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management s beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include but are not limited to the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends and, in particular, the Company s productivity initiatives, litigation and other legal matters, operational improvement in the health care operations, and the outlook for the Company s full year 2010 results. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words believe , expect , plan , intend , anticipate , estimate , predict , potential , may , should or similar
You should not place undue reliance on these forward-looking statements. The Company cautions that actual results could differ materially from those that management expects, depending on the outcome of certain factors. Some factors that could cause actual results to differ materially from the forward-looking statements include:

1. increased medical costs that are higher than anticipated in establishing premium rates in the Company s health care operations, including increased use and costs of medical services;
2. increased medical, administrative, technology or other costs resulting from new legislative and regulatory requirements imposed on the Company s employee benefits businesses;
3. challenges and risks associated with implementing operational improvement initiatives and strategic actions in the ongoing operations of the businesses, including those related to: (i) growth in targeted geographies, product lines, buying segments and distribution channels, (ii) offering products that meet emerging market needs, (iii) strengthening underwriting and pricing effectiveness, (iv) strengthening medical cost and medical membership results, (v) delivering quality member and provider service using effective technology solutions, (vi) lowering administrative costs and (vii) transitioning to an integrated operating company model, including operating efficiencies related to the transition;
4. risks associated with pending and potential state and federal class action lawsuits, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging the Company s businesses, including disputes related to payments to providers, government investigations and proceedings, and tax audits and related litigation;
5. heightened competition, particularly price competition, which could reduce product margins and constrain growth in the Company s businesses, primarily the Health Care business;
6. risks associated with the Company s mail order pharmacy business which, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;
7. significant changes in interest rates and deterioration in the loan to value ratios of commercial real estate investments for a sustained period of time;
8. downgrades in the financial strength ratings of the Company s insurance subsidiaries, which could, among other things, adversely affect new sales and retention of current business as well as the downgrade in the financial strength ratings of reinsurers which could result in increased statutory reserve or capital requirements;
9. limitations on the ability of the Company s insurance subsidiaries to dividend capital to the parent company as a result of downgrades in the subsidiaries financial strength ratings, changes in statutory reserve or capital requirements or other financial constraints;
10. the inability of the hedge program adopted by the Company to substantially reduce equity market risks for reinsurance contracts that guarantee minimum death benefits under certain variable annuities (including possible market difficulties in entering into appropriate futures contracts and in matching such contracts to the underlying equity risk);
11. adjustments to the reserve assumptions (including lapse, partial surrender, claim mortality, interest rates and volatility) used in estimating the Company s liabilities for reinsurance contracts covering guaranteed minimum

death benefits under certain variable annuities;

12. adjustments to the assumptions (including annuity election rates and amounts collectible from reinsurers) used in estimating the Company s assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits under certain variable annuities;
13. significant stock market declines, which could, among other things, result in increased expenses for guaranteed minimum income benefit contracts, guaranteed minimum death benefit contracts and the Company s pension plan in future periods as well as the recognition of additional pension obligations;
14. unfavorable claims experience related to workers compensation and personal accident exposures of the run-off reinsurance business, including losses attributable to the inability to recover claims from retrocessionaires;

Table of Contents

15. significant deterioration in economic conditions and significant market volatility, which could have an adverse effect on the Company s operations, investments, liquidity and access to capital markets;
16. significant deterioration in economic conditions and significant market volatility, which could have an adverse effect on the businesses of our customers (including the amount and type of healthcare services provided to their workforce and our customers ability to pay receivables) and our vendors (including their ability to provide services);
17. adverse changes in state and federal law, including health care reform legislation and regulation which could, among other items, affect the way the Company does business, increase cost, limit the ability to effectively estimate, price for and manage medical costs, and affect the Company s health care products, services, technology and processes;
18. amendments to income tax laws, which could affect the taxation of employer provided benefits, the taxation of certain insurance products such as corporate-owned life insurance, or the financial decisions of individuals whose variable annuities are covered under reinsurance contracts issued by the Company;
19. potential public health epidemics and bio-terrorist activity, which could, among other things, cause the Company s covered medical and disability expenses, pharmacy costs and mortality experience to rise significantly, and cause operational disruption, depending on the severity of the event and number of individuals affected;
20. risks associated with security or interruption of information systems, which could, among other things, cause operational disruption;
21. challenges and risks associated with the successful management of the Company s outsourcing projects or key vendors, including the agreement with IBM for provision of technology infrastructure and related services; and
22. the ability to successfully complete the integration of the businesses acquired from Great-West by, among other things, effectively leveraging the information technology platforms and other capabilities of the acquired business to enhance the combined organization s network access position, underwriting effectiveness, delivery of quality member and provider service, and increased penetration of its membership base with differentiated product offerings.

This list of important factors is not intended to be exhaustive. Other sections of the Company s 2009 Annual Report on Form 10-K, including the Risk Factors section, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and other documents filed with the Securities and Exchange Commission include both expanded discussion of these factors and additional risk factors and uncertainties that could preclude the Company from realizing the forward-looking statements. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

Item 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Information responsive to this item is contained under the caption Market Risk in Item 2 above, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Item 4. ***CONTROLS AND PROCEDURES***

Based on an evaluation of the effectiveness of CIGNA s disclosure controls and procedures conducted under the supervision and with the participation of CIGNA s management, CIGNA s Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, CIGNA s disclosure controls and procedures are effective to ensure that information required to be disclosed by CIGNA in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms.

During the period covered by this report, there have been no changes in CIGNA s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, CIGNA s internal control over financial reporting.

Table of Contents

Part II. ***OTHER INFORMATION***

Item 1. ***LEGAL PROCEEDINGS***

The information contained under Litigation and Other Legal Matters in Note 17 to the Consolidated Financial Statements is incorporated herein by reference.

Table of Contents

Item 1A. ***RISK FACTORS***

CIGNA s Annual Report on Form 10-K for the year ended December 31, 2009 includes a detailed description of its risk factors.

Table of Contents

Item 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about CIGNA s share repurchase activity for the quarter ended June 30, 2010:

	Issuer Purchases of Equity Securities			
Period	Total # of shares purchased (1)	Average price paid per share	Total # of shares purchased as part of publicly announced program (2)	Approximate dollar value of shares that may yet be purchased as part of publicly announced program (3)
April 1-30, 2010	1,372	$ 33.90	0	$ 448,919,605
May 1-31, 2010	1,494,499	$ 33.20	1,489,000	$ 399,484,416
June 1-30, 2010	2,170,370	$ 34.03	2,169,104	$ 325,678,793
Total	3,666,241	$ 33.69	3,658,104	N/A

(1) Includes shares tendered by employees as payment of taxes withheld on the exercise of stock options and the vesting of restricted stock granted under the Company s equity compensation plans. Employees tendered 1,372 shares in April, 5,499 shares in May and 1,266 shares in June.

(2) CIGNA has had a repurchase program for many years, and has had varying

levels of repurchase authority and activity under this program. The program has no expiration date. CIGNA suspends activity under this program from time to time and also removes such suspensions, generally without public announcement. Remaining authorization under the program was approximately $326 million as of June 30, 2010 and $247 million as of August 5, 2010.

(3) Approximate dollar value of shares is as of the last date of the applicable month.

Table of Contents

Item 6. ***EXHIBITS***

(a) See Exhibit Index

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CIGNA CORPORATION

By: /s/ Annmarie T. Hagan
Annmarie T. Hagan
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 5, 2010

Table of Contents

INDEX TO EXHIBITS

Number	Description	Method of Filing
3.1	Restated Certificate of Incorporation of the registrant as last amended April 23, 2008	Filed as Exhibit 3.1 to the registrant s Form 10-Q for the period ended March 31, 2008 and incorporated herein by reference.
3.2	By-Laws of the registrant as last amended and restated October 28, 2009	Filed as Exhibit 3.2 to the registrant s Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.
4.1	Indenture dated August 16, 2006 between CIGNA Corporation and U.S. Bank National Association	Filed as Exhibit 4.1 to the registrant s Form S-3ASR on August 17, 2006 and incorporated herein by reference.
4.2	Indenture dated January 1, 1994 between CIGNA Corporation and Marine Midland Bank	Filed as Exhibit 4.2 to the registrant s Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.
4.3	Indenture dated June 30, 1988 between CIGNA Corporation and Bankers Trust	Filed as Exhibit 4.3 to the registrant s Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.
10.1	Amendment No. 1 to the CIGNA Long-Term Incentive Plan	Filed herewith.
10.2	CIGNA Executive Severance Benefit Plan amended and restated effective as of April 27, 2010	Filed herewith.
10.3	Amendment No. 1 to the CIGNA Stock Unit Plan	Filed herewith.
12	Computation of Ratio of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Chief Executive Officer of CIGNA Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.
31.2	Certification of Chief Financial Officer of CIGNA Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.
32.1	Certification of Chief Executive Officer of CIGNA Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350	Furnished herewith.

32.2	Certification of Chief Financial Officer of CIGNA Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350	Furnished herewith.