# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2009**

**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 ☑ No ☐

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 ☑ No ☐

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 ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☐

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

As of October 16, 2009, 273,436,995 shares of the issuer's common stock were outstanding.

**CIGNA CORPORATION**

**INDEX**



As used herein, “CIGNA” or the “Company” 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)* | Unaudited Three Months Ended September 30, 2009 | Unaudited Three Months Ended September 30, 2008 | Unaudited Nine Months Ended September 30, 2009 | Unaudited Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Premiums and fees | $ 3,985 | $ 4,128 | $ 12,049 | $ 12,197 |
| Net investment income | 263 | 272 | 752 | 802 |
| Mail order pharmacy revenues | 316 | 300 | 944 | 882 |
| Other revenues | (61) | 175 | 73 | 431 |
| Realized investment gains (losses): | | | | |
| Other-than-temporary impairments on debt securities, net | (16) | (66) | (42) | (92) |
| Other realized investment gains | 30 | 43 | 2 | 64 |
| Total realized investment gains (losses) | 14 | (23) | (40) | (28) |
| Total revenues | 4,517 | 4,852 | 13,778 | 14,284 |
| **Benefits and Expenses** | | | | |
| Health Care medical claims expense | 1,698 | 1,819 | 5,226 | 5,480 |
| Other benefit expenses | 754 | 1,049 | 2,551 | 2,877 |
| Mail order pharmacy cost of goods sold | 255 | 238 | 762 | 704 |
| Guaranteed minimum income benefits (income) expense | (19) | 98 | (215) | 353 |
| Other operating expenses | 1,342 | 1,415 | 4,064 | 4,150 |
| Total benefits and expenses | 4,030 | 4,619 | 12,388 | 13,564 |
| **Income from Continuing Operations before Income Taxes** | 487 | 233 | 1,390 | 720 |
| Income taxes (benefits): | | | | |
| Current | 68 | 65 | 138 | 274 |
| Deferred | 89 | (3) | 279 | (54) |
| Total taxes | 157 | 62 | 417 | 220 |
| **Income from Continuing Operations** | 330 | 171 | 973 | 500 |
| **Income from Discontinued Operations, Net of Taxes** | — | 1 | 1 | 3 |
| **Net Income** | 330 | 172 | 974 | 503 |
| **Less: Net Income Attributable to Noncontrolling Interest** | 1 | 1 | 2 | 2 |
| **Shareholders' Net Income** | $ 329 | $ 171 | $ 972 | $ 501 |
| **Basic Earnings Per Share:** | | | | |
| Shareholders' income from continuing operations | $ 1.20 | $ 0.62 | $ 3.55 | $ 1.79 |
| Shareholders' income from discontinued operations | — | — | — | 0.01 |
| Shareholders' net income | $ 1.20 | $ 0.62 | $ 3.55 | $ 1.80 |
| **Diluted Earnings Per Share:** | | | | |
| Shareholders' income from continuing operations | $ 1.19 | $ 0.62 | $ 3.54 | $ 1.77 |
| Shareholders' income from discontinued operations | — | — | — | 0.01 |
| Shareholders' net income | $ 1.19 | $ 0.62 | $ 3.54 | $ 1.78 |
| Dividends Declared Per Share | $ — | $ — | $ 0.040 | $ 0.040 |
| **Amounts Attributable to CIGNA:** | | | | |
| Shareholders' income from continuing operations | $ 329 | $ 170 | $ 971 | $ 498 |
| Shareholders' income from discontinued operations | — | 1 | 1 | 3 |
| **Shareholders' Net Income** | $ 329 | $ 171 | $ 972 | $ 501 |

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

**CIGNA Corporation**
**Consolidated Balance Sheets**

| *(In millions, except per share amounts)* | | Unaudited As of September 30, 2009 | | As of December 31, 2008 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Fixed maturities, at fair value (amortized cost, $12,471; $11,492) | | $ 13,488 | | $ 11,781 |
| Equity securities, at fair value (cost, $131; $140) | | 104 | | 112 |
| Commercial mortgage loans | | 3,607 | | 3,617 |
| Policy loans | | 1,530 | | 1,556 |
| Real estate | | 124 | | 53 |
| Other long-term investments | | 592 | | 632 |
| Short-term investments | | 201 | | 236 |
| Total investments | | 19,646 | | 17,987 |
| Cash and cash equivalents | | 836 | | 1,342 |
| Accrued investment income | | 265 | | 225 |
| Premiums, accounts and notes receivable, net | | 1,481 | | 1,407 |
| Reinsurance recoverables | | 6,689 | | 6,973 |
| Deferred policy acquisition costs | | 886 | | 789 |
| Property and equipment | | 827 | | 804 |
| Deferred income taxes, net | | 1,017 | | 1,617 |
| Goodwill | | 2,876 | | 2,878 |
| Other assets, including other intangibles | | 1,166 | | 1,520 |
| Separate account assets | | 6,964 | | 5,864 |
| Total assets | | $ 42,653 | | $ 41,406 |
| **Liabilities** | | | | |
| Contractholder deposit funds | | $ 8,488 | | $ 8,539 |
| Future policy benefits | | 8,304 | | 8,754 |
| Unpaid claims and claim expenses | | 4,006 | | 4,037 |
| Health Care medical claims payable | | 932 | | 924 |
| Unearned premiums and fees | | 424 | | 414 |
| Total insurance and contractholder liabilities | | 22,154 | | 22,668 |
| Accounts payable, accrued expenses and other liabilities | | 5,805 | | 6,869 |
| Short-term debt | | 104 | | 301 |
| Long-term debt | | 2,435 | | 2,090 |
| Nonrecourse obligations | | 23 | | 16 |
| Separate account liabilities | | 6,964 | | 5,864 |
| Total liabilities | | 37,485 | | 37,808 |
| **Contingencies — Note 17** | | | | |
| **Shareholders' Equity** | | | | |
| Common stock (par value per share, $0.25; shares issued, 351) | | 88 | | 88 |
| Additional paid-in capital | | 2,510 | | 2,502 |
| Net unrealized appreciation (depreciation), fixed maturities | $ 402 | | $ (147) | |
| Net unrealized appreciation, equity securities | 4 | | 7 | |
| Net unrealized depreciation, derivatives | (27) | | (13) | |
| Net translation of foreign currencies | (17) | | (60) | |
| Postretirement benefits liability adjustment | (878) | | (861) | |
| Accumulated other comprehensive loss | | (516) | | (1,074) |
| Retained earnings | | 8,303 | | 7,374 |
| Less treasury stock, at cost | | (5,228) | | (5,298) |
| Total shareholders' equity | | 5,157 | | 3,592 |
| Noncontrolling interest | | 11 | | 6 |
| Total equity | | 5,168 | | 3,598 |
| Total liabilities and equity | | $ 42,653 | | $ 41,406 |
| **Shareholders' Equity Per Share** | | $ 18.86 | | $ 13.25 |

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

**CIGNA Corporation**
**Consolidated Statements of Comprehensive Income and Changes in Total Equity**
*(In millions, except per share amounts)*

| | Unaudited | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| **Three Months Ended September 30** | **Comprehensive Income** | **Total Equity** | **Comprehensive Income** | **Total Equity** |
| **Common Stock, September 30** | | $ 88 | | $ 88 |
| **Additional Paid-In Capital, July 1** | | 2,506 | | 2,493 |
| Effects of stock issuance for employee benefit plans | | 4 | | 5 |
| **Additional Paid-In Capital, September 30** | | 2,510 | | 2,498 |
| **Accumulated Other Comprehensive Loss, July 1** | | (837) | | (84) |
| Net unrealized appreciation (depreciation), fixed maturities | $ 302 | 302 | $ (133) | (133) |
| Net unrealized appreciation (depreciation), equity securities | (3) | (3) | 2 | 2 |
| Net unrealized appreciation (depreciation) on securities | 299 | | (131) | |
| Net unrealized appreciation (depreciation), derivatives | (6) | (6) | 14 | 14 |
| Net translation of foreign currencies | 29 | 29 | (56) | (56) |
| Postretirement benefits liability adjustment | (1) | (1) | 3 | 3 |
| Other comprehensive income (loss) | 321 | | (170) | |
| **Accumulated Other Comprehensive Loss, September 30** | | (516) | | (254) |
| **Retained Earnings, July 1** | | 7,986 | | 7,412 |
| Shareholders' net income | 329 | 329 | 171 | 171 |
| Effects of stock issuance for employee benefit plans | | (12) | | (1) |
| **Retained Earnings, September 30** | | 8,303 | | 7,582 |
| **Treasury Stock, July 1** | | (5,254) | | (5,155) |
| Repurchase of common stock | | — | | (125) |
| Other, primarily issuance of treasury stock for employee benefit plans | | 26 | | 8 |
| **Treasury Stock, September 30** | | (5,228) | | (5,272) |
| **Shareholders' Comprehensive Income and Shareholders' Equity** | 650 | 5,157 | 1 | 4,642 |
| **Noncontrolling interest, July 1** | | 9 | | 7 |
| Net income attributable to noncontrolling interest | 1 | 1 | 1 | 1 |
| Accumulated other comprehensive income attributable to noncontrolling interest | 1 | 1 | — | — |
| **Noncontrolling interest, September 30** | 2 | 11 | 1 | 8 |
| **Total Comprehensive Income and Total Equity** | $ 652 | $ 5,168 | $ 2 | $ 4,650 |

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

**CIGNA Corporation**
**Consolidated Statements of Comprehensive Income and Changes in Total Equity**
*(In millions, except per share amounts)*

| | Unaudited | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| **Nine Months Ended September 30** | **Compre-hensive Income** | **Total Equity** | **Compre-hensive Income** | **Total Equity** |
| **Common Stock, September 30** | | $ 88 | | $ 88 |
| **Additional Paid-In Capital, January 1** | | 2,502 | | 2,474 |
| Effects of stock issuance for employee benefit plans | | 8 | | 24 |
| **Additional Paid-In Capital, September 30** | | 2,510 | | 2,498 |
| **Accumulated Other Comprehensive Income (Loss), January 1** | | (1,074) | | 51 |
| Implementation effect of updated guidance on other-than-temporary impairments | | (18) | | — |
| Net unrealized appreciation (depreciation), fixed maturities | $ 567 | 567 | $ (247) | (247) |
| Net unrealized appreciation (depreciation), equity securities | (3) | (3) | 2 | 2 |
| Net unrealized appreciation (depreciation) on securities | 564 | | (245) | |
| Net unrealized appreciation (depreciation), derivatives | (14) | (14) | 3 | 3 |
| Net translation of foreign currencies | 43 | 43 | (79) | (79) |
| Postretirement benefits liability adjustment | (17) | (17) | 16 | 16 |
| Other comprehensive income (loss) | 576 | | (305) | |
| **Accumulated Other Comprehensive Loss, September 30** | | (516) | | (254) |
| **Retained Earnings, January 1** | | 7,374 | | 7,113 |
| Shareholders' net income | 972 | 972 | 501 | 501 |
| Effects of stock issuance for employee benefit plans | | (50) | | (21) |
| Implementation effect of updated guidance on other-than-temporary impairments | | 18 | | — |
| Common dividends declared (per share: $0.04; $0.04) | | (11) | | (11) |
| **Retained Earnings, September 30** | | 8,303 | | 7,582 |
| **Treasury Stock, January 1** | | (5,298) | | (4,978) |
| Repurchase of common stock | | — | | (347) |
| Other, primarily issuance of treasury stock for employee benefit plans | | 70 | | 53 |
| **Treasury Stock, September 30** | | (5,228) | | (5,272) |
| **Shareholders' Comprehensive Income and Shareholders' Equity** | 1,548 | 5,157 | 196 | 4,642 |
| **Noncontrolling interest, January 1** | | 6 | | 6 |
| Net income attributable to noncontrolling interest | 2 | 2 | 2 | 2 |
| Accumulated other comprehensive income attributable to noncontrolling interest | 3 | 3 | — | — |
| **Noncontrolling interest, September 30** | 5 | 11 | 2 | 8 |
| **Total Comprehensive Income and Total Equity** | $ 1,553 | $ 5,168 | $ 198 | $ 4,650 |

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

**CIGNA Corporation**
**Consolidated Statements of Cash Flows**

| *(In millions)* | Unaudited Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 974 | $ 503 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Income from discontinued operations | (1) | (3) |
| Income attributable to noncontrolling interest | (2) | (2) |
| Insurance liabilities | (271) | 185 |
| Reinsurance recoverables | (1) | 47 |
| Deferred policy acquisition costs | (60) | (74) |
| Premiums, accounts and notes receivable | (72) | 16 |
| Other assets | 350 | (425) |
| Accounts payable, accrued expenses and other liabilities | (1,126) | 717 |
| Current income taxes | (29) | (5) |
| Deferred income taxes | 279 | (54) |
| Realized investment losses | 40 | 28 |
| Depreciation and amortization | 207 | 181 |
| Gains on sales of businesses (excluding discontinued operations) | (24) | (28) |
| Proceeds from sales of mortgage loans held for sale | 1 | — |
| Other, net | 4 | (36) |
| Net cash provided by operating activities | 269 | 1,050 |
| **Cash Flows from Investing Activities** | | |
| Proceeds from investments sold: | | |
| Fixed maturities | 655 | 1,123 |
| Equity securities | 21 | 5 |
| Commercial mortgage loans | 23 | 48 |
| Other (primarily short-term and other long-term investments) | 485 | 279 |
| Investment maturities and repayments: | | |
| Fixed maturities | 791 | 660 |
| Commercial mortgage loans | 44 | 31 |
| Investments purchased: | | |
| Fixed maturities | (2,257) | (2,237) |
| Equity securities | (8) | (18) |
| Commercial mortgage loans | (121) | (359) |
| Other (primarily short-term and other long-term investments) | (489) | (344) |
| Property and equipment purchases | (218) | (179) |
| Acquisition of Great-West Healthcare, net of cash acquired | — | (1,301) |
| Other (primarily other acquisitions/dispositions) | — | (12) |
| Net cash used in investing activities | (1,074) | (2,304) |
| **Cash Flows from Financing Activities** | | |
| Deposits and interest credited to contractholder deposit funds | 1,011 | 989 |
| Withdrawals and benefit payments from contractholder deposit funds | (946) | (901) |
| Change in cash overdraft position | 82 | (3) |
| Net change in short-term debt | (199) | 312 |
| Net proceeds on issuance of long-term debt | 346 | 297 |
| Repayment of long-term debt | (2) | — |
| Repurchase of common stock | — | (340) |
| Issuance of common stock | 9 | 37 |
| Common dividends paid | (11) | (14) |
| Net cash provided by financing activities | 290 | 377 |
| Effect of foreign currency rate changes on cash and cash equivalents | 9 | (15) |
| Net decrease in cash and cash equivalents | (506) | (892) |
| Cash and cash equivalents, beginning of period | 1,342 | 1,970 |
| Cash and cash equivalents, end of period | $ 836 | $ 1,078 |
| **Supplemental Disclosure of Cash Information:** | | |
| Income taxes paid, net of refunds | $ 171 | $ 267 |
| Interest paid | $ 107 | $ 96 |

*The accompanying Notes to the Consolidated Financial Statements are an integral part of these 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 Corporation is the primary beneficiary (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, 2008.

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

In preparing these interim consolidated financial statements, the Company has evaluated events that occurred between the balance sheet date and November 5, 2009.

Certain reclassifications and restatements have been made to prior period amounts to conform to the current presentation. In addition, certain restatements have been made in connection with the adoption of new accounting pronouncements. See Note 2 for further information.

***Discontinued operations*** for the nine months ended September 30, 2009 primarily represented a tax benefit associated with a past divestiture, resolved at the completion of the 2005 and 2006 IRS examinations.

Discontinued operations for the third quarter of 2008 included a gain of $1 million after-tax from the settlement of certain issues related to a past divestiture. Discontinued operations for the nine months ended September 30, 2008 included a gain of $3 million after-tax from the settlement of certain issues related to a past divestiture.

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

**Note 2 — Recent Accounting Pronouncements**

***Accounting Standards Codification.*** The Financial Accounting Standards Board (FASB) has established the Accounting Standards Codification (Codification or ASC) as the single source of authoritative accounting guidance effective for reporting in the third quarter of 2009. Therefore, the Company will use the Codification section or description when referring to GAAP except for very recent guidance that has not yet been incorporated into the Codification.

***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). It requires assessing the Company's intent to sell or whether it is more likely than not that the Company will be required to sell such fixed maturities before their fair values recover. If so, an impairment loss is recognized in net income for the excess of the amortized cost over fair value. The Company must also determine if it does not expect to recover the amortized cost of fixed maturities with declines in fair value (even if it does not intend to sell or will not be required to sell these fixed maturities). In this case, the credit portion of the impairment loss is recognized in net income and the non-credit portion of an impairment loss is recognized in a separate component of shareholders' equity. A reclassification adjustment from retained earnings to accumulated other comprehensive income was required for previously impaired fixed maturities that have a non-credit loss as of the date of adoption, less related tax effects.

The cumulative effect of adoption increased the Company's retained earnings with an offsetting decrease to accumulated other comprehensive income of $18 million, with no overall change to shareholders' equity. See Note 9 for information on the Company's other-than-temporary impairments including additional required disclosures.

***Noncontrolling interests in subsidiaries.*** Effective January 1, 2009, the Company adopted the FASB's updated guidance on accounting for noncontrolling interests (ASC 810) through retroactive restatement of prior financial statements and reclassified $6 million of noncontrolling interest as of January 1, 2009 and 2008 from Accounts payable, accrued expenses and other liabilities to Noncontrolling interest in total equity. In addition, for the nine months ended September 30, 2008, net income of $2 million attributable to the noncontrolling interest has been reclassified to be included in net income, with a reduction to net income to determine net income attributable to the Company's shareholders ("shareholders' net income").

***Earnings per share.*** Effective January 1, 2009, the Company adopted the FASB's updated earnings per share guidance (ASC 260) for determining participating securities which requires unvested restricted stock awards that contain rights to nonforfeitable dividends to be included in the denominator of both basic and diluted earnings per share ("EPS") calculations. Prior period EPS data have been restated to reflect the adoption of this guidance. See Note 4 for the effects of this guidance on previously reported EPS amounts.

***Business combinations.*** Effective January 1, 2009, the Company adopted the FASB's guidance on accounting for business combinations (ASC 805) that requires fair value measurements for all future acquisitions, including contingent purchase price and certain contingent assets or liabilities of the entity to be acquired, requires acquisition related and restructuring costs to be expensed as incurred and requires changes in tax items after the acquisition date to be reported in income tax expense. There were no effects to the Company's Consolidated Financial Statements at adoption.

***Derivatives disclosures.*** Effective January 1, 2009, the Company expanded its disclosures on derivatives and hedging activities to comply with the FASB's updated guidance (ASC 815) that requires the Company to disclose the purpose for using derivative instruments, their accounting treatment and related effects on financial condition, results of operations and liquidity. See Note 10 for information on the Company's derivative financial instruments including these additional required disclosures.

***Fair value measurements.*** Effective January 1, 2008, the Company adopted the FASB's fair value disclosure and measurement guidance (ASC 820) that expands disclosures about fair value measurements and clarifies how to measure fair value by focusing on the price that would be received when selling an asset or paid to transfer a liability (exit price). In addition, the FASB amended the fair value guidance in 2008 to provide additional guidance for determining the fair value of a financial asset when the market for that instrument is not active. See Note 8 for information on the Company's fair value measurements.

The Company carries certain financial instruments at fair value in the financial statements including approximately $13.8 billion in invested assets at September 30, 2009. The Company also carries derivative instruments at fair value, including assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits (GMIB assets and liabilities) under certain variable annuity contracts issued by other insurance companies and related retrocessional contracts. The Company also reports separate account assets at fair value; however, changes in the fair values of these assets accrue directly to policyholders and are not included in the Company's revenues and expenses. At the adoption of this fair value guidance, there were no effects to the Company's measurements of fair values for financial instruments other than for GMIB assets and liabilities discussed below. In addition, there were no effects to the Company's measurements of financial assets of adopting the FASB's 2008 amendment to this fair value guidance.

At adoption, the Company was required to change certain assumptions used to estimate the fair values of GMIB assets and liabilities. Because there is no market for these contracts, the assumptions used to estimate their fair values at adoption were determined using a hypothetical market participant's view of exit price, rather than using historical market data and actual experience to establish the Company's future expectations. Certain of these assumptions have limited or no observable market data so determining an exit price requires the Company to exercise significant judgment and make critical accounting estimates. On adoption, the Company recorded a charge of $131 million after-tax, net of reinsurance ($202 million pre-tax), in Run-off Reinsurance.

The Company's results of operations related to this business are expected to continue to be volatile in future periods because several underlying assumptions will be based on current market-observable inputs which will likely change each period. See Note 8 for additional information.

During the first nine months of 2009, the Company adopted FASB guidance that clarifies how to determine fair value for various assets and liabilities with no material effects to the Company's Consolidated Financial Statements.

In the third quarter of 2009, the FASB issued guidance on measuring the fair value of liabilities and for investments in certain entities to provide a practical alternative under certain conditions to determine the fair value of these investments using their net asset value or its equivalent. The Company expects no material effects on its Consolidated Financial Statements at adoption in the fourth quarter of 2009.

***Transfers of financial assets.*** In 2009, the FASB issued SFAS No. 166 "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140," which 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. The recognition and measurement provisions of this guidance must be applied to transfers that occur on or after January 1, 2010. On adoption, the Company does not expect a material effect to the results of operations or financial condition.

***Variable interest entities.*** In 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 167, "Amendments to FASB Interpretation No. 46(R)," which amended guidance requiring periodic qualitative analyses to determine whether a variable interest entity must be consolidated by the Company. In addition, this guidance requires the Company to disclose any significant judgments and assumptions made in determining whether it must consolidate a variable interest entity. Any changes in consolidated entities resulting from these requirements must be applied through retrospective restatement of prior financial statements beginning in 2010. The Company is presently evaluating the impact of these new requirements.

**Note 3 — Acquisitions and Dispositions**

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

***Great-West Healthcare Acquisition.*** On April 1, 2008, the Company acquired the Healthcare division of Great-West Life and Annuity, Inc. ("Great-West Healthcare" or the "acquired business") through 100% indemnity reinsurance agreements and the acquisition of certain affiliates and other assets and liabilities of Great-West Healthcare. The purchase price of approximately $1.5 billion consisted of a payment to the seller of approximately $1.4 billion for the net assets acquired and the assumption of net liabilities under the reinsurance agreement of approximately $0.1 billion. Great-West Healthcare primarily sells medical plans on a self-funded basis with stop loss coverage to select and regional employer groups. Great-West Healthcare's offerings also include the following specialty products: stop loss, life, disability, medical, dental, vision, prescription drug coverage, and accidental death and dismemberment insurance. The acquisition, which was accounted for as a purchase, was financed through a combination of cash and the issuance of both short and long-term debt.

In the first quarter of 2009, the Company completed its allocation of the total purchase price to the tangible and intangible net assets acquired based on management's estimates of their fair values without material changes from December 31, 2008.

The results of Great-West Healthcare are included in the Company's Consolidated Financial Statements from the date of acquisition.

The following table presents selected unaudited pro forma information for the Company assuming the acquisition had occurred as of January 1, 2008. The pro forma information does not purport to represent what the Company's actual results would have been if the acquisition had occurred as of that date or what such results will be for any future periods.

| *(In millions, except per share amounts)* | **(Unaudited) Nine Months Ended September 30, 2008** |
|---|---|
| Total revenues | $ 14,652 |
| Shareholders' income from continuing operations | $ 526 |
| Shareholders' net income | $ 529 |
| Earnings per share: | |
| Shareholders' income from continuing operations | |
| Basic | $ 1.89 |
| Diluted | $ 1.87 |
| Shareholders' net income | |
| Basic | $ 1.90 |
| Diluted | $ 1.88 |

**Note 4 — Earnings Per Share**

Basic and diluted earnings per share were computed as follows:

| *(In millions, except per share amounts)* | Basic | Effect of Dilution | Diluted |
|---|---|---|---|
| **Three Months Ended September 30,** | | | |
| **2009** | | | |
| **Shareholders' income from continuing operations** | $ 329 | $ — | $ 329 |
| Shares (in thousands): | | | |
| Weighted average | 274,398 | — | 274,398 |
| Options | — | 1,732 | 1,732 |
| **Total shares** | 274,398 | 1,732 | 276,130 |
| **EPS** | $ 1.20 | $ (0.01) | $ 1.19 |
| **2008** | | | |
| **Shareholders' income from continuing operations** | $ 170 | $ — | $ 170 |
| Shares (in thousands): | | | |
| Weighted average | 275,141 | — | 275,141 |
| Options | — | 1,665 | 1,665 |
| **Total shares** | 275,141 | 1,665 | 276,806 |
| **EPS** | $ 0.62 | $ — | $ 0.62 |

| *(In millions, except per share amounts)* | Basic | Effect of Dilution | Diluted |
|---|---|---|---|
| **Nine Months Ended September 30,** | | | |
| **2009** | | | |
| **Shareholders' income from continuing operations** | $ 971 | $ — | $ 971 |
| Shares (in thousands): | | | |
| Weighted average | 273,698 | — | 273,698 |
| Options | — | 993 | 993 |
| **Total shares** | 273,698 | 993 | 274,691 |
| **EPS** | $ 3.55 | $ (0.01) | $ 3.54 |
| **2008** | | | |
| **Shareholders' income from continuing operations** | $ 498 | $ — | $ 498 |
| Shares (in thousands): | | | |
| Weighted average | 278,912 | — | 278,912 |
| Options | — | 2,035 | 2,035 |
| **Total shares** | 278,912 | 2,035 | 280,947 |
| **EPS** | $ 1.79 | $ (0.02) | $ 1.77 |

As described in Note 2, effective in 2009, the Company adopted the FASB's new guidance for determining participating securities which requires the Company's unvested restricted stock awards to be included in weighted average shares instead of being considered a common stock equivalent. Prior period share information has been restated as follows.

| | Three Months Ended September 30, 2008 | | | |
|---|---|---|---|---|
| | Basic | | Diluted | |
| | As originally reported | As adjusted | As originally reported | As adjusted |
| Shareholders' income from continuing operations | $ 0.62 | $ 0.62 | $ 0.62 | $ 0.62 |

| | Nine Months Ended September 30, 2008 | | | |
|---|---|---|---|---|
| | Basic | | Diluted | |
| | As originally reported | As adjusted | As originally reported | As adjusted |
| Shareholders' income from continuing operations | $ 1.80 | $ 1.79 | $ 1.78 | $ 1.77 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | 2009 | 2008 | 2009 | 2008 |
| Antidilutive options | 8.7 | 4.9 | 10.0 | 4.5 |

The Company held 77,475,700 shares of common stock in Treasury as of September 30, 2009, and 78,693,702 shares as of September 30, 2008.

**Note 5 — Health Care Medical Claims Payable**

Medical claims payable for the Health Care segment reflects estimates of the ultimate cost of claims that have been incurred but not yet reported, those 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)* | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Incurred but not yet reported | $ 814 | $ 782 |
| Reported claims in process | 101 | 114 |
| Other medical expense payable | 17 | 28 |
| Medical claims payable | $ 932 | $ 924 |

Activity in medical claims payable was as follows:

| (In millions) | For the period ended September 30, 2009 | December 31, 2008 |
|---|---|---|
| Balance at January 1, | $ 924 | $ 975 |
| Less: Reinsurance and other amounts recoverable | 211 | 258 |
| Balance at January 1, net | 713 | 717 |
| Acquired April 1, 2008 net | — | 90 |
| Incurred claims related to: | | |
| Current year | 5,265 | 7,312 |
| Prior years | (39) | (60) |
| Total incurred | 5,226 | 7,252 |
| Paid claims related to: | | |
| Current year | 4,560 | 6,716 |
| Prior years | 643 | 630 |
| Total paid | 5,203 | 7,346 |
| Ending Balance, net | 736 | 713 |
| Add: Reinsurance and other amounts recoverable | 196 | 211 |
| Ending Balance | $ 932 | $ 924 |

Reinsurance and other amounts recoverable reflect amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for minimum premium products and certain administrative services only business where the right of offset does not exist. See Note 11 for additional information on reinsurance. For the nine months ended September 30, 2009, actual experience differed from the Company's key assumptions resulting in favorable incurred claims related to prior years' medical claims payable of $39 million, or 0.5% of the current year incurred claims as reported for the year ended December 31, 2008. Actual completion factors resulted in a reduction in medical claims payable of $18 million, or 0.2% 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 in 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.

For the year ended December 31, 2008, actual experience differed from the Company's key assumptions, resulting in favorable incurred claims related to prior years' medical claims payable of $60 million, or 0.9% of the current year incurred claims as reported for the year ended December 31, 2007. Actual completion factors resulted in a reduction of the medical claims payable of $29 million, or 0.4% of the current year incurred claims as reported for the year ended December 31, 2007 for the insured book of business. Actual medical cost trend resulted in a reduction of the medical claims payable of $31 million, or 0.5% of the current year incurred claims as reported for the year ended December 31, 2007 for the insured book of business.

The favorable impacts in 2009 and 2008 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 three months and nine months ended September 30, 2009 and 2008. 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(O) to the Consolidated Financial Statements in the Company's 2008 Form 10-K.

**Note 6 — Cost Reduction**

During 2009, the Company continued its previously announced comprehensive review to reduce the operating expenses of its ongoing businesses. As a result, the Company recognized severance related charges in other operating expenses as follows:

- during the third quarter of 2009, a charge of $10 million pre-tax ($7 million after-tax), for severance resulting from reductions of approximately 230 positions in its workforce; and
- during the second quarter of 2009, a charge of $14 million pre-tax ($9 million after-tax), for severance resulting from reductions of approximately 480 positions in its workforce.

Substantially all of these charges were recorded in the Health Care segment, and are expected to be paid in cash by June 30, 2010.

Cost reduction activity for 2009 was as follows:

| *(In millions)* | Severance | Real estate | Total |
|---|---|---|---|
| Balance, January 1, 2009 | $ 44 | $ 11 | $ 55 |
| Add: Second quarter 2009 charge | 14 | — | 14 |
| Add: Third quarter 2009 charge | 10 | — | 10 |
| Subtotal — cost reduction actions | 68 | 11 | 79 |
| Less: Payments | 36 | 3 | 39 |
| Balance, September 30, 2009 | $ 32 | $ 8 | $ 40 |

**Note 7 — Guaranteed Minimum Death Benefit Contracts**

The Company's reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured guaranteed minimum death benefits (GMDB), also known as variable annuity death benefits (VADBe), under certain variable annuities issued by other insurance companies. These variable annuities are essentially investments in mutual funds combined with a death benefit. The Company has equity and other market exposures as a result of this product. In periods of declining equity markets and in periods of flat equity markets following a decline, the Company's liabilities for these guaranteed minimum death benefits increase. Conversely, in periods of rising equity markets, the Company's liabilities for these guaranteed minimum death benefits decrease.

In order to substantially reduce the equity market exposures relating to guaranteed minimum death benefit contracts, the Company operates a dynamic hedge program (GMDB equity hedge program), using exchange-traded futures contracts. The hedge program is designed to substantially offset both positive and negative impacts of changes in equity markets on the GMDB liability. The hedge program involves detailed, daily monitoring of equity market movements and rebalancing the futures contracts within established parameters. While the hedge program is actively managed, it may not exactly offset changes in the GMDB liability due to, among other things, divergence between the performance of the underlying mutual funds and the hedge instruments, high levels of volatility in the equity markets, and differences between actual contractholder behavior and what is assumed. In addition, underlying mutual fund data is not reported and incorporated into the required hedge position on a real time basis, which also impacts the performance of the hedge program. Although this hedge program does not qualify for GAAP hedge accounting, it is an economic hedge because it is designed and operated to substantially reduce equity market exposures resulting from this product. The results of these futures contracts are included in other revenue and amounts reflecting corresponding changes in liabilities for these GMDB contracts are included in benefits and expenses, consistent with GAAP when a premium deficiency exists.

The GMDB reinsurance business is considered premium deficient because the expected present value of future claims and expenses exceeds the expected present value of future premiums and investment income using revised assumptions based on actual and expected experience. The Company performs a reserve review on a quarterly basis using current market conditions and 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 Company had future policy benefit reserves for GMDB contracts of $1.4 billion as of September 30, 2009, and $1.6 billion as of December 31, 2008. 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, mortality, interest rates (mean investment performance and discount rate) and volatility. Lapse refers to the full surrender of an annuity prior to a contractholder's death. Future partial surrender refers to the fact that most contractholders have the ability to withdraw substantially all of their mutual fund investments while retaining the death benefit coverage in effect at the time of the withdrawal. Mean investment performance refers to market rates to be earned over the life of the GMDB equity hedge program, and market volatility refers to market fluctuation. 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, 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.

The following provides information about the Company's reserving methodology and assumptions for GMDB as of September 30, 2009:

- The reserve represents 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 reserve includes an estimate for future partial surrenders that essentially lock in the death benefit for a particular policy based on annual election rates that vary from 0-20% depending on the net amount at risk for each policy and whether surrender charges apply.

- The mean investment performance assumption is 5% considering the Company's GMDB equity hedge program using futures contracts. This is reduced by fund fees ranging from 1-3% across all funds. The results of futures contracts are reflected in the liability calculation as a component of investment returns.

- 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 assumption is 16-30%, varying by equity fund type; 4-10%, varying by bond fund type; and 2% for money market funds. These volatility assumptions are used along with the mean investment performance assumption to project future return scenarios.

- 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 annual lapse rate assumption is 0-21%, depending on contract type, policy duration and the ratio of the net amount at risk to account value.

- The reserve includes a provision for future policy maintenance and hedging expenses.

Although the year to date results include a first quarter charge of $73 million pre-tax ($47 million after-tax) to strengthen GMDB reserves, no additional reserve strengthening has been required for GMDB since the first quarter of 2009, primarily due to the stabilization and recovery of equity markets. The components of the first quarter charge were:

- adverse impacts of overall market declines of $50 million pre-tax ($32 million after-tax). This is comprised of (a) $39 million pre-tax ($25 million after-tax) primarily related to the provision for future partial surrenders, and (b) $11 million pre-tax ($7 million after-tax) related to declines in the values of contractholders' non-equity investments such as bond funds, neither of which is included in the GMDB equity hedge program;

- adverse volatility-related impacts of $11 million pre-tax ($7 million after-tax) due to turbulent equity market conditions, including higher than expected claims and the performance of the diverse mix of equity fund investments held by contractholders being different than expected; and

- adverse interest rate impacts of $12 million pre-tax ($8 million after-tax). Interest rate risk is not covered by the GMDB equity hedge program, and the interest rate returns on the futures contracts were less than the Company's long-term assumption for mean investment performance.

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

| | For the period ended | |
|---|---|---|
| *(In millions)* | September 30, 2009 | December 31, 2008 |
| Balance at January 1 | $ 1,609 | $ 848 |
| Add: Unpaid Claims | 34 | 21 |
| Less: Reinsurance and other amounts recoverable | 83 | 19 |
| Balance at January 1, net | 1,560 | 850 |
| Add: Incurred benefits | (86) | 822 |
| Less: Paid benefits | 139 | 112 |
| Ending balance, net | 1,335 | 1,560 |
| Less: Unpaid Claims | 39 | 34 |
| Add: Reinsurance and other amounts recoverable | 56 | 83 |
| Ending balance | $ 1,352 | $ 1,609 |

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 charges 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.

As of September 30, 2009, the aggregate value of the underlying mutual fund investments was $17.1 billion. The death benefit coverage in force as of that date (representing the estimated amount of death claims that the Company would have to pay if all of the approximately 600,000 contractholders had submitted death claims as of that date) was $7.7 billion. As of December 31, 2008, the aggregate value of the underlying mutual fund investments was $16.3 billion. The death benefit coverage in force as of that date (representing the estimated amount of death claims that the Company would have to pay if all of the approximately 650,000 contractholders had submitted death claims as of that date) was $11.1 billion. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the value of the underlying mutual fund investments.

As discussed above, 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 September 30, 2009 was $1.2 billion. The Company recorded in other revenues pre-tax losses of $161 million for the three months ended September 30, 2009 and $232 million for the nine months ended September 30, 2009, and pre-tax gains of $70 million for the three months ended September 30, 2008 and $118 million for the nine months ended September 30, 2008.

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 8 for further information.

**Note 8 — Fair Value Measurements**

The Company carries certain financial instruments at fair value in the financial statements including fixed maturities, equity securities, short-term investments and derivatives. Other financial instruments are measured at fair value under certain conditions, such as when impaired or, for commercial mortgage loans, when classified as "held for sale."

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. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

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 input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- *Level 1* — Values are unadjusted quoted prices for identical assets and liabilities 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.

- *Level 2* — Inputs 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 observable or can be corroborated by market data for the term of the instrument. Such 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.

- *Level 3* — Certain inputs are unobservable (supported by little or no market activity) and significant to the 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.

**Financial Assets and Financial Liabilities Carried at Fair Value**

The following tables provide information as of September 30, 2009 and December 31, 2008 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.

**September 30, 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 | $ 44 | $ 577 | $ 1 | $ 622 |
| State and local government | — | 2,566 | — | 2,566 |
| Foreign government | — | 1,040 | 17 | 1,057 |
| Corporate | — | 8,041 | 489 | 8,530 |
| Federal agency mortgage-backed | — | 35 | — | 35 |
| Other mortgage-backed | — | 117 | 6 | 123 |
| Other asset-backed | — | 92 | 463 | 555 |
| Total fixed maturities (1) | 44 | 12,468 | 976 | 13,488 |
| Equity securities | 2 | 78 | 24 | 104 |
| Subtotal | 46 | 12,546 | 1,000 | 13,592 |
| Short-term investments | — | 201 | — | 201 |
| GMIB assets (2) | — | — | 614 | 614 |
| Other derivative assets (3) | — | 19 | — | 19 |
| Total financial assets at fair value, excluding separate accounts | $ 46 | $ 12,766 | $ 1,614 | $ 14,426 |
| Financial liabilities at fair value: | | | | |
| GMIB liabilities | $ — | $ — | $ 1,126 | $ 1,126 |
| Other derivative liabilities | — | 28 | — | 28 |
| Total financial liabilities at fair value | $ — | $ 28 | $ 1,126 | $ 1,154 |

*(1) Fixed maturities includes $392 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $60 million of appreciation for securities classified in Level 3.*

*(2) The Guaranteed Minimum Income Benefit (GMIB) assets represent retrocessional contracts in place from two external reinsurers which cover 55% of the exposures on these contracts. The assets are net of a liability of $14 million for the future cost of reinsurance.*

*(3) Other derivative assets includes $15 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.*

December 31, 2008

| (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 | $ 38 | $ 724 | $ — | $ 762 |
| State and local government | — | 2,486 | — | 2,486 |
| Foreign government | — | 923 | 21 | 944 |
| Corporate | — | 6,526 | 330 | 6,856 |
| Federal agency mortgage-backed | — | 37 | — | 37 |
| Other mortgage-backed | — | 121 | 4 | 125 |
| Other asset-backed | — | 57 | 514 | 571 |
| Total fixed maturities (1) | 38 | 10,874 | 869 | 11,781 |
| Equity securities | 8 | 84 | 20 | 112 |
| Subtotal | 46 | 10,958 | 889 | 11,893 |
| Short-term investments | — | 236 | — | 236 |
| GMIB assets (2) | — | — | 953 | 953 |
| Other derivative assets (3) | — | 45 | — | 45 |
| Total financial assets at fair value, excluding separate accounts | $ 46 | $ 11,239 | $ 1,842 | $ 13,127 |
| Financial liabilities at fair value: | | | | |
| GMIB liabilities | $ — | $ — | $ 1,757 | $ 1,757 |
| Other derivative liabilities | — | 36 | — | 36 |
| Total financial liabilities at fair value | $ — | $ 36 | $ 1,757 | $ 1,793 |

(1) *Fixed maturities includes $514 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $111 million of appreciation for securities classified in Level 3.*

(2) *The Guaranteed Minimum Income Benefit (GMIB) assets represent retrocessional contracts in place from two external reinsurers which cover 55% of the exposures on these contracts. The assets are net of a liability of $17 million for the future cost of reinsurance.*

(3) *Other derivative assets include $40 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $5 million of interest rate swaps not designated as accounting hedges.*

***Level 1 Financial Assets***

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***

***Fixed maturities and equity securities.*** Approximately 92% of the Company's investments in fixed maturities and equity securities are classified in Level 2 including most public and private corporate debt and equity securities, federal agency and municipal bonds, non-government mortgage-backed securities and preferred stocks. Because many fixed maturities 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, benchmark yields, reported trades, broker-dealer quotes, 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.

***Short-term investments.*** 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.*** Amounts classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties, and determined that no adjustment for credit risk was required as of September 30, 2009 or December 31, 2008. The nature and use of these other derivatives are described in Note 10.

***Level 3 Financial Assets and Financial Liabilities***

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 7% of fixed maturities and equity securities are priced using significant unobservable inputs and classified in this category, including:

| *(In millions)* | **September 30, 2009** | **December 31, 2008** |
|---|---|---|
| Mortgage and asset-backed securities | $ 469 | $ 518 |
| Primarily private corporate bonds | 434 | 270 |
| Subordinated loans and private equity investments | 97 | 101 |
| Total | $ 1,000 | $ 889 |

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.

***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 and retrocessionaire behavior (including mortality, lapse, annuity election rates and retrocessional credit), as well as risk and profit charges. At adoption of the FASB's new guidance for fair value measurements in 2008, the Company updated assumptions to reflect those that the Company believes a hypothetical market participant would use to determine a current exit price for these contracts, and recorded a charge to shareholders' net income as described in Note 2. As certain assumptions 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 September 30, 2009 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 2.93% at September 30, 2009 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 57% 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 33% for equity funds, 4% to 11% for bond funds and 1% to 2% for money market funds.
- The mortality assumption is 70% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.
- The annual lapse rate assumption reflects experience that differs by the company issuing the underlying variable annuity contracts, ranges from 2% to 23% and depends on the time since contract issue and the relative value of the guarantee.
- The annual annuity election rate assumption reflects experience that differs by the company issuing the underlying variable annuity contracts and depends on the annuitant's age, the relative value of the guarantee and whether a contractholder has had a previous opportunity to elect the benefit. Immediately after the expiration of the waiting period, the assumed probability that an individual will annuitize their variable annuity contract is up to 80%. For the second and subsequent annual opportunities to elect the benefit, the assumed probability of election is up to 30%. Actual data is still emerging for the Company as well as the industry and the estimates are based on this limited data.
- 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.

In addition, the Company has considered other assumptions related to model, expense and nonperformance risk in calculating the GMIB liability.

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 current 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. As of September 30, 2009, Standard & Poor's (S&P) has given a financial strength rating of AA to one reinsurer and a financial strength rating of A- to the parent company that guarantees the receivable from the other reinsurer.

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

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three months and nine months ended September 30, 2009 and 2008. 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 changes in fair value that are attributable to both observable and unobservable inputs.

**For the Three Months Ended September 30, 2009**

| *(In millions)* | Fixed Maturities & Equity Securities | GMIB Assets | GMIB Liabilities | GMIB Net |
|---|---|---|---|---|
| Balance at 7/1/09 | $ 923 | $ 685 | $ (1,224) | $ (539) |
| **Gains (losses) included in shareholders' net income:** | | | | |
| Results of GMIB | — | (27) | 46 | 19 |
| Other | (9) | — | — | — |
| **Total gains (losses) included in shareholders' net income** | (9) | (27) | 46 | 19 |
| Gains included in other comprehensive income | 36 | — | — | — |
| Gains required to adjust future policy benefits for settlement annuities (1) | 56 | — | — | — |
| Purchases, issuances, settlements | 7 | (44) | 52 | 8 |
| Transfers out of Level 3 | (13) | — | — | — |
| **Balance at 9/30/09** | $ 1,000 | $ 614 | $ (1,126) | $ (512) |
| **Total gains (losses) included in income attributable to instruments held at the reporting date** | $ (9) | $ (27) | $ 46 | $ 19 |

*(1) Amounts do not accrue to shareholders.*

**For the Three Months Ended September 30, 2008**

| *(In millions)* | Fixed Maturities & Equity Securities | GMIB Assets | GMIB Liabilities | GMIB Net |
|---|---|---|---|---|
| Balance at 7/1/08 | $ 695 | $ 447 | $ (836) | $ (389) |
| **Gains (losses) included in shareholders' net income:** | | | | |
| Results of GMIB, excluding adoption effect | — | 123 | (221) | (98) |
| Other | 4 | — | — | — |
| **Total gains (losses) included in shareholders' net income** | 4 | 123 | (221) | (98) |
| Gains included in other comprehensive income | 3 | — | — | — |
| Gains required to adjust future policy benefits for settlement annuities (1) | 41 | — | — | — |
| Purchases, issuances, settlements | (9) | (18) | 25 | 7 |
| Transfers into Level 3 | 15 | — | — | — |
| **Balance at 9/30/08** | $ 749 | $ 552 | $ (1,032) | $ (480) |
| **Total gains (losses) included in income attributable to instruments held at the reporting date** | $ 3 | $ 123 | $ (221) | $ (98) |

*(1) Amounts do not accrue to shareholders.*

**For the Nine Months Ended September 30, 2009**

| *(In millions)* | Fixed Maturities & Equity Securities | GMIB Assets | GMIB Liabilities | GMIB Net |
|---|---|---|---|---|
| Balance at 1/1/09 | $ 889 | $ 953 | $ (1,757) | $ (804) |
| **Gains (losses) included in shareholders' net income:** | | | | |
| Results of GMIB | — | (263) | 478 | 215 |
| Other | (19) | — | — | — |
| **Total gains (losses) included in shareholders' net income** | (19) | (263) | 478 | 215 |
| Gains included in other comprehensive income | 46 | — | — | — |
| Losses required to adjust future policy benefits for settlement annuities (1) | (51) | — | — | — |
| Purchases, issuances, settlements | (3) | (76) | 153 | 77 |
| Transfers into Level 3 | 138 | — | — | — |
| **Balance at 9/30/09** | $ 1,000 | $ 614 | $ (1,126) | $ (512) |
| **Total gains (losses) included in income attributable to instruments held at the reporting date** | $ (19) | $ (263) | $ 478 | $ 215 |

*(1) Amounts do not accrue to shareholders.*

**For the Nine Months Ended September 30, 2008**

| *(In millions)* | Fixed Maturities & Equity Securities | GMIB Assets | GMIB Liabilities | GMIB Net |
|---|---|---|---|---|
| Balance at 1/1/08 | $ 732 | $ 173 | $ (313) | $ (140) |
| **Gains (losses) included in shareholders' net income:** | | | | |
| Effect of adoption of new fair value measurement guidance | — | 244 | (446) | (202) |
| Results of GMIB, excluding adoption effect | — | 190 | (341) | (151) |
| Other | 3 | — | — | — |
| **Total gains (losses) included in shareholders' net income** | 3 | 434 | (787) | (353) |
| Gains required to adjust future policy benefits for settlement annuities (1) | 7 | — | — | — |
| Purchases, issuances, settlements | 2 | (55) | 68 | 13 |
| Transfers into Level 3 | 5 | — | — | — |
| **Balance at 9/30/08** | $ 749 | $ 552 | $ (1,032) | $ (480) |
| **Total gains (losses) included in income attributable to instruments held at the reporting date** | $ 6 | $ 434 | $ (787) | $ (353) |

*(1) Amounts do not accrue to shareholders.*

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

- other-than-temporary impairments on debt securities, net; other realized investment gains (losses) and net investment income for amounts related to fixed maturities and equity securities; and
- guaranteed minimum income benefits (income) expense for amounts related to GMIB assets and liabilities.

Reclassifications impacting Level 3 financial instruments are reported as transfers in 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. Typically, investments that transfer out of Level 3 are classified in Level 2 as market data on the securities becomes more readily available.

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

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 assumptions will be based largely on market-observable inputs at the close of each reporting period including interest rates and market-implied volatilities.

The net pre-tax gain for GMIB was $19 million for the three months ended September 30, 2009, and was primarily due to the following factors:

- increases in underlying account values in the period, driven by favorable equity market and bond fund returns, resulting in reduced exposures ($50 million); and
- updates to the risk and profit charge estimates ($7 million)

These favorable effects were partially offset by:

- decreases in interest rates ($31 million); and
- other amounts, including experience varying from assumptions, model and in-force updates ($7 million)

For the nine months ended September 30, 2009, the net pre-tax gain for GMIB was $215 million, and was primarily due to the following factors:

- increases in interest rates ($175 million);
- increases in underlying account values in the period, driven by favorable equity market and bond fund returns, resulting in reduced exposures ($82 million); and
- updates to the risk and profit charge estimates ($25 million).

These favorable effects were partially offset by:

- increases to the annuitization assumption, reflecting higher utilization experience ($21 million);
- updates to the lapse assumption ($14 million); and
- other amounts, including experience varying from assumptions, model and in-force updates ($32 million).

For the three months ended September 30, 2008, the increase in the net GMIB liability was primarily driven by the decline in underlying account values in the period, driven by declines in equity markets and bond fund returns and decreases in interest rates since June 30, 2008. Excluding the charge for the effect of adoption of FASB's guidance for fair value measurement, the increase in the net GMIB liability for the nine months ended September 30, 2008 was primarily driven by the impact of declines in underlying account values in the period, driven by declines in equity markets and bond fund returns, resulting in increased exposure and decreases in interest rates since December 31, 2007.

***Separate account assets***

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are excluded from the Company's revenues and expenses. As of September 30, 2009 and December 31, 2008 separate account assets were as follows:

**September 30, 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) | $ 265 | $ 1,538 | $ — | $ 1,803 |
| Non-guaranteed separate accounts (1) | 1,660 | 2,917 | 584 | 5,161 |
| **Total separate account assets** | $ 1,925 | $ 4,455 | $ 584 | $ 6,964 |

*(1) Non-guaranteed separate accounts include $2.3 billion in assets supporting the Company's pension plans, including $553 million classified in Level 3.*

**December 31, 2008**

| *(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) | $ 233 | $ 1,557 | $ — | $ 1,790 |
| Non-guaranteed separate accounts (1) | 1,093 | 2,506 | 475 | 4,074 |
| **Total separate account assets** | $ 1,326 | $ 4,063 | $ 475 | $ 5,864 |

*(1) Non-guaranteed separate accounts include $1.5 billion in assets supporting the Company's pension plans, including $435 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.

The following tables summarize the changes in separate account assets reported in Level 3 for the three months and nine months ended September 30, 2009 and 2008.

| | Three Months Ended September 30, | |
|---|---|---|
| *(In millions)* | 2009 | 2008 |
| Balance at 7/1 | $ 625 | $ 417 |
| Policyholder gains (losses) (1) | (18) | 1 |
| Purchases, issuances, settlements | (23) | 13 |
| Transfers out of Level 3 | — | (2) |
| Balance at 9/30 | $ 584 | $ 429 |

*(1) Includes losses of $20 million and gains of $1 million attributable to instruments still held at September 30, 2009 and September 30, 2008 respectively.*

| | Nine Months Ended September 30, | |
|---|---|---|
| *(In millions)* | 2009 | 2008 |
| Balance at 1/1 | $ 475 | $ 403 |
| Policyholder gains (losses) (1) | (85) | 21 |
| Purchases, issuances, settlements | 34 | 22 |
| Transfers in (out) of Level 3 | 160 | (17) |
| Balance at 9/30 | $ 584 | $ 429 |

*(1) Includes losses of $88 million and gains of $6 million attributable to instruments still held at September 30, 2009 and September 30, 2008 respectively.*

***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 when they become impaired. During the nine months ended September 30, 2009, impaired real estate entities carried at cost of $41 million were written down to their fair values of $8 million, resulting in realized investment losses of $33 million. These fair value measurements were based on discounted cash flow analyses using significant unobservable inputs, and were classified in Level 3. For the three months ended September 30, 2009 and the twelve months ended December 31, 2008, the amounts required to adjust these assets and liabilities to their fair values were not significant.

***Fair Value Disclosures for Financial Instruments Not Carried at Fair Value***

Most financial instruments that are subject to fair value disclosure requirements are carried in the Company's consolidated financial statements at amounts that approximate fair value. The following table provides the fair values and carrying values of the Company's financial instruments not recorded at fair value that are subject to fair value disclosure requirements at September 30, 2009 and December 31, 2008:

| *(In millions)* | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | **Fair Value** | **Carrying Value** | **Fair Value** | **Carrying Value** |
| Commercial mortgage loans | $ 3,393 | $ 3,607 | $ 3,401 | $ 3,617 |
| Contractholder deposit funds, excluding universal life products | $ 932 | $ 934 | $ 889 | $ 915 |
| Long-term debt, excluding capital leases | $ 2,430 | $ 2,427 | $ 1,684 | $ 2,077 |

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

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

***Contractholder deposit funds, excluding universal life products.*** Generally, these funds do not have stated maturities. Approximately 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, 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 9 — 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Fixed maturities | $ 2 | $ (67) | $ (9) | $ (108) |
| Equity securities | 16 | (20) | 10 | (19) |
| Commercial mortgage loans | (4) | 3 | (4) | 1 |
| Other investments, including derivatives | — | 61 | (37) | 98 |
| Realized investment gains (losses), before income taxes | 14 | (23) | (40) | (28) |
| Less income taxes (benefits) | 5 | (8) | (16) | (10) |
| Net realized investment gains (losses) | $ 9 | $ (15) | $ (24) | $ (18) |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in millions)* | 2009 | 2008 | 2009 | 2008 |
| Credit-related (1) | $ 18 | $ 23 | **$** 72 | $ 27 |
| Other (2) | 3 | 40 | 12 | 64 |
| Total | $ 21 | $ 63 | **$** 84 | $ 91 |

*(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.*

**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. The Company elected fair value accounting for certain hybrid securities to simplify accounting and mitigate volatility in results of operations and financial condition.

| *(In millions)* | As of September 30, 2009 | As of December 31, 2008 |
|---|---|---|
| Included in fixed maturities: | | |
| Trading securities (amortized cost: $8; $13) | $ 9 | $ 13 |
| Hybrid securities (amortized cost: $32; $10) | 36 | 10 |
| Total | $ 45 | $ 23 |
| Included in equity securities: | | |
| Hybrid securities (amortized cost: $110; $123) | $ 79 | $ 84 |

Fixed maturities and equity securities included $239 million at September 30, 2009, which were pledged as collateral to brokers as required under certain futures contracts. These fixed maturities and equity securities 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 September 30, 2009:

| *(in millions)* | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 692 | $ 701 |
| Due after one year through five years | 3,813 | 4,023 |
| Due after five years through ten years | 4,770 | 5,094 |
| Due after ten years | 2,494 | 2,913 |
| Mortgage and other asset-backed securities | 662 | 712 |
| Total | $ 12,431 | $ 13,443 |

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.

Mortgage-backed assets consist principally of commercial mortgage-backed securities and collateralized mortgage obligations of which $38 million were residential mortgages and home equity lines of credit, all of which were originated using standard underwriting practices and are not considered sub-prime loans.

Gross unrealized appreciation (depreciation) on fixed maturities (excluding trading securities and hybrid securities) by type of issuer is shown below.

| | September 30, 2009 | | | |
|---|---|---|---|---|
| *(in millions)* | Amortized Cost | Unrealized Appre- ciation | Unrealized Depre- ciation | Fair Value |
| Federal government and agency | $ 394 | $ 228 | $ — | $ 622 |
| State and local government | 2,335 | 236 | (5) | 2,566 |
| Foreign government | 1,017 | 45 | (5) | 1,057 |
| Corporate | 8,023 | 570 | (107) | 8,486 |
| Federal agency mortgage-backed | 33 | 2 | — | 35 |
| Other mortgage-backed | 132 | 4 | (14) | 122 |
| Other asset-backed | 497 | 74 | (16) | 555 |
| Total | $ 12,431 | $ 1,159 | $ (147) | $ 13,443 |

The above table includes investments with a fair value of $2.4 billion supporting the Company's run-off settlement annuity business, with gross unrealized appreciation of $439 million and gross unrealized depreciation of $47 million at September 30, 2009. 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.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | 2009 | 2008 | 2009 | 2008 |
| Proceeds from sales | $ 266 | $ 432 | **$** 676 | $ 1,128 |
| Gross gains on sales | $ 24 | $ 3 | **$** 39 | $ 8 |
| Gross losses on sales | $ (5) | $ (8) | **$** (8) | $ (31) |

***Review of declines in fair value.*** Management reviews fixed maturities and equity securities 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
- prior to April 1, 2009, the Company's ability and intent to hold these fixed maturities until recovery; beginning April 1, 2009, the Company's intent to sell or the likelihood of a required sale of these fixed maturities prior to their recovery.

When the Company determines it does not expect to recover the amortized cost basis of fixed maturities with declines in fair value (even if it does not intend to sell or will not be required to sell these fixed maturities), the credit portion of the impairment loss is recognized in net income and the non-credit portion, if any, is recognized in a separate component of shareholders' equity. The credit portion is the difference between the amortized cost basis of the fixed maturity and the net present value of its projected future cash flows. Projected future cash flows are based on qualitative and quantitative factors, including probability of default, and the estimated timing and amount of recovery. For mortgage and asset-backed securities, estimated future cash flows are based on assumptions about the collateral attributes including prepayment speeds, default rates and changes in value.

Excluding trading and hybrid securities, as of September 30, 2009, 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 | $ 679 | $ 706 | $ (27) | 169 |
| Below investment grade | $ 109 | $ 119 | $ (10) | 68 |
| More than one year: | | | | |
| Investment grade | $ 1,117 | $ 1,212 | $ (95) | 174 |
| Below investment grade | $ 82 | $ 97 | $ (15) | 19 |

The unrealized depreciation of investment grade fixed maturities is primarily due to increases in market yields since purchase. Approximately $52 million of the unrealized depreciation is due to securities with a decline in value of greater than 20%. The remaining $95 million of the unrealized depreciation is due to securities with declines in value of less than 20%. There were no equity securities with a fair value significantly lower than cost as of September 30, 2009.

**Note 10 — Derivative Financial Instruments**

The Company's investment strategy is to manage the characteristics and risks 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 of chosen investment assets to conform to the characteristics and risks of the related insurance and contractholder liabilities. 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. In addition, the Company has written or sold contracts to guarantee minimum income benefits and to enhance investment returns. See Note 7 for a discussion of derivatives associated with GMDB contracts and Note 8 for a discussion of derivatives arising from GMIB contracts.

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

The Company accounts for derivative instruments as follows:

- Derivatives are reported on the balance sheet at fair value with changes in fair values reported in shareholders' net income or accumulated other comprehensive income.
- Changes in the fair value of derivatives that hedge market risk related to future cash flows – and that qualify for hedge accounting – are reported in a separate caption in accumulated other comprehensive income. These hedges are referred to as cash flow hedges.
- A change in the fair value of a derivative instrument may not always equal the change in the fair value of the hedged item; this difference is referred to as hedge ineffectiveness. Where hedge accounting is used, the Company reflects hedge ineffectiveness in shareholders' net income (generally as part of other realized investment gains and losses).
- Features of certain investments and obligations, called embedded derivatives, are accounted for as derivatives. As permitted under GAAP, derivative accounting has not been applied to these features of such investments or obligations existing before January 1, 1999.

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 September 30, 2009 was $28 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 September 30, 2009, 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 September 30, 2009, there was no net liability position under such derivative instruments.

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 and for the three and nine month periods ended September 30, 2009. Derivatives in the Company's separate accounts are excluded from the tables because associated gains and losses generally accrue directly to policyholders.

| Instrument / Volume of Activity | Primary Risk | Purpose | Cash Flows | Accounting Policy |
|---|---|---|---|---|
| **Derivatives Designated as Accounting Hedges — Cash Flow Hedges** | | | | |
| **Interest rate swaps — $123 million of par value of related investments**<br><br>**Foreign currency swaps — $179 million of U.S. dollar equivalent par value of related investments**<br><br>**Combination swaps (interest rate and foreign currency) — $54 million of U.S. dollar equivalent par value of related investments** | Interest rate and foreign currency | To hedge the interest and/or foreign currency cash flows of fixed maturities 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 12 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. |

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

| | As of September 30, 2009 | | Gain (Loss) Recognized in Other Comprehensive Income | |
|---|---|---|---|---|
| **Instrument** | **Other Long-Term Investments** | **Accounts Payable, Accrued Expenses and Other Liabilities** | **Three Months Ended September 30, 2009** | **Nine Months Ended September 30, 2009** |
| Interest rate swaps | $ 10 | $ — | $ 1 | $ (4) |
| Foreign currency swaps | 5 | 24 | (7) | (22) |
| Interest rate and foreign currency swaps | — | 4 | (4) | (11) |
| Total | $ 15 | $ 28 | $ (10) | $ (37) |

| Instrument / Volume of Activity | Primary Risk | Purpose | Cash Flows | Accounting Policy |
|---|---|---|---|---|
| **Purchased options — $309 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 less than $1 million.

| Instrument / Volume of Activity | Primary Risk | Purpose | Cash Flows | Accounting Policy |
|---|---|---|---|---|
| **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 are reported in operating activities. | Using cash flow hedge accounting, fair values are reported in short-term investments 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.

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.

| Instrument / Volume of Activity | Primary Risk | Purpose | Cash Flows | Accounting Policy |
|---|---|---|---|---|
| **Derivatives Not Designated As Accounting Hedges** | | | | |
| **Futures — $1,207 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 September 30, 2009** | **Nine Months Ended September 30, 2009** |
| Futures | $ (161) | $ (232) |

| Instrument / Volume of Activity | Primary Risk | Purpose | Cash Flows | Accounting Policy |
|---|---|---|---|---|
| **Interest rate swaps — $76 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)**

| | As of September 30, 2009 | Realized Investment (Losses) | |
|---|---|---|---|
| | **Other Long-Term Investments** | **Three Months Ended September 30, 2009** | **Nine Months Ended September 30, 2009** |
| Interest rate swaps | $ 4 | $ — | $ (1) |

| Instrument / Volume of Activity | Primary Risk | Purpose | Cash Flows | Accounting Policy |
|---|---|---|---|---|
| **Written options (GMIB liability) — $1,380 million of maximum potential undiscounted future payments as defined in Note 17**<br><br>**Purchased options (GMIB asset) — $759 million of maximum potential undiscounted future receipts as defined in Note 17** | Equity and interest rate | The Company has written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees 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 guaranteed minimum income benefits (income) expense. |

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

| | As of September 30, 2009 | | Guaranteed Minimum Income Benefits (Income) Expense | |
|---|---|---|---|---|
| **Instrument** | **Other Assets** | **Accounts Payable, Accrued Expenses and Other Liabilities** | **Three Months Ended September 30, 2009** | **Nine Months Ended September 30, 2009** |
| Written options (GMIB liability) | $ — | $ 1,126 | $ (46) | $ (478) |
| Purchased options (GMIB asset) | 614 | — | 27 | 263 |
| Total | $ 614 | $ 1,126 | $ (19) | $ (215) |

## 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 where 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 a reinsurance recoverable of $1.8 billion as of September 30, 2009, and $1.9 billion as of December 31, 2008 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 and mortgage loans equal to or greater than 100% of the reinsured liabilities. These fixed maturities and mortgage loans are held in a trust established for the benefit of the Company. As of September 30, 2009, the trust was adequately funded and S&P had assigned this reinsurer a rating of AA-.

***Individual life and annuity reinsurance.*** The Company had reinsurance recoverables totaling $4.5 billion as of September 30, 2009 and $4.6 billion as of December 31, 2008 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. Effective December 31, 2007, a substantial portion of the reinsurance recoverables are secured by investments held in a trust established for the benefit of the Company. At September 30, 2009, the trust assets secured approximately 90% of the reinsurance recoverables. S&P has assigned The Lincoln National Life Insurance Company a rating of AA- and Lincoln Life & Annuity of New York a rating of AA.

### 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 $324 million as of September 30, 2009 are expected to be collected from more than 90 reinsurers which have been assigned the following financial strength ratings from S&P:

| Ongoing operations (In millions) | Reinsurance Recoverable | Percent of Total | Percent of Reinsurance Recoverable Protected by Collateral |
|---|---|---|---|
| AA- (Single reinsurer) | $ 47 | 15% | 0% |
| AA- or higher (Other reinsurers) | 32 | 10% | 0% |
| A (Single reinsurer) | 30 | 9% | 0% |
| A+ to A- (Other reinsurers) | 118 | 37% | 3% |
| Unrated (Single reinsurer) | 34 | 10% | 96% |
| Below A- or unrated (Other reinsurers) | 63 | 19% | 25% |
| Total | $ 324 | 100% | 16% |

The collateral protecting the recoverables includes assets held in trust and letters of credit. The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of September 30, 2009, the Company's recoverables related to these segments were net of a reserve of $11 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 8 and 17 for additional discussion of the GMIB assets and liabilities).

The reinsurance recoverables for GMDB, workers' compensation, and personal accident of $122 million as of September 30, 2009 are expected to be collected from more than 100 retrocessionaires which have been assigned the following financial strength ratings from S&P:

| Run-off Reinsurance segment (In millions) | Reinsurance Recoverable | Percent of Total | Percent of Reinsurance Recoverable Protected by Collateral |
|---|---|---|---|
| AA- or higher | $ 34 | 28% | 10% |
| A (Single reinsurer) | 37 | 30% | 100% |
| A- (Single reinsurer) | 19 | 16% | 0% |
| A+ to A- (Other reinsurers) | 17 | 14% | 1% |
| Below A- or unrated | 15 | 12% | 43% |
| | $ 122 | 100% | 38% |

The collateral protecting the recoverables is primarily in the form of letters of credit. The Company reviews its reinsurance arrangements and establishes reserves against the recoverables in the event that recovery is not considered probable. As of September 30, 2009, the Company's recoverables related to this segment were net of a reserve of $11 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 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 September 30, 2009, 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 benefits and expenses were net of reinsurance recoveries, in the following amounts:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | 2009 | 2008 | 2009 | 2008 |
| **Ceded premiums and fees** | | | | |
| Individual life insurance and annuity business sold | $ 49 | $ 51 | $ 150 | $ 165 |
| Other | 56 | 81 | 171 | 216 |
| Total | $ 105 | $ 132 | $ 321 | $ 381 |
| **Reinsurance recoveries** | | | | |
| Individual life insurance and annuity business sold | $ 87 | $ 67 | $ 214 | $ 246 |
| Other | 42 | 70 | 124 | 171 |
| Total | $ 129 | $ 137 | $ 338 | $ 417 |

**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 plans.

On May 8, 2009, the Company announced a freeze of its primary domestic pension plans effective July 1, 2009. A curtailment of benefits occurred as a result of this action since it eliminated the accrual of benefits effective July 1, 2009 for active employees enrolled in the domestic pension plans. Accordingly, the Company recognized an after-tax curtailment gain of $30 million during the second quarter of 2009, which was the remaining unamortized negative prior service cost at May 31, 2009. As a result of the plan freeze, the Company re-measured the benefit obligations of the affected plans effective May 31, 2009, causing a reduction in the pension obligation of $47 million in the second quarter of 2009. The reduction primarily reflects an increase in the discount rates used to re-measure the pension plan obligations from 6.25% at December 31, 2008 to 6.5% at May 31, 2009 reflecting the change in market interest rates. Significant changes from the Company's disclosures at December 31, 2008 as a result of the decision to freeze the domestic pension plans are as follows:

- The Company's postretirement benefit liability adjustment increased by $27 million pre-tax ($17 million after-tax) for the nine months ended September 30, 2009, resulting in a decrease to accumulated other comprehensive income. The increase to the liability was primarily due to the effect of the curtailment, partially offset by net amortization of actuarial losses.

- As a result of the curtailment discussed above, there will be no pre-tax amortization of negative prior service costs after June 30, 2009. The Company previously disclosed that it expected to record amortization of negative prior service costs of $11 million pre-tax in 2009. The Company had been amortizing negative prior service costs related to previous plan amendments over a 6-year period.

- The Company now expects estimated amortization of actuarial losses for the pension plans to be approximately $34 million pre-tax for the full year 2009, compared with the previous estimate of $54 million. The decline primarily reflects two factors:

    1) The weighted average amortization period for the frozen plans is now based on the average expected remaining life of plan participants, which is approximately 31 years. This compares with the Company's previous amortization period of six years, which reflected the expected remaining future service of active employees. This change in amortization period occurred after the plan freeze because the workforce is considered inactive for pension accounting purposes as these employees will no longer earn pension benefits.

    2) The increase in the discount rate lowered the net actuarial loss to be amortized.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Service cost | $ 1 | $ 19 | $ 43 | $ 56 |
| Interest cost | 64 | 60 | 187 | 181 |
| Expected long-term return on plan assets | (60) | (58) | (180) | (175) |
| Amortization of: | | | | |
| Net loss from past experience | 3 | 15 | 30 | 43 |
| Prior service cost | — | (2) | (4) | (8) |
| Net pension cost | $ 8 | $ 34 | $ 76 | $ 97 |

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. The Internal Revenue Service recently issued regulations providing relief in measuring pension plan funding obligations for 2009. As a result, only approximately $90 million of the Company's $354 million in domestic pension plan contributions during the nine months ended September 30, 2009 were necessary to meet minimum funding requirements and the remaining contributions were voluntary. Although not required, the Company may make additional voluntary contributions of approximately $55 million during the remainder of 2009.

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

| *(In millions)* | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Service cost | $ 1 | $ — | $ 1 | $ 1 |
| Interest cost | 6 | 6 | 18 | 18 |
| Expected long-term return on plan assets | — | — | (1) | (1) |
| Amortization of: | | | | |
| Net gain from past experience | (1) | (2) | (3) | (6) |
| Prior service cost | (5) | (5) | (14) | (13) |
| Net other postretirement benefit cost | $ 1 | $ (1) | $ 1 | $ (1) |

**Note 13 — Debt**

| *(In millions)* | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Short-term:** | | |
| Commercial paper | $ 100 | $ 299 |
| Current maturities of long-term debt | 4 | 2 |
| Total short-term debt | $ 104 | $ 301 |
| **Long-term:** | | |
| Uncollateralized debt: | | |
| 7% Notes due 2011 | $ 222 | $ 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 | — |
| 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 | 10 | 14 |
| Total long-term debt | $ 2,435 | $ 2,090 |

Under a universal shelf registration statement filed with the Securities and Exchange Commission, the Company issued $350 million of 8.5% Notes on May 4, 2009 ($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 10 for further information. Interest is payable on May 1 and November 1 of each year beginning November 1, 2009. These Notes will mature on May 1, 2019.

On March 4, 2008, the Company issued $300 million of 6.35% Notes (with an effective interest rate of 6.68% per year). Interest is payable on March 15 and September 15 of each year beginning September 15, 2008. These Notes will mature on March 15, 2018.

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 50 basis points (8.50% Notes due 2019) or 40 basis points (6.35% Notes due 2018).

On March 14, 2008, the Company entered into a new commercial paper program ("the Program"). Under the Program, the Company is authorized to sell from time to time short-term unsecured commercial paper notes up to a maximum of $500 million. The proceeds are used for general corporate purposes, including working capital, capital expenditures, acquisitions and share repurchases. The Company uses the credit facility entered into in June 2007, as back-up liquidity to support the outstanding commercial paper. If at any time funds are not available on favorable terms under the Program, the Company may use its credit agreement for funding. In October 2008, the Company added an additional dealer to its Program. As of September 30, 2009, the Company had $100 million in commercial paper outstanding at a weighted average interest rate of 0.53% and remaining maturities ranging from five to 55 days.

**Note 14 — Accumulated Other Comprehensive Loss**

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

| *(In millions)* | **Pre-Tax** | **Tax (Expense) Benefit** | **After-Tax** |
|---|---|---|---|
| **Three Months Ended September 30, 2009** | | | |
| **Net unrealized appreciation, securities:** | | | |
| Net unrealized appreciation on securities arising during the period | $ 479 | $ (168) | $ 311 |
| Reclassification adjustment for (gains) included in shareholders' net income | (18) | 6 | (12) |
| Net unrealized appreciation, securities | $ 461 | $ (162) | $ 299 |
| **Net unrealized depreciation, derivatives** | $ (9) | $ 3 | $ (6) |
| **Net translation of foreign currencies** | $ 46 | $ (17) | $ 29 |
| **Postretirement benefits liability adjustment:** | | | |
| Reclassification adjustment for amortization of net losses from past experience and prior service costs | $ (3) | $ 2 | $ (1) |
| Net postretirement benefits liability adjustment | $ (3) | $ 2 | $ (1) |
| **Three Months Ended September 30, 2008** | | | |
| **Net unrealized depreciation, securities:** | | | |
| Net unrealized depreciation on securities arising during the period | $ (290) | $ 104 | $ (186) |
| Reclassification adjustment for losses included in shareholders' net income | 87 | (32) | 55 |
| Net unrealized depreciation, securities | $ (203) | $ 72 | $ (131) |
| **Net unrealized appreciation, derivatives** | $ 23 | $ (9) | $ 14 |
| **Net translation of foreign currencies** | $ (85) | $ 29 | $ (56) |
| **Postretirement benefits liability adjustment:** | | | |
| Reclassification adjustment for amortization of net losses from past experience and prior service costs | $ 6 | $ (3) | $ 3 |
| Net postretirement benefits liability adjustment | $ 6 | $ (3) | $ 3 |

| *(In millions)* | Pre-Tax | Tax (Expense) Benefit | After-Tax |
|---|---|---|---|
| **Nine Months Ended September 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 | 867 | (300) | 567 |
| Reclassification adjustment for (gains) included in shareholders' net income | (1) | (2) | (3) |
| Net unrealized appreciation, securities | $ 839 | $ (293) | $ 546 |
| **Net unrealized depreciation, derivatives** | $ (22) | $ 8 | $ (14) |
| **Net translation of foreign currencies** | $ 68 | $ (25) | $ 43 |
| **Postretirement benefits liability adjustment:** | | | |
| Reclassification adjustment for amortization of net losses from past experience and prior service costs | $ 9 | $ (2) | $ 7 |
| Curtailment gain | (46) | 16 | (30) |
| Reclassification adjustment included in shareholders' net income | (37) | 14 | (23) |
| Net change due to valuation update | 10 | (4) | 6 |
| Net postretirement benefits liability adjustment | $ (27) | $ 10 | $ (17) |
| **Nine Months Ended September 30, 2008** | | | |
| **Net unrealized depreciation, securities:** | | | |
| Net unrealized depreciation on securities arising during the year | $ (504) | $ 177 | $ (327) |
| Reclassification adjustment for losses included in shareholders' net income | 127 | (45) | 82 |
| Net unrealized depreciation, securities | $ (377) | $ 132 | $ (245) |
| **Net unrealized appreciation, derivatives** | $ 5 | $ (2) | $ 3 |
| **Net translation of foreign currencies** | $ (119) | $ 40 | $ (79) |
| **Postretirement benefits liability adjustment:** | | | |
| Reclassification adjustment for amortization of net losses from past experience and prior service costs | $ 16 | $ (6) | $ 10 |
| Net change due to valuation update | 9 | (3) | 6 |
| Net postretirement benefits liability adjustment | $ 25 | $ (9) | $ 16 |

**Note 15 — Income Taxes**

The Company has historically accrued U.S. income taxes on the undistributed earnings of foreign subsidiaries. In 2009, the Company determined that the prospective earnings of its South Korean operation are to be permanently invested overseas. Income taxes for this operation will therefore be accrued at the tax rate of the foreign jurisdiction. As a result, shareholders' net income increased for the nine months ended September 30, 2009 by $24 million, which included $22 million representing the unrecognized deferred tax liabilities attributable to its investment in the South Korean subsidiary that are considered permanent in nature. Management is currently assessing whether the undistributed earnings of certain other foreign operations will be permanently invested overseas.

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).

Gross unrecognized tax benefits declined for the nine months ended September 30, 2009 by $6 million. This decline was primarily due to completion of the IRS examination noted above which increased shareholders' net income by $8 million, partially offset by non-audit related changes in net unrecognized tax benefits which decreased shareholder net income by $4 million.

Over the next twelve months, the Company has determined it 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 change in the level of valuation allowances recorded against deferred tax benefits of the reinsurance operations and certain unrealized investment losses within the next twelve months. The Company, however, is currently unable to reasonably estimate the potential impact of such changes.

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, unfavorable resolution of this litigation would result in a charge to shareholder's net income of up to $15 million, representing net interest expense on the cumulative incremental tax for all affected years. In addition, there remain two unresolved issues from the IRS examination of the Company's 2005 and 2006 consolidated federal income tax returns. The Company initiated a regulatory appeal of these matters on March 31, 2009 by filing a formal protest of the proposed adjustments. One of these unresolved issues is the same matter which remains in dispute from the prior IRS examination.

The Company continues to evaluate income tax specific provisions that were included in the 2010 federal budget proposal, particularly those related to the U.S. taxation of foreign operations. Also, certain of the healthcare reform proposals under consideration by Congress include provisions which, if enacted as currently proposed, could increase the Company's effective tax rate.

**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 subsequent to implementing the FASB's guidance for noncontrolling interests, is defined as shareholders' income (loss) from continuing operations excluding after-tax realized investment gains and losses.

Summarized segment financial information was as follows:

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| **Premiums and fees, Mail order pharmacy revenues and Other revenues** | | | | |
| Health Care | $ 3,194 | $ 3,357 | $ 9,723 | $ 9,841 |
| Disability and Life | 684 | 656 | 2,074 | 1,986 |
| International | 486 | 476 | 1,392 | 1,434 |
| Run-off Reinsurance | (149) | 81 | (211) | 152 |
| Other Operations | 42 | 47 | 132 | 138 |
| Corporate | (17) | (14) | (44) | (41) |
| Total | $ 4,240 | $ 4,603 | $ 13,066 | $ 13,510 |
| **Shareholders' income from continuing operations** | | | | |
| Health Care | $ 200 | $ 187 | $ 549 | $ 482 |
| Disability and Life | 64 | 70 | 220 | 211 |
| International | 38 | 44 | 144 | 144 |
| Run-off Reinsurance | 30 | (105) | 116 | (252) |
| Other Operations | 23 | 20 | 63 | 64 |
| Corporate | (35) | (31) | (97) | (133) |
| Segment Earnings | 320 | 185 | 995 | 516 |
| Realized investment gains (losses), net of taxes | 9 | (15) | (24) | (18) |
| Shareholders' income from continuing operations | $ 329 | $ 170 | $ 971 | $ 498 |

## 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 September 30, 2009, employers maintained assets that exceeded the benefit obligations. Benefit obligations under these arrangements were $1.8 billion as of September 30, 2009. 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 September 30, 2009. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy. See Note 8 for further information on the fair value hierarchy.

### 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. Assumptions were updated beginning at January 1, 2008 to reflect requirements for fair value measurements. See Note 8 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 guarantees related to minimum income benefits. 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 (2009 through 2014); and
- all underlying mutual fund investment values remained at the September 30, 2009 value of $1.3 billion with no future returns.

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 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 $239 million as of September 30, 2009 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 2010 through 2017. The Company's indemnification obligations would require payment to lenders for any 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 September 30, 2009.

As of September 30, 2009, 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 $8 million as of September 30, 2009.

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 September 30, 2009, 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 $24 million.

The Company had indemnification obligations as of September 30, 2009 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 September 30, 2009.

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 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 in its various forms could have an adverse effect on the Company's health care operations if it inhibits the Company's ability to respond to market demands 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 (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 or "AWP" 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 29% of the segment's revenues for the third quarter of 2009 and 28% of the segment's revenues for the nine months ended September 30, 2009. South Korea generated 37% of the segment's earnings for the third quarter of 2009 and 43% of the segment's earnings for the nine months ended September 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.

**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 five of the six counts of the complaint with prejudice. 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 on April 17, 2009. CIGNA denies the allegations and will continue to vigorously defend itself.

CIGNA has received insurance recoveries related to this litigation. In 2008, the trial court 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 has 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, 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 have filed an appeal. 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, now 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.

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. The court stayed implementation of the decision until the parties' appeals have been exhausted. Both parties appealed the court's decisions. 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. On October 6, 2009, the Second Circuit Court of Appeals issued a decision affirming the District Court's judgment and order on all issues. On October 26, 2009 the Company moved the Second Circuit Court of Appeals to continue to stay the implementation of the decision citing its intention to seek to appeal to the United States Supreme Court. The Company will continue to vigorously defend itself in this case.

***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 Texas Attorney General and the Departments of Insurance in Illinois, Florida, Vermont, Georgia, Pennsylvania, Connecticut and Alaska and will be responding to a letter from the Illinois Attorney General received on October 9, 2009.

The Company was named as a defendant in seven putative nationwide class actions asserting that due to the use of data from Ingenix, Inc., the Company improperly underpaid claims, an industry-wide issue. Two actions were brought on behalf of members, (*Franco v. CIGNA Corp. et al.,* and *Chazen v. CIGNA Corp. 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.* and *Pain Management and Surgery Center of Southeast Indiana v. CGLIC et al.* and *North Peninsula Surgical Center v. Connecticut General Life Insurance Co. et al.*). Six of the seven matters have been 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. Discovery is ongoing and class certification is scheduled to be litigated in March and April of 2010. The one remaining class action that has not yet been consolidated in the *Franco* case is *North Peninsula Surgical Center* filed on July 6, 2009, in the United States District Court for the Central District of California, asserting claims under ERISA, the Sherman Antitrust Act and state unfair competition law.

On June 9, 2009, CIGNA filed motions in the United States District Court for the Southern District of Florida to enforce the Managed Care MDL settlement by enjoining the RICO and antitrust causes of action asserted by the provider plaintiffs on the ground that they arose prior to and were released in the April, 2004 settlement. The motions are now fully briefed and pending.

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.

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

**INDEX**



**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 2009"). 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 82. 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 September 30, 2009, compared with December 31, 2008, and its results of operations for the third quarter of 2009 and nine months ended September 30, 2009 compared with the same periods last year. This discussion should be read in conjunction with MD&A included in the Company's 2008 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 and restatements have been made to prior period amounts to conform to the current presentation. In addition, certain amounts have been restated as a result of the adoption of new accounting pronouncements. See Note 2 to the Consolidated Financial Statements for additional information.

**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 life, accident and supplemental health 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.

***Ongoing Operations***

The Company’s ability to increase revenue, shareholders’ net income and operating cash flow from ongoing operations is directly related to progress on the execution of 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;
- effectively manage other operating expenses; and
- effectively deploy capital.

***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), 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 the retrocessionaires and establishes 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, including efforts to reform the U.S. health care system;
- interest rates, equity market returns, foreign currency fluctuations and credit market volatility, including the availability and cost of credit in the future; and
- federal and state regulation.

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 these plans and to appropriately respond to emerging economic and company-specific trends.

The Company seeks to improve the performance of and profitably grow its ongoing businesses and manage the risks associated with the run-off reinsurance operations.

***Acquisition of Great-West Healthcare***

On April 1, 2008, the Company acquired the Healthcare division of Great-West Life and Annuity, Inc. ("Great-West Healthcare" or the "acquired business") through 100% indemnity reinsurance agreements and the acquisition of certain affiliates and other assets and liabilities of Great-West Healthcare. The purchase price was approximately $1.5 billion and consisted of a payment to the seller of approximately $1.4 billion for the net assets acquired and the assumption of net liabilities under the reinsurance agreement of approximately $0.1 billion. Great-West Healthcare primarily sells medical plans on a self-funded basis with stop loss coverage to select and regional employer groups. Great-West Healthcare's offerings also include the following specialty products: stop loss, life, disability, medical, dental, vision, prescription drug coverage, and accidental death and dismemberment insurance. The acquisition, which was accounted for as a purchase, was financed through a combination of cash and the issuance of both short and long-term debt.

See Note 3 to the Consolidated Financial Statements for additional information.

***Initiatives to Lower Operating Expenses***

During 2009, the Company continued its previously announced comprehensive review to reduce the operating expenses of its ongoing businesses. As a result, the Company recognized severance related charges in other operating expenses as follows:

- during the third quarter of 2009, a charge of $10 million pre-tax ($7 million after-tax), for severance resulting from reductions of approximately 230 positions in its workforce; and

- during the second quarter of 2009, a charge of $14 million pre-tax ($9 million after-tax), for severance resulting from reductions of approximately 480 positions in its workforce.

Substantially all of these charges were recorded in the Health Care segment, and are expected to be paid in cash by June 30, 2010. As a result of these actions, the Company expects annualized after-tax savings of approximately $30 million in 2010 and beyond. A portion of the savings is being realized in 2009.

**CONSOLIDATED RESULTS OF OPERATIONS**

**FINANCIAL SUMMARY**

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Premiums and fees | $ 3,985 | $ 4,128 | $ 12,049 | $ 12,197 |
| Net investment income | 263 | 272 | 752 | 802 |
| Mail order pharmacy revenues | 316 | 300 | 944 | 882 |
| Other revenues | (61) | 175 | 73 | 431 |
| Total realized investment gains (losses) | 14 | (23) | (40) | (28) |
| Total revenues | 4,517 | 4,852 | 13,778 | 14,284 |
| Benefits and expenses | 4,030 | 4,619 | 12,388 | 13,564 |
| Income from continuing operations before taxes | 487 | 233 | 1,390 | 720 |
| Income taxes | 157 | 62 | 417 | 220 |
| Income from continuing operations | 330 | 171 | 973 | 500 |
| Shareholders' income from discontinued operations, net of taxes | — | 1 | 1 | 3 |
| Net income | 330 | 172 | 974 | 503 |
| Less: Net income attributable to noncontrolling interest | 1 | 1 | 2 | 2 |
| Shareholders' net income | $ 329 | $ 171 | $ 972 | $ 501 |
| Realized investment gains (losses), net of taxes | $ 9 | $ (15) | $ (24) | $ (18) |

**Special Items**

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, presented below are special items, which management believes are not representative of the underlying results of operations.

**SPECIAL ITEMS**

| *(In millions)* | Pre-Tax Benefit (Charge) | After-Tax Benefit (Charge) |
|---|---|---|
| **Three Months Ended September 30, 2009** | | |
| Cost reduction charge | $ (10) | $ (7) |
| **Nine Months Ended September 30, 2009** | | |
| Curtailment gain | $ 46 | $ 30 |
| Cost reduction charge | (24) | (16) |
| Completion of IRS examination | (9) | 20 |
| Total | $ 13 | $ 34 |
| **2008** | | |
| Charges related to litigation matters | $ (117) | $ (76) |

See Note 12 to the Consolidated Financial Statements for additional information related to the curtailment gain and Note 6 to the Consolidated Financial Statements for further discussion of the cost reduction charge. The other special item for 2009 is a result of the completion of the 2005 and 2006 IRS examinations. See Note 15 to the Consolidated Financial Statements for additional information.

See Note 17 to the Consolidated Financial Statements for further discussion of the litigation charge associated with the pension plan reported in the second quarter of 2008. The remaining special item for 2008 consisted of charges related to certain litigation matters which were reported in the Health Care segment.

**Overview of Consolidated Results of Operations**

***Three Months Ended September 30, 2009 Compared with Three Months Ended September 30, 2008***

Shareholders' income from continuing operations for the three months ended September 30, 2009 increased significantly compared with the three months ended September 30, 2008, as a result of:

- significantly improved results in the Run-off Reinsurance segment resulting from the absence of the third quarter 2008 charge related to the GMDB business and favorable results from the GMIB business in 2009 compared with losses in 2008. See the Run-off Reinsurance section of this MD&A for further discussion;
- increased segment earnings in the Health Care segment; and
- more favorable realized investment results.

***Nine Months Ended September 30, 2009 Compared with Nine Months Ended September 30, 2008***

Shareholders' income from continuing operations was also significantly higher for the nine months ended September 30, 2009 compared with the same period in 2008. In addition to the items cited above related to the three months ended September, the increase for the nine months resulted from:

- the absence of the $131 million charge in the GMIB business resulting from the adoption of guidance for fair value measurements;
- favorable results from the GMIB business in 2009 compared with losses in 2008 (excluding the $131 million charge from adopting the new fair value guidance); and
- the favorable year over year impact of the following special items as noted in the above table:
    - completion of the IRS examination;
    - the curtailment gain on the pension plan, partially offset by cost reduction charges; and
    - litigation charges reported for the nine months ended September 30, 2008. There were no litigation charges reported as special items for the nine months ended September 30, 2009.

Higher segment earnings in the Health Care segment also contributed to the increase in shareholders' income from continuing operations for the nine months ended September 30, 2009. Partially offsetting these favorable effects were higher net realized investment losses in 2009.

See the Segment reporting section of the MD&A for further information regarding segment earnings for each of the Company's segments for both the three months and nine months ended September 30, 2009 compared with the same periods in 2008.

**Outlook for 2009 and 2010**

The Company expects full-year 2009 shareholders' income from continuing operations, excluding realized investment results, the results of the GMIB business, and special items, to be higher than 2008 due to lower losses in the Run-off Reinsurance segment. Overall segment earnings in the ongoing operating segments (Health Care, Disability and Life, and International) are expected to be slightly higher than 2008. Information is not available for management to reasonably estimate the future results of the GMIB business, realized investment gains (losses), or to identify or reasonably estimate special items for the remainder of 2009. Special items for the remainder of 2009 may include potential charges associated with the previously announced cost reduction plan, as well as litigation related items.

The Company expects 2010 shareholders' income from continuing operations, excluding realized investment results, the results of the GMIB business, and special items, to be comparable to or slightly higher than 2009. As discussed above, information is not available for management to reasonably estimate future realized investment gains (losses), the results of the GMIB business or to identify or reasonably estimate future special items in 2010.

The Company's outlook for both 2009 and 2010 reflects management's assumption that equity market conditions and volatility will continue to be stable for the remainder of 2009 and 2010. However, that assumption, together with the other earnings projections used to develop this outlook, is subject to the factors cited in the Cautionary Statement beginning on page 82 and the sensitivities discussed in the Critical Accounting Estimates section of the MD&A beginning on page 51 and in the Company's 2008 Form 10-K. If unfavorable equity market and interest rate movements occur, the Company could experience losses related to investment impairments and the GMIB and GMDB business. 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 revenue decreased by 7% for the three months ended September 30, 2009, compared with the three months ended September 30, 2008 and decreased by 4% for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. Changes in the components of total revenue are described more fully below.

***Premiums and Fees***

Premiums and fees decreased by 3% for the three months ended September 30, 2009, compared with the three months ended September 30, 2008, primarily reflecting membership declines in the Health Care segment largely due to disenrollment. See segment reporting discussions for additional detail and drivers.

Premiums and fees decreased by 1% for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008, reflecting membership declines in Health Care and the unfavorable effect of foreign currency translation in International, offset by the absence of premiums and fees from the acquired business in the first quarter of 2008 since this business was acquired April 1, 2008.

***Net Investment Income***

Net investment income decreased by 3% for the three months ended September 30, 2009, compared with the three months ended September 30, 2008, primarily due to lower income from real estate funds which reflects declines in market values due to the continued weakness in commercial real estate market fundamentals, and lower investment yields driven by declines in short-term interest rates partially offset by higher assets.

For the nine months ended September 30, 2009, net investment income decreased by 6% compared with the nine months ended September 30, 2008 due to lower income from real estate funds and security partnerships and lower investment yields partially offset by higher invested assets.

***Mail Order Pharmacy Revenues***

Mail order pharmacy revenues increased by 5% for the three months ended September 30, 2009, compared with the three months ended September 30, 2008 and increased by 7% for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. These changes were primarily due to rate increases.

***Other Revenues***

Other revenues include the impact of the futures contracts associated with the GMDB equity hedge program. The Company reported losses of $161 million for the three months ended and $232 million for the nine months ended September 30, 2009 associated with the GMDB equity hedge program, compared with gains of $70 million for the three months ended and $118 million for the nine months ended September 30, 2008. The losses in 2009 reflect increases in stock market values, while the gains in 2008 primarily reflect declines in stock market values. Excluding the impact of these futures contracts, other revenues decreased by 5% for the three months ended September 30, 2009, and decreased by 3% for the nine months ended September 30, 2009 compared with the same periods in 2008. These decreases primarily reflect declines in amortization of deferred gains on the sales of the retirement benefits and individual life insurance and annuity businesses.

***Realized Investment Results***

Realized investment results improved significantly for the three months ended September 30, 2009, compared with the three months ended September 30, 2008 primarily due to improving market conditions which resulted in:

- lower impairment losses;
- fair value gains on hybrid securities in 2009 compared with losses in 2008 (changes in fair value for these securities are reported in realized investment results); and
- gains on sales of fixed maturities and equities in 2009 compared with losses on sales in 2008.

These favorable factors were substantially offset by the absence of a gain on sale of a real estate venture in the third quarter of 2008.

Realized investment losses were higher for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008, primarily due to the absence of significant gains on the sales of real estate ventures reported in the first and third quarters of 2008, partially offset by the following items which largely resulted from improving market conditions:

- gains on sales of fixed maturities and equities in 2009 compared with losses in 2008;
- gains on hybrid securities in 2009 compared with losses in 2008; and
- lower impairment losses.

See Note 9 to the Consolidated Financial Statements for additional information.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (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 2008 Form 10-K beginning on page 49 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; and
- investments – fixed maturities.

The Company regularly evaluates items which may impact critical accounting estimates. During the nine months ended September 30, 2009, the Company updated the following critical accounting estimates:

| Balance Sheet Caption / Nature of Critical Accounting Estimate | Assumptions / Approach Used | Effect if Different Assumptions Used |
| --- | --- | --- |
| ***Future policy benefits – Guaranteed minimum death benefits***<br><br>These liabilities are estimates of the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received. The amounts to be paid represent the excess of the guaranteed death benefit over the values of contractholders' accounts. The death benefit coverage in force as of September 30, 2009 (representing the estimated amount payable if all of approximately 600,000 contractholders had submitted death claims as of that date) was approximately $7.7 billion.<br><br>Liabilities for future policy benefits for these contracts were as follows (in millions):<br><br>• **September 30, 2009 – $1,352**<br>• December 31, 2008 – $1,609 | The Company estimates these liabilities based on assumptions for lapse, partial surrender, mortality, 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. The Company monitors actual experience to update these estimates as necessary.<br><br>Lapse refers to the full surrender of an annuity prior to a contractholder's death.<br><br>Partial surrender refers to the fact that most contractholders have the ability to withdraw substantially all of their mutual fund investments while retaining any available death benefit coverage in effect at the time of the withdrawal. Once a partial surrender is made, the liability increases reflecting lower future assumed premiums, a lower likelihood of lapse, and a lower likelihood of account values recovering sufficiently to reduce the death benefit exposure in future periods. These effects are not covered by the Company's GMDB equity hedge program. Market declines could expose the Company to higher amounts of death benefit exposure that can be retained by contractholders subsequent to a significant partial surrender and to higher election rates of future partial surrenders. Thus, if equity markets decline, the Company's liability for partial surrenders increases and there is no corresponding offset from the hedge program. The election rate for expected future partial surrenders is updated quarterly based on emerging experience.<br><br>Interest rates include both (a) the mean investment performance assumption considering the Company's GMDB equity hedge program which reflects the average short-term interest rate to be earned over the life of the program, and (b) the liability discount rate assumption.<br><br>Volatility refers to the degree of variation of future market returns of the underlying mutual fund investments. | Current assumptions used to estimate these liabilities are detailed in Note 7 to the Consolidated Financial Statements. Based on current and historical market, industry and Company-specific experience and management's judgment, the Company believes that it is reasonably likely that the unfavorable changes in the key assumptions and/or conditions described below could occur. If these unfavorable assumption changes were to occur when the recorded reserve is insufficient, the approximate after-tax decrease in shareholders' net income would be as follows:<br><br>• 5% increase in mortality rates — $30 million<br>• 10% decrease in lapse rates — $20 million<br>• 10% increase in election rates for future partial surrenders — $5 million<br>• 50 basis point decrease in interest rates:<br>  • Mean Investment Performance — $30 million<br>  • Discount Rate — $30 million<br>• 10% increase in volatility — $20 million<br><br>As of September 30, 2009, if contractholder account values invested in underlying equity mutual funds declined by 10% due to equity market performance, the after-tax decrease in shareholders' net income resulting from an increase in the provision for partial surrenders would be approximately $20 million.<br><br>As of September 30, 2009, if contractholder account values invested in underlying bond/money market mutual funds declined by 3% due to bond/money market performance, the after-tax decrease in shareholders' net income resulting from an increase in the provision for partial surrenders and an increase in unhedged exposure would be approximately $15 million.<br><br>The amounts would be reflected in the Run-off Reinsurance segment. |

**Balance Sheet Caption / Nature of Critical Accounting Estimate**

***Accounts payable, accrued expenses and other liabilities, and Other assets – Guaranteed minimum income benefits***

These liabilities are estimates of the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received. The amounts to be paid represent the excess of the expected value of the income benefit over the value of the annuitants' accounts at the time of annuitization.

The assets associated with these contracts represent receivables in connection with reinsurance that the Company has purchased from two external reinsurers, which covers 55% of the exposures on these contracts.

As discussed in Note 2 to the Consolidated Financial Statements, the Company implemented new guidance for fair value measurements on January 1, 2008. At adoption, the Company was required to change certain assumptions. As a result, the Company recorded a charge of $131 million after-tax, net of reinsurance ($202 million pre-tax).

Liabilities related to these contracts were as follows (in millions):

- **September 30, 2009 – $1,126**
- December 31, 2008 – $1,757

Estimated amounts receivable related to these contracts from two external reinsurers, were as follows (in millions):

- **September 30, 2009 – $614**
- December 31, 2008 – $953

**Assumptions / Approach Used**

With the adoption of new guidance for fair value measurements, the Company updated assumptions to reflect those that the Company believes a hypothetical market participant would use to determine a current exit price. The Company estimates a hypothetical market participant's view of these assumptions considering market observable information, the actual and expected experience of the Company, and other relevant and available industry sources. Resulting changes in fair value are reported in GMIB expense.

The Company considers the various assumptions used to estimate the fair values of assets and liabilities associated with these contracts in two categories. The first group of assumptions used to estimate these fair values consist of capital market inputs including market returns and discount rates, claim interest rates and market volatility.

Interest rates include (a) market returns, (b) the liability discount rate assumption and (c) the projected interest rates used to calculate the reinsured income benefit at the time of annuitization (claim interest rate).

Volatility refers to the degree of variation of future market returns of the underlying mutual fund investments.

The second group of assumptions consists of future annuitant behavior including annuity election rates, lapse, and mortality, retrocessionnaire credit risk, and a risk and profit charge.

Annuity election rates refer to the proportion of annuitants who elect to receive their income benefit as an annuity.

Lapse refers to the full surrender of an annuity prior to annuitization of the policy.

Credit risk refers to the ability of these reinsurers to pay.

Risk and profit charge refers to the amount that a hypothetical market participant would include in the valuation to cover the uncertainty of outcomes and the desired return on capital.

**Effect if Different Assumptions Used**

Current assumptions used to estimate these liabilities are detailed in Note 8 to the Consolidated Financial Statements. With the adoption of new guidance for fair value measurements, the Company's results of operations are expected to be more volatile in future periods because several assumptions will be based largely on market-observable inputs at the close of each period including interest rates and market implied volatilities.

Based on current and historical market, industry and Company-specific experience and management's judgment, the Company believes that it is reasonably likely that the unfavorable changes in the key assumptions and/or conditions described below could occur. If these unfavorable assumption changes were to occur, the approximate after-tax decrease in shareholders' net income, net of estimated amounts receivable from reinsurers, would be as follows:

- 50 basis point decrease in interest rates (which are aligned with LIBOR) used for projecting market returns and discounting – $15 million
- 50 basis point decrease in interest rates used for projecting claim exposure (7-year Treasury rates) – $30 million
- 20% increase in implied market volatility – $5 million
- 5% decrease in mortality — $1 million
- 10% increase in annuity election rates – $5 million
- 10% decrease in lapse rates – $5 million
- 10% decrease in amounts receivable from reinsurers (credit risk) – $40 million
- 10% increase to the risk and profit charge – $5 million

Market declines which reduce annuitants' account values expose the Company to higher potential claims which results in a larger net liability. If annuitants' account values as of September 30, 2009 declined by 10% due to the performance of the underlying mutual funds, the approximate after-tax decrease in shareholders' net income, net of estimated amounts receivable from reinsurers, would be approximately $30 million.

All of these estimated impacts due to unfavorable changes in assumptions could vary from quarter to quarter depending on actual reserve levels, the actual market conditions or changes in the anticipated view of a hypothetical market participant as of any future valuation date.

The amounts would be reflected in the Run-off Reinsurance segment.

***Investments — Fixed Maturities***. Losses for “other-than-temporary” impairments of fixed maturities must be recognized in shareholders’ net income based on an estimate of fair value or the present value of expected cash flows by management. Determining whether a decline in value is “other-than-temporary” includes an evaluation of the reasons for, the significance of, and the duration of the decrease in value of the security and the Company’s intent to sell or likelihood of a required sale of the security before recovery. For all fixed maturities with cost in excess of their fair value, if this excess was determined to be “other-than-temporary”, shareholders’ net income as of September 30, 2009 would have decreased by $96 million after-tax. See Note 9 to the Consolidated Financial Statements for more information.

**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 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.

### 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;
- 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 cost ratio) in the guaranteed cost business.

***Results of Operations***

**FINANCIAL SUMMARY**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | 2008 |
| Premiums and fees | $ 2,812 | $ 2,991 | $ 8,578 | $ 8,760 |
| Net investment income | 52 | 54 | 132 | 154 |
| Mail order pharmacy revenues | 316 | 300 | 944 | 882 |
| Other revenues | 66 | 66 | 201 | 199 |
| Segment revenues | 3,246 | 3,411 | 9,855 | 9,995 |
| Mail order pharmacy cost of goods sold | 255 | 238 | 762 | 704 |
| Benefits and other expenses | 2,681 | 2,892 | 8,243 | 8,549 |
| Benefits and expenses | 2,936 | 3,130 | 9,005 | 9,253 |
| Income before taxes | 310 | 281 | 850 | 742 |
| Income taxes | 110 | 94 | 301 | 260 |
| Segment earnings | $ 200 | $ 187 | $ 549 | $ 482 |
| Realized investment gains (losses), net of taxes | $ (1) | $ 15 | $ (17) | $ 23 |
| Special items (after-tax) included in segment earnings: | | | | |
| Curtailment gain | $ — | $ — | $ 25 | $ — |
| Cost reduction charge | $ (4) | $ — | $ (12) | $ — |
| Completion of IRS examination | $ — | $ — | $ 1 | $ — |
| Charge related to litigation matters | $ — | $ — | $ — | $ (24) |

Excluding the special items noted in the table above, the Health Care segment's earnings for the three months ended September 30, 2009 were higher than the same period last year, primarily due to:

- lower operating expenses reflecting volume related declines, as well as a favorable impact resulting from the comprehensive review of ongoing expenses, including the impact of pension changes;

- improved specialty earnings; and

- higher net stop loss earnings driven by improved total medical cost management in the acquired business, tempered by revenue pressure in the remaining stop loss business primarily due to disenrollment.

These favorable effects were partially offset by:

- lower membership;

- lower experience-rated earnings reflecting lower underwriting margins; and

- lower guaranteed cost earnings primarily reflecting a higher medical cost ratio in part due to an increase in flu-related and other facility-based claims.

Segment earnings for the nine months ended September 30, 2009, as compared with the nine months ended September 30, 2008, were favorably impacted by the absence of a $7 million after-tax adjustment related to a large experience-rated life and non-medical account in run-out recorded in the first quarter of 2008.

Excluding this item and the special items noted in the table above, segment earnings for the nine months ended September 30, 2009 were higher compared to the nine months ended September 30, 2008 reflecting:

- improved specialty earnings;

- higher stop loss earnings largely benefiting from the acquired business (effective April 1, 2008); and

- higher Medicare risk earnings due in part to higher membership.

These favorable effects were largely offset by:

- lower membership;

- lower investment income, primarily reflecting lower real estate and security partnership income;

- lower guaranteed cost earnings primarily reflecting a higher medical cost ratio in part due to an increase in flu-related and other facility-based claims; and

- lower Medicare Part D earnings reflecting lower margins, as well as a decline in membership.

**Revenues**

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

| (In millions) | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Medical: | | | | |
| Guaranteed cost excluding voluntary / limited benefits(1),(2) | $ 784 | $ 857 | $ 2,367 | $ 2,647 |
| Voluntary / Limited Benefits | 58 | 49 | 176 | 151 |
| Experience-rated(2),(3) | 418 | 512 | 1,276 | 1,499 |
| Stop loss | 312 | 348 | 965 | 859 |
| Dental | 179 | 195 | 550 | 589 |
| Medicare | 152 | 104 | 443 | 300 |
| Medicare Part D | 71 | 63 | 273 | 273 |
| Other (4) | 124 | 127 | 382 | 384 |
| Total medical | 2,098 | 2,255 | 6,432 | 6,702 |
| Life and other non-medical | 46 | 44 | 142 | 138 |
| Total premiums | 2,144 | 2,299 | 6,574 | 6,840 |
| Fees(2),(5) | 668 | 692 | 2,004 | 1,920 |
| Total premiums and fees | $ 2,812 | $ 2,991 | $ 8,578 | $ 8,760 |

(1) *Includes guaranteed cost premiums primarily associated with open access and commercial HMO, 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 $11 million for the three months ended September 30, 2009 and $28 million for the nine months ended September 30, 2009 and $19 million for the three months ended September 30, 2008 and $48 million for the nine months ended September 30, 2008.*

***Premiums and fees*** decreased by 6% for the three months ended September 30, 2009 and decreased by 2% for the nine months ended September 30, 2009, compared with the same periods of 2008. This primarily reflects lower membership largely due to disenrollment.

This impact was partially offset by rate increases, as well as membership growth in the Medicare private fee for services product.

***Net investment income*** decreased by 4% for the three months ended September 30, 2009 and decreased by 14% for the nine months ended September 30, 2009 compared with the same periods of 2008 reflecting lower income from real estate funds and security partnerships partially offset by higher invested assets.

***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.

**Benefits and Expenses**

Health Care segment benefits and expenses consist of the following:

| (In millions) | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Medical claims expense | $ 1,698 | 1,819 | $ 5,226 | 5,480 |
| Other benefit expenses | 48 | 49 | 134 | 151 |
| Mail order pharmacy cost of goods sold | 255 | 238 | 762 | 704 |
| Other operating expenses | 935 | 1,024 | 2,883 | 2,918 |
| Total benefits and expenses | $ 2,936 | $ 3,130 | $ 9,005 | $ 9,253 |

***Medical claims expense*** decreased by 7% for the three months ended September 30, 2009 and decreased by 5% for the nine months ended September 30, 2009 compared with the same periods in 2008 largely due to lower membership, particularly in the experience-rated and guaranteed cost businesses; partially offset by increases in medical expenses related to claim trend and Medicare member driven growth.

***Other operating expenses*** include expenses related to:

- both retail and mail order pharmacy;
- disease management;
- voluntary and limited benefits;
- Medicare claims administration businesses; and
- integration costs associated with the acquired business.

Excluding the items noted above, as well as the special items noted in the Results of Operations table, other operating expenses for the three months ended September 30, 2009 were lower than the same period last year reflecting volume related declines, as well as a favorable impact resulting from the comprehensive review of ongoing expenses, including the impact of pension changes. Operating expenses increased for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008, primarily due to expenses related to the acquired business (effective April 1, 2008), partially offset by the impact of pension changes.

***Other Items Affecting Health Care Results***

**Medical Membership**

The Company'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 September 30 , estimated medical membership was as follows:

| (In thousands) | 2009 | 2008 |
|---|---|---|
| Guaranteed cost excluding voluntary/limited benefits (1) | 762 | 902 |
| Voluntary/limited benefits | 220 | 202 |
| Medicare | 51 | 35 |
| Total guaranteed cost | 1,033 | 1,139 |
| Experience-rated (2) | 764 | 913 |
| Service | 9,307 | 9,848 |
| Total medical membership | 11,104 | 11,900 |

*(1) Includes guaranteed cost members primarily associated with open access and commercial HMO, as well as other risk-related products.*

*(2) Includes minimum premium members, who have a risk profile similar to experience-rated members.*

The net decrease in the Company's medical membership is 7% as of September 30, 2009 when compared with September 30, 2008, primarily driven by disenrollment across all funding arrangements as a result of the current economic environment.

**Operational Improvement Initiatives**

The Company is focused on several initiatives including developing and enhancing a customer focused service model. This effort is expected to require significant investments over the next three to five years. These investments are expected to enable the Company to grow its membership and to improve operational effectiveness and profitability by developing innovative products and services that promote customer engagement at a competitive cost. Executing on these operational improvement initiatives is critical to attaining a leadership position in the health care marketplace.

The operational improvement initiatives currently underway are discussed below.

***Reducing other operating expenses.*** The Company operates in an intensely competitive marketplace and its ability to establish a competitive cost advantage is key to achieving its initiatives. Accordingly, the Company is focused on reducing operating expenses in three key areas primarily to facilitate operating efficiency and responsiveness to customers. These three areas include: customer acquisition, which encompasses spending on sales, the account management process, underwriting and marketing; fulfillment, mainly claims processing and billing; and reducing overhead in various administrative and staffing functions. In connection with these efforts, in the fourth quarter of 2008, the Company reviewed staffing levels and organization and announced a plan to reorganize its business model and supporting areas to more tightly align the ongoing operating segments. As part of this ongoing review of operating expenses, during the third quarter of 2009 the Company identified additional job eliminations, in order to facilitate operating efficiency and meet the challenges and opportunities presented by the current economic environment.

***Maintaining and upgrading information technology systems.*** The Company's current business model and long-term strategy require effective and reliable information technology systems. The Company's current systems architecture will require continuing investment to meet the challenges of increasing customer demands from both our existing and emerging client base to support its business growth and strategies, improve its competitive position and provide appropriate levels of service to customers. The Company is focused on providing these enhanced strategic capabilities in response to increasing customer expectations, while continuing to provide a consistent, high quality customer service experience with respect to the Company's current programs. Accordingly, in 2009, the Company's efforts will be focused primarily on optimizing the technology underlying our claims processing and call servicing capabilities with specific emphasis on reducing handling time and improving customer service. Continued integration of the Company's multiple administrative and customer facing platforms is also required to support the Company's growth strategies, and to ensure reliable, efficient and effective customer service both in today's employer focused model as well as in a customer directed model. The Company's ability to effectively deploy capital to make these investments will influence the timing and the impact these initiatives will have on its operations.

***Profitable sales and customer retention.*** The Company continues to focus on selling profitable new business and retaining current customers by:

- focusing on targeted segments where buyers value our health improvement capabilities;
- providing a diverse product portfolio that meets current market needs as well as emerging consumer-directed trends;
- developing and implementing the systems, information technology and infrastructure to deliver member service that keeps pace with the emerging consumer-directed market trends;
- ensuring competitive provider networks;
- maintaining a strong clinical quality in medical, specialty health care and disability management; and
- increasing specialty penetration.

The Company is also focused on segment and product expansion. With respect to segment expansion, our focus is predominantly in the "Select" (employers with 51-250 employees), and individual segments. As part of its effort to achieve these objectives, the Company completed the acquisition of Great-West Healthcare of Denver, Colorado on April 1, 2008. This acquisition will enable the Company to broaden its distribution reach and health care professional network, particularly in the western regions of the United States, and expand the range of health benefits and product offerings.

The Company has also recently developed new product offerings for its guaranteed cost and experienced-rated portfolios. These offerings will provide our employer clients with lower-cost options for providing medical, pharmacy and dental benefits.

Driving additional cross-selling is also key to our integrated benefits value proposition. We are expanding network access for our dental product and improving network flexibility to ensure better alignment with our customers' needs. Also, with the acquisition of Great-West Healthcare, we will be working in 2009 to transition this book to CIGNA pharmacy and increase pharmacy penetration across the entire book.

***Offering products that meet emerging customer and market trends.*** In order to meet emerging customer and market trends, the Company's suite of products (CIGNATURE®, CareAllies®, and CIGNA Choice Fund®) offers various options to customers and employers and is key to our customer engagement strategy. Offerings include: choice of benefit, participating provider network, funding, medical management, and health advocacy options. Through the CIGNA Choice Fund®, the Company offers a set of customer-directed capabilities that includes options for health reimbursement arrangements and/or health savings accounts and enables customers to make effective health decisions using information tools provided by the Company.

***Underwriting and pricing products effectively.*** One of the Company's key priorities is to achieve strong profitability in a competitive health care market. The Company is focused on effectively managing pricing and underwriting decisions at both the case and overall book of business level, particularly for the guaranteed cost book, as well as its experience-rated, ASO businesses and stop loss coverages.

***Effectively managing medical costs.*** The Company operates under a centralized medical management model, which helps facilitate consistent levels of care for its members and reduces infrastructure expenses.

The Company is focused on continuing to effectively manage medical utilization and unit costs. The Company believes that by increasing the quality of medical care and improving access to care we can drive reductions in total medical cost and better outcomes, resulting in healthier members. To help achieve this, the Company continues to focus on contracting with providers, enhancing clinical activities, as well as engaging our members and clients/employers. In addition, the Company seeks to strengthen its network position in selected markets. In connection with the Great-West Healthcare acquisition in April 2008, the Company has made significant progress converting and integrating these acquired members to its extensive preferred provider network which offers access to a broad range of utilization review and case management services at a reduced medical cost. The integration is progressing well, with savings from medical cost management initiatives (including contract integration and enhancement of clinical activities) projected to be on target, with most to be achieved by the end of 2009.

***Delivering quality service to customers and health care professionals.*** The Company is focused on delivering competitive service to customers, health care professionals and clients. The Company believes that further enhancing quality service can improve customer retention and, when combined with useful health information and tools, can help motivate customers to become more engaged in their personal health, and will help promote healthy outcomes thereby removing cost from the system. The evolution of the consumer-driven health care market is driving increased product and service complexity and is raising customers' expectations with respect to service levels, which is expected to require significant investment, management attention and heightened interaction with customers.

The Company is focused on the development and enhancement of a service model that is capable of meeting the challenges brought on by the increasing product and service complexity and the heightened expectations of health care customers. The Company continues to make significant investments in the development and implementation of systems and technology to improve the provider service experience for customers and health care professionals, enhance its capabilities and improve its competitive position.

The Company's health advocacy capabilities support its recent membership efforts. The Company must be able to deliver those capabilities efficiently and cost-effectively. The Company continues to identify additional cost savings to further improve its competitive cost position. Savings generated from the Company's operating efficiency initiatives provide capital to make investments that will enhance its capabilities in the areas of customer engagement, particularly product development, the delivery of customer service and health advocacy and related technology.

## 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**

| (In millions) | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Premiums and fees | $ 654 | $ 627 | $ 1,987 | $ 1,896 |
| Net investment income | 62 | 65 | 180 | 193 |
| Other revenues | 30 | 29 | 87 | 90 |
| Segment revenues | 746 | 721 | 2,254 | 2,179 |
| Benefits and expenses | 656 | 624 | 1,952 | 1,884 |
| Income before taxes | 90 | 97 | 302 | 295 |
| Income taxes | 26 | 27 | 82 | 84 |
| Segment earnings | $ 64 | $ 70 | $ 220 | $ 211 |
| Realized investment gains (losses), net of taxes | $ 5 | $ (17) | $ (2) | $ (23) |
| Special items (after-tax) included in segment earnings: | | | | |
| Curtailment gain | $ — | $ — | $ 4 | $ — |
| Cost reduction charge | $ (1) | $ — | $ (2) | $ — |
| Completion of IRS examination | $ — | $ — | $ 5 | $ — |

Segment earnings for the three months ended September 30, 2009 include a special item for a cost reduction charge. Excluding the special item, segment results reflect lower earnings from the disability business primarily resulting from higher expenses including an expense charge related to a settlement, less favorable life and specialty claims experience and lower net investment income, partially offset by favorable accident claims experience. Segment earnings continue to reflect competitively strong margins driven by the sustained value the Company delivers to its customers from its disability management programs.

Segment earnings for the nine months ended September 30, 2009 include the favorable after-tax impact of reserve studies of $34 million of which $20 million reflects strong results from the Company's disability management programs over the past several years, an expense charge and special items for the pension curtailment gain, cost reduction charge and completion of an IRS examination. Segment earnings for the nine months ended September 30, 2008 include the favorable after-tax impact of reserve studies of $16 million. Excluding the impact of the reserve studies, an expense charge and special items, segment earnings decreased due to lower investment income and less favorable life, specialty and disability claims experience, partially offset by favorable accident claims experience.

**Revenues**

***Premiums and fees*** increased 4% for the three months ended September 30, 2009 and 5% for the nine months ended September 30, 2009 compared with the same periods of 2008 reflecting new sales growth and solid customer retention in the disability and life lines of business, partially offset by less favorable customer retention in the specialty line of business.

***Net investment income*** decreased 5% for the three months ended September 30, 2009 and 7% for the nine months ended September 30, 2009 reflecting lower yields and lower real estate and security partnership income.

**Benefits and Expenses**

Benefits and expenses for the three months ended September 30, 2009 include the favorable pre-tax impact of reserve studies of $7 million, an expense charge and the special item for cost reduction charge. Benefits and expenses for the three months ended September 30, 2008 include the favorable pre-tax impact of reserve studies of $7 million. Excluding the impact of the reserve studies, an expense charge and the special item for cost reduction charge, benefits and expenses increased 4%, primarily reflecting disability and life business growth and less favorable life, specialty and disability claims experience, partially offset by more favorable accident claims experience. The less favorable life claims experience was driven by the higher average size of death claims. The less favorable disability claims experience was driven by higher new claims partially offset by higher resolutions. The more favorable accident claim experience was driven by lower claim counts. The overall flat expense ratio reflects effective operating expense management offset by investments in the claim operations and strategic information technology initiatives.

Benefits and expenses for the nine months ended September 30, 2009 include the net favorable pre-tax impact of reserve studies of $49 million, an expense charge and special items. Benefits and expenses for the nine months ended September 30, 2008 include the favorable pre-tax impact of reserve studies of $23 million. Excluding the impact of the reserve studies, an expense charge and special items, benefits and expenses increased 5%, primarily reflecting disability and life business growth and less favorable life, specialty and disability claims experience partially offset by more favorable accident claims experience. The less favorable life claims experience was driven by the higher average size of death claims. The less favorable disability claims experience was driven by higher new claims partially offset by higher resolutions. The more favorable accident claim experience was driven by lower claim counts. The overall flat expense ratio reflects effective operating expense management offset by investments in the claim operations and strategic information technology initiatives.

## International Segment

### *Segment Description*

The International segment includes life, accident and supplemental health 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); and
- operating expense as a percentage of earned premium (expense ratio).

### *Results of Operations*

**FINANCIAL SUMMARY**

| *(In millions)* | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Premiums and fees | $ 482 | $ 471 | $ 1,378 | $ 1,422 |
| Net investment income | 17 | 23 | 50 | 62 |
| Other revenues | 4 | 5 | 14 | 12 |
| Segment revenues | 503 | 499 | 1,442 | 1,496 |
| Benefits and expenses | 447 | 428 | 1,251 | 1,269 |
| Income before taxes | 56 | 71 | 191 | 227 |
| Income taxes | 17 | 26 | 45 | 81 |
| Income attributable to noncontrolling interest | 1 | 1 | 2 | 2 |
| Segment earnings | $ 38 | $ 44 | $ 144 | $ 144 |
| Impact of foreign currency movements included in segment earnings | $ (2) | $ (4) | $ (18) | $ (5) |
| Realized investment gains (losses), net of taxes | $ — | $ (2) | $ 1 | $ (2) |
| Special items (after-tax) included in segment earnings: | | | | |
| Cost reduction charge | $ (2) | $ — | $ (2) | $ — |
| Curtailment gain | $ — | $ — | $ 1 | $ — |
| Completion of IRS examination | $ — | $ — | $ 1 | $ — |

During the second quarter of 2009, the Company's International Segment implemented a capital management strategy to permanently invest the earnings of its South Korean operation overseas. Income taxes for this operation will therefore be recorded at the tax rate of the foreign jurisdiction. Segment earnings reflect favorable tax adjustments of $14 million for the implementation of this strategy for the nine months ended September 30, 2009. In addition to the implementation effect, segment earnings also reflect the ongoing impact of the lower tax rate on the permanently invested earnings of $3 million for the three months ended September 30, 2009 and $8 million for the nine months ended September 30, 2009. Excluding the impact of the Korean tax adjustments, foreign currency movements and the special items noted above, International segment earnings decreased 11% for the three months ended September 30, 2009 and 3% for the nine months ended September 30, 2009, compared with the same periods last year. The decreases for the three and nine months ended September 30, 2009 were primarily driven by unfavorable claims experience in the life, accident and supplemental health insurance business and the expatriate employee benefits business. The unfavorable effects were partially offset by strong revenue growth and competitively strong margins in both businesses. The impact of foreign currency movements is 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.*** Premiums and fees increased 2% for the three months ended September 30, 2009 and decreased 3% for the nine months ended September 30, 2009, compared with the same periods last year. The increase for the three months ended September 30, 2009 was primarily attributable to new sales growth in the life, accident and supplemental health insurance operations, particularly in South Korea, and membership growth in the expatriate employee benefits business partially offset by unfavorable foreign currency movements. The decrease for the nine months ended September 30, 2009 was primarily attributable to unfavorable currency movements partially offset by new sales growth in the life, accident and supplemental health insurance operations, particularly in South Korea, and membership growth in the expatriate employee benefits business.

Premiums and fees, excluding the effect of foreign currency movements, were $517 million for the three months ended September 30, 2009 and $1,572 million for the nine months ended September 30, 2009, compared with $496 million for the three months ended September 30, 2008 and $1,442 million for the nine months ended September 30, 2008.

**Benefits and Expenses**

Benefits and expenses increased 4% for the three months ended September 30, 2009 and decreased 1% for the nine months ended September 30, 2009, compared with the same periods last year. The increase in the third quarter of 2009 was primarily due to business growth, higher loss ratios and increased amortization of deferred acquisition costs partially offset by foreign currency movements. The decrease for the nine months ended September 30, 2009 was primarily due to foreign currency movements partially offset by business growth, higher loss ratios and increased amortization of acquisition costs.

Loss ratios increased for the three months and for the nine months ended September 30, 2009, in the life accident and supplemental health and the expatriate benefits businesses due to unfavorable claims experience.

Policy acquisition expenses were level for the three months ended September 30, 2009 in the life, accident and supplemental health business, reflecting business growth and higher amortization of deferred acquisition costs associated with lower persistency, offset by foreign currency movements. Policy acquisition expenses decreased for the nine months ended September 30, 2009 in the life, accident and supplemental health business due to foreign currency movements, partially offset by business growth and higher amortization of deferred acquisition costs associated with lower persistency.

Expense ratios decreased for the three months and for the nine months ended September 30, 2009, reflecting effective expense management.

***Other Items Affecting International Results***

For the Company's International segment, South Korea is the single largest geographic market. South Korea generated 29% of the segment's revenues for the third quarter of 2009 and 28% of the segment's revenues for the nine months ended September 30, 2009. South Korea generated 37% of the segment's earnings for the third quarter of 2009 and 43% of the segment's earnings for the nine months ended September 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.

**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 required the Company to make critical accounting estimates. The Company describes the assumptions used to develop the reserves for GMDB in Note 7 to the Consolidated Financial Statements and for the assets and liabilities associated with GMIB in Note 8 to the Consolidated Financial Statements.

***Results of Operations***

**FINANCIAL SUMMARY**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Premiums and fees | $ 11 | $ 10 | $ 23 | $ 35 |
| Net investment income | 28 | 25 | 86 | 70 |
| Other revenues | (160) | 71 | (234) | 117 |
| Segment revenues | (121) | 106 | (125) | 222 |
| Benefits and expenses | (159) | 286 | (295) | 638 |
| Income (loss) before income tax benefits | 38 | (180) | 170 | (416) |
| Income taxes (benefits) | 8 | (75) | 54 | (164) |
| Segment earnings (loss) | $ 30 | $ (105) | $ 116 | $ (252) |
| Realized investment gains (losses), net of taxes | $ 4 | $ (3) | $ (2) | $ (5) |
| Results of GMIB business (after-tax) included in segment earnings (loss): | | | | |
| Charge on adoption of fair value measurements for GMIB contracts | $ — | $ — | $ — | $ (131) |
| Results of GMIB business excluding charge on adoption | $ 16 | $ (61) | $ 149 | $ (91) |

Segment results for the three months ended September 30, 2009 improved from the same period last year due to favorable results for the GMIB business (presented in the table above) and the absence of a charge for reserve strengthening in the GMDB business in 2009, both resulting from improved equity market conditions in 2009. The three months ended September 30, 2008 included reserve strengthening for the GMDB business of $72 million after-tax. No reserve strengthening has been required for GMDB since the first quarter of 2009, primarily due to the stabilization and recovery of equity markets. Segment results include the favorable after-tax impact of reserve studies for the workers compensation and personal accident businesses of $14 million for the three months ended September 30, 2009 and $25 million for the three months ended September 30, 2008.

Segment results for the nine months ended September 30, 2009 improved significantly from the same period last year due to favorable results for the GMIB business (presented in the table above), and a smaller amount of reserve strengthening for the GMDB business in 2009 ($47 million after-tax for the nine months ended September 30, 2009, compared to $72 million after-tax for the nine months ended September 30, 2008). Segment results include the favorable after-tax impact of reserve studies for the workers compensation and personal accident businesses of $16 million for the nine months ended September 30, 2009 and $25 million for the same period of 2008.

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 losses from futures contracts used in the GMDB equity hedge program (see Note 7 to the Consolidated Financial Statements) of $161 million for the three months ended and $232 million for the nine months ended September 30, 2009, compared with pre-tax gains of $70 million for the three months ended and $118 million for the nine months ended September 30, 2008. 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 notional amount of the futures contract positions held by the Company at September 30, 2009 related to this program was $1.2 billion.

**Benefits and Expenses**

Benefits and expenses were comprised of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| GMIB (income) expense | $ (19) | $ 98 | **$** (215) | $ 353 |
| Other benefits and expenses | (140) | 188 | (80) | 285 |
| Benefits and expenses | $ (159) | $ 286 | **$** (295) | $ 638 |

***GMIB (Income) Expense.*** Under GAAP for fair value measurements, the Company's results of operations are expected to be volatile in future periods because several assumptions will be based largely on market-observable inputs at the close of each reporting period including interest rates (LIBOR swap curve) and market-implied volatilities.

The pre-tax income for GMIB was $19 million for the three months ended September 30, 2009 and was primarily due to the following factors:

- increases in underlying account values in the period, driven by favorable equity market and bond fund returns, resulting in reduced exposures ($50 million); and
- updates to the risk and profit charge estimates ($7 million).

These favorable effects were partially offset by:

- decreases in interest rates ($31 million); and
- other amounts, including experience varying from assumptions, model and in-force updates ($7 million).

For the nine months ended September 30, 2009, the pre-tax income for GMIB was $215 million, and was primarily due to the following factors:

- increases in interest rates ($175 million);
- increases in underlying account values in the period, driven by favorable equity market and bond fund returns, resulting in reduced exposures ($82 million); and
- updates to the risk and profit charge estimates ($25 million).

These favorable effects were partially offset by:

- increases to the annuitization assumption, reflecting higher utilization experience ($21 million);
- updates to the lapse assumption ($14 million); and
- other amounts, including experience varying from assumptions, model and in-force updates ($32 million).

During the three months ended September 30, 2008, the pre-tax expense for GMIB of $98 million was primarily driven by declines in equity markets and bond fund returns. For the nine months ended September 30, 2008, GMIB pre-tax expense of $353 million included a pre-tax charge of $202 million for the adoption of guidance for fair value measurements, which is discussed further in Note 2 to the Consolidated Financial Statements. Excluding this one-time effect of adopting fair value measurements, expense for the nine months ended September 30, 2008 was primarily the result of declines in equity markets and bond fund returns.

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 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 during 2008 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 these unfavorable market conditions persisted for an extended period.

***Other Benefits and Expenses.*** Other benefits and expenses reflected income for the three and nine months ended September 30, 2009, compared to expense during the comparable periods in 2008. These fluctuations reflect the impact of significant improvements in the equity markets on guaranteed minimum death benefit contracts, compared with equity market declines during 2008. Equity market improvements result in increases in the underlying annuity account values, which decreases the exposure under the contracts. Equity market declines result in decreases in the underlying annuity account values, which increases the exposure under the contracts. These changes in benefits expense are partially offset by futures gains and losses, discussed in Other Revenues above.

The Company recorded additional other benefits and expenses of $73 million ($47 million after-tax) primarily to strengthen GMDB reserves during the first quarter of 2009. These amounts were primarily due to:

- adverse impacts of overall market declines of $50 million ($32 million after-tax). This includes (a) $39 million ($25 million after-tax) primarily related to the provision for future partial surrenders and (b) $11 million ($7 million after-tax) related to declines in the values of contractholders' non-equity investments such as bond funds, neither of which is included in the GMDB equity hedge program;
- adverse volatility-related impacts of $11 million ($7 million after-tax) due to turbulent equity market conditions, including higher than expected claims and the performance of the diverse mix of equity fund investments held by contractholders being different than expected; and
- adverse interest rate impacts of $12 million ($8 million after-tax). Interest rate risk is not covered by the GMDB equity hedge program, and the interest rate returns on the futures contracts were less than the Company's long-term assumption for mean investment performance.

The Company recorded additional other benefits and expenses of $111 million ($72 million after-tax) primarily to strengthen GMDB reserves during the third quarter of 2008. These amounts were primarily due to:

- adverse impacts of overall market declines of $51 million ($33 million after-tax). This includes an increase in the provision for expected future partial surrenders and declines in the values of contractholders' non-equity investments such as bond funds, neither of which is covered by the GMDB equity hedge program;
- adverse volatility-related impacts due to turbulent equity market conditions. Volatility risk is not covered by the GMDB equity hedge program, and equity market volatility in the quarter impacted the effectiveness of the program. In aggregate, these volatility-related impacts totaled $55 million of the charge ($36 million after-tax); and
- adverse interest rate impacts of $5 million ($3 million after-tax). Interest rate risk is not covered by the GMDB equity hedge program, and the interest rate returns on the futures contracts were less than the Company's long-term assumption for mean investment performance.

See Note 7 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 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 September 30, 2009, 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Premiums and fees | $ 26 | $ 29 | $ 83 | $ 84 |
| Net investment income | 104 | 104 | 304 | 313 |
| Other revenues | 16 | 18 | 49 | 54 |
| Segment revenues | 146 | 151 | 436 | 451 |
| Benefits and expenses | 111 | 120 | 353 | 354 |
| Income before taxes | 35 | 31 | 83 | 97 |
| Income taxes | 12 | 11 | 20 | 33 |
| Segment earnings | $ 23 | $ 20 | $ 63 | $ 64 |
| Realized investment gains (losses), net of taxes | $ 1 | $ (8) | $ (4) | $ (11) |
| Special item (after-tax) included in segment earnings: | | | | |
| Completion of IRS examination | $ — | $ — | $ 1 | $ — |

Segment earnings for Other Operations for the three months ended September 30, 2009 increased compared with the same period last year due to higher COLI earnings reflecting increased investment income partially offset by the continued decline in deferred gain amortization associated with sold businesses. For the nine months ended September 30, 2009, earnings declined compared with the same period last year due to the continued decline in deferred gain amortization associated with sold businesses partially offset by increased COLI earnings driven by higher investment income and favorable mortality.

**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.

**FINANCIAL SUMMARY**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Segment loss | $ (35) | $ (31) | $ (97) | $ (133) |
| Special items (after-tax) included in segment loss: | | | | |
| Completion of IRS examination | $ — | $ — | $ 12 | $ — |
| Charges related to litigation matters | $ — | $ — | $ — | $ (52) |

Excluding the special items noted above (see Consolidated Results of Operations section of the MD&A beginning on page 47 for more information on special items), Corporate losses were higher for both the three months ended and the nine months ended September 30, 2009, compared with same periods last year. The increase in losses primarily reflects higher net interest expense attributable to lower average invested assets and increased debt to finance the acquired business. In addition, directors' expenses increased due to increases in the Company's stock price during the three months ended and nine months ended September 30, 2009 compared with decreases during the three months ended and nine months ended September 30, 2008.

**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 nine months ended September 30, 2009 primarily represented a tax benefit from a past divestiture resolved at the completion of the 2005 and 2006 IRS examinations.

Discontinued operations for the third quarter of 2008 included a gain of $1 million after-tax from the settlement of certain issues related to a past divestiture. Discontinued operations for the nine months ended September 30, 2008, also included a gain of $3 million after-tax from the settlement of certain issues related to a past divestiture.

## INDUSTRY DEVELOPMENTS AND OTHER MATTERS

### *Proposed Health Care Reform*

Addressing the affordability and availability of health insurance, including reducing the number of uninsured, is a major initiative of President Obama and the U.S. Congress, and proposals that may address these issues are pending in the U.S. Congress. The proposals vary and include measures that would change the dynamics of the health care industry and/or the employer's role in the provision of benefits, such as the potential creation of a new government-run health plan(s) that would compete with the Company and other private health plans; the potential creation of federal or state-level Exchanges (or similar constructs) that could serve as a distribution mechanism and/or additional regulatory structure for certain segments of the health care market; potential changes to medical coverage, such as expansion of eligibility under existing public programs, minimum medical benefit ratios for health plans, mandatory issuance of insurance coverage; requirements that would limit the ability of health plans and insurers to vary premiums based on assessments of underlying risk; and new taxes and assessments specific to health care insurers and/or certain benefit plan designs. Any comprehensive health care reform package enacted will likely be phased in over a number of years and would be subject to a broader regulatory process. Because of the unsettled nature of these initiatives and the numerous steps required to implement them the Company remains uncertain as to the ultimate impact these changes will have on its business. For additional discussion regarding our risks related to health care reform, see "Item 1A. Risk Factors."

### *Other Matters*

The disability industry is under continuing review by regulators and legislators with respect to its offset practices regarding Social Security Disability Insurance ("SSDI"). There has been specific inquiry as to the industry's role in assisting 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 is also involved in related pending litigation. If the industry is forced to change its offset SSDI procedures, the practices and products for the Company's Disability and Life segment could be significantly impacted.

In 1998, the Company sold its individual life insurance and annuity business to Lincoln National Life Insurance Company and its affiliates ("Lincoln"). Because this business was sold in an indemnity reinsurance transaction, the Company is not relieved of primary liability for the reinsured business and had reinsurance recoverables totaling $4.5 billion as of September 30, 2009. Lincoln has secured approximately 90% of its reinsurance obligations under these arrangements by placing assets into a trust which qualifies under Regulation 114 of the New York Insurance Department.

The Company's remaining reinsurance recoverables are unsecured. If Lincoln does not maintain a specified financial strength rating, at the Company's request, Lincoln is contractually required to provide additional assurance that it will meet its reinsurance obligations, to include placing assets in a trust to secure these remaining reinsurance recoverables.

Since the filing of the Company's 2008 Form 10-K, Moody's has downgraded the financial strength rating of the Lincoln affiliated reinsurer to A2 from A1 and S&P has downgraded its rating to AA- from AA. In light of the downgrades, the Company is closely monitoring the situation.

## 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 maturities to the estimated duration of the related insurance and contractholder liabilities; and
- borrowing from its parent company.

Liquidity requirements at the parent level generally consist of:

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

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 nine months ended September 30, were as follows:

| *(In millions)* | 2009 | 2008 |
|---|---|---|
| Operating activities | $ 269 | $ 1,050 |
| Investing activities | $ (1,074) | $ (2,304) |
| Financing activities | $ 290 | $ 377 |

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

***2009:***

***Operating activities***

For the nine months ended September 30, 2009, cash flows from operating activities were less than net income by $705 million. Net income contains certain after-tax non-cash income and expense items, including:

- GMIB income of $149 million;
- a curtailment gain of $30 million, net of a cost reduction charge of $16 million;
- tax benefits related to the IRS examination of $20 million;
- depreciation and amortization charges of $135 million; and
- realized investment losses of $24 million.

Cash flows from operating activities were lower than net income excluding the non-cash items noted above by $681 million. This decrease was primarily due to cash outflows of $232 million associated with the GMDB equity hedge program which did not affect shareholders' net income, contributions to the qualified domestic pension plan of $354 million and increases in receivables.

Cash flows from operating activities decreased by $781 million compared with the nine months ended September 30, 2008. Excluding the results of the GMDB equity hedge program (which did not affect shareholders' net income), cash flows from operating activities decreased by $431 million. This decrease primarily reflects contributions to the qualified domestic pension plan of $354 million for the nine months ended September 30, 2009, compared with none for the nine months ended September 30, 2008 as well as increases in receivables in 2009 compared with decreases in 2008.

***Investing activities***

Cash used in investing activities was $1.1 billion. This use of cash primarily consisted of net purchases of investments of $856 million and net purchases of property and equipment of $218 million.

***Financing activities***

Cash provided from financing activities primarily consisted of net proceeds from the issuance of long-term debt of $346 million, offset by repayments of short-term debt, principally commercial paper, of $199 million. Financing activities also included net deposits to contractholder deposit funds of $65 million.

***2008:***

***Operating activities***

For the nine months ended September 30, 2008, cash flows from operating activities were greater than net income by $547 million. Net income contains certain after-tax non-cash income and expense items, including:

- GMIB expense of $222 million;
- litigation accruals of $76 million;
- depreciation and amortization charges of $118 million; and
- realized investment losses of $18 million.

Cash flows from operating activities were higher than net income excluding the non-cash items noted above by $113 million. This increase was primarily due to cash inflows associated with the GMDB equity hedge program of $118 million.

***Investing activities***

The Company used net cash of $1.3 billion to fund the acquisition of Great-West Healthcare. Excluding this item, cash used in investing activities was $1.0 billion. This use of cash primarily consisted of net purchases of investments of $812 million and net purchases of property and equipment of $179 million.

***Financing activities***

Cash provided from financing activities primarily consisted of proceeds from the net issuance of short-term debt and long-term debt of $312 million and $297 million, respectively. These borrowing arrangements were entered into for general corporate purposes, including the financing of the acquisition of Great-West Healthcare. Financing activities also included net deposits to contractholder deposit funds of $88 million and proceeds from the issuance of common stock under the Company's stock plans of $37 million and dividends on and repurchases of common stock of $354 million.

**Interest Expense**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2009** | **2008** | **2009** | **2008** |
| Interest expense | $ 43 | $ 38 | $ 122 | $ 106 |

The increase in interest expense for the nine months ended September 30, 2009 was primarily due to the issuance of debt in connection with the Great-West Healthcare acquisition.

**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;
- 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. Significant volatility and deterioration of the equity markets during 2008 resulted in reduced retained earnings and reduced the capital available for growth, acquisitions, and share repurchase.

On May 4, 2009, the Company issued $350 million of 8.50% 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 10 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.

On March 4, 2008, the Company issued $300 million of 6.35% Notes (with an effective interest rate of 6.68% per year). Interest is payable on March 15 and September 15 of each year beginning September 15, 2008. The proceeds of this debt were used for general corporate purposes, including financing the acquisition of Great-West Healthcare. These Notes will mature on March 15, 2018.

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 50 basis points (8.50% Notes due 2019) or 40 basis points (6.35% Notes due 2018).

On March 14, 2008, the Company entered into a new commercial paper program ("the Program"). Under the Program, the Company is authorized to sell from time to time short-term unsecured commercial paper notes up to a maximum of $500 million. The proceeds are used for general corporate purposes, including working capital, capital expenditures, acquisitions and share repurchases. The Company uses the credit facility described below as back-up liquidity to support the outstanding commercial paper. If at any time funds are not available on favorable terms under the Program, the Company may use the Credit Agreement (see below) for funding. In October 2008, the Company added an additional dealer to its Program. As of September 30, 2009, the Company had $100 million in commercial paper outstanding, at a weighted average interest rate of 0.53% and remaining maturities ranging from five to 55 days.

**Liquidity and Capital Resources Outlook**

At September 30, 2009, there was approximately $210 million in cash and short-term investments available at the parent company level. For the remainder of 2009, the parent company's cash requirements include scheduled interest payments of approximately $50 million on outstanding long-term debt of $2.4 billion at September 30, 2009 and approximately $100 million of commercial paper that will mature over the next three months. There are no scheduled long-term debt repayments in 2009. The parent company expects to fund these cash requirements with subsidiary dividends and by refinancing the maturing commercial paper borrowings with new commercial paper.

The Internal Revenue Service recently issued regulations providing relief in measuring pension plan funding obligations for 2009. As a result, only approximately $90 million of the Company's $354 million in domestic pension plan contributions during the nine months ended September 30, 2009 were necessary to meet minimum funding requirements and the remaining contributions were voluntary. Although not required, the Company may make approximately $55 million of voluntary pre-tax contributions to the domestic qualified pension plan for the remainder of 2009. The estimated remaining contributions to the domestic qualified pension plan during 2009 do not include funding requirements related to the litigation matter discussed in Note 17 to the Consolidated Financial Statements, as management does not expect this matter to be resolved in 2009. Future years' contributions will ultimately be based on a wide range of factors including but not limited to asset returns, discount rates, and funding targets.

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 $400 million from Connecticut General Life Insurance Company (CGLIC) without prior state approval. As of September 30, 2009, the parent company had no outstanding borrowings from CGLIC. In addition, the Company may use short-term borrowings, such as the commercial paper program and the committed line of credit agreement of up to $1.75 billion subject to the maximum debt leverage covenant in its line of credit agreement. As of September 30, 2009, the Company had an additional $1.275 billion of borrowing capacity within the maximum debt leverage covenant in the line of credit agreement in addition to the $2.5 billion of debt outstanding as of September 30, 2009.

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.

***Solvency regulation.*** Many states have adopted some form of the National Association of Insurance Commissioners ("NAIC") model solvency-related laws and risk-based capital rules ("RBC rules") for life and health insurance companies. The RBC rules recommend a minimum level of capital depending on the types and quality of investments held, the types of business written and the types of liabilities incurred. If the ratio of the insurer's adjusted surplus to its risk-based capital falls below statutory required minimums, the insurer could be subject to regulatory actions ranging from increased scrutiny to conservatorship.

In addition, various non-U.S. jurisdictions prescribe minimum surplus requirements that are based upon solvency, liquidity and reserve coverage measures. During 2008, the Company's HMOs and life and health insurance subsidiaries, as well as non-U.S. insurance subsidiaries, were compliant with applicable RBC and non-U.S. surplus rules.

In 2008, the NAIC adopted Actuarial Guideline VACARVM, which will be effective December 31, 2009 for the Company's principal life insurance subsidiary Connecticut General Life Insurance Company (CGLIC). VACARVM is applicable to CGLIC's statutory reserves for GMDB and GMIB contracts totaling $1.6 billion as of September 30, 2009. Upon implementation, it is anticipated that statutory reserves for these contracts will increase and statutory surplus for CGLIC will be reduced. The Actuarial Guideline states that a company may request a grade-in period, not to exceed three years from the Domiciliary Commissioner. The actual impact on these reserves and surplus, as of December 31, 2009 will depend on equity market and interest rate levels at the time of implementation, whether a grade-in period is granted, and how that grade-in is implemented. As of September 30, 2009, management estimates that the implementation of VACARVM would increase these statutory reserves by up to 10%, assuming no grade-in. Management continues to evaluate the impact on CGLIC's surplus from this reserving change, as well as from potential further regulatory and/or IRS guidance. Though still evaluating, management does not anticipate that this implementation will have a material impact on the amount of dividends expected to be paid by CGLIC to the parent company in 2010.

**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 71 of the Company's 2008 Form 10-K for certain items as follows:

- other long-term liabilities associated with GMIB contracts primarily as a result of increasing interest rates, as well as equity market improvements during 2009;
- future policy benefit liabilities associated with GMDB contracts as a result of improvements in the equity market environment during 2009;
- short-term debt, primarily as a result of maturing commercial paper. See Note 13 to the Consolidated Financial Statements for additional information; and
- long-term debt, primarily due to the issuance of new debt in the second quarter of 2009, see Note 13 to the Consolidated Financial Statements for additional information.

| *(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 | $ 11,479 | $ 483 | $ 890 | $ 771 | $ 9,335 |
| Short-term debt | $ 103 | $ 103 | $ — | $ — | $ — |
| Long-term debt | $ 4,772 | $ 150 | $ 782 | $ 281 | $ 3,559 |
| Other long-term liabilities | $ 1,673 | $ 847 | $ 374 | $ 166 | $ 286 |

## 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, 8, 9 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 9 to the Consolidated Financial Statements and Notes 2, 12, 13 and 16 to the Consolidated Financial Statements in the Company's 2008 Form 10-K.

As of September 30, 2009, the Company's mix of investments and their primary characteristics have not materially changed since December 31, 2008. The Company's fixed maturity portfolio continues to be diversified by issuer and industry type, with no single industry constituting more than 10% of total invested assets as of September 30, 2009. The Company's commercial mortgage loans continue to be 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.

The Company performs ongoing analyses on prices to conclude that they represent reasonable estimates of fair value. This process involves quantitative and qualitative analysis and is overseen by the Company's investment professionals. This process also includes review of pricing methodologies, pricing statistics and trends and backtesting recent trades.

The value of the Company's fixed maturity portfolio increased $728 million in 2009 driven by a decline in market yields. Although asset values have improved significantly, there are securities with amortized cost in excess of fair value by $147 million.

As of September 30, 2009, approximately 64% or $1,653 million of the Company's total investments in state and local government securities of $2,566 million were guaranteed by monoline bond insurers. The quality ratings of these investments with and without this guaranteed support as of September 30, 2009 were as follows:

| | | As of September 30, 2009 | |
|---|---|---|---|
| | | Fair Value | |
| *(In millions)* | **Quality Rating** | **With Guarantee** | **Without Guarantee** |
| State and local governments | Aaa | $ 67 | $ 56 |
| | Aa1-Aa3 | 1,157 | 977 |
| | A1-A3 | 360 | 467 |
| | Baa1-Baa3 | 29 | 36 |
| | Not available | 40 | 117 |
| Total state and local governments | | $ 1,653 | $ 1,653 |

As of September 30, 2009, approximately 80% or $445 million of the Company's total investments in other asset-backed securities of $555 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 September 30, 2009, 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 September 30, 2009 were:

| *(In millions)* **Guarantor** | **Guarantor Quality Rating** | **As of September 30, 2009 Indirect Exposure** |
|---|---|---|
| AMBAC | Caa2 | $ 205 |
| MBIA, Inc. | Baa1 | 1,249 |
| Financial Security Assurance | Aa3 | 604 |
| Financial Guaranty Insurance Co. | NR | 40 |
| Total | | $ 2,098 |

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 91% rated A3 or better without their guarantees.

**Commercial Mortgage Loans**

The Company's commercial mortgage loans are made exclusively to commercial borrowers; therefore the Company has no exposure to either prime or sub-prime residential mortgages. These fixed rate loans are 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.

The Company completed an in depth review of its commercial mortgage loan portfolio in July 2009. This review included an analysis of each property's audited financial statements as of December 31, 2008, rent rolls and operating plans and budgets for 2009, a physical inspection of the property and other pertinent factors. Based on each property's value determined during this review, the portfolio's average loan to value ratio increased from 64% as of December 31, 2008 to 77% at September 30, 2009, driven by an average decline in property values of 16% since completion of the previous review during the third quarter of 2008. This 16% decrease is less than reported declines in commercial real estate values of 20% to 30% from peak prices achieved in late 2006 and into early 2007. This is driven by management's decision to not fully reflect peak prices in prior valuations, along with declines in value recognized during the Company's 2008 portfolio review. In 2009, the overall estimated cash flows from the portfolio's properties exceed their required debt payments by 50% (debt service coverage) which was unchanged since the 2008 portfolio review. This debt service coverage improved in 2009 from increased occupancy in properties previously under rehabilitation (predominantly apartments) and from foreclosure and removal of a non-performing office loan during the second quarter of 2009. This improvement during 2009 was largely offset by modest increases in vacancy rates and declines in rental rates for most loans secured by stabilized properties across all property types, with more significant changes for loans secured by hotel properties.

The following table reflects the commercial mortgage loan portfolio summarized by loan to value ratio based on the annual loan review completed in July, 2009.

**Loan to Value Distribution**

| | Amortized Cost | | | |
|---|---|---|---|---|
| **Loan to Value Ratios** | **Senior** | **Subordinated** | **Total** | **% of Mortgage Loans** |
| Below 50% | $ 221 | $ 152 | $ 373 | 10% |
| 50% to 59% | 285 | — | 285 | 8% |
| 60% to 69% | 415 | 38 | 453 | 13% |
| 70% to 79% | 526 | 72 | 598 | 17% |
| 80% to 89% | 885 | 47 | 932 | 26% |
| 90% to 99% | 719 | 17 | 736 | 20% |
| 100% or above | 215 | 15 | 230 | 6% |
| Totals | $ 3,266 | $ 341 | $ 3,607 | 100% |

As summarized above, $341 million or 9.5% of the commercial mortgage loan portfolio is comprised of subordinated notes and loans, including $320 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 would pursue remedies up to and including foreclosure jointly with the holders of the senior interests, but would receive repayment after satisfaction of the senior interest.

There are nine loans where the aggregate carrying value of the mortgage loans exceeds the value of the underlying properties by $23 million. Six of these loans have current debt service coverage of 1.0x or greater and three with debt service coverage below 1.0x have other mitigating factors including strong borrower sponsorship. The decline in property values and current underwater position are better than management expectations reflecting a combination of factors including prior year property values not fully reflecting peak market pricing, a more modest allocation to the more depressed property types such as retail and hotel and the overall quality of the Company's portfolio.

Although the property value declines increased the portfolio loan to value ratios, all but four of the 184 loans that comprise our total mortgage loan portfolio continue to perform under their contractual terms, and the actual aggregate default rate is 2.8%. Given the quality and diversity of the underlying real estate, positive debt service coverage, significant borrower cash investment averaging nearly 30%, and only $143 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 and the mortgage loan portfolio will perform well competitively.

**Other Long-term Investments**

The Company's Other long-term investments include $556 million in private equity and real estate funds as well as direct real estate joint ventures. The funds typically invest in mezzanine debt or equity of privately held companies and real estate partnerships. 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. To mitigate risk, these investments are diversified across approximately 55 separate partnerships, and approximately 35 general partners who manage one or more of those partnerships. Also, the funds' underlying investments are diversified by industry sector, property type, and geographic region. No single partnership investment exceeds 7% of the Company's private equity and real estate partnership portfolio. Given the current weak economic conditions there continues to be downward pressure on asset values that could result in future losses but management does not expect any losses to have a material adverse effect on the Company's liquidity or 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. These characteristics 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 1.0x and/or value declines resulting in estimated loan-to-value ratios increasing to 100% or above.

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 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 nine months ended September 30, 2009 and 2008.

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

*(In millions)*

| **September 30, 2009** | **Gross** | **Reserve** | **Net** |
|---|---|---|---|
| Problem bonds | $ 128 | $ (73) | $ 55 |
| Potential problem bonds | $ 117 | $ (5) | $ 112 |
| Problem commercial mortgage loans | $ 100 | $ — | $ 100 |
| Potential problem commercial mortgage loans | $ 241 | $ (2) | $ 239 |
| Foreclosed real estate | $ 59 | $ — | $ 59 |
| **December 31, 2008** | | | |
| Problem bonds | $ 94 | $ (59) | $ 35 |
| Potential problem bonds | $ 140 | $ (14) | $ 126 |
| Potential problem commercial mortgage loans | $ 92 | $ — | $ 92 |

Potential problem commercial mortgage loans represent 7% of the total loan portfolio. These increased $147 million from December 31, 2008 to September 30, 2009, primarily reflecting the results of management's in-depth portfolio loan review. As a result of this review, management added nine loans totaling $169 million to the potential problem loan list that are exhibiting signs of distress such as an elevated loan to value ratio or a low or negative debt service coverage. These loans were all performing according to their contractual terms as of September 30, 2009 and although they are showing signs of stress, most of these loans are well collateralized. 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.

**Summary**

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

| *(In millions)* | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Credit related [(1)] | $ 12 | $ 15 | $ 47 | $ 17 |
| Other [(2)] | 2 | 26 | 8 | 42 |
| Total | $ 14 | $ 41 | $ 55 | $ 59 |

*(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.*

The financial markets experienced a significant rally in the second and third quarters of 2009. Both investment grade and below investment grade corporate credit indices reported significantly lower credit spreads and the S&P 500 posted a return of 30% during this period. While credit spreads eased in 2009 and asset values increased significantly, substantial uncertainty remains concerning the economic environment, along with increasing default rates and the potential for rising treasury rates. Commercial real estate fundamentals continued to weaken as the struggling economy negatively impacted occupancy levels and rental rates for all major property types. The corporate and commercial real estate debt and equity markets are expected to remain challenging until economic stability returns. As a result of this economic environment, risks in the Company's investment portfolio remain elevated.

Continued economic weakness for an extended period could cause the Company to recognize impairment losses if default rates increase and/or recoveries decline. 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 Company's strategy to match the duration of invested assets to the duration of insurance and contractholder liabilities, it has both the intent and ability to hold these assets to recovery. Therefore, future credit-related losses are not expected to have a material adverse effect on the Company's liquidity or financial condition.

While the results of the portfolio loan review were better than expected, and management believes the portfolio is positioned to perform competitively well due to the 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 stress 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 $110 million in the fair value of the futures contracts outstanding under this program as of September 30, 2009. 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 7 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 7 to the Consolidated Financial Statements) and GMIB contracts (see Note 8 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 70 for further information.

**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 2009 and 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 expressions.

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) offering products that meet emerging market needs, (ii) strengthening underwriting and pricing effectiveness, (iii) strengthening medical cost and medical membership results, (iv) delivering quality member and provider service using effective technology solutions, (v) lowering administrative costs and (vi) 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, 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, 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. 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, 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 plans 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;

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 health care services provided to their workforce, loss in workforce and our customers' ability to pay receivables) and our vendors (including their ability to provide services);

17. 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 (including health care reform legislation that could include, among other items, a broad based public sector alternative and/or alternative assessments and tax increases specific to the Company's industry), which could increase cost and affect the market for the Company's health care products and services; and amendments to income tax laws, which could affect the taxation of employer provided benefits and certain insurance products such as corporate-owned life insurance;

18. 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;

19. risks associated with security or interruption of information systems, which could, among other things, cause operational disruption;

20. 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;

21. the ability to successfully integrate and operate the businesses acquired from Great-West by, among other things, renewing insurance and administrative services contracts on competitive terms, retaining and growing membership, realizing revenue, expense and other synergies, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel; and

22. the ability of the Company to execute its growth plans by successfully managing Great-West Healthcare's outsourcing projects and leveraging the Company's capabilities and those of the business acquired from Great-West to further 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 2008 Annual Report on Form 10-K, including the "Risk Factors" section, the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009, 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.

**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.

**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.

## 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.

## Item 1A. *RISK FACTORS*

The risk factor set forth below updates and should be read together with the risk factors reported in CIGNA's Annual Report on Form 10-K for the year ended December 31, 2008.

***CIGNA is subject to potential changes in the political environment, which could adversely affect the markets for its products.***

Policy changes on the local, state and federal level, such as the expansion of the government's role in the health care arena and alternative assessments and tax increases specific to the health care insurance industry or health care insurance products as part of federal health care reform initiatives, could fundamentally change the dynamics of CIGNA's industry. While private health care plans may be solicited to provide administrative services to an expanded national public plan, this business opportunity may be less profitable and favor larger and lower cost competitors.

**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 September 30, 2009:

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) |
|---|---|---|---|---|
| July 1-31, 2009 | 3,650 | $ 25.38 | 0 | $ 448,919,605 |
| August 1-31, 2009 | 2,089 | $ 27.85 | 0 | $ 448,919,605 |
| September 1-30, 2009 | 0 | $ 0 | 0 | $ 448,919,605 |
| Total | 5,739 | $ 20.30 | 0 | 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 3,650 shares in July and 2,089 shares in August.

(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, generally without public announcement. Remaining authorization under the program was approximately $449 million as of September 30, 2009 and November 5, 2009.

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

**Item 6.** ***EXHIBITS***

(a) See Exhibit Index

## 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: November 5, 2009

## 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 herewith. |
| 10.1 | CIGNA Corporation Compensation Program for Independent Vice Chairman/Chairman of the Board of Directors | 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. |

Exhibit 3.2

# AMENDED AND RESTATED BY-LAWS

# OF

# CIGNA CORPORATION,

a Delaware corporation
incorporated on November 3, 1981

Dated: October 28, 2009

BY-LAWS OF
CIGNA CORPORATION
(A Delaware Corporation)

## ARTICLE I
## Offices

SECTION 1. Registered Office. The registered office of the Corporation within the State of Delaware shall be in the City of Wilmington, County of New Castle.

SECTION 2. Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors shall from time to time determine or the business of the Corporation may require.

## ARTICLE II
## Meetings of Shareholders

SECTION 1. Place of Meetings. All meetings of the shareholders for the election of directors or for any other purpose shall be held at any such place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting.

SECTION 2. Annual Meeting. The annual meeting of shareholders shall be held on the fourth Wednesday in April of each year, if not a legal holiday, and if a legal holiday, then on the next succeeding day not a legal holiday, at 3:30 P.M., or at such other time or on such other date and time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. At such annual meeting, the shareholders shall elect directors to the Board of Directors and transact such other business as may properly be brought before the meeting. A nominee for director shall be elected to the Board of Directors if the votes cast for such nominee's election exceed the votes cast against such nominee's election; provided, however, that directors shall be elected by a plurality of the votes cast at any meeting of shareholders for which (i) the Corporate Secretary of the Corporation receives a notice that a shareholder has nominated a person for election to the Board of Directors in compliance with Article II, Section 11(b) of these By-Laws and (ii) such nomination has not been withdrawn by such shareholder on or prior to the day next preceding the date the Corporation first mails its notice of meeting for such meeting to the shareholders. If directors are to be elected by a plurality of the votes cast, shareholders shall not be permitted to vote against a nominee.

SECTION 3. Special Meetings. Special meetings of shareholders, unless otherwise prescribed by statute, may be called at any time by the Board of Directors or the Chief Executive Officer. At any special meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

SECTION 4. Notice of Meetings. Except as otherwise expressly required by statute, written notice, or notice in the form of electronic transmission to shareholders who have consented to receive notice in such form, of each annual and special meeting of shareholders stating the place, date and time of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each shareholder of record entitled to notice of the meeting. Business transacted at any special meeting of shareholders shall be limited to the purposes stated in the notice. If mailed, such notice shall be sent in a postage prepaid envelope, addressed to the shareholder at his or her address as it appears on the records of the Corporation. Such notice shall be deemed given (i) if by mail, at the time when the same shall be deposited in the United States mail, postage prepaid; (ii) if by facsimile telecommunication, when directed to a number at which the shareholder has consented to receive notice; (iii) if by electronic mail, when directed to an electronic mail address at which the shareholder has consented to receive such notice; (iv) if by a posting on an electronic network together with a separate notice to the shareholder of such specific posting, upon the later to occur of (a) such posting, or (b) the giving of the separate notice of such posting; or (v) if by any other form of electronic communication, when directed to the shareholder in the manner consented to by the shareholder. Any such consent shall be revocable by the shareholder by written notice to the Corporation. Any such consent shall be deemed revoked if (1) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent and (2) such inability becomes known to the Corporate Secretary or Assistant Corporate Secretary of the Corporation or to the transfer agent or other person responsible for giving notice; provided however, that inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice of any meeting shall not be required to be given to any person who attends such meeting, except when such person attends the meeting in person or by proxy for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, or who, either before or after the meeting, shall submit a signed written waiver of notice, or a waiver by electronic transmission, in person or by proxy. Neither the business to be transacted at, nor the purpose of, an annual or special meeting of shareholders need be specified in any written waiver of notice.

SECTION 5. List of Shareholders. The Corporate Secretary of the Corporation, or such other person who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, in the manner provided by law. The list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

SECTION 6. Quorum, Adjournments. The holders of at least two-fifths of the issued and outstanding stock of the Corporation entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of shareholders, except as otherwise required by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented by proxy at any meeting of shareholders, the chairman of the meeting or a majority of the voting power entitled to vote thereon, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented by proxy. At such adjourned meeting at which a quorum shall be present or represented by proxy, any business may be transacted which might have been transacted at the meeting as originally called. If the adjournment is for more than thirty days, or, if after adjournment a new record date is set, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

SECTION 7. Organization. At each meeting of shareholders, the Chairman of the Board or, in the Chairman's absence, a director of the Corporation chosen by the Board of Directors at the meeting, shall act as chairman of the meeting. The Corporate Secretary or, in the Corporate Secretary's absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting shall act as secretary of the meeting and keep the minutes thereof.

SECTION 8. Order of and Rules for Conducting Business. The order of and the rules for conducting business at all meetings of the shareholders shall be as determined by the chairman of the meeting. The chairman shall have the power to adjourn the meeting to another place, date or time.

SECTION 9. Voting. Except as otherwise provided by statute, the Certificate of Incorporation, or any resolution or resolutions adopted by the Board of Directors pursuant to the authority vested in it by the Certificate of Incorporation, each shareholder of the Corporation shall be entitled at each meeting of shareholders to one vote for each share of capital stock of the Corporation standing in such shareholder's name on the record of shareholders of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 7 of Article V of these By-Laws as the record date for the determination of the shareholders who shall be entitled to vote at such meeting; or

(b) if no such record date shall have been fixed, then at the close of business on the day next preceding the day on which notice thereof shall be given, or, if notice is waived by all shareholders, at the close of business on the day next preceding the day on which the meeting is held.

Each shareholder entitled to vote at any meeting of shareholders may vote in person or may authorize another person or persons to act for such shareholder by a proxy authorized by an instrument in writing or by a transmission permitted by law delivered to the Inspectors of Election, but no such proxy shall be voted after three years from its date, unless the proxy provides for a longer period. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used; provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A shareholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by delivering an instrument in writing or a transmission permitted by law revoking the proxy or constituting another valid proxy bearing a later date to the Inspectors. Any such proxy shall be delivered to the Inspectors, or such other person so designated to receive proxies, at or prior to the time designated in the order of business for so delivering such proxies. When a quorum is present at any meeting, the affirmative vote of the holders of a majority of the voting power of the Corporation present in person or by proxy at such meeting and entitled to vote on the subject matter, shall decide any question brought before such meeting, unless the question is one upon which by express provision of statute or of the Certificate of Incorporation or of these By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Unless required by statute, or determined by the chairman of the meeting to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the shareholder voting, or by the shareholder's proxy, if there be such proxy, and shall state the number of shares voted.

SECTION 10. Inspectors of Election. The Board of Directors, the Chairman of the Board or the Chief Executive Officer shall, in advance of any meeting of shareholders, appoint one or more Inspectors of Election to act at the meeting or at any adjournment and make a written report thereof, and may designate one or more persons as alternate Inspectors to replace any Inspectors who fail to act. If no Inspector or alternate is able to act at a meeting of shareholders, the chairman of the meeting shall appoint one or more Inspectors to act at the meeting. Each Inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of Inspector at such meeting with strict impartiality and according to the Inspector's best ability. The Inspectors shall determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting and the validity of proxies and ballots, receive and count all votes and ballots, determine all challenges and questions arising in connection with the right to vote, retain for a reasonable period a record of the disposition of any challenges made to any determination by the Inspectors, and certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots and report the same to the chairman of the meeting, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. The Inspectors may appoint or retain other persons or entities to assist the Inspectors in the performance of the duties of the Inspectors. The date and time of the opening and the closing of the polls for each matter upon which the shareholders will vote at a meeting shall be announced at the meeting by the chairman of the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the Inspectors after the closing of the polls unless the Court of Chancery upon application by a shareholder shall determine otherwise. On request of the chairman of the meeting, the Inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an Inspector of an election of directors. Inspectors need not be shareholders.

Section 11. Nomination of Directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of shareholders (a) by or at the direction of the Board of Directors or (b) by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Section, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Section. For nominations to be properly brought before a meeting by a shareholder pursuant to clause (b) of the preceding sentence, (1) the shareholder must have given timely notice thereof in writing to the Corporate Secretary of the Corporation and (2) the shareholder and any beneficial owner on whose behalf a nomination is made must comply with the representation set forth in such shareholder's Nomination Solicitation Statement (as defined herein). To be timely, a shareholder's notice shall be received by the Corporate Secretary of the Corporation at the principal executive offices of the Corporation not less than 90 days prior to the meeting; provided, however, that in the event that less than 90 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was first given or such public disclosure was first made. Such shareholder's notice shall set forth (1) as to each person whom the shareholder proposes to nominate for election or reelection as a director (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (such Act and such rules and regulations, collectively, the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) and (ii) a statement whether such person, if elected, intends to tender, promptly following such person's election, an irrevocable resignation effective upon such person's failure to receive the required vote for reelection at any future meeting at which such person would face reelection and upon acceptance of such resignation by the Board of Directors, in accordance with the Corporation's Board Practice on Director Selection and Membership; and (2) as to the shareholder giving notice and the beneficial owner, if any, on whose behalf the nomination is made (i) the name and address, as they appear on the Corporation's stock ledger, of such shareholder and of such beneficial owner, (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and by such beneficial owner and (iii) a statement whether or not such shareholder or beneficial owner intends to deliver a proxy statement and form of proxy to a sufficient number of holders of the Corporation's voting shares reasonably believed by such shareholder or beneficial owner to elect such nominee or nominees (such statement, a "Nomination Solicitation Statement"). At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Corporate Secretary of the Corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. No person shall be eligible for election at any meeting of shareholders as a director of the Corporation unless nominated in compliance with the procedures set forth in this Section. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in compliance with the procedures prescribed by the By-Laws, and if the chairman of the meeting should so determine, he or she shall so declare to the meeting and the defective nominations shall be disregarded.

Notwithstanding anything in this Section 11 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public disclosure naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 100 days prior to the meeting, a shareholder's notice required by these By-Laws shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Corporate Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public disclosure is first made by the Corporation.

SECTION 12. Notice of Shareholder Business. At the annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business (other than nominations for election to the Board of Directors of the Corporation, which are governed by Section 11 of this Article II) must be a proper subject for shareholder action under the Delaware General Corporation Law (the "DGCL") and must be (a) specified in the notice of meeting (or any supplement thereto) given by the Corporation; (b) brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Section, who has complied with the notice procedures set forth in this Section, and who shall be entitled to vote on such business. For business (other than nominations for election to the Board of Directors of the Corporation, which are governed by Section 11 of this Article II) to be properly brought before an annual meeting by a shareholder, (1) the shareholder must have given timely notice thereof in writing to the Corporate Secretary of the Corporation, (2) such business must be a proper matter for shareholder action under the DGCL and (3) the shareholder and any beneficial owner on whose behalf such business is proposed must comply with the representation set forth in such shareholder's Business Solicitation Statement (as defined herein). To be timely, a shareholder's notice must be delivered to or mailed and received by the Corporate Secretary of the Corporation at the principal executive offices of the Corporation, not less than 90 days prior to the meeting; provided, however, that in the event that less than 90 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder, to be timely, must be so received not later than the close of business on the 10th day following the date on which such notice of the date of the annual meeting was first mailed or such public disclosure was first made. A shareholder's notice to the Corporate Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; (b) as to the shareholder giving such notice and the beneficial owner, if any, on whose behalf the proposal is made (i) the name and address, as they appear on the Corporation's stock ledger, of such shareholder and of such beneficial owner, (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner, and (iii) a statement whether or not such shareholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal (such statement, a "Business Solicitation Statement"). Notwithstanding anything in the By-Laws to the contrary, no business (other than nominations for election to the Board of Directors of the Corporation, which are governed by Section 11 of this Article II) shall be conducted at an annual meeting except in compliance with the procedures set forth in this Section 12. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in compliance with the provisions of this Section 12, and if the chairman of the meeting should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

## ARTICLE III
## Board of Directors

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board of Directors may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by statute or the Certificate of Incorporation directed or required to be exercised or done by the shareholders.

SECTION 2. Number, Qualifications, Election and Term of Office. The Board of Directors shall consist of not less than 8 nor more than 16 directors. The number of directors may be fixed, from time to time, by the affirmative vote of a majority of the entire Board of Directors. Any decrease in the number of directors shall be effective at the time of the next succeeding annual meeting of shareholders unless there shall be vacancies in the Board of Directors, in which case such decrease may become effective at any time prior to the next succeeding annual meeting to the extent of the number of such vacancies. Directors need not be shareholders. The directors (other than members of the initial Board of Directors) shall be divided into three classes which shall be divided as evenly as practicable with respect to the number of members of each class; the term of office of those of the first class to expire at the annual meeting commencing in April, 1983; of the second class one year thereafter; of the third class two years thereafter; and at each annual election held after such classification and election, directors shall be chosen by class for a term of three years, or for such shorter term as the shareholders may specify to complete the unexpired term of a predecessor, or to preserve the division of the directors into classes as provided herein. Each director shall hold office until his or her successor shall have been elected and qualified, or until death, or until such director shall have resigned, or shall have been removed, as hereinafter provided in these By-Laws.

SECTION 3. Chairman of the Board.

(a) The Directors shall elect a Chairman of the Board from among the independent members of the Board of Directors who shall serve for a term of three years unless sooner removed, with or without cause, by a majority of the Board of Directors. The Board of Directors shall fill any vacancy in the position of Chairman of the Board of Directors at such time and in such manner as the Board of Directors shall determine. In addition, the Board of Directors may appoint one or more directors to serve in roles with such titles (including the titles of Vice Chairman, Lead Director and Presiding Director), powers, duties and compensation as it may approve.

(b) The Chairman shall perform all duties incident to the office of Chairman of the Board and such other duties as may from time to time be assigned by the Board of Directors, including presiding at all meetings of the shareholders of the Corporation, all meetings of the Board of Directors, and all meetings of the Executive Committee, at which the Chairman shall be present. Except as may otherwise be determined by the Board or provided in these By-Laws, the Chairman may serve as a member of any committee of the Board subject to applicable laws, regulations and standards and, even when not named a standing member of a committee, shall have the right to attend and participate in all meetings of any committee of the Board of Directors as if he or she were a member of such committee, including having the right to vote on any mater brought before the committee and being counted for the purposes of determining whether a quorum of the committee is present.

SECTION 4. Place of Meetings. Meetings of the Board of Directors shall be held at such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine or as shall be specified in the notice of any such meeting.

SECTION 5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may fix. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by statute or these By-Laws.

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or by one-third of the members of the Board of Directors of the Corporation.

SECTION 7. Notice of Meetings. Notice of each special meeting of the Board of Directors (and of each regular meeting for which notice shall be required) shall be given by the Corporate Secretary as hereinafter provided in this Section. Any such notice shall state the place, date and time of the meeting. Except as otherwise required by these By-Laws, such notice need not state the purposes of such meeting. Notice of each such meeting shall be mailed, postage prepaid, to each director, addressed to the director's residence or usual place of business, by first-class mail, at least two days before the day on which such meeting is to be held, or shall be sent addressed to the director at such place by telegraph, cable, telex, telecopier, electronic transmission or other similar means, or be delivered to the director personally or be given to the director by telephone or other similar means, at least twelve hours before the time at which such meeting is to be held. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice, or waiver by electronic transmission or who shall attend such meeting, except when the director shall attend for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 8. Quorum and Manner of Acting. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and, except as otherwise expressly required by statute or the Certificate of Incorporation or these By-Laws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn such meeting to another time and place. Notice of the time and place of any such adjourned meeting shall be given to all of the directors unless such time and place were announced at the meeting at which the adjournment was taken, in which case such notice shall only be given to the directors who were not present thereat. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. The directors shall act only as a Board and the individual directors shall have no power as such.

SECTION 9. Organization. At each meeting of the Board of Directors, the Chairman of the Board, or, in the absence of the Chairman of the Board, another director chosen by a majority of the directors present shall act as chairman of the meeting and preside thereat. The Corporate Secretary or, in the Corporate Secretary's absence, any person appointed by the chairman of the meeting shall act as secretary of the meeting and keep the minutes thereof.

SECTION 10. Resignations. Any director of the Corporation may resign at any time by giving notice in writing or by electronic transmission of his or her resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective is not specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 11. Vacancies. Any vacancy in the Board of Directors, whether arising from death, disqualification, resignation, removal for cause, an increase in the number of directors or any other cause, may be filled by the vote of a majority of the directors then in office, though less than a quorum, or by the sole remaining director. Each director so elected shall hold office until his or her successor shall have been elected and qualified.

SECTION 12. Removal of Directors. Any director may be removed, only for cause, at any time, by the holders of a majority of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote at an election of directors.

SECTION 13. Compensation. The Board of Directors shall have authority to fix the compensation, including fees and reimbursement of expenses, of directors, including the Chairman of the Board, for services to the Corporation in any capacity.

SECTION 14. Committees.

(a) The Board shall create an Executive Committee, which shall consist of no less than two nor more than seven members of the Board and shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it, except the Executive Committee shall not have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the shareholders, any action or matter expressly required by the General Corporation Law of the State of Delaware to be submitted to shareholders for approval or (ii) adopting, amending or repealing any By-Law of the Corporation.

(b) The Board shall create an Audit Committee and a People Resources Committee, each of which shall consist of three (3) or more members of the Board of Directors of the Corporation, none of whom shall be employees of the Corporation or its subsidiaries.

(c) The Board may also create such other committees, with such authority and duties, as the Board may from time to time deem advisable, and may authorize any of such committees to appoint one or more subcommittees. Each such committee or subcommittee, to the extent provided in the resolution creating it, shall have and may exercise all the powers and authority of the Board of Directors and may authorize the seal of the Corporation to be affixed to all papers which require it but shall have no greater powers than those given the Executive Committee by these By-Laws and as restricted by statute or the Certificate of Incorporation. Each such committee or subcommittee shall serve at the pleasure of the Board of Directors or of the committee creating it as the case may be, and have such name as may be determined from time to time by resolution adopted by the Board of Directors or by the committee creating it. Each committee shall keep regular minutes of its meeting and report the same to the Board of Directors or the committee creating it.

(d) The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In addition, in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not the member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

SECTION 15. Action by Consent. Unless restricted by the Certificate of Incorporation, any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

SECTION 16. Telephonic Meeting. Unless restricted by the Certificate of Incorporation, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

## ARTICLE IV
## Officers

SECTION 1. Selection and Qualifications. The officers of the Corporation shall be elected by the Board of Directors except as otherwise provided herein or in a resolution adopted by the Board of Directors and may include the President, the Chief Executive Officer, one or more Vice Presidents, and such other officers as the Board of Directors may choose. The Board may authorize the Chief Executive Officer to appoint one or more classes of officers with such titles (including the titles of Vice President, Corporate Secretary and Treasurer), powers, duties and compensation as the Chief Executive Officer may approve. Any two or more offices may be held by the same person. Each officer shall hold office until his or her successor shall have been duly elected or appointed and shall have qualified, or until death, or until such officer shall have resigned or have been removed, as hereinafter provided in these By-Laws.

SECTION 2. Resignations. Any officer of the Corporation may resign at any time by giving written notice of such resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon receipt. Unless otherwise specified therein, the acceptance of any such resignation shall not be necessary to make it effective.

SECTION 3. Removal. Any officer of the Corporation may be removed, either with or without cause, at any time, by the Board of Directors at any meeting thereof. Any appointed officer of the Corporation may also be removed, either with or without cause, at any time, by the Chief Executive Officer.

SECTION 4. Chief Executive Officer. The Chief Executive Officer shall have responsibility for the general and active management of the business, property and affairs of the Corporation, subject, to the control of the Board of Directors. The Chief Executive Officer shall perform such other duties as may be specified in the By-Laws or assigned by the Board of Directors.

SECTION 5. President. The President shall perform all duties incident to the Office of President and such other duties as may from time to time be assigned to the President by the Chief Executive Officer or the Board of Directors.

SECTION 6. Vice Presidents. Each Vice President shall perform such duties as from time to time may be assigned to the Vice President by the Board of Directors, the Chief Executive Officer, or such other officer as may be designated by one of the foregoing.

SECTION 7. Treasurer. The Treasurer shall:

(a) have charge and custody of, and be responsible for, all the funds and securities of the Corporation;

(b) keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation;

(c) deposit all moneys and other valuables to the credit of the Corporation in such depositories as may be designated by the Board of Directors or pursuant to its direction;

(d) receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever;

(e) disburse the funds of the Corporation and supervise the investments of its funds, taking proper vouchers therefor;

(f) render to the Board of Directors, whenever the Board of Directors may require, an account of the Corporation's cash position; and

(g) in general, perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the Board of Directors, or the Chief Executive Officer, or such other officer as may be designated by one of the foregoing.

SECTION 8. Corporate Secretary. The Corporate Secretary shall:

(a) keep or cause to be kept in one or more books provided for the purpose, the minutes of all meetings of the Board of Directors, the committees of the Board of Directors and the shareholders;

(b) see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law;

(c) Be custodian of the records and the seal of the Corporation and affix and attest the seal to all certificates for shares of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal;

(d) see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed in order to maintain the Corporation's legal existence are properly kept and filed; and

(e) in general, perform all duties incident to the office of Corporate Secretary and such other duties as from time to time may be assigned by the Board of Directors, the Chief Executive Officer, or such other officer as may be designated by one of the foregoing.

SECTION 9. The Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their seniority), shall, in the absence of the Treasurer or in the event of the inability or refusal of the Treasurer to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as from time to time may be assigned by the Board of Directors, the Chief Executive Officer, the Treasurer, or such other officer as may be designated by one of the foregoing.

SECTION 10. The Assistant Corporate Secretary. The Assistant Corporate Secretary, or if there be more than one, the Assistant Corporate Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their seniority), shall, in the absence of the Corporate Secretary or in the event of the inability or refusal of the Corporate Secretary to act, perform the duties and exercise the powers of the Corporate Secretary and shall perform such other duties as from time to time may be assigned by the Board of Directors, the Chairman of the Board, the President and Chief Executive Officer, the Corporate Secretary, or such other officer as may be designated by one of the foregoing.

SECTION 11. Designation. The Board of Directors may, by resolution, designate one or more officers to be any of the following: Chief Operating Officer, President, Chief Financial Officer, General Counsel, or Chief Accounting Officer.

SECTION 12. Agents and Employees. If authorized by the Board of Directors, the Chief Executive Officer or any officer or employee of the Corporation designated by the Board or the Chief Executive Officer may appoint or employ such agents and employees as shall be requisite for the proper conduct of the business of the Corporation, and may fix their compensation and the conditions of their employment, subject to removal by the appointing or employing person.

SECTION 13. Officers' Bonds or Other Security. If required by the Board of Directors, any officer of the Corporation shall give a bond or other security for the faithful performance of such officer's duties, in such amount and with such surety as the Board of Directors may require.

SECTION 14. Compensation. The compensation of all officers of the Corporation for their services as such officers shall be fixed from time to time by the Board of Directors unless by resolution of the Board that authority is delegated to a committee of the Board, the Chief Executive Officer, or any other officer of the Corporation. An officer of the Corporation shall not be prevented from receiving compensation by reason of the fact that such officer is also a director of the Corporation.

SECTION 15. Terms. Unless otherwise specified by the Board of Directors in any particular election or appointment, each officer shall hold office, and be removable, at the pleasure of the Board.

## ARTICLE V
## Stock Certificates and Their Transfer

SECTION 1. Stock Certificates; Uncertificated Shares. The shares of the Corporation shall be represented by certificates; provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such resolution by the Board of Directors, every holder of stock represented by certificates, and upon request every holder of uncertificated shares, shall be entitled to have a certificate signed by, or in the name of the Corporation by the Chairman of the Board, the Chief Executive Officer, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Corporate Secretary or an Assistant Corporate Secretary, representing the number of shares registered in certificate form. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restriction of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock; provided that, except as otherwise provided in Section 202 of the General Corporation Law of the State of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each shareholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required or permitted to be set forth or stated on certificates pursuant to this section or otherwise pursuant to the Delaware General Corporation Law. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

SECTION 2. Facsimile Signatures. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person was such officer, transfer agent or registrar at the date of issue.

SECTION 3. Lost Certificates. The Corporation may issue a new certificate or certificates, or uncertificated shares, in the place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed. The Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or the owner’s legal representative, to give the Corporation a bond in such sum as it may direct sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

SECTION 4. Transfers of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority or transfer, or upon receipt by the transfer agent of a proper instruction from the registered holder of uncertificated shares, it shall be the duty of the Corporation to transfer such shares upon its records and, in connection with the transfer of a share that will be certificated, to issue a new certificate to the person entitled thereto and to cancel the old certificate; provided, however, that the Corporation shall be entitled to recognize and enforce any lawful restriction on transfer. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of transfer if, when the certificates are presented to the Corporation for transfer, or when proper instructions with respect to the transfer of uncertificated shares are received, both the transferor and the transferee request the Corporation to do so.

SECTION 5. Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

SECTION 6. Regulations. The Board of Directors may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 7. Fixing the Record Date. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may, except as otherwise required by law, fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining shareholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto**.** A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. To the extent permitted by law, the record date for determining the shareholders entitled to receive notice of a meeting may be different from the record date for determining the shareholders entitled to vote at such meeting.

In order that the Corporation may determine the shareholders entitled to consent to corporate action without a meeting, the Board of Directors may fix a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall be not more than ten (10) days after the date upon which the resolution fixing the record date is adopted. If no record date has been fixed by the Board of Directors and no prior action by the Board of Directors is required by the DGCL, the record date shall be the first date on which a consent setting forth the action taken or proposed to be taken is delivered to the Corporation in the manner prescribed by the DGCL. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by the DGCL with respect to the proposed action by consent of the shareholders without a meeting, the record date for determining shareholders entitled to consent to corporate action without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

SECTION 8. Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of stock to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments a person registered on its records as the owner of shares of stock, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

## ARTICLE VI
## Indemnification

SECTION 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she (i) is or was a director or an officer of the Corporation or (ii) is or was serving at the request of the Corporation as a director, officer, employee, agent, partner or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (the persons in clauses (i) and (ii) hereinafter referred to as an "indemnitee"), shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Delaware law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith; provided, however, that, except as provided in Section 3 of this Article VI with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

SECTION 2. Right to Advancement of Expenses. In addition to the right to indemnification conferred in Section 1 of this Article VI, an indemnitee shall also have the right to be paid by the Corporation the expenses (including attorney's fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that if the DGCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 2 or otherwise.

SECTION 3. Right of Indemnitee to Bring Suit. If a claim under Section 1 or 2 of this Article VI is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the DGCL. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its shareholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article VI or otherwise shall be on the Corporation.

SECTION 4. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article VI shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Certificate of Incorporation, agreement, vote of shareholders or directors or otherwise.

SECTION 5. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

SECTION 6. Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

SECTION 7. Nature of Rights. The rights conferred upon indemnitees in this Article VI shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee, agent, partner or trustee and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Any amendment, alteration or repeal of this Article VI that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment or repeal.

## ARTICLE VII
## General Provisions

SECTION 1. Dividends. Subject to the provisions of statute and the Certificate of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of stock of the Corporation, unless otherwise provided by statute or the Certificate of Incorporation.

SECTION 2. Seal. The seal of the Corporation shall be in such form as shall be approved by the Board of Directors.

SECTION 3. Fiscal Year. The fiscal year of the Corporation shall be fixed, and once fixed, may thereafter be changed, by resolution of the Board of Directors.

SECTION 4. Contributions. The Board of Directors shall have the authority from time to time to make such contributions as the Board in its discretion shall determine, for public and charitable purposes.

SECTION 5. Borrowing, etc. No officer, agent or employee of the Corporation shall have any power or authority to borrow money on its behalf, to pledge its credit, or to mortgage or pledge its real or personal property, except within the scope and to the extent of the authority delegated by resolution of the Board of Directors. Authority may be given by the Board for any of the above purposes and may be general or limited to specific instances.

SECTION 6. Deposits. All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may approve or designate, and all such funds shall be withdrawn only upon checks, drafts, notes or other orders for payment signed by such one or more officers, employees or other persons as the Board shall from time to time determine.

SECTION 7. Execution of Contracts, Deeds, etc. The Board of Directors may authorize any officer or officers, agent or agents, in the name and on behalf of the Corporation to enter into or execute and deliver any and all deeds, bonds, mortgages, contracts and other obligations or instruments, and such authority may be general or confined to specific instances.

SECTION 8. Voting of Stock in Other Corporations. If authorized by the Board of Directors, any officer of the Corporation may appoint an attorney or attorneys (who may be or include such officer), in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation any of whose shares or other securities are held by or for the Corporation, at meetings of the holders of the shares or other securities of such other corporation, or in connection with the ownership of such shares or other securities, to consent in writing to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its seal such written proxies or other instruments as such proxy may deem necessary or proper in the circumstances.

SECTION 9. Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of punch cards, magnetic tape, photographs, microphotographs, or any other information storage device; provided that the records so kept can be converted into clearly legible form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

## ARTICLE VIII
## Amendments

These By-Laws may be adopted, amended or repealed by the affirmative vote of the holders of a majority of the voting power of the capital stock of the Corporation outstanding and entitled to vote thereon; provided, however, that Section 2 of Article III of these By-Laws may not be amended or repealed, nor may any provision be adopted that is inconsistent with such section, in any case by action of the stockholders, unless such amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the voting power of the capital stock of the Corporation outstanding and entitled to vote thereon. The Board of Directors shall also have the power to adopt, amend or repeal any provision of these By-Laws of the Corporation without any vote of the stockholders of the Corporation.

## ARTICLE IX
## Definitions

Section 1. "Certificate of Incorporation." The term "Certificate of Incorporation," as used herein, includes not only the original Certificate of Incorporation filed to create the Corporation but also all other certificates, agreements of merger or consolidation, plans of reorganization, or other instruments, howsoever designated, which are filed pursuant to the Delaware General Corporation Law, and which have the effect of amending or supplementing in some respect this Corporation's original Certificate of Incorporation.

Section 2. "Electronic Transmission." The term "electronic transmission" as used herein shall mean any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such recipient through an automated process or that otherwise may be permitted as an electronic transmission by the Delaware General Corporation law, as amended from time to time.

**Exhibit 10.1**

**CIGNA Corporation**
**Compensation Program for Independent Vice Chairman/Chairman of the Board of Directors**
**Effective July 1, 2009 to December 31, 2010**

This Compensation Program ("Program") applies to Isaiah Harris, Jr. for his service as the independent Vice Chairman of the Board of CIGNA Corporation ("CIGNA") from July 1, 2009 to December 31, 2009 and as the independent Chairman of the Board of CIGNA from January 1, 2010 to December 31, 2010 (collectively referred to as Mr. Harris's "Independent Board Leadership Position"). Compensation under this Program is in addition to and not in lieu of compensation under the CIGNA Corporation Non-Employee Director Compensation Program, amended and restated effective January 1, 2008, which continues to apply to Mr. Harris for his service as a member of the CIGNA Board of Directors.

*I. Retainer*

During any calendar quarter in which Mr. Harris fills the Independent Board Leadership Position, he will receive a quarterly retainer payment of $180,000. This quarterly retainer will be paid in cash each quarter.

*II. Other Compensation*

In light of the significant commitment of time and effort that Mr. Harris is expected to devote to service in the Independent Board Leadership Position, and in order to ensure that he is appropriately compensated for his efforts on behalf of the Board based on an assessment of the actual demands entailed by the position and the needs of CIGNA during the time that Mr. Harris fills the Independent Board Leadership Position, Mr. Harris may be paid additional compensation as set forth in this Section II.

Mr. Harris is eligible to receive:

- a one-time award of up to $1,450,000 payable in cash (the "Cash Award"); and
- payout from a stock unit award with a grant-date value of $1,450,000 (the "Units")

which shall vest and be payable as set forth below.

*A. Unit Award*

The number of Units awarded is determined by dividing $1,450,000 by the average of the high and the low CIGNA common stock price (as reported on the Composite tape or successor means of publishing the stock price) on the award date. The number of Units awarded is rounded up to the next whole Unit.

Units were awarded to Mr. Harris on August 3, 2009, the first day of the next open window period following his July 1, 2009 commencement of service in the Independent Board Leadership Position.

*B. Conditions for Payment of Units and Cash Award*

No Unit or Cash Award payment will be made to Mr. Harris unless he remains in active service as a member of the CIGNA Board of Directors through the end of the Service Period. The "Service Period" will last from July 1, 2009 to the earlier of December 31, 2010, or Mr. Harris's death or Disability. "Disability" means, in accordance with Section 22(e)(3) of the Internal Revenue Code, being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of 12 months.

After the end of the Service Period, the Corporate Governance Committee of CIGNA's Board of Directors (the "Committee") shall recommend, for approval by the full Board of Directors:

1. The number of Units, if any, for which Mr. Harris will receive payment (the "Eligible Units"), and

2. The amount of the Cash Award, if any, to be paid to Mr. Harris.

The Committee's determination and the Board's approval will be based upon their evaluation of Mr. Harris's time and commitment in the Independent Board Leadership Position (including whether he served in the Independent Board Leadership Position through December 31, 2010), the nature and complexity of issues faced by Mr. Harris during the Service Period and Mr. Harris's effectiveness in addressing any such issues and in representing the Board while filling the Independent Board Leadership Position. The Board's determination shall be final and binding.

*C. Timing of Payment of Eligible Units and Cash Award*

*1. Eligible Units*

The cash value of any Eligible Units is payable in a lump sum in March of the year following the year the Service Period ends, but no later than March 15 of such year. The value of each Eligible Unit at payout is equal to the closing price of CIGNA common stock (as reported on the Composite tape or successor means of publishing the stock price) on the last business day of February of the year following the year the Service Period ends.

Any Units that are not Eligible Units (the "Forfeited Units") will be forfeited and Mr. Harris will cease to have any rights under the Forfeited Units, as of the date the Board approves the number of Eligible Units.

*2. Cash Award*

Any Cash Award is payable in a lump sum in March of the year following the year the Service Period ends, but no later than March 15 of such year.

*III. Other Benefits*

The Company will reimburse Mr. Harris for reasonable business expenses and for certain tax obligations he would not otherwise have incurred but for his service in connection with his Independent Board Leadership Position.

*IV. General*

To the extent that a benefit under the Program is subject to Internal Revenue Code Section 409A ("Section 409A"), it is intended that this Program as applied to that benefit comply with the requirements of Section 409A, and the Program shall be so administered and interpreted.

In the event of Mr. Harris's death before payment of all amounts due under this Program, the remaining amounts shall be paid at the times specified above to Mr. Harris's surviving spouse or, if he has no surviving spouse, to his estate.

In the event of a combination or exchange of shares of CIGNA common stock, merger, consolidation, rights offering, separation, reorganization or liquidation, or any other change in CIGNA's corporate structure, the Board may make such equitable adjustments, to prevent dilution or enlargement of rights, as it may deem appropriate, in the number of Units outstanding. Outstanding Units shall be adjusted proportionally to reflect any recapitalization, stock split or stock dividend affecting CIGNA common stock. Units issued as a consequence of any such changes in CIGNA's corporate structure or shares shall be subject to the same restrictions and provisions applicable to the Units with respect to which they are issued.

Mr. Harris's right to receive Program benefits represents an unsecured claim against CIGNA's general assets. Except as otherwise permitted by applicable law, no right to receive Program payments shall be transferable or assignable by Mr. Harris or subject in any manner to anticipation, sale, alienation, pledge, encumbrance, attachment or garnishment by his creditors, and any such attempt shall be void and of no force or effect.

Mr. Harris was elected by CIGNA's shareholders to serve as a director on their behalf. He serves in the Independent Board Leadership Position at the behest of CIGNA's Board of Directors, which may change the Board leadership and governance structure as it deems appropriate from time to time. The compensation program for the Independent Chairman of the Board will be reviewed by the Committee on an annual basis, and the next review will occur in 2011.

Exhibit 12

**CIGNA CORPORATION**
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**
**(Dollars in millions)**

| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|
| Income from continuing operations before income taxes | $ 1,390 | $ 720 |
| Adjustments: | | |
| Income from equity investee | (11) | (8) |
| Income attributable to noncontrolling interest | (2) | (2) |
| Income before income taxes, as adjusted | $ 1,377 | $ 710 |
| Fixed charges included in income: | | |
| Interest expense | $ 122 | $ 106 |
| Interest portion of rental expense | 36 | 33 |
| | 158 | 139 |
| Interest credited to contractholders | 2 | 4 |
| | $ 160 | $ 143 |
| Income available for fixed charges (including interest credited to contractholders) | $ 1,537 | $ 853 |
| Income available for fixed charges (excluding interest credited to contractholders) | $ 1,535 | $ 849 |
| **RATIO OF EARNINGS TO FIXED CHARGES:** | | |
| Including interest credited to contractholders | 9.6 | 6.0 |
| **SUPPLEMENTAL RATIO:** | | |
| Excluding interest credited to contractholders | 9.7 | 6.1 |

**Exhibit 31.1**

CERTIFICATION

I, H. EDWARD HANWAY, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CIGNA Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2009

/s/ H. Edward Hanway
Chief Executive Officer

**Exhibit 31.2**

CERTIFICATION

I, ANNMARIE T. HAGAN, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CIGNA Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2009

/s/ Annmarie T. Hagan
Chief Financial Officer

**Exhibit 32.1**

Certification of Chief Executive Officer of
CIGNA Corporation pursuant to 18 U.S.C. Section 1350

I certify that, to the best of my knowledge and belief, the Quarterly Report on Form 10-Q of CIGNA Corporation for the fiscal period ending September 30, 2009 (the “Report”):

(1) complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CIGNA Corporation.

/s/ H. Edward Hanway

H. Edward Hanway
Chief Executive Officer
November 5, 2009

**Exhibit 32.2**

Certification of Chief Financial Officer of
CIGNA Corporation pursuant to 18 U.S.C. Section 1350

I certify that, to the best of my knowledge and belief, the Quarterly Report on Form 10-Q of CIGNA Corporation for the fiscal period ending September 30, 2009 (the "Report"):

(1) complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CIGNA Corporation.

/s/ Annmarie T. Hagan
Annmarie T. Hagan
Chief Financial Officer
November 5, 2009