CIGNA CORP
Form 10-Q
November 01, 2006

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2006**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from _____ to _____

Commission file number **1-08323**

CIGNA Corporation
(Exact name of registrant as specified in its charter)

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

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**

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 x No _

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _ No x

As of September 30, 2006, 102,567,908 shares of the issuer's common stock were outstanding.

CIGNA CORPORATION

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

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
REVENUES				
Premiums and fees	$ 3,433	$ 3,381	$ 10,070	$ 10,151
Net investment income	296	334	924	995
Other revenues	360	298	1,150	1,300
Realized investment gains	48	9	198	28
Total revenues	4,137	4,022	12,342	12,474
BENEFITS AND EXPENSES				
Health Care medical claims expense	1,595	1,579	4,536	4,633
Other benefit expenses	743	786	2,356	2,481
Other operating expenses	1,353	1,274	4,068	3,875
Total benefits and expenses	3,691	3,639	10,960	10,989
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES (BENEFITS)	446	383	1,382	1,485
Income taxes (benefits):				
Current	158	(58)	477	169
Deferred	(14)	182	(22)	250
Total taxes	144	124	455	419
INCOME FROM CONTINUING OPERATIONS	302	259	927	1,066
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	(4)	-	(4)	349
NET INCOME	$ 298	$ 259	$ 923	$ 1,415
EARNINGS PER SHARE - BASIC				
INCOME FROM CONTINUING OPERATIONS	$ 2.83	$ 2.04	$ 8.14	$ 8.27
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(0.03)	-	(0.04)	2.71

NET INCOME	$	2.80	$	2.04	$	8.10	$	10.98
EARNINGS PER SHARE - DILUTED								
INCOME FROM CONTINUING OPERATIONS	$	2.79	$	2.00	$	8.00	$	8.12
INCOME (LOSS) FROM DISCONTINUED OPERATIONS		(0.04)		-		(0.03)		2.66
NET INCOME	$	2.75	$	2.00	$	7.97	$	10.78
DIVIDENDS DECLARED PER SHARE	$	0.025	$	0.025	$	0.075	$	0.075

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

CIGNA CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	As of September 30, 2006	As of December 31, 2005
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, $11,549; $13,873)	$ 12,345	$ 14,947
Equity securities, at fair value (cost, $131; $113)	148	135
Mortgage loans	4,108	3,934
Policy loans	1,406	1,337
Real estate	105	80
Other long-term investments	394	504
Short-term investments	95	439
Total investments	18,601	21,376
Cash and cash equivalents	1,208	1,709
Accrued investment income	260	282
Premiums, accounts and notes receivable	1,402	1,598
Reinsurance recoverables	7,886	7,018
Deferred policy acquisition costs	684	618
Property and equipment	617	638
Deferred income taxes	1,104	1,087
Goodwill	1,721	1,622
Other assets, including other intangibles	363	306
Separate account assets	8,343	8,609
Total assets	$ 42,189	$ 44,863
LIABILITIES		
Contractholder deposit funds	$ 8,952	$ 9,676
Future policy benefits	8,466	8,626
Unpaid claims and claim expenses	4,305	4,281
Health Care medical claims payable	1,017	1,165
Unearned premiums and fees	511	515
Total insurance and contractholder liabilities	23,251	24,263
Accounts payable, accrued expenses and other liabilities	4,774	5,127
Short-term debt	455	100
Long-term debt	1,028	1,338
Nonrecourse obligations	81	66
Separate account liabilities	8,343	8,609
Total liabilities	37,932	39,503

CONTINGENCIES - NOTE 15

SHAREHOLDERS' EQUITY				
Common stock (par value per share, $0.25; shares issued, 160; 160)		40		40
Additional paid-in capital		2,440		2,385
Net unrealized appreciation, fixed maturities	$ 185		$ 195	
Net unrealized appreciation, equity securities	23		24	
Net unrealized depreciation, derivatives	(13)		(14)	
Net translation of foreign currencies	27		2	
Minimum pension liability adjustment	(725)		(716)	
Accumulated other comprehensive loss		(503)		(509)
Retained earnings		5,974		5,162
Less treasury stock, at cost		(3,694)		(1,718)
Total shareholders' equity		4,257		5,360
Total liabilities and shareholders' equity		$ 42,189		$ 44,863
SHAREHOLDERS' EQUITY PER SHARE		$ 41.50		$ 44.23

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

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY
(In millions)

Three Months Ended September 30,		**2006**		**2005**
Common stock		$ 40		$ 40
Additional paid-in capital, July 1		2,428		2,356
Effect of issuance of stock for employee benefits plans		12		11
Additional paid-in capital, September 30		2,440		2,367
Accumulated other comprehensive loss, July 1		(682)		(390)
Net unrealized appreciation (depreciation), fixed maturities	$ 152	152	$ (128)	(128)
Net unrealized appreciation, equity securities	4	4	2	2
Net unrealized appreciation (depreciation) on securities	156		(126)	
Net unrealized appreciation (depreciation), derivatives	10	10	(5)	(5)
Net translation of foreign currencies	13	13	-	-
Other comprehensive income (loss)	179		(131)	
Accumulated other comprehensive loss, September 30		(503)		(521)
Retained earnings, July 1		5,686		4,758
Net income	298	298	259	259
Effects of issuance of stock for employee benefits plans		(7)		(34)
Common dividends declared		(3)		(4)
Retained earnings, September 30		5,974		4,979
Treasury stock, July 1		(2,778)		(885)
Repurchase of common stock		(931)		(466)
Other, primarily issuance of treasury stock for employee benefit plans		15		144
Treasury stock, September 30		(3,694)		(1,207)
TOTAL COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY	$ 477	$ 4,257	$ 128	$ 5,658

Nine Months Ended September 30,

Common stock		$ 40		$ 40
Additional paid-in capital, January 1		2,385		2,360
Effects of issuance of stock for employee benefits plans		55		7
Additional paid-in capital, September 30		2,440		2,367
Accumulated other comprehensive loss, January 1		(509)		(336)
Net unrealized depreciation, fixed maturities	$ (10)	(10)	$ (147)	(147)
Net unrealized depreciation, equity securities	(1)	(1)	(5)	(5)
Net unrealized depreciation on securities	(11)		(152)	
Net unrealized appreciation, derivatives	1	1	2	2
Net translation of foreign currencies	25	25	(5)	(5)
Minimum pension liability adjustment	(9)	(9)	(30)	(30)
Other comprehensive income (loss)	6		(185)	
Accumulated other comprehensive loss, September 30		(503)		(521)
Retained earnings, January 1		5,162		3,679
Net income	923	923	1,415	1,415
Effects of issuance of stock for employee benefits plans		(102)		(105)
Common dividends declared		(9)		(10)
Retained earnings, September 30		5,974		4,979
Treasury stock, January 1		(1,718)		(540)
Repurchase of common stock		(2,226)		(1,055)
Other, primarily issuance of treasury stock for employee benefit plans		250		388
Treasury stock, September 30		(3,694)		(1,207)
TOTAL COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY	$ 929	$ 4,257	$ 1,230	$ 5,658

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

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 923	$ 1,415
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of taxes	4	(349)
Insurance liabilities	(283)	(447)
Reinsurance recoverables	81	1
Deferred policy acquisition costs	(45)	(45)
Premiums, accounts and notes receivable	98	159
Accounts payable, accrued expenses and other liabilities	(236)	(401)
Current income taxes	214	(72)
Deferred income taxes	(22)	250
Realized investment (gains)	(198)	(28)
Depreciation and amortization	155	170
Gains on sales of businesses	(48)	(374)
Mortgage loans originated and held for sale	(315)	-
Proceeds from sales of mortgage loans held for sale	99	-
Other, net	(47)	(26)
Net cash provided by operating activities	380	253
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments sold:		
Fixed maturities	2,591	2,110
Equity securities	18	10
Mortgage loans	363	262
Other (primarily short-term investments)	1,133	527
Investment maturities and repayments:		
Fixed maturities	677	707
Mortgage loans	291	205
Investments purchased:		
Fixed maturities	(2,172)	(2,377)
Equity securities	(42)	(9)
Mortgage loans	(908)	(858)
Other (primarily short-term investments)	(515)	(804)
Property and equipment, net	(93)	(32)
Conversion of single premium annuity business	(45)	-
Other acquisitions and dispositions, net cash used	(18)	-
	32	-

Cash provided by investing activities of discontinued operations				
Other, net		-		(18)
Net cash provided by (used in) investing activities		1,312		(277)
CASH FLOWS FROM FINANCING ACTIVITIES				
Deposits and interest credited to contractholder deposit funds		396		464
Withdrawals and benefit payments from contractholder deposit funds		(512)		(748)
Change in cash overdraft position		12		(219)
Repayment of long-term debt		(100)		-
Repurchase common stock		(2,181)		(1,034)
Issuance of common stock		197		301
Common dividends paid		(9)		(10)
Net cash used in financing activities		(2,197)		(1,246)
Effect of foreign currency rate changes on cash and cash equivalents		4		2
Net decrease in cash and cash equivalents		(501)		(1,268)
Cash and cash equivalents, beginning of period		1,709		2,519
Cash and cash equivalents, end of period	$	1,208	$	1,251
Supplemental Disclosure of Cash Information:				
Income taxes paid, net	$	232	$	218
Interest paid	$	72	$	75

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

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CIGNA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of CIGNA Corporation, its significant subsidiaries, and variable interest entities of which CIGNA is the primary beneficiary, which are referred to collectively as "CIGNA." 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.

The interim 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 CIGNA's Annual Report to Shareholders and Form 10-K for the year ended December 31, 2005.

The preparation of interim financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the insurance 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 2006 presentation, including the elimination of certain intercompany purchases and sales of short-term investments in the investing activities section of the statement of cash flows. This reclassification had no net impact on the prior year net purchases and sales of short-term investments or the total cash flows from investing activities.

Discontinued Operations. Summarized financial data for discontinued operations primarily represents:

- a loss associated with the Brazilian life insurance operations in the third quarter of 2006 as disclosed in Note 4;
- realized gains on the disposition of certain directly owned real estate investments in the third quarter of 2006 as disclosed in Note 11; and
- certain tax benefits recognized in 2005 as disclosed in Note 3.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Income before income (taxes) benefits	$ 19	$ -	$ 19	$ -
Income (taxes) benefits	(7)	-	(7)	349
Income from operations	12	-	12	349
Impairment loss, net of tax	(16)	-	(16)	-
Income (loss) from discontinued operations, net of taxes	$ (4)	$ -	$ (4)	$ 349

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

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Pension and other retirement benefit plans. In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," requiring that the overfunded or underfunded status of all defined benefit postretirement plans be measured as the difference between the fair value of plan assets and the benefit obligation and recognized in the statement of financial position. Changes in actuarial gains and losses and prior service costs are required to be recognized in other comprehensive income, net of tax, each period. CIGNA will implement this standard as required in the fourth quarter of 2006, with no material effects to the financial statements expected. The estimated impact at implementation is sensitive to changes in key assumptions including movements in interest rates and the market value of plan assets. SFAS 158 will not impact CIGNA's pension expense, funding requirements or financial covenants.

Fair value measurements. In 2006, FASB issued SFAS No. 157, "Fair Value Measurements," to clarify how to measure fair value and to expand disclosures about fair value measurements. Implementation is required in the first quarter of 2008 with any changes to the fair values of assets or liabilities to be reported generally in net income or, for fixed maturities and equity securities held for sale and derivatives that hedge future cash flows, in accumulated comprehensive income for the period. CIGNA is presently evaluating these new requirements to determine if early implementation will be applied and whether any changes to the fair value measurements of its assets and liabilities will result at implementation.

Uncertain tax positions. In 2006, the FASB issued an interpretation of SFAS No. 109, "Accounting for Income Taxes," providing guidance to recognize and measure uncertain tax positions that are "more likely than not" to result in a benefit if challenged by the IRS. The guidance clarifies that the amount of tax benefit recognized should be measured using management's best estimate based on the most favorable expected benefit with greater than fifty percent likelihood of being realized. The interpretation also requires that interest expense and penalties be recognized for any reserved portion of an uncertain tax position beginning when the effect of that position is reported to tax authorities. CIGNA expects to implement this interpretation as required in the first quarter of 2007 with no material effects to the financial statements.

Certain financial instruments. In 2006, the FASB issued an amendment related to SFAS No. 133, "Accounting for Derivatives and Hedging Activities," for implementation in the first quarter of 2007. The amendment clarifies when certain financial instruments and features of financial instruments must be treated as derivatives and reported on the balance sheet at fair value with changes in fair value reported in net income. CIGNA will implement the amendment beginning with financial instruments acquired in the first quarter of 2007, with no material effects to the financial statements expected at adoption. However, this amendment may affect future income recognition for certain financial instruments if additional derivatives are identified because any changes in their fair values will be recognized in net income each period.

Measuring financial statement misstatements. In 2006, the Securities Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." This SAB requires that the effects of misstatements be quantified for each financial statement. CIGNA expects to implement this SAB as required in the fourth quarter of 2006 with no material effects to the financial statements because CIGNA currently uses an approach consistent with the new requirement when assessing the effects of prior year misstatements.

Deferred acquisition costs. In 2005, the American Institute of Certified Public Accountants issued a Statement of Position (SOP), "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts," for implementation in the first quarter of 2007. The SOP requires that deferred acquisition costs be expensed in full when the original contract is substantially changed by election or amendment of an existing contract feature or by replacement with a new contract. CIGNA expects to implement the SOP for contract changes beginning in the first quarter of 2007 with no material effects to the financial statements at implementation. Although substantial contract changes are not expected to occur, the effect of this SOP in future periods may vary based on the nature and volume of any such contract changes.

Other-than-temporary impairment. Effective January 1, 2006, CIGNA implemented guidance provided by the FASB on evaluating fixed maturities and equity securities for other-than-temporary impairment. Because this guidance is largely a summary of existing accounting principles generally accepted in the United States of America, there was no material effect in accounting for fixed maturities and equity securities with other-than-temporary impairments at implementation on January 1, 2006. See Note 11 for a review of declines in fair value of fixed maturities and equity securities.

Stock compensation. SFAS No. 123 (as revised in 2004 and referred to as SFAS 123R,) “Share-Based Payment” was effective January 1, 2006. This standard, which CIGNA early adopted effective October 1, 2004, requires companies to recognize in net income an estimate of expense for stock awards and options over their vesting periods typically determined as of the date of grant. CIGNA records compensation expense for stock options over their vesting periods based on the estimated fair value of the stock options, which is calculated using an option-pricing model. Compensation expense is recorded for restricted stock grants and deferred stock units over their vesting periods based on fair value, which is equal to the market price of CIGNA common stock on the date of grant.

Compensation cost and related tax benefits for stock options, restricted stock and deferred stock units were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Compensation cost	$ 10	$ 10	$ 33	$ 24
Tax benefits	$ 4	$ 4	$ 12	$ 9

Stock options granted and the average fair value at the date of grant were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Options in thousands)	2006	2005	2006	2005
Options granted	17	7	548	825
Weighted average fair value of options granted	$ 38.01	$ 41.33	$ 43.70	$ 34.08

CIGNA calculated the average fair value using the Black-Scholes option pricing model. The following assumptions were used:

	As of September 30,	
	2006	2005
Dividend yield	0.1%	0.1%
Expected volatility	35.0%	35.0%
Risk-free interest rate	4.6%	3.9%
Expected option life	4.5 years	5.25 years

The expected volatility reflects CIGNA's past daily stock price volatility. Volatility implied in the market prices of traded options was not considered a good indicator of future volatility because remaining maturities of traded options are less than one year. CIGNA developed the expected option life by considering certain factors, including assumptions used by other companies with comparable stock option plan features and CIGNA's cancellation of a replacement option feature in June 2004.

Restricted stock granted and the average fair value at the date of grant were as follows:

	Three Months Ended	Nine Months Ended

(Grants in thousands)	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Restricted stock granted	13	19	210	331
Weighted average fair value	$ 105.14	$ 104.90	$ 121.23	$ 92.45

NOTE 3 - INCOME TAXES

During the second quarter of 2005, the Congressional Joint Committee on Taxation approved CIGNA's refund claim relating to a tax loss incurred from the sale of a business in 1999 and the completion of the IRS audit for 2000-2002. Pursuant to this approval, CIGNA recorded total tax benefits of $437 million, including $7 million recorded in the third quarter of 2005, consisting of:

· $287 million resulting from capital losses realized in connection with the divestiture of the property and casualty insurance operations in 1999, which is included in income from discontinued operations; and

· $150 million resulting primarily from the release of tax reserves and valuation allowances of which:

· $88 million is reported as income from continuing operations. This amount includes $4 million of interest income; and

· $62 million relates to the divestiture of CIGNA's Brazilian health care business, which is included in income from discontinued operations.

NOTE 4 - ACQUISITIONS AND DISPOSITIONS

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

Star HRG Acquisition. On July 11, 2006, CIGNA acquired the operating assets of STAR-HRG, a leading provider of low cost health plans and other employee benefits coverage for hourly and part-time workers and their families, for $156 million, including assumed liabilities. The acquisition was accounted for as a purchase, and was financed through the issuance of a note payable to the sellers (see Note 12). The purchase price was allocated as follows: $57 million to identifiable intangible assets and the remaining $99 million to goodwill.

Intangible assets (primarily customer lists, software and trademarks) associated with the acquisition are being amortized on a straight line basis over periods from 3-10 years.

The results of Star-HRG are included in the accompanying consolidated financial statements from the date of the acquisition.

Sale of the Brazilian Life Insurance Operations. In the third quarter of 2006, CIGNA entered into negotiations to sell its Brazilian life insurance business. The sale is expected to close within a year and as a result, CIGNA has classified this business as a discontinued operation. CIGNA recognized an impairment loss with respect to this business of $16 million after-tax, primarily related to the write-off of unrecoverable foreign tax credits and foreign currency translation losses.

Sale of Retirement Benefits Business. On April 1, 2004, CIGNA sold its retirement benefits business, excluding the corporate life insurance business, for cash proceeds of $2.1 billion. The sale resulted in an initial after-tax gain of $809 million, of which $267 million after-tax was recognized immediately. The after-tax gain was subsequently reduced by $3 million to reflect additional taxes on the sale. In the second quarter of 2006, the after-tax gain was increased by $12 million to reflect the conversion of the single premium annuity business to indemnity coinsurance (see below). Both of these adjustments are reflected in the deferred portion of the gain.

As this transaction was primarily in the form of a reinsurance arrangement under which CIGNA retains the contractual obligation to pay these liabilities, $542 million of the initial after-tax gain was deferred. Subsequent to the original reinsurance transaction, the buyer of the retirement benefits business has entered into agreements with most of the insured parties relieving CIGNA of any remaining contractual obligation to those parties (novation). Additional such agreements are expected.

The deferred gain is amortized at the rate at which earnings from the sold business would have been expected to emerge (primarily 15 years on a declining basis) until CIGNA is relieved of any remaining contractual obligation. At the time of novation, CIGNA accelerates amortization of a portion of the deferred gain and also reduces the associated contractholder deposit funds, future policy benefits, reinsurance recoverables and separate account balances. As of September 30, 2006 the remaining contractholder deposit funds and future policy benefits associated with the sold retirement benefits business totaled $2.4 billion. See Note 8 for additional information on reinsurance recoverables associated with the sale of the retirement benefits business.

CIGNA recognized deferred gain amortization in other revenues in the Run-off Retirement segment as follows:

(In millions)	Pre-Tax	After-Tax
Three Months Ended September 30,		
2006		
Accelerated deferred gain amortization	$ 2	$ 1
Normal deferred gain amortization	$ 2	$ 1
2005		
Accelerated deferred gain amortization	$ 10	$ 2
Normal deferred gain amortization	$ 3	$ 2
Nine Months Ended September 30,		
2006		
Accelerated deferred gain amortization	$ 8	$ 7
Normal deferred gain amortization	$ 8	$ 5
2005		
Accelerated deferred gain amortization	$ 315	$ 200
Normal deferred gain amortization	$ 21	$ 14

The remaining pre-tax deferred gain as of September 30, 2006 was $67 million.

In 2005, in connection with a modified coinsurance arrangement, CIGNA received units of the buyer's separate accounts and continues to carry those units as separate account assets on its balance sheet for the business not yet directly assumed by the buyer. At September 30, 2006, there were approximately $3.2 billion of separate account assets and liabilities associated with this business not yet directly assumed by the buyer.

From April 1, 2004 through March 31, 2006, CIGNA had a modified coinsurance arrangement relating to the single premium annuity business sold to the buyer. Under the arrangement, CIGNA retained the invested assets supporting the reinsured liabilities. These invested assets were held in a business trust established by CIGNA.

Effective April 1, 2006, the buyer converted this modified coinsurance arrangement to an indemnity reinsurance structure and took ownership of the trust assets. CIGNA transferred invested assets to the buyer and recorded a reinsurance recoverable of approximately $1.6 billion in the second quarter of 2006, which corresponds to the liabilities for the single premium annuity business held by CIGNA as of March 31, 2006. As a result of the conversion to indemnity coinsurance, CIGNA increased the pre-tax deferred gain by approximately $17 million ($12 million after-tax). The additional deferred gain will be amortized on a basis consistent with the original deferred gain.

NOTE 5 - EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

(Dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
Three Months Ended September 30,			
2006			
Income from continuing operations	$ 302	-	$ 302
Shares *(in thousands)*:			
Weighted average	106,581	-	106,581
Options and restricted stock grants		1,654	1,654
Total shares	106,581	1,654	108,235

EPS	$	2.83	$	(0.04)	$	2.79
2005						
Income from continuing operations	$	259		-	$	259
Shares *(in thousands):*						
Weighted average		126,888		-		126,888
Options and restricted stock grants				2,795		2,795
Total shares		126,888		2,795		129,683
EPS	$	2.04	$	(0.04)	$	2.00
Nine Months Ended September 30, 2006						
Income from continuing operations	$	927		-	$	927
Shares *(in thousands):*						
Weighted average		113,930		-		113,930
Options and restricted stock grants				1,929		1,929
Total shares		113,930		1,929		115,859
EPS	$	8.14	$	(0.14)	$	8.00
2005						
Income from continuing operations	$	1,066		-	$	1,066
Shares *(in thousands):*						
Weighted average		128,852		-		128,852
Options and restricted stock grants				2,386		2,386
Total shares		128,852		2,386		131,238
EPS	$	8.27	$	(0.15)	$	8.12

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 CIGNA's common stock for the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Antidilutive options	1.8	0.3	1.5	3.3

CIGNA held 57,460,553 shares of common stock in Treasury as of September 30, 2006, and 34,248,300 shares as of September 30, 2005.

NOTE 6 - 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 (IBNR), 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. IBNR comprises the majority of the reserve balance as follows:

(In millions)	September 30, 2006	December 31, 2005
IBNR	$ 868	$ 1,004
Reported claims in process	84	116
Other medical expense payable	65	45
Medical claims payable	$ 1,017	$ 1,165

Activity in medical claims payable was as follows:

(In millions)	As of September 30, 2006	As of December 31, 2005
Beginning Balance - Jan. 1	$ 1,165	$ 1,594
Less: Reinsurance and other amounts recoverable	342	497
Beginning Balance, net	823	1,097
Incurred claims related to:		
Current year	4,705	6,631
Prior years	(169)	(326)
Total incurred	4,536	6,305
Paid claims related to:		
Current year	4,012	5,844
Prior years	593	735
Total paid	4,605	6,579
Ending Balance, net	754	823
Add: Reinsurance and other amounts recoverable	263	342
Ending Balance	$ 1,017	$ 1,165

For the nine months ended September 30, 2006, actual experience differed from CIGNA's key assumptions, resulting in favorable incurred claims related to prior years' medical claims payable of $169 million, or 2.5% of the current year incurred claims as reported for the year ended December 31, 2005. For the year ended December 31, 2005, actual experience differed from CIGNA's key assumptions, resulting in favorable incurred claims related to prior years' medical claims payable of $326 million, or 4.7% of the current year incurred claims as reported for the year ended December 31, 2004. Specifically, the favorable impact is due to faster than expected completion factors and lower than expected medical cost trends, both of which included an assumption for moderately adverse experience.

Actual completion factors were faster than expected, resulting in a reduction of the medical claims payable of $92 million for the nine months ended September 30, 2006 and $205 million for the year ended December 31, 2005. This reduction represented 1.4% in 2006 and 3.0% in 2005 of the current year incurred claims as reported for the years ended December 31, 2005 and 2004, respectively, for the insured book of business. The faster completion factors reflected better than expected time to process claims, driven by higher auto-adjudication rates, the impact of claim recoveries and more timely submissions of provider claims.

Actual medical cost trend was lower than estimated, resulting in a reduction of the medical claims payable of $77 million for the nine months ended September 30, 2006 and $121 million for the year ended December 31, 2005. This reduction represented 1.2% in 2006 and 1.7% in 2005 of the current year incurred claims as reported for the years ended December 31, 2005 and 2004, respectively, for the insured book of business. The better than expected medical cost trend was driven by lower inpatient, outpatient and pharmacy service utilization and lower than expected unit cost trends. The lower than expected unit cost trends reflected provider contracting initiatives and the mix of services provided.

The corresponding impact of favorable prior year development on net income was $43 million for the nine months ended September 30, 2006 and $137 million for the year ended December 31, 2005, or 0.6% in 2006 and 2.0% in 2005 of the current year incurred claims as reported for the years ended December 31, 2005 and 2004, respectively. 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 CIGNA's net income recognized for the following reasons:

First, due to the nature of CIGNA's retrospectively experience-rated business, only adjustments to medical claims payable on accounts in deficit affect net income. An increase or decrease to medical claims payable on accounts in deficit, in effect, accrue to CIGNA and directly impact 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 net income. An account is in surplus when the accumulated premium received exceeds the accumulated medical costs and administrative charges, including profit charges.

Second, CIGNA 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 CIGNA establishes the liability for each incurral year, CIGNA 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 deemed appropriate to address moderately adverse conditions for the current year incurred claims, CIGNA does not consider that offset amount as having any impact on net income.

The determination of liabilities for health care medical claims payable requires CIGNA to make critical accounting estimates. See “Critical Accounting Estimates” on page 26 for additional information.

NOTE 7 - GUARANTEED MINIMUM DEATH BENEFIT AND INCOME BENEFIT CONTRACTS

CIGNA’s reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured a guaranteed minimum death benefit under certain variable annuities issued by other insurance companies. These variable annuities are essentially investments in mutual funds combined with a death benefit. CIGNA has equity and other market exposures as a result of this product.

The determination of liabilities for guaranteed minimum death benefits requires CIGNA to make critical accounting estimates. CIGNA describes the assumptions used to develop the reserves for these death benefits, and provides the effects of hypothetical changes in those assumptions on page 26 of CIGNA’s 2005 Annual Report to Shareholders. CIGNA regularly evaluates the assumptions used in establishing reserves and changes its estimates if actual experience or other evidence suggests that earlier assumptions should be revised. If actual experience differs from the assumptions (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating these reserves, the resulting change could have a material adverse effect on CIGNA’s consolidated results of operations, and in certain situations, could have a material adverse effect on CIGNA’s financial condition.

During the first quarter of 2005, CIGNA completed its normal review of assumptions and recorded an after-tax charge of $11 million ($17 million pre-tax). This charge primarily resulted from an update to lapse assumptions based on emerging experience. The charge also reflected updates to partial surrender assumptions, reflecting the impact of stock market declines, as well as other assumptions. CIGNA had future policy benefit reserves for guaranteed minimum death benefit contracts of $904 million as of September 30, 2006, and $951 million as of December 31, 2005.

The following provides information about CIGNA's reserving methodology and assumptions for guaranteed minimum death benefits as of September 30, 2006:

- The reserves represent estimates of the present value of net amounts expected to be paid, less the present value of net future premiums. Included in net amounts expected to be paid is the excess of the guaranteed death benefits over the values of the contractholders' accounts (based on underlying equity and bond mutual fund investments).
- The reserves include an estimate for partial surrenders that essentially lock in the death benefit for a particular policy based on annual election rates that vary from 0-23% depending on the net amount at risk for each policy and whether surrender charges apply.
- The mean investment performance assumption is 5% considering CIGNA's program to reduce equity market exposures using futures contracts. In addition, the results of futures contracts are reflected in the liability calculation as a component of investment returns.
- The volatility assumption is 15-30%, varying by equity fund type; 3-8%, varying by bond fund type; and 1% for money market funds.
- The discount rate is 5.75%.
- The mortality assumption is 70-75% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.
- The lapse rate assumption is 0-15%, depending on contract type, policy duration and the ratio of the net amount at risk to account value.

As of September 30, 2006, the aggregate fair value of the underlying mutual fund investments was $37.1 billion. The death benefit coverage in force as of that date (representing the amount that CIGNA would have to pay if all of the approximately 900,000 contractholders had died on that date) was $5.9 billion. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the fair value of the underlying mutual fund investments.

The notional amount of futures contract positions held by CIGNA at September 30, 2006, was $979 million. CIGNA recorded in other revenues pre-tax losses of $32 million for the third quarter and $56 million for the nine months of 2006, compared with pre-tax losses of $45 million for the third quarter and $28 million for the nine months of 2005 primarily from futures contracts. Expense offsets reflecting corresponding changes in liabilities for these guaranteed minimum death benefit contracts were included in benefits and expenses.

For further information and details on these contracts and the program adopted to reduce related equity market risk, refer to Note 6 of CIGNA's 2005 Annual Report to Shareholders.

CIGNA has also written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits. See Note 15 for further information.

NOTE 8 - REINSURANCE

In the normal course of business, CIGNA'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 does not relieve the originating insurer of liability. CIGNA evaluates the financial condition of its reinsurers and monitors their concentrations of credit risk.

Retirement benefits business**.** CIGNA had a reinsurance recoverable of $2.4 billion as of September 30, 2006, and $1.2 billion as of December 31, 2005 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 change from 2005 includes an increase of $1.6 billion as a result of the conversion of the single premium annuity business to indemnity coinsurance effective April 1, 2006. The reinsurance recoverable is secured by fixed maturities held in business trusts established by the reinsurer. This recoverable is reduced as CIGNA's reinsured liabilities are paid or directly assumed by the reinsurer.

Individual life and annuity reinsurance. CIGNA had a reinsurance recoverable of $4.8 billion at September 30, 2006, and $5.0 billion at December 31, 2005, from The Lincoln National Life Insurance Company that arose from the 1998 sale of CIGNA's individual life insurance and annuity business through an indemnity reinsurance arrangement.

Unicover and other run-off reinsurance. The Run-off Reinsurance operations participate in a workers' compensation reinsurance pool, which ceased accepting new risks in early 1999. This pool was formerly managed by Unicover Managers, Inc. The pool purchased significant reinsurance (retrocessional) protection for its assumed risks. Disputes concerning these retrocessional contracts have been substantially resolved or settled.

Run-off Reinsurance also includes other (non-Unicover) workers' compensation reinsurance contracts and personal accident reinsurance contracts, including contracts assumed in the London market. CIGNA is engaged in arbitrations, disputes or investigations with several ceding companies over the validity of, or amount of liabilities assumed under, their contracts. These arbitrations, disputes and investigations are in various stages.

CIGNA bought retrocessional reinsurance for a significant portion of its assumed reinsurance liabilities. Some of the retrocessionaires have disputed the validity of, or amount of liabilities assumed under, their contracts with CIGNA. Many of these disputes with retrocessionaires have been resolved or settled. CIGNA is appealing in court an adverse award in a retrocessional enforcement arbitration and recently commenced another retrocessional enforcement arbitration. These arbitrations and disputes are in various stages.

Unfavorable claims experience related to workers' compensation and personal accident risks is possible and could result in future losses, including losses attributable to the inability to recover amounts claimed from retrocessionaires because of disputes with them or their financial condition.

CIGNA's reserves for amounts recoverable from retrocessionaires, as well as for underlying reinsurance exposures assumed by CIGNA, are considered appropriate as of September 30, 2006, based on current information. However, it is possible that future developments could have a material adverse effect on CIGNA's consolidated results of operations and, in certain situations, could have a material adverse effect on CIGNA's financial condition. In addition, CIGNA bears the risk of loss if the retrocessionaires are unable to meet their reinsurance obligations to CIGNA.

Other reinsurance. CIGNA could have losses if reinsurers fail to indemnify CIGNA on other reinsurance arrangements, either because of reinsurer insolvencies or contract disputes. However, management does not expect charges for other unrecoverable reinsurance to have a material adverse effect on CIGNA's consolidated results of operations, liquidity or financial condition.

Effects of reinsurance. In CIGNA's consolidated income statements, premiums and fees were net of ceded premiums, and benefits and expenses were net of reinsurance recoveries, in the following amounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Premiums and fees				
Individual life insurance and annuity business sold	$ 59	$ 66	$ 187	$ 202
Other	57	51	155	147
Total	$ 116	$ 117	$ 342	$ 349
Reinsurance recoveries				
Individual life insurance				

and annuity business sold	$	85	$	93	$	238	$	233
Other		60		68		105		136
Total	$	145	$	161	$	343	$	369

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NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Pension benefits. Components of net pension cost were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Service cost	$ 18	$ 18	$ 53	$ 54
Interest cost	56	56	167	166
Expected return on plan assets	(52)	(46)	(156)	(136)
Amortization of:				
Net loss from past experience	38	35	114	105
Prior service cost	-	-	-	(1)
Net pension cost	$ 60	$ 63	$ 178	$ 188

Through the nine months of 2006, CIGNA's minimum pension liability increased primarily due to the annual update of plan census data. This resulted in a decrease to shareholder’s equity of $9 million after-tax. Through the nine months of 2005, CIGNA recorded a similar charge which resulted in a decrease to shareholder’s equity of $30 million after-tax.

CIGNA funds its qualified pension plans by at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended (ERISA).

During 2005, CIGNA made pension contributions to the domestic and international pension plans totaling $544 million, which included an acceleration of expected contributions to meet domestic pension plan funding requirements in 2006 and 2007. Therefore, CIGNA does not expect to make domestic pension plan contributions in 2006.

Other postretirement benefits. Components of net other postretirement benefit cost were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	7	7	19	20
Expected return on plan assets	-	(1)	(1)	(2)
Amortization of:				
Net gain from past experience	(1)	-	(2)	(1)
Prior service cost	(5)	(4)	(13)	(12)
Net other postretirement benefit cost	$ 2	$ 3	$ 5	$ 7

NOTE 10 - COST REDUCTION PROGRAM

First quarter 2005 program. In the first quarter of 2005, CIGNA implemented a plan to further streamline operations in the health care business and in supporting areas. As a result, CIGNA recognized in other operating expenses a total pre-tax charge of $51 million ($33 million after-tax) for severance costs during the first quarter of 2005. The table below quantifies CIGNA's cost reduction activity (pre-tax) for severance under this program:

(In millions)	Health Care	Corporate	Total
Balance as of December 31, 2005	$ 6	$ 13	$ 19
First quarter 2006 activity	(5)	(3)	(8)
Balance as of March 31, 2006	1	10	11
Second quarter 2006 activity	-	(5)	(5)
Balance as of June 30, 2006	1	5	6
Third quarter 2006 activity	(1)	-	(1)
Balance as of September 30, 2006	$ -	$ 5	$ 5

CIGNA substantially completed this program during the second quarter of 2006.

NOTE 11 - INVESTMENTS

Realized Investment Gains and Losses

The following realized gains and losses on investments exclude amounts required to adjust future policy benefits for certain annuities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2006	2005	2006	2005
Fixed maturities	$ (18)	$ 10	$ (32)	$ 25
Equity securities	(1)	2	(6)	2
Mortgage loans	(1)	-	(7)	(2)
Real estate	-	1	-	-
Other investments, including derivatives				