CIGNA CORP
Form 10-Q
November 03, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

for the transition period from _____ to _____

Commission file number 1-08323

Cigna Corporation

(Exact name of registrant as specified in its charter)

Delaware	**06-1059331**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
900 Cottage Grove Road Bloomfield, Connecticut	**06002**

(Address of principal executive offices)	*(Zip Code)*

(860) 226-6000

Registrant s telephone number, including area code

(860) 226-6741

Registrant s facsimile number, including area code

Not Applicable

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

Indicate by check mark		**YES**		**NO**
• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.		R		o
• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).		R		o

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

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

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

As of October 15, 2016, 256,738,638 shares of the issuer s common stock were outstanding.

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Cigna Corporation

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

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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, 2016	2015	Unaudited Nine Months Ended September 30, 2016	2015
Revenues				
Premiums	$ 7,605	$ 7,347	$ 23,005	$ 22,181
Fees and other revenues	1,156	1,104	3,554	3,359
Net investment income	282	285	848	858
Mail order pharmacy revenues	762	643	2,207	1,846
Realized investment gains (losses):				
Other than temporary impairments on debt securities	(1)	(58)	(31)	(73)
Other realized investment gains, net	76	68	141	177
Net realized investment gains	75	10	110	104
Total revenues	**9,880**	9,389	**29,724**	28,348
Benefits and Expenses				
Global Health Care medical costs	4,692	4,539	14,230	13,720
Other benefit expenses	1,343	1,230	4,125	3,698
Mail order pharmacy costs	638	532	1,842	1,553

Other operating expenses	2,428	2,171	7,038	6,587
Amortization of other acquired intangible assets, net	37	39	115	122
Total benefits and expenses	**9,138**	8,511	**27,350**	25,680
Income before Income Taxes	**742**	878	**2,374**	2,668
Income taxes:				
Current	210	282	842	965
Deferred	80	52	63	44
Total income taxes	**290**	334	**905**	1,009
Net Income	452	544	1,469	1,659
Less: Net (Loss) Attributable to Noncontrolling Interests	(4)	(3)	(16)	(9)
Shareholders Net Income	**$ 456**	$ 547	**$ 1,485**	$ 1,668
Shareholders Net Income Per Share:				
Basic	$ 1.78	$ 2.14	$ 5.82	$ 6.51
Diluted	$ 1.76	$ 2.10	$ 5.72	$ 6.40
Dividends Declared Per Share	$ -	$ -	$ 0.04	$ 0.04

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

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Cigna Corporation

Consolidated Statements of Comprehensive Income

	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Shareholders net income	$ 456	$ 547	$ 1,485	$ 1,668
Shareholders other comprehensive income (loss):				
Net unrealized appreciation (depreciation), securities	66	8	416	(138)
Net unrealized appreciation (depreciation), derivatives	(1)	3	(5)	15
Net translation of foreign currencies	55	(112)	96	(198)
Postretirement benefits liability adjustment	9	11	28	42
Shareholders other comprehensive income (loss)	**129**	(90)	**535**	(279)
Shareholders comprehensive income	585	457	2,020	1,389
Comprehensive income (loss) attributable to noncontrolling interests:				
Net (loss) attributable to redeemable noncontrolling interests	(1)	(1)	(4)	(2)
Net (loss) attributable to other noncontrolling interests	(3)	(2)	(12)	(7)
Other comprehensive (loss) attributable to redeemable noncontrolling interests	(3)	(9)	(1)	(21)
Other comprehensive (loss) attributable to other noncontrolling interests	-	(1)	-	(1)
Total comprehensive (loss) attributable to noncontrolling interests	(7)	(13)	(17)	(31)
Total comprehensive income	**$ 578**	$ 444	**$ 2,003**	$ 1,358

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

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Cigna Corporation

Consolidated Balance Sheets

(In millions, except per share amounts)	Unaudited As of September 30, 2016	As of December 31, 2015
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost, $19,392; $18,456)	$ 21,244	$ 19,455
Equity securities, at fair value (cost, $185; $190)	188	190
Commercial mortgage loans	1,822	1,864
Policy loans	1,442	1,419
Other long-term investments	1,408	1,404
Short-term investments	997	381
Total investments	27,101	24,713
Cash and cash equivalents	3,224	1,968
Premiums, accounts and notes receivable, net	3,577	3,694
Reinsurance recoverables	6,539	6,813
Deferred policy acquisition costs	1,876	1,659
Property and equipment	1,561	1,534
Deferred tax assets, net	110	379
Goodwill	6,007	6,019
Other assets, including other intangibles	2,611	2,476
Separate account assets	8,156	7,833
Total assets	**$ 60,762**	$ 57,088
Liabilities		
Contractholder deposit funds	$ 8,470	$ 8,443
Future policy benefits	10,043	9,479
Unpaid claims and claim expenses	4,889	4,574
Global Health Care medical costs payable	2,550	2,355
Unearned premiums	1,179	629
Total insurance and contractholder liabilities	27,131	25,480
Accounts payable, accrued expenses and other liabilities	6,374	6,493
Short-term debt	271	149
Long-term debt	4,780	5,020
Separate account liabilities	8,156	7,833
Total liabilities	**46,712**	44,975
Contingencies Note 16		
Redeemable noncontrolling interests	68	69
Shareholders Equity		
Common stock (par value per share, $0.25; shares issued, 296; authorized, 600)	74	74
Additional paid-in capital	2,884	2,859
Accumulated other comprehensive loss	(715)	(1,250)
Retained earnings	13,487	12,121
Less treasury stock, at cost	(1,756)	(1,769)
Total shareholders equity	13,974	12,035
Other noncontrolling interests	8	9
Total equity	**13,982**	12,044
Total liabilities and equity	**$ 60,762**	$ 57,088

Shareholders Equity Per Share	**$ 54.43**	$ 46.91

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

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the three months ended September 30, 2016** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at July 1, 2016	$ 74	$ 2,879	$ (844)	$ 13,046	$ (1,799)	$ 13,356	$ 8	$ 13,364	$ 71
Effect of issuing stock for employee benefit plans		7		(15)	43	35		35	
Other comprehensive income (loss)			129			129		129	(3)
Net income (loss)				456		456	(3)	453	(1)
Other transactions impacting noncontrolling interests		(2)				(2)	3	1	1
Balance at September 30, 2016	**$ 74**	**$ 2,884**	**$ (715)**	**$ 13,487**	**$ (1,756)**	**$ 13,974**	**$ 8**	**$ 13,982**	**$ 68**

For the three months ended September 30, 2015 *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at July 1, 2015	$ 74	$ 2,835	$ (1,125)	$ 11,178	$ (1,672)	$ 11,290	$ 13	$ 11,303	$ 76
Effect of issuing stock for employee benefit plans		11		(19)	36	28		28	
Other comprehensive (loss)			(90)			(90)	(1)	(91)	(9)
Net income (loss)				547		547	(2)	545	(1)
Other transactions impacting noncontrolling interests		(1)				(1)	3	2	1
Balance at September 30, 2015	$ 74	$ 2,845	$ (1,215)	$ 11,706	$ (1,636)	$ 11,774	$ 13	$ 11,787	$ 67

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

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the nine months ended September 30, 2016** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at January 1, 2016	$ 74	$ 2,859	$ (1,250)	$ 12,121	$ (1,769)	$ 12,035	$ 9	$ 12,044	$ 69
Effect of issuing stock for employee benefit plans		38		(109)	123	52		52	
Other comprehensive income (loss)			535			535		535	(1)
Net income (loss)				1,485		1,485	(12)	1,473	(4)
Common dividends declared (per share: $0.04)				(10)		(10)		(10)	
Repurchase of common stock					(110)	(110)		(110)	
Other transactions impacting noncontrolling interests		(13)				(13)	11	(2)	4
Balance at September 30, 2016	**$ 74**	**$ 2,884**	**$ (715)**	**$ 13,487**	**$ (1,756)**	**$ 13,974**	**$ 8**	**$ 13,982**	**$ 68**

For the nine months ended September 30, 2015 *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at January 1, 2015	$ 74	$ 2,769	$ (936)	$ 10,289	$ (1,422)	$ 10,774	$ 15	$ 10,789	$ 90
Effect of issuing stock for employee benefit plans		80		(241)	304	143		143	
Other comprehensive (loss)			(279)			(279)	(1)	(280)	(21)
Net income (loss)				1,668		1,668	(7)	1,661	(2)
Common dividends declared (per share: $0.04)				(10)		(10)		(10)	
Repurchase of common stock					(518)	(518)		(518)	
Other transactions impacting noncontrolling interests		(4)				(4)	6	2	
Balance at September 30, 2015	$ 74	$ 2,845	$ (1,215)	$ 11,706	$ (1,636)	$ 11,774	$ 13	$ 11,787	$ 67

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

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Cigna Corporation

Consolidated Statements of Cash Flows

	Unaudited Nine Months Ended September 30,	
(In millions)	**2016**	**2015**
Cash Flows from Operating Activities		
Net income	$ 1,469	$ 1,659
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	460	451
Realized investment (gains)	(110)	(104)
Deferred income taxes	63	44
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	184	(1,051)
Reinsurance recoverables	132	61
Deferred policy acquisition costs	(167)	(145)
Other assets	(32)	(89)
Insurance liabilities	1,098	620
Accounts payable, accrued expenses and other liabilities	9	219
Current income taxes	(57)	36
Loss on extinguishment of debt	-	100
Other, net (1)	25	(4)
Net cash provided by operating activities (1)	**3,074**	1,797
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities and equity securities	1,012	1,452
Investment maturities and repayments:		
Fixed maturities and equity securities	1,178	1,018
Commercial mortgage loans	117	458
Other sales, maturities and repayments (primarily short-term and other long-term investments)	904	1,006
Investments purchased or originated:		
Fixed maturities and equity securities	(2,894)	(2,686)
Commercial mortgage loans	(121)	(389)
Other (primarily short-term and other long-term investments)	(1,317)	(689)
Property and equipment purchases	(362)	(357)
Acquisitions, net of cash acquired	(5)	(110)
Other	(101)	-
Net cash (used in) investing activities	**(1,589)**	(297)
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	1,133	1,092
Withdrawals and benefit payments from contractholder deposit funds	(1,042)	(1,053)
Net change in short-term debt	(143)	(15)
Net proceeds on issuance of long-term debt	-	894
Repayment of long-term debt	-	(938)
Repurchase of common stock	(139)	(536)
Issuance of common stock	23	136
Other, net (1)	(87)	(83)
Net cash (used in) financing activities (1)	**(255)**	(503)
Effect of foreign currency rate changes on cash and cash equivalents	26	(36)
Net increase in cash and cash equivalents	1,256	961
Cash and cash equivalents, January 1,	1,968	1,420
Cash and cash equivalents, September 30,	**$ 3,224**	$ 2,381

Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	$	904	$	881
Interest paid	$	192	$	192

(1) As required by the adoption of ASU 2016-09, the Company retrospectively reclassified $78 million of cash payments from operating to financing activities for the nine months ended September 30, 2015. These payments were related to employee tax obligations associated with stock compensation. The comparable amount reported in financing activities for the nine months ended September 30, 2016 was $69 million. See Note 2 for further discussion.

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

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CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

Basis of Presentation

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as Cigna, the Company, we, our or us) is a g health services organization dedicated to a mission of helping individuals improve their health, well-being and sense of security. To execute on our mission, Cigna s strategy is to Go Deep , Go Global and Go Individual with a differentiated set of medical, dental, disability, life and accident insurance and related products and services offered by our insurance and other subsidiaries. The majority of these products are offered through employers and other groups (e.g. governmental and non-governmental organizations, unions and associations). Cigna also offers commercial health and dental insurance, Medicare and Medicaid products and health, life and accident insurance coverages to individuals in the U.S. and selected international markets. In addition to its ongoing operations described above, Cigna also has certain run-off operations.

The Consolidated Financial Statements include the accounts of Cigna Corporation and its subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Amounts recorded in the Consolidated Financial Statements necessarily reflect management s estimates and assumptions about medical costs, investment valuation, interest rates and other factors. Significant estimates are discussed throughout these Notes; however, actual results could differ from those estimates. The impact of a change in estimate is generally included in earnings in the period of adjustment. Certain reclassifications have been made to prior year amounts to conform to the current presentation. See Note 2 for further discussion.

These interim Consolidated Financial Statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes included in the Company s 2015 Annual Report on Form 10-K (Form 10-K). The preparation of interim Consolidated Financial Statements necessarily relies heavily on estimates. This and certain other factors, including the seasonal nature of portions of the health care and related benefits business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations.

Note 2 Recent Accounting Pronouncements

The Company s 2015 Form 10-K includes discussion of significant recent accounting pronouncements that either have impacted or may impact our financial statements in the future. The following issuances of, and changes in, accounting pronouncements that apply to the Company have occurred since the Company filed its 2015 Form 10-K.

Recently Adopted Accounting Guidance

Improvements to Employee Share-Based Payment Accounting (Accounting Standards Update (ASU) 2016-09). In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits or deficiencies to be recorded in the income statement when the awards vest or are settled, requires cash flows related to the excess tax benefits to be classified as an operating activity in the statement of cash flows, permits repurchasing more than was previously allowed of an employee s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee s behalf for withheld shares are to be presented as a financing activity in the statement of cash flows and provides an accounting policy election to account for forfeitures as they occur. In addition, the new guidance changes the calculation of common stock equivalents for earnings per share purposes. The new standard is required to be adopted as of January 1, 2017.

As permitted, the Company elected to early adopt the new guidance effective January 1, 2016, which resulted in $25 million of tax benefits recorded in net income (in Corporate) during the nine months ended September 30, 2016 that previously would have been reported in additional paid-in capital. The change in the calculation of common stock equivalents added approximately one million weighted average shares for the diluted earnings per share calculations for the nine months ended September 30, 2016. The Company applied these provisions prospectively.

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The Company retrospectively applied the provisions related to the presentation of employee taxes paid for withheld shares and reclassified $78 million of tax withholding from operating to financing activities in its Consolidated Statement of Cash Flows for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, the Company reflected $69 million of tax withholding in financing activities. The ability under the new guidance to repurchase more employee shares for tax withholding purposes had no impact on the Company s financial statements because no changes have been made to the Company s withholding practices. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Amendments to the Consolidation Analysis (ASU 2015-02). The Company adopted this new consolidation guidance effective January 1, 2016 with no material effect on its financial statements. Among other provisions, the guidance defines limited partnerships as variable interest entities unless substantive kick-out rights or participating rights exist. See Note 10 for additional disclosures about various real estate and security limited partnerships that are newly identified as variable interest entities for which the Company is not the primary beneficiary.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). This amendment removed the requirement to categorize all investments within the fair value hierarchy for which fair value is measured using the practical expedient of net asset value (NAV) per share. The Company adopted this new guidance effective January 1, 2016. Upon adoption, the Company began to separately disclose certain separate account investments and provided comparable prior period disclosure. See Note 7 for this separate disclosure information.

Recently Issued Accounting Guidance Not Yet Adopted

Except as noted below, there were no other new accounting pronouncements that were issued or became effective since the issuance of the Company s 2015 Annual Report on Form 10-K that had, or are expected to have, a material impact on the Company s consolidated financial position, results of operations or cash flows.

Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory (ASU 2016-16). In October 2016, the FASB issued this new standard that requires entities to recognize the tax impacts of all intra-entity sales of assets other than inventory even though the pre-tax effects of those transactions are eliminated in consolidation. The new standard is required to be adopted as of January 1, 2018, with early adoption permitted as of January 1, 2017. The new standard is required to be adopted in a modified retrospective approach, with a cumulative-effect adjustment recorded in retained earnings to write off any unamortized tax expense previously deferred and record any previously unrecognized net deferred tax assets. The Company is evaluating the impact of this new standard on its financial statements and disclosures.

Statement of Cash Flows (ASU 2016-15). In August 2016, the FASB issued this new standard that is a consensus of the FASB s Emerging Issues Task Force. The standard provides new guidance on how certain transactions should be classified in the statement of cash flows. The new standard is required to be adopted as of January 1, 2018, with early adoption permitted as of January 1, 2017. Upon adoption, the effects of the new guidance must be applied retrospectively to all prior periods presented. The Company is evaluating its implementation timing options as well as the impact of this new standard on its financial statements and disclosures.

Financial Instruments Credit Losses (ASU 2016-13). In June 2016, the FASB issued this new standard that introduces a new approach to estimate credit losses on certain types of financial instruments based on expected losses. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The ASU will be effective January 1, 2020, and early adoption is permitted on January 1, 2019. The Company is evaluating the impact of this new standard on its financial statements and disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). As previously disclosed in the Company s 2015 Form 10-K, in January 2016 the FASB issued guidance that will require entities to measure equity investments at fair value in net income if they are not consolidated or accounted for under the equity method. The new standard will be effective January 1, 2018 and its effect will be recognized as a cumulative effect adjustment to the beginning balance of retained earnings. The Company has identified certain limited partnership interests carried at cost that are subject to the requirements of this new standard. If adopted as of September 30, 2016, the impact of this new guidance would have resulted in a cumulative effect increase to retained earnings of approximately $60 million after-tax. The actual cumulative effect adjustment will depend on the portfolio and market conditions as of the date of implementation.

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Revenue from Contracts with Customers (ASU 2014-09). The FASB issued three new ASUs in 2016 further clarifying the broader revenue guidance:

- Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) that clarifies the definition of principals and agents.

- Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing (ASU 2016-10) that clarifies guidance and adds examples to help companies properly identify performance obligations. This ASU also illustrates when a license provides a customer with a right to use (point in time) versus a right to access (over time) benefit.

- Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients (ASU 2016-12) that clarifies certain aspects of the previously-issued guidance, including the objective of the collectability criterion in the new revenue model.

These clarifications, together with the broader revenue recognition guidance within ASU 2014-09, are required to be adopted beginning January 1, 2018, with early adoption permitted as of January 1, 2017. The Company does not plan to early adopt this new guidance but continues to monitor developing implementation guidance and evaluate these new requirements for its non-insurance customer contracts to determine its method of implementation and any resulting estimated effects on its financial statements.

Note 3 Mergers and Acquisitions

Proposed Merger

On July 23, 2015, the Company entered into a merger agreement with Anthem, Inc. (Anthem) and Anthem Merger Sub Corp. (Merger Sub), a direct wholly-owned subsidiary of Anthem.

The merger agreement provides (a) for the merger of the Company and Merger Sub, with the Company continuing as the surviving corporation and (b) if certain tax opinions are delivered, immediately following the completion of the initial merger, for the surviving corporation to be merged with and into Anthem, with Anthem continuing as the surviving corporation (collectively, the merger). Subject to certain terms, conditions, and customary operating covenants, each share of Cigna common stock issued and outstanding immediately prior to the effective time of the merger would be converted into the right to receive (a) $103.40 in cash, without interest, and (b) 0.5152 of a share of Anthem common stock. The closing price of Anthem common stock on November 2, 2016 was $122.99.

At special shareholders meetings held in December 2015, Cigna shareholders approved the merger and Anthem shareholders approved the issuance of shares of Anthem common stock in connection with the merger. Completing the merger remains subject to certain customary conditions, including the receipt of certain necessary governmental and regulatory approvals and the absence of a legal restraint prohibiting the merger. Completing the merger is not subject to a financing condition.

On July 21, 2016, the U.S. Department of Justice (DOJ) and certain state attorneys general filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia seeking to block the merger. Trial is scheduled to begin on November 21, 2016. The Company will continue to defend itself in this matter. In light of the DOJ litigation, Cigna does not believe the transaction will close in 2016 and the earliest it could close is 2017, if at all.

If the merger agreement is terminated under certain circumstances, Anthem will be required to pay Cigna a termination fee of $1.85 billion. Anthem s obligation to pay the termination fee arises if the merger agreement is terminated because: (1) a governmental entity, such as the Department of Justice or a state Department of Insurance, has prevented the merger for regulatory reasons and that decision is final and non-appealable; or (2) the merger has not closed by January 31, 2017 (subject to extension to April 30, 2017 under certain circumstances) only because all necessary regulatory approvals have not been received.

The merger agreement contains customary covenants, including covenants that Cigna conduct its business in the ordinary course during the period between entering into the merger agreement and closing. In addition, Cigna s ability to take certain actions prior to closing without Anthem s consent is subject to certain limitations. These limitations relate to, among other matters, the payment of dividends, capital expenditures, the payment or retirement of indebtedness or the incurrence of new indebtedness, settlement of material claims or proceedings, mergers or acquisitions, and certain employment-related matters.

The Company incurred $49 million pre-tax ($46 million after-tax) for the three months and $123 million pre-tax ($108 million after-tax) for the nine months ended September 30, 2016 in costs directly related to the proposed merger. Comparable merger-related costs for the three months and nine months ended September 30, 2015 were $35 million pre-tax ($29 million after-tax). These costs primarily consisted of fees for legal, advisory and other professional services. If the merger is consummated, most of the merger-related costs are not deductible for federal income tax purposes.

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Note 4 Earnings Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

(Shares in thousands, dollars in millions, except per share amounts)	**Basic**	**Effect of Dilution**	**Diluted**
Three Months Ended September 30, 2016			
Shareholders net income	$ 456		$ 456
Shares*:*			
Weighted average	255,519		255,519
Common stock equivalents		4,235	4,235
Total shares	255,519	4,235	259,754
EPS	**$ 1.78**	**$ (0.02)**	**$ 1.76**
2015			
Shareholders net income	$ 547		$ 547
Shares*:*			
Weighted average	256,070		256,070
Common stock equivalents		4,449	4,449
Total shares	256,070	4,449	260,519
EPS	$ 2.14	$ (0.04)	$ 2.10

(Shares in thousands, dollars in millions, except per share amounts)	**Basic**	**Effect of Dilution**	**Diluted**
Nine Months Ended September 30, 2016			
Shareholders net income	$ 1,485		$ 1,485
Shares*:*			
Weighted average	255,242		255,242
Common stock equivalents		4,326	4,326
Total shares	255,242	4,326	259,568
EPS	**$ 5.82**	**$ (0.10)**	**$ 5.72**
2015			
Shareholders net income	$ 1,668		$ 1,668
Shares*:*			
Weighted average	256,166		256,166
Common stock equivalents		4,451	4,451
Total shares	256,166	4,451	260,617
EPS	$ 6.51	$ (0.11)	$ 6.40

The following outstanding employee stock options were not included in the computation of diluted earnings per share for the three months and nine months ended September 30, 2016 and 2015 because their effect was anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Anti-dilutive options	**2.6**	-	**2.2**	0.5

The Company held 39,425,208 shares of common stock in Treasury as of September 30, 2016, and 38,553,358 shares as of September 30, 2015.

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Note 5 Global Health Care Medical Costs Payable

Medical costs payable for the Global Health Care segment reflects estimates of the ultimate cost of claims that have been incurred but not yet reported, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities, as follows:

(In millions)	September 30, 2016	December 31, 2015
Incurred but not yet reported	$ 1,947	$ 1,757
Reported claims in process	475	470
Physician incentives and other medical care expenses and services payable	128	128
Global Health Care medical costs payable	**$ 2,550**	$ 2,355

Activity in medical costs payable was as follows:

	For the period ended	
(In millions)	**September 30, 2016**	**December 31, 2015**
Balance at January 1,	$ 2,355	$ 2,180
Less: Reinsurance and other amounts recoverable	243	252
Balance at January 1, net	2,112	1,928
[redacted]		
Current year	14,318	18,564
Prior years	(88)	(210)
Total incurred	14,230	18,354
Paid costs related to:		
Current year	12,285	16,588
Prior years	1,783	1,582
Total paid	14,068	18,170
Ending Balance, net	2,274	2,112
Add: Reinsurance and other amounts recoverable	276	243
Ending Balance	**$ 2,550**	$ 2,355

Reinsurance and other amounts recoverable includes amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for certain business where the Company administers the plan benefits but the right of offset does not exist. See Note 6 for additional information on reinsurance. For the nine months ended September 30, 2016, actual experience differed from the Company s key assumptions resulting in favorable incurred costs related to prior years medical costs payable of $88 million, or 0.5% of the current year incurred costs as reported for the year ended December 31, 2015. Of the favorability, actual completion factors accounted for 0.3%, and actual medical cost trend resulted in 0.2%.

For the year ended December 31, 2015, actual experience differed from the Company s key assumptions, resulting in favorable incurred costs related to prior years medical costs payable of $210 million, or 1.3% of the current year incurred costs as reported for the year ended December 31, 2014. Actual completion factors accounted for 0.4% of favorability, while actual medical cost trend resulted in 0.7%. The remaining 0.2% was related to an increase in the 2014 reinsurance reimbursement rate from the Centers for Medicare and Medicaid Services

(CMS) under The Patient Protection and Affordable Care Act (Health Care Reform).

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The impact of prior year development on shareholders   net income for the nine months ended September 30, 2016 was not significant compared with $57 million for the nine months ended September 30, 2015. The favorable effect of prior year development in a given period primarily reflects lower than expected utilization of medical services. Incurred costs related to prior years in the table above do not directly correspond to an increase or decrease to shareholders   net income. The primary reason for the difference is that decreases to prior year incurred costs reflecting a release of the liability for moderately adverse conditions are not considered as impacting shareholders   net income if they are offset by increases in the current year provision for moderately adverse conditions. The determination of liabilities for Global Health Care medical costs payable requires the Company to make critical accounting estimates. See Note 2(N) to the Consolidated Financial Statements in the Company   s 2015 Form 10-K for further information about the assumptions and estimates used to establish this liability.

Note 6   Reinsurance

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

Effective Exit of GMDB and GMIB Business

In 2013, the Company entered into an agreement with Berkshire Hathaway Life Insurance Company of Nebraska (Berkshire   ) to effectively exit the guaranteed minimum death benefit (GMDB   ) and guaranteed minimum income benefit (GMIB   ) business via a reinsurance transaction. Berkshire reinsured 100% of the Company   s future claim payments in this business, net of other reinsurance arrangements existing at that time. The Berkshire reinsurance agreement is subject to an overall limit with approximately $3.5 billion remaining.

Because this effective exit was accomplished via a reinsurance contract, the amounts related to the reinsured GMDB and GMIB contracts cannot be netted, so the gross assets and liabilities must continue to be measured and reported. The following disclosures provide further context for the methods and assumptions used to determine GMDB assets and liabilities.

GMDB

The Company estimates this liability with an internal model based on its experience and future expectations over an extended period, consistent with the long-term nature of this product. Because the product is premium deficient, the Company records increases to the reserve if it is inadequate based on the model. As a result of the reinsurance transaction, reserve increases have a corresponding increase in the recorded reinsurance recoverable, provided the increased recoverable remains within the overall Berkshire limit (including the GMIB assets).

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

	For the period ended	
(In millions)	**September 30, 2016**	**December 31, 2015**
Balance at January 1	$ 1,252	$ 1,270
Add: Unpaid claims	18	16
Less: Reinsurance and other amounts recoverable	1,164	1,186
[redacted]	106	[redacted]
Add: Incurred benefits	4	3
Less: Paid benefits	(1)	(3)
Ending balance, net	111	106
Less: Unpaid claims	18	18
Add: Reinsurance and other amounts recoverable	1,132	1,164
Ending balance	**$ 1,225**	$ 1,252

Benefits paid and incurred are net of ceded amounts. The ending net retained reserve covers ongoing administrative expenses, as well as the minor claims exposure retained by the Company.

The table below presents the account value, net amount at risk and number of underlying contractholders for guarantees assumed by the Company in the event of contractholder deaths. The net amount at risk is the amount that the Company would have to pay if all contractholders died as of the specified date. Unless the Berkshire limit is exceeded, the Company should be reimbursed in full for these payments.

(Dollars in millions, excludes impact of reinsurance ceded)	**September 30, 2016**	**December 31, 2015**
Account value	$ 10,752	$ 11,355
Net amount at risk	$ 2,530	$ 2,870
Number of contractholders	292,000	324,000

Effects of Reinsurance

In the Company s Consolidated Statements of Income, premiums were reported net of amounts ceded to reinsurers and Global Health Care medical costs and other benefit expenses were reported net of reinsurance recoveries in the following amounts:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In millions)	**2016**	**2015**	**2016**	**2015**
Ceded premiums				
Individual life insurance and annuity business sold	$ 37	$ 38	$ 118	$ 121
Other	94	130	262	323
Total	**$ 131**	$ 168	**$ 380**	$ 444
Reinsurance recoveries				
Individual life insurance and annuity business sold	$ 77	$ 83	$ 211	$ 230
Other	8	113	209	313

Total	**$ 85**	$ 196	**$ 420**	$ 543

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Reinsurance Recoverables

Components of the Company s reinsurance recoverables are presented below:

(In millions)

Line of Business	Reinsurer(s)	September 30, 2016	December 31, 2015	Collateral and Other Terms at September 30, 2016
GMDB	Berkshire	$ 1,089	$ 1,123	100% secured by assets in a trust.
	Other	43	41	99% secured by assets in a trust or letter of credit.
Individual Life and Annuity (sold in 1998)	Lincoln National Life and Lincoln Life & Annuity of New York	3,612	3,705	Both companies ratings are sufficient to avoid triggering a contractual obligation to fully secure the outstanding balance.
Retirement Benefits Business (sold in 2004)	Prudential Retirement Insurance and Annuity	944	995	100% secured by assets in a trust.
Supplemental Benefits Business (2012 acquisition)	Great American Life	301	315	100% secured by assets in a trust.
Global Health Care, Global Supplemental Benefits, Group Disability and Life	Various	475	553	Recoverables arising in the ordinary course of business from approximately 80 reinsurers including the U.S. Government. Excluding the recoverable from the U.S. Government of approximately $58 million, current balances range from less than $1 million up to $96 million, with 19% secured by assets in trusts or letters of credit.
Other run-off reinsurance	Various	75	81	99% secured by assets in trusts.
Total reinsurance recoverables		**$ 6,539**	$ 6,813	

Over 90% of the Company s reinsurance recoverables were from companies that were rated A or higher by Standard & Poor s at September 30, 2016. The Company reviews its reinsurance arrangements and establishes reserves against the recoverables if recovery is not considered probable. As of September 30, 2016, the Company s recoverables were net of a reserve of approximately $4 million. The Company bears the risk of loss if its reinsurers and retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company.

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Note 7 Fair Value Measurements

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

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

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

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

The Company is responsible for determining fair value, as well as designating the appropriate level within the fair value hierarchy, based on the significance of unobservable inputs. The Company reviews methodologies, processes and controls of third-party pricing services and compares prices on a test basis to those obtained from other external pricing sources or internal estimates. The Company performs ongoing analyses of both prices received from third-party pricing services and those developed internally to determine that they represent appropriate estimates of fair value. The controls executed by the Company include evaluating changes in prices and monitoring for potentially stale valuations. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates. The minimal exceptions identified during these processes indicate that adjustments to prices are infrequent and do not significantly impact valuations. Annually, we conduct an on-site visit of the most significant pricing service to review their processes, methodologies and controls. This on-site review includes a walk-through of inputs of a sample of securities held across various asset types to validate the documented pricing process.

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of September 30, 2016 and December 31, 2015 about the Company s financial assets and liabilities carried at fair value. Separate account assets that are also recorded at fair value on the Company s Consolidated Balance Sheets are reported separately under the heading separate account assets as gains and losses related to these assets generally accrue directly to policyholders.

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(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
September 30, 2016				
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 180	$ 570	$ -	$ 750
State and local government	-	1,508	-	1,508
Foreign government	-	2,278	44	2,322
Corporate	-	15,714	451	16,165
Mortgage-backed	-	36	-	36
Other asset-backed	-	299	164	463
Total fixed maturities (1)	**180**	**20,405**	**659**	**21,244**
Equity securities	4	110	74	188
Subtotal	**184**	**20,515**	**733**	**21,432**
Short-term investments	-	997	-	997
GMIB assets (2)	-	-	931	931
Other derivative assets	-	7	-	7
Total financial assets at fair value, excluding separate accounts	**$ 184**	**$ 21,519**	**$ 1,664**	**$ 23,367**
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 908	$ 908
Other derivative liabilities	-	4	-	4
Total financial liabilities at fair value	**$ -**	**$ 4**	**$ 908**	**$ 912**
December 31, 2015				
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 251	$ 528	$ -	$ 779
State and local government	-	1,641	-	1,641
Foreign government	-	2,010	4	2,014
Corporate	-	14,122	326	14,448
Mortgage-backed	-	48	1	49
Other asset-backed	-	198	326	524
Total fixed maturities (1)	251	18,547	657	19,455
Equity securities	32	89	69	190
Subtotal	283	18,636	726	19,645
Short-term investments	-	381	-	381
GMIB assets (2)	-	-	907	907
Other derivative assets	-	16	-	16
Total financial assets at fair value, excluding separate accounts	$ 283	$ 19,033	$ 1,633	$ 20,949
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 885	$ 885
Total financial liabilities at fair value	$ -	$ -	$ 885	$ 885

(1) Fixed maturities included $750 million as of September 30, 2016 and $483 million as of December 31, 2015 of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $19 million as of September 30, 2016 and $30 million as of December 31, 2015 of appreciation for securities classified in Level 3. See Note 8 for additional information.

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

Level 1 Financial Assets

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

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

Level 2 Financial Assets and Financial Liabilities

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

Fixed maturities and equity securities. Approximately 96% of the Company s investments in fixed maturities and equity securities are classified in Level 2 including most public and private corporate debt and equity securities, federal agency and municipal bonds, non-government mortgage-backed securities and preferred stocks. Because many fixed maturities do not trade daily, third-party pricing services and internal methods often use recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

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

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

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties and determined that no adjustment for credit risk was required as of September 30, 2016 or December 31, 2015. Level 2 also includes exchange-traded interest rate swap contracts. Credit risk related to the clearinghouse counterparty and the Company is considered minimal when estimating the fair values of these derivatives because of upfront margin deposits and daily settlement requirements. The nature and use of these other derivatives are described in Note 9.

Level 3 Financial Assets and Financial Liabilities

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

The Company classifies certain newly issued, privately-placed, complex or illiquid securities, as well as assets and liabilities relating to GMIB, in Level 3. Approximately 3% of fixed maturities and equity securities are priced using significant unobservable inputs and classified in this category.

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

Quantitative Information about Unobservable Inputs

The following tables summarize the fair value and significant unobservable inputs used in pricing the following securities that were developed directly by the Company as of September 30, 2016 and December 31, 2015. The range and weighted average basis point amounts (bps) for fixed maturity spreads (adjustment to discount rates) and price-to-earnings multiples for equity investments reflect the Company s best estimates of the unobservable adjustments a market participant would make to calculate these fair values.

Other asset and mortgage-backed securities. The significant unobservable inputs used to value the following other asset and mortgage-backed securities are liquidity and weighting of credit spreads. When there is limited trading activity for the security, an adjustment for liquidity is made as of the measurement date that considers current market conditions, issuer circumstances and complexity of the security structure. An adjustment to weight credit spreads is needed to value a more complex bond structure with multiple underlying collateral and no standard market valuation technique. The weighting of credit spreads is primarily based on the underlying collateral s characteristics and their proportional cash flows supporting the bond obligations. The resulting wide range of unobservable adjustments in the table below is due to the varying liquidity and quality of the underlying collateral, ranging from high credit quality to below investment grade.

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

Equity securities. The significant unobservable input used to value the following equity securities is a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA). These securities are comprised of private equity investments with limited trading activity and therefore a ratio of EBITDA is used to estimate value based on company circumstances and relative risk characteristics.

(Fair value in millions)	**Fair Value**	**Unobservable Input**	**Unobservable Adjustment Range (Weighted Average)**
As of September 30, 2016			
Fixed maturities:			
Other asset and mortgage-backed securities	$ 164	Liquidity	60 - 330 (90) bps
		Weighting of credit spreads	200 - 610 (280) bps

Corporate and government fixed maturities		457	Liquidity	80 - 1,310 (370) bps
Total fixed maturities		621		
Equity securities		74	Price-to-earnings multiples	4.2 - 11.6 (8.2)
Subtotal		695		
Securities not priced by the Company(1)		38		
Total Level 3 securities	**$**	**733**		
As of December 31, 2015				
Fixed maturities:				
Other asset and mortgage-backed securities	$	327	Liquidity	60 - 440 (200) bps
			Weighting of credit spreads	170 - 630 (220) bps
Corporate and government fixed maturities		285	Liquidity	70 - 930 (280) bps
Total fixed maturities		612		
Equity securities		69	Price-to-earnings multiples	4.2 - 11.6 (8.3)
Subtotal		681		
Securities not priced by the Company(1)		45		
Total Level 3 securities	$	726		

(1) The fair values for these securities use single, unadjusted non-binding broker quotes not developed directly by the Company.

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Significant increases in fixed maturity spreads would result in a lower fair value measurement while decreases in these inputs would result in a higher fair value measurement. Significant decreases in equity price-to-earnings multiples would result in a lower fair value measurement while increases in these inputs would result in a higher fair value measurement. Generally, the unobservable inputs are not interrelated and a change in the assumption used for one unobservable input is not accompanied by a change in the other unobservable input.

GMIB contracts. As discussed in Note 6, the Company effectively exited the GMIB business in 2013. Although these GMIB assets and liabilities must continue to be reported as derivatives at fair value, the only assumption that is expected to impact future shareholders net income is the risk of non-performance. This assumption reflects a market participant s view of (a) the risk of a subsidiary of the Company not fulfilling its GMIB obligations (GMIB liabilities) and (b) the credit risk that the reinsurers do not pay their obligations (GMIB assets). As of September 30, 2016, there were three reinsurers for GMIB, with collateral securing 69% of the balance.

The Company reports GMIB liabilities and assets as derivatives at fair value because the cash flows of these liabilities and assets are affected by equity markets and interest rates, but are without significant life insurance risk and are settled in lump sum payments. Under the terms of these written and purchased contracts, the Company periodically receives and pays fees based on either contractholders account values or deposits increased at a contractual rate. The Company will also pay and receive cash depending on account values and interest rates when contractholders elect to begin to receive minimum income payments. The Company estimates the fair value of the assets and liabilities for GMIB contracts by calculating the results for many scenarios run through a model utilizing various assumptions that include non-performance risk, among other things.

The non-performance risk adjustment is incorporated by adding an additional spread to the discount rate in the calculation of both (a) the GMIB liabilities to reflect a market participant s view of the risk of a subsidiary of the Company not fulfilling its GMIB obligations, and (b) the GMIB assets to reflect a market participant s view of the credit risk of the reinsurers, after considering collateral.

Other assumptions that affect GMIB assets and liabilities include capital market assumptions (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments) and future annuitant behavior (including mortality, lapse and annuity election rates). As certain assumptions used to estimate fair values for these contracts are largely unobservable (primarily related to future annuitant behavior), the Company classifies GMIB assets and liabilities in Level 3.

The Company regularly evaluates each of the assumptions used in establishing these assets and liabilities. Significant decreases in assumed lapse rates or spreads used to calculate non-performance risk, or increases in assumed annuity election rates, would result in higher fair value measurements. A change in one of these assumptions is not necessarily accompanied by a change in another assumption.

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

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

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three months and nine months ended September 30, 2016 and 2015. Separate account asset changes are reported separately under the heading separate account assets as the changes in fair values of these assets accrue directly to the policyholders. Gains and losses reported in these tables may include net changes in fair value that are attributable to both observable and unobservable inputs.

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[redacted]				
Balance at July 1, 2016	$ 743	$ 975	$ (947)	$ 28
[redacted]				
GMIB fair value gain/(loss)	-	(22)	22	-
[redacted]	-	1	(6)	(5)
Total gains (losses) included in shareholders net income	-	(21)	16	(5)
[redacted]	12	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	-	-	-	-
[redacted]				
Purchases	20	-	-	-
[redacted]	(1)	-	-	-
Settlements	(55)	(23)	23	-
[redacted]	(36)	(23)	23	-
Transfers into/(out of) Level 3:				
[redacted]	44	-	-	-
Transfers out of Level 3	(30)	-	-	-
[redacted]	14	-	-	-
Balance at September 30, 2016	$ 733	$ 931	$ (908)	$ 23
[redacted]	$ -	$ (21)	$ 16	$ (5)

[redacted]				
Balance at July 1, 2015	$ 666	$ 867	$ (841)	$ 26
[redacted]				
GMIB fair value gain/(loss)	-	104	(104)	-
[redacted]				
Total gains (losses) included in shareholders net income	1	104	(104)	-
[redacted]				
Gains required to adjust future policy benefits for settlement annuities (1)	4	-	-	-
[redacted]				
Purchases	25	-	-	-
[redacted]				
Settlements	(13)	(10)	10	-
[redacted]				
Transfers into/(out of) Level 3:				
[redacted]				
Transfers out of Level 3	(8)	-	-	-
[redacted]				
Balance at September 30, 2015	$ 721	$ 961	$ (935)	$ 26
[redacted]				

(1) Amounts do not accrue to shareholders.

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[redacted]				
Balance at January 1, 2016	$ 726	$ 907	$ (885)	$ 22
[redacted]				
GMIB fair value gain/(loss)	-	71	(71)	-
[redacted]	(16)	-	1	1
Total gains (losses) included in shareholders net income	(16)	71	(70)	1
[redacted]	11	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	35	-	-	-
[redacted]				
Purchases	67	-	-	-
[redacted]	(126)	-	-	-
Settlements	(71)	(47)	47	-
[redacted]	(130)	(47)	47	-
Transfers into/(out of) Level 3:				
[redacted]	235	-	-	-
Transfers out of Level 3	(128)	-	-	-
[redacted]	107	-	-	-
Balance at September 30, 2016	$ 733	$ 931	$ (908)	$ 23
[redacted]	$ (11)	$ 71	$ (70)	$ 1

[redacted]				
Balance at January 1, 2015	$ 857	$ 953	$ (929)	$ 24
[redacted]				
GMIB fair value gain/(loss)	-	37	(37)	-
[redacted]				
Total gains (losses) included in shareholders net income	29	37	(35)	2
[redacted]				
Gains required to adjust future policy benefits for settlement annuities (1)	6	-	-	-
[redacted]				
Purchases	136	-	-	-
[redacted]				
Settlements	(20)	(29)	29	-
[redacted]				
Transfers into/(out of) Level 3:				
[redacted]				
Transfers out of Level 3	(89)	-	-	-
[redacted]				
Balance at September 30, 2015	$ 721	$ 961	$ (935)	$ 26
[redacted]				

(1) Amounts do not accrue to shareholders.

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

- Realized investment gains (losses) and net investment income for amounts related to fixed maturities and equity securities and realized investment gains (losses) for the impact of changes in non-performance risk related to GMIB assets and liabilities, similar to hedge ineffectiveness; and
- Other operating expenses for amounts related to GMIB assets and liabilities (GMIB fair value gain/loss), except for the impact of changes in non-performance risk.

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

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company s best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. For the three months ended September 30, 2016, transfers between Level 2 and Level 3 primarily reflect changes in the significance of unobservable inputs used to value several securities across the foreign government and consumer sectors. Additionally, for the nine months ended September 30, 2016, transfers between Level 2 and Level 3 primarily reflect changes in liquidity and credit risk estimates for certain private placement issuers in the metals, mining, energy and consumer sectors. For the three months and nine months ended September 30, 2015, transfers out of Level 3 primarily reflect a change in the significance of the unobservable inputs related to liquidity and credit estimates used to value several private corporate bonds.

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. Beginning in 2016, investments that are measured using the practical expedient of NAV (see Note 2 for additional information) are excluded from the fair value hierarchy. Prior periods have been reclassified to conform to the current presentation. As of September 30, 2016 and December 31, 2015, separate account assets were as follows:

[redacted]				
Guaranteed separate accounts (See Note 16)	$ 246	$ 271	$ -	$ 517
[redacted]	1,407	4,947	346	6,700
Subtotal	$ 1,653	$ 5,218	$ 346	7,217
[redacted]				939

Total separate account assets				**$ 8,156**
[redacted]				
Guaranteed separate accounts (See Note 16)	$ 235	$ 274	$ -	$ 509
[redacted]				
Subtotal	$ 1,636	$ 4,972	$ 297	6,905
[redacted]				
Total separate account assets				$ 7,833

(1) Non-guaranteed separate accounts included $3.7 billion as of September 30, 2016 and $3.6 billion as of December 31, 2015 in assets supporting the Company s pension plans, including $ 0.3 billion classified in Level 3 and $0.9 billion priced at NAV as a practical expedient for both periods.

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

- corporate and structured bonds valued using recent trades of similar securities or pricing models that discount future cash flows at estimated market interest rates as described above; and
- actively-traded institutional and retail mutual fund investments and separate accounts priced using the daily net asset value that is the exit price.

Separate account assets classified in Level 3 include certain newly issued, privately-placed, complex, or illiquid securities that are priced using methods discussed above, as well as commercial mortgage loans that are valued according to the methodologies discussed below. The following tables summarize the changes in separate account assets reported in Level 3 for the three months and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Balance, beginning of period	$ 333	$ 273	$ 297	$ 255
Policyholder gains (losses)	2	(1)	3	(3)
Purchases, sales and settlements:				
Purchases	7	4	12	33
Sales	-	-	(1)	-
Settlements	(3)	(3)	(5)	(8)
Total purchases, sales and settlements	4	1	6	25
Transfers into/(out of) Level 3:				
Transfers into Level 3	7	16	46	16
Transfers out of Level 3	-	(3)	(6)	(7)
Total transfers into/(out of) Level 3	7	13	40	9
Balance, end of period	**$ 346**	$ 286	**$ 346**	$ 286

Separate account investments in securities partnerships, real estate, and hedge funds are generally valued based on the separate account s ownership share of the equity of the investee (NAV as a practical expedient), including changes in the fair values of its underlying investments. The table below provides additional information on these investments.

	Fair Value as of				
(In millions)	**September 30, 2016**	**December 31, 2015**	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)***	**Redemption Notice Period***
Security Partnerships	$ 460	$ 406	$ 279	Not applicable	Not applicable
Real Estate Funds	281	261	-	Quarterly	45-90 days
Hedge Funds	198	261	-	Up to Annually, varying by fund	30-90 days
Total	$ **939**	$ 928	$ 279		

** The attributes noted are effective as of September 30, 2016 and December 31, 2015.*

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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, partnership entities and commercial mortgage loans when they become impaired. Impaired values for these asset types classified as Level 3 representing less than 1% of total investments, were written down to their fair values, resulting in realized investment losses of $3 million after-tax for the nine months ended September 30, 2016 and $7 million after-tax for the nine months ended September 30, 2015.

Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

The following table includes the Company s financial instruments not recorded at fair value that are subject to fair value disclosure requirements at September 30, 2016 and December 31, 2015. In addition to universal life products and capital leases, financial instruments that are carried in the Company s Consolidated Financial Statements at amounts that approximate fair value are excluded from the following table.

	Classification in	September 30, 2016		December 31, 2015	
(In millions)	**the Fair Value Hierarchy**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Commercial mortgage loans	Level 3	$ 1,887	$ 1,822	$ 1,911	$ 1,864
Contractholder deposit funds, excluding universal life products	Level 3	$ 1,229	$ 1,218	$ 1,151	$ 1,148
Long-term debt, including current maturities, excluding capital leases	Level 2	$ 5,802	$ 5,012	$ 5,515	$ 5,020

The fair values for all financial instruments presented in the table above have been estimated using market information when available. The following valuation methodologies and inputs are used by the Company to determine fair value.

Commercial mortgage loans**.** The Company estimates the fair value of commercial mortgage loans generally by discounting the contractual cash flows using estimated market interest rates that reflect the Company s assessment of the credit quality of the loans. Market interest rates are derived by calculating the appropriate spread over comparable U.S. Treasury rates, based on the property type, quality rating and average life of the loan. The quality ratings reflect the relative risk of the loan, considering debt service coverage, the loan-to-value ratio and other factors. Fair values of impaired mortgage loans are based on the estimated fair value of the underlying collateral generally determined using an internal discounted cash flow model. The fair value measurements were classified in Level 3 because the cash flow models incorporate significant unobservable inputs.

Contractholder deposit funds, excluding universal life products**.** Generally, these funds do not have stated maturities. Approximately 70% 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 reinsurance recoverables equal to the carrying value of these reinsured contracts. These instruments were classified in Level 3 because certain inputs are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement.

***Long-term debt, including current maturities, excluding capital leases*.** The fair value of long-term debt is based on quoted market prices for recent trades. When quoted market prices are not available, fair value is estimated using a discounted cash flow analysis and the Company s estimated current borrowing rate for debt of similar terms and remaining maturities. These measurements were classified in Level 2 because the fair values are based on quoted market prices or other inputs that are market observable or can be corroborated by market data.

Fair values of off-balance-sheet financial instruments were not material as of September 30, 2016 and December 31, 2015.

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Note 8 Investments

Total Realized Investment Gains and Losses

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

(In millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Fixed maturities	$ 7	$ (57)	$ (5)	$ (38)
Equity securities	(1)	28	-	42
Commercial mortgage loans	-	-	4	2
Other investments, including derivatives	69	39	111	98
Realized investment gains before income taxes	**75**	10	**110**	104
Less income taxes	27	3	39	36
Net realized investment gains	**$ 48**	$ 7	**$ 71**	$ 68

Included in these realized investment gains (losses) were pre-tax asset write-downs as follows:

(In millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Other-than-temporary impairments on debt securities:				
Credit-related	$ -	$ (3)	$ (19)	$ (4)
Non credit-related (1)	(1)	(55)	(12)	(69)
Total other-than-temporary impairments on debt securities	**(1)**	(58)	**(31)**	(73)
Other asset write-downs (2)	-	(1)	(13)	(12)
Total	**$ (1)**	$ (59)	**$ (44)**	$ (85)

(1) These write-downs pertain to other-than-temporary declines in fair values due to increases in market yields (widening of credit spreads), particularly within the energy sector, for certain below investment grade fixed maturities with an increased probability of sales activity prior to recovery of their amortized cost basis.

(2) Other asset write-downs include other-than-temporary declines in fair values of equity securities, increases in valuation reserves on commercial mortgage loans and asset write-downs related to real estate investments and security partnerships.

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

(In millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Proceeds from sales	$ 300	$ 275	$ 1,012	$ 1,452
Gross gains on sales	$ 9	$ 31	$ 43	$ 82
Gross losses on sales	$ -	$ 3	$ 6	$ 7

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Fixed Maturities and Equity Securities

The amortized cost and fair value by contractual maturity periods for fixed maturities were as follows at September 30, 2016:

(In millions)		Amortized Cost		Fair Value
Due in one year or less	$	1,550	$	1,557
Due after one year through five years		6,581		6,928
Due after five years through ten years		7,353		7,881
Due after ten years		3,447		4,379
Mortgage and other asset-backed securities		461		499
Total	**$**	**19,392**	**$**	**21,244**

Actual maturities of these securities could differ from their contractual maturities used in the table above. This could occur because issuers may have the right to call or prepay obligations, with or without penalties.

Gross unrealized appreciation (depreciation) on fixed maturities by type of issuer is shown below.

		Amortized Cost		Gross Unrealized Appreciation		Gross Unrealized Depreciation		Fair Value
(In millions)				**September 30, 2016**				
Federal government and agency	$	452	$	298	$	-	$	750
State and local government		1,360		148		-		1,508
Foreign government		2,104		221		(3)		2,322
Corporate		15,015		1,192		(42)		16,165
Mortgage-backed		35		2		(1)		36
Other asset-backed		426		40		(3)		463
Total	**$**	**19,392**	**$**	**1,901**	**$**	**(49)**	**$**	**21,244**
(In millions)				**December 31, 2015**				
Federal government and agency	$	528	$	251	$	-	$	779
State and local government		1,496		147		(2)		1,641
Foreign government		1,870		147		(3)		2,014
Corporate		14,022		632		(206)		14,448
Mortgage-backed		48		2		(1)		49
Other asset-backed		492		39		(7)		524
Total	$	18,456	$	1,218	$	(219)	$	19,455

The above table includes investments with a fair value of $2.9 billion at September 30, 2016 and $2.7 billion at December 31, 2015 supporting liabilities of the Company s run-off settlement annuity business. These investments had gross unrealized appreciation of $752 million and gross unrealized depreciation of $2 million at September 30, 2016, compared with gross unrealized appreciation of $521 million and gross unrealized depreciation of $38 million at December 31, 2015. Such unrealized amounts are reported in future policy benefit liabilities rather than accumulated other comprehensive income.

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

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

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The table below summarizes fixed maturities in an unrealized loss position at September 30, 2016 by the length of time these securities have been in an unrealized loss position. These fixed maturities were primarily corporate securities with a decline in fair value that reflects an increase in market yields since purchase.

	September 30, 2016			
(Dollars in millions)	Fair Value	Amortized Cost	Unrealized Depreciation	Number of Issues
One year or less:				
Investment grade	$ 784	$ 797	$ (13)	329
Below investment grade	$ 277	$ 283	$ (6)	122
More than one year:				
Investment grade	$ 331	$ 345	$ (14)	58
Below investment grade	$ 181	$ 197	$ (16)	32

There were no available for sale equity securities with a significant unrealized loss reflected in accumulated other comprehensive income at September 30, 2016. Equity securities also include hybrid investments consisting of preferred stock with call features that are carried at fair value with changes in fair value reported in other realized investment gains (losses) and dividends reported in net investment income. As of September 30, 2016, fair values of these securities were $36 million and amortized cost was $51 million. As of December 31, 2015, fair values of these securities were $52 million and amortized cost was $66 million.

Commercial Mortgage Loans

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

Credit quality. The Company regularly evaluates and monitors credit risk, beginning with the initial underwriting of a mortgage loan and continuing throughout the investment holding period. Mortgage origination professionals employ an internal credit quality rating system designed to evaluate the relative risk of the transaction at origination that is then updated each year as part of the annual portfolio loan review. The Company evaluates and monitors credit quality on an ongoing basis, classifying each loan as a loan in good standing, potential problem loan or problem loan.

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

The following tables summarize the credit risk profile of the Company s commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios, as of September 30, 2016 and December 31, 2015:

	September 30, 2016					
	Debt Service Coverage Ratio					
(In millions) **Loan-to-Value Ratios**	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
Below 50%	$ 465	$ 15	$ -	$ -	$ -	$ 480
50% to 59%	518	24	19	30	-	591
60% to 69%	651	14	-	-	-	665
70% to 79%	-	-	30	-	35	65
80% to 89%	-	-	-	-	-	-
90% to 100%	-	-	-	-	21	21
Total	**$ 1,634**	**$ 53**	**$ 49**	**$ 30**	**$ 56**	**$ 1,822**

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	December 31, 2015					
	Debt Service Coverage Ratio					
(In millions) **Loan-to-Value Ratios**	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
Below 50%	$ 261	$ 2	$ -	$ 67	$ -	$ 330
50% to 59%	683	-	-	24	-	707
60% to 69%	590	14	-	19	-	623
70% to 79%	-	-	-	30	36	66
80% to 89%	40	-	-	-	-	40
90% to 100%	-	-	-	-	98	98
Total	$ 1,574	$ 16	$ -	$ 140	$ 134	$ 1,864

The Company s annual in-depth review of its commercial mortgage loan investments is the primary mechanism for identifying emerging risks in the portfolio. The most recent review was completed by the Company s investment professionals in the second quarter of 2016 and included an analysis of each underlying property s most recent annual financial statements, rent rolls, operating plans, budgets, a physical inspection of the property and other pertinent factors. Based on historical results, current leases, lease expirations and rental conditions in each market, the Company estimates the current year and future stabilized property income and fair value and categorizes the investments as loans in good standing, potential problem loans or problem loans. The results of the 2016 review showed improvement from the prior review in each of the key metrics and confirmed the overall strength of the portfolio. Based on property values and cash flows estimated as part of this review, and considering updates for loans where material changes were subsequently identified, the portfolio s average loan-to-value ratio improved to 56% at September 30, 2016 compared with 58% at December 31, 2015 and the portfolio s average debt service coverage ratio improved to 1.93 at September 30, 2016 compared with 1.78 at December 31, 2015. These improvements are primarily attributable to improvements in property operations and the relative stability of these metrics is primarily due to low portfolio turnover.

The Company will reevaluate a loan s credit quality between annual reviews if new property information is received or an event such as delinquency or a borrower s request for restructure causes management to believe that the Company s estimate of financial performance, fair value or the risk profile of the underlying property has been impacted.

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

Problem and potential problem mortgage loans, net of valuation reserves, totaled $21 million at September 30, 2016 and $139 million at December 31, 2015.

Impaired commercial mortgage loans. A commercial mortgage loan is considered impaired when it is probable that the Company will not collect all amounts due according to the terms of the original loan agreement. These loans are included in either problem or potential problem loans. The Company monitors credit risk and assesses the impairment of loans individually and on a consistent basis for all loans in the portfolio. Impaired loans are carried at the lower of unpaid principal balance or the fair value of the underlying real estate. Certain commercial mortgage loans without valuation reserves are considered impaired because the Company will not collect all interest due according to the terms of the original agreements; however, the Company expects to recover the unpaid principal because it is less than the fair value of the underlying real estate.

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

	September 30, 2016						December 31, 2015					
(In millions)		**Gross**		**Reserves**		**Net**		**Gross**		**Reserves**		**Net**
Impaired commercial mortgage loans with valuation reserves	**$**	**26**	**$**	**(5)**	**$**	**21**	$	113	$	(15)	$	98
Impaired commercial mortgage loans without valuation reserves		**-**		**-**		**-**		-		-		-
Total	**$**	**26**	**$**	**(5)**	**$**	**21**	$	113	$	(15)	$	98

The average recorded investment in impaired loans decreased to $83 million during the nine months ended September 30, 2016 versus $129 million during the nine months ended September 30, 2015, partially due to foreclosing on one impaired loan. Because of the risk profile of the underlying investment, the Company recognizes interest income on impaired mortgage loans only when payment is actually received.

Changes in valuation reserves for commercial mortgage loans were not material for the nine months ended September 30, 2016 and 2015.

Short-term investments and cash equivalents

Short-term investments and cash equivalents included corporate securities of $2.3 billion, federal government securities of $567 million and money market funds of $40 million as of September 30, 2016. The Company s short-term investments and cash equivalents as of December 31, 2015 included corporate securities of $925 million, federal government securities of $220 million and money market funds of $55 million.

Note 9 Derivative Financial Instruments

The Company uses derivative financial instruments to manage the characteristics of investment assets (such as duration, yield, currency and liquidity) to meet the varying demands of the related insurance and contractholder liabilities (such as paying claims, investment returns and withdrawals) and to hedge interest rate risk of its long-term debt. The Company has written and purchased GMIB reinsurance contracts in its run-off reinsurance business that are accounted for as freestanding derivatives. For further information on the Company s accounting policy for derivative financial instruments, see Note 2(C) to the Consolidated Financial Statements contained in the Company s 2015 Form 10-K. Derivatives in the Company s separate accounts are excluded from the following discussion because associated gains and losses generally accrue directly to separate account policyholders.

Collateral and termination features. The Company routinely monitors exposure to credit risk associated with derivatives and diversifies the portfolio among approved dealers of high credit quality to minimize this risk. As of September 30, 2016, the Company had $14 million in cash on deposit representing the upfront margin required for the Company s centrally-cleared derivative instruments. Certain of the Company s over-the-counter derivative instruments contain provisions requiring either the Company or the counterparty to post collateral or demand immediate payment depending on the amount of the net liability position and predefined financial strength or credit rating thresholds. Collateral posting requirements vary by counterparty. The net asset or liability positions of these derivatives were not material as of September 30, 2016 or December 31, 2015.

Investment Cash Flow and Fair Value Hedges

Using cash flow hedge accounting, the Company entered into interest rate, foreign currency, and combination (interest rate and foreign currency) swap contracts to hedge the interest and foreign currency cash flows of its fixed maturity bonds to match associated insurance liabilities. Fair values are reported in other long-term investments or accounts payable, accrued expenses and other liabilities. Changes in fair value are reported in 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.

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Beginning in the second quarter of 2016, the Company entered into a foreign currency swap contract to hedge the foreign exchange-related changes in fair value of a fixed maturity bond. Using fair value hedge accounting, the swap contract fair value is reported in other long-term investments or accounts payable, accrued expenses and other liabilities. Changes in the fair value of the swap contract, as well as changes in the fair value of the hedged bond attributable to the hedged risk are reported in other realized investment gains and losses.

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

The notional values of cash flow hedge swaps were $65 million as of September 30, 2016 and $131 million as of December 31, 2015. The notional value of the fair value hedge swap entered into beginning in the second quarter of 2016 was $23 million as of September 30, 2016.

The effects of these derivative instruments on the Consolidated Financial Statements were not material as of September 30, 2016 and December 31, 2015, and for the three months and nine months ended September 30, 2016 and 2015. No material amounts were excluded from the assessment of hedge effectiveness and no significant gains or losses were recognized due to hedge ineffectiveness.

Investment Economic Hedges

During the third quarter of 2016, the Company entered into a foreign currency forward contract to hedge the foreign exchange related changes in fair value of U.S. dollar-denominated fixed maturity bonds back to the local currency for one of its foreign subsidiaries. This arrangement was not designated as an accounting hedge, and therefore the forward contract fair value is reported in short-term investments or accounts payable, accrued expenses, and other liabilities, and changes in fair value are reported in other realized investment gains and losses.

Under the terms of this contract, the Company agrees to purchase South Korean won in exchange for U.S. dollars at a future date, generally within three months from the contract s trade date. Cash flows on foreign currency forward contracts are reported in operating activities.

The notional value of the forward contract entered into during the third quarter of 2016 was $50 million as of September 30, 2016.

The effects of these derivative instruments on the Consolidated Financial Statements were not material as of and for the three months ended September 30, 2016.

Fair Value Hedge of Long-Term Corporate Debt

The Company entered into interest rate swap contracts to convert a portion of the interest rate exposure on its long-term debt from fixed to variable rates to more closely align interest expense with interest income received on its cash equivalent and short-term investment balances. The variable rates are benchmarked to LIBOR.

Using fair value hedge accounting, the fair values of the swap contracts are reported in other assets, including other intangibles, or accounts payable, accrued expenses and other liabilities. As the critical terms of these swaps match those of the long-term debt being hedged, the carrying value of the hedged debt is adjusted to reflect changes in its fair value driven by LIBOR. The effects of those adjustments on other operating expenses are offset by the effects of corresponding changes in the swaps fair value, including interest expense for the difference between the variable and fixed interest rates.

Under the terms of these contracts, the Company provides upfront margin and settles fair value changes and net interest between variable and fixed interest rates daily with a central clearinghouse. Net interest cash flows are reported in operating activities.

The notional values of these derivative instruments were $750 million as of September 30, 2016 and December 31, 2015.

The effects of these derivative instruments on the Consolidated Financial Statements were not material as of September 30, 2016 and December 31, 2015, and for the three and nine months ended September 30, 2016 and 2015.

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GMIB

The Company s run-off reinsurance business has written reinsurance contracts with issuers of variable annuities that provide annuitants with certain guarantees of minimum income benefits resulting from the level of variable annuity account values compared with a contractually guaranteed amount (GMIB liabilities). According to the contractual terms of the written reinsurance contracts, payment by the Company depends on the actual account value in the underlying mutual funds and the level of interest rates when the contractholders elect to receive minimum income payments. The Company has purchased retrocessional coverage (GMIB assets) for these contracts, including the agreement with Berkshire in 2013, effectively exiting this business. See Note 6 for further details.

The fair value effects of GMIB contracts on the financial statements are included in Note 7 and their volume of activity is included in Note 16. Cash flows on these contracts are reported in operating activities.

Note 10 Variable Interest Entities

When the Company becomes involved with a variable interest entity, as well as when there is a change in the Company s involvement with an entity, the Company evaluates the following to determine if it is the primary beneficiary and must consolidate the entity:

- the structure and purpose of the entity;
- the risks and rewards created by and shared through the entity; and
- the Company s ability to direct its activities, receive its benefits and absorb its losses relative to the other parties involved with the entity including its sponsors, equity holders, guarantors, creditors and servicers.

The Company owns interests in security and real estate limited partnerships that are now defined as variable interest entities under ASU 2015-02 (see Note 2). These partnerships invest in the equity or mezzanine debt of privately held companies and real estate properties. General partners unaffiliated with the Company control decisions that most significantly impact the partnership s operations and the limited partners do not have substantive kick-out or participating rights. The Company s maximum exposure to these entities of $1.9 billion across approximately 100 limited partnerships as of September 30, 2016 includes $1.0 billion reported in other long-term investments and commitments to contribute an additional $0.9 billion. The Company s non-controlling interest in each of these limited partnerships is generally less than 10% of the partnership ownership interests.

In the normal course of its investing activities, the Company also makes passive investments in certain asset-backed and corporate securities that are issued by variable interest entities whose sponsors or issuers are unaffiliated with the Company. The Company receives fixed-rate cash flows from these investments and the maximum potential exposure to loss is limited to the carrying amount of $0.6 billion as of September 30, 2016, that is reported in fixed maturities. The Company s combined ownership interests are insignificant relative to the total principal amounts issued by these entities.

To provide certain services to its Medicare Advantage customers, the Company contracts with independent physician associations (IPAs) that are variable interest entities. Physicians provide health care services to Medicare Advantage customers and the Company provides medical management and administrative services to the IPAs. The Company s maximum exposure to loss related to the IPA arrangements is limited to their liability for incurred but not reported medical costs for the Company s Medicare Advantage customers. These liabilities are not material and are generally secured by deposits maintained by the IPAs.

The Company is not the primary beneficiary of any of the variable interest entities described above and does not consolidate these entities because either:

- it has no power to direct the activities that most significantly impact the entities economic performance; or

- it has neither the right to receive benefits nor the obligation to absorb losses that could be significant to these variable interest entities.

The Company has not provided, and does not intend to provide, financial support to these entities that it is not contractually required to provide. The Company performs ongoing qualitative analyses of its involvement with these variable interest entities to determine if consolidation is required.

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Note 11 Pension and Other Postretirement Benefit Plans

The Company and certain of its subsidiaries provide pension, health care and life insurance defined benefits to eligible retired employees, spouses and other eligible dependents through various domestic and foreign plans. The effect of its foreign pension and other postretirement benefit plans is immaterial to the Company s results of operations, liquidity and financial position. The Company froze its defined benefit postretirement medical plan in 2013 and its primary domestic pension plans in 2009.

As further discussed in Note 16, the Company and the Cigna Pension Plan are defendants in a class action lawsuit that has yet to be resolved. When the parties agree on a final plan amendment, the pension benefit obligation will be updated to reflect additional benefits resulting from this litigation.

For the nine months ended September 30, 2016, the Company s unrecognized actuarial losses and prior service costs (reported in accumulated other comprehensive income) decreased by $41 million pre-tax in the aggregate ($28 million after-tax) resulting in an increase in shareholders equity. This change was primarily the result of amortization.

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

	Pension Benefits				**Other Postretirement Benefits**			
	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(In millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Service cost	$ -	$ 1	$ 1	$ 2	$ -	$ -	$ -	$ -
Interest cost	50	49	149	146	3	3	8	8
Expected long-term return on plan assets	(62)	(66)	(186)	(199)	-	-	-	-
Amortization of:								
Net loss from past experience	17	17	50	52	-	-	-	-
Prior service cost	-	-	-	-	(1)	(1)	(2)	(2)
Net cost	**$ 5**	$ 1	**$ 14**	$ 1	**$ 2**	$ 2	**$ 6**	$ 6

The Company funds its domestic qualified pension plans at least at the minimum amount required by the Pension Protection Act of 2006. The Company did not make any pension contributions to these plans during the nine months ended September 30, 2016, and does not expect to make any such contributions for the remainder of 2016.

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Note 12 Debt

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

(In millions)		September 30, 2016		December 31, 2015
Short-term:				
Commercial paper	$	-	$	100
Current maturities of long-term debt		250		-
Other, including capital leases		21		49
Total short-term debt	**$**	**271**	$	149
Long-term:				
$250 million, 5.375% Notes due 2017	$	-	$	249
$131 million, 6.35% Notes due 2018		131		131
$250 million, 4.375% Notes due 2020 (1)		260		254
$300 million, 5.125% Notes due 2020 (1)		307		303
$78 million, 6.37% Notes due 2021		78		78
$300 million, 4.5% Notes due 2021 (1)		311		304
$750 million, 4% Notes due 2022		743		743
$100 million, 7.65% Notes due 2023		100		100
$17 million, 8.3% Notes due 2023		17		17
$900 million, 3.25% Notes due 2025		893		892
$300 million, 7.875% Debentures due 2027		299		299
$83 million, 8.3% Step Down Notes due 2033		82		82
$500 million, 6.15% Notes due 2036		498		498
$300 million, 5.875% Notes due 2041		296		295
$750 million, 5.375% Notes due 2042		743		743
Other, including capital leases		22		32
Total long-term debt	**$**	**4,780**	$	5,020

(1) The Company has entered into interest rate swap contracts hedging a portion of these fixed-rate debt instruments. See Note 9 for further information about the Company s interest rate risk management and these derivative instruments.

The Company has a five-year revolving credit and letter of credit agreement for $1.5 billion that permits up to $500 million to be used for letters of credit. This agreement extends through December 12, 2019 and is diversified among 16 banks, with three banks each having 12% of the commitment and the remainder spread among 13 banks. The credit agreement includes options subject to consent by the administrative agent and the committing banks to increase the commitment amount to $2 billion and to extend the term past December 12, 2019. The credit agreement is available for general corporate purposes, including for the issuance of letters of credit. The credit agreement contains customary covenants and restrictions, including a financial covenant that the Company may not permit its leverage ratio which is total consolidated debt to total consolidated capitalization (each as defined in the credit agreement) to be greater than 0.50. The leverage ratio calculation excludes the following items that are included in accumulated other comprehensive loss on the Company s consolidated balance sheets: net unrealized appreciation on fixed maturities and the portion of the post-retirement benefits liability adjustment attributable to pension.

In addition to the $5.1 billion of debt outstanding as of September 30, 2016, the Company had $9.5 billion of borrowing capacity within the maximum debt coverage covenant in the credit agreement. This additional borrowing capacity includes the $1.5 billion available under the credit agreement. Letters of credit outstanding as of September 30, 2016 totaled $14 million.

The Company was in compliance with its debt covenants as of September 30, 2016.

In April 2015, the Company redeemed two of its outstanding notes early. The Company paid a total of $955 million including accrued interest and expenses that resulted in a total pre-tax loss on early debt extinguishment of $100 million ($65 million after-tax). See Note 15 of the Company s 2015 Form 10-K for further details.

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Note 13 Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) excludes amounts required to adjust future policy benefits for the run-off settlement annuity business and a portion of deferred acquisition costs associated with the corporate owned life insurance business. Changes in the components of accumulated other comprehensive income (loss) were as follows:

(In millions)		Pre-Tax		Tax (Expense) Benefit		After-Tax
Three Months Ended September 30,						
2016						
Net unrealized appreciation, securities, July 1,	**$**	**1,135**	**$**	**(367)**	**$**	**768**
Unrealized appreciation on securities arising during the period		94		(24)		70
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)		(6)		2		(4)
Net unrealized appreciation, securities arising during the period		88		(22)		66
Net unrealized appreciation, securities, September 30,	**$**	**1,223**	**$**	**(389)**	**$**	**834**
Net unrealized appreciation, derivatives, July 1,	**$**	**5**	**$**	**(2)**	**$**	**3**
Unrealized appreciation on derivatives arising during the period		2		-		2
Reclassification adjustment for (gains) included in shareholders net income (other operating expenses)		(4)		1		(3)
Net unrealized (depreciation) on derivatives arising during the period		(2)		1		(1)
Net unrealized appreciation, derivatives, September 30,	**$**	**3**	**$**	**(1)**	**$**	**2**
Net translation of foreign currencies, July 1,	**$**	**(251)**	**$**	**18**	**$**	**(233)**
Net translation of foreign currencies arising during the period		55		-		55
Net translation of foreign currencies, September 30,	**$**	**(196)**	**$**	**18**	**$**	**(178)**
Postretirement benefits liability adjustment, July 1,	**$**	**(2,127)**	**$**	**745**	**$**	**(1,382)**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		16		(4)		12
Net change due to valuation update		(3)		-		(3)
Net postretirement benefits liability adjustment arising during the period		13		(4)		9
Postretirement benefits liability adjustment, September 30,	**$**	**(2,114)**	**$**	**741**	**$**	**(1,373)**
2015						
Net unrealized appreciation, securities, July 1,	$	733	$	(259)	$	474
Unrealized (depreciation) on securities arising during the period		(37)		26		(11)
Reclassification adjustment for losses included in shareholders net income (realized investment gains)		29		(10)		19
Net unrealized (depreciation), securities arising during the period		(8)		16		8
Net unrealized appreciation, securities, September 30,	$	725	$	(243)	$	482
Net unrealized appreciation, derivatives, July 1,	$	7	$	(3)	$	4
Unrealized appreciation on derivatives arising during the period		4		(1)		3
Net unrealized appreciation, derivatives, September 30,	$	11	$	(4)	$	7
Net translation of foreign currencies, July 1,	$	(165)	$	17	$	(148)
Net translation of foreign currencies arising during the period		(113)		1		(112)
Net translation of foreign currencies, September 30,	$	(278)	$	18	$	(260)
Postretirement benefits liability adjustment, July 1,	$	(2,240)	$	785	$	(1,455)
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		16		(5)		11
Postretirement benefits liability adjustment, September 30,	$	(2,224)	$	780	$	(1,444)

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(In millions)		Pre-Tax		Tax (Expense) Benefit		After-Tax
Nine Months Ended September 30, 2016						
Net unrealized appreciation, securities, January 1,	**$**	**612**	**$**	**(194)**	**$**	**418**
Unrealized appreciation on securities arising during the period		606		(193)		413
Reclassification adjustment for losses included in shareholders net income (realized investment gains)		5		(2)		3
Net unrealized appreciation, securities arising during the period		611		(195)		416
Net unrealized appreciation, securities, September 30,	**$**	**1,223**	**$**	**(389)**	**$**	**834**
Net unrealized appreciation, derivatives, January 1,	**$**	**10**	**$**	**(3)**	**$**	**7**
Unrealized (depreciation), derivatives arising during the period		(3)		1		(2)
Reclassification adjustment for (gains) included in shareholders net income (other operating expenses)		(4)		1		(3)
Net unrealized (depreciation), derivatives arising during the period		(7)		2		(5)
Net unrealized appreciation, derivatives, September 30,	**$**	**3**	**$**	**(1)**	**$**	**2**
Net translation of foreign currencies, January 1,	**$**	**(295)**	**$**	**21**	**$**	**(274)**
Net translation of foreign currencies arising during the period		99		(3)		96
Net translation of foreign currencies, September 30,	**$**	**(196)**	**$**	**18**	**$**	**(178)**
Postretirement benefits liability adjustment, January 1,	**$**	**(2,155)**	**$**	**754**	**$**	**(1,401)**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		48		(15)		33
Net change due to valuation update		(7)		2		(5)
Net postretirement benefits liability adjustment arising during the period		41		(13)		28
Postretirement benefits liability adjustment, September 30,	**$**	**(2,114)**	**$**	**741**	**$**	**(1,373)**
2015						
Net unrealized appreciation, securities, January 1,	$	955	$	(335)	$	620
Unrealized (depreciation) on securities arising during the period		(226)		90		(136)
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)		(4)		2		(2)
Net unrealized (depreciation), securities arising during the period		(230)		92		(138)
Net unrealized appreciation, securities, September 30,	$	725	$	(243)	$	482
Net unrealized (depreciation), derivatives, January 1,	$	(12)	$	4	$	(8)
Unrealized appreciation, derivatives arising during the period		11		(4)		7
Reclassification adjustment for losses included in shareholders net income (other operating expenses)		12		(4)		8
Net unrealized appreciation, derivatives arising during the period		23		(8)		15
Net unrealized appreciation, derivatives, September 30,	$	11	$	(4)	$	7
Net translation of foreign currencies, January 1,	$	(71)	$	9	$	(62)
Net translation of foreign currencies arising during the period		(207)		9		(198)
Net translation of foreign currencies, September 30,	$	(278)	$	18	$	(260)
Postretirement benefits liability adjustment, January 1,	$	(2,286)	$	800	$	(1,486)
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		50		(17)		33
Net change due to valuation update		12		(3)		9
Net postretirement benefits liability adjustment arising during the period		62		(20)		42
Postretirement benefits liability adjustment, September 30,	$	(2,224)	$	780	$	(1,444)

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Note 14 Income Taxes

A. Income Tax Expense

The consolidated effective tax rates of 38.1% for the nine months ended September 30, 2016 and 37.8% for the nine months ended 2015 reflect the health insurance industry tax that is not deductible for federal income tax purposes. The effective tax rate for 2016 also reflects tax benefits associated with adopting ASU 2016-09 effective January 1, 2016 as described in Note 2, partially offset by the impact of certain costs related to the pending Anthem transaction that are not tax deductible.

As part of its global capital management strategy, the Company s foreign operations retain a significant portion of their earnings overseas. These undistributed earnings are deployed outside of the U.S. in support of the liquidity and capital needs of our foreign operations. The Company does not intend to repatriate these earnings to the U.S. and as a result, income taxes are provided using the respective foreign jurisdictions tax rate. The Company has accumulated undistributed foreign earnings of $2.8 billion as of September 30, 2016. If the Company had intended to repatriate these foreign earnings to the U.S., the Company s consolidated balance sheet would have included an additional $405 million of deferred tax liabilities as of September 30, 2016.

B. Unrecognized Tax Benefits

Changes in unrecognized tax benefits were immaterial for the nine months ended September 30, 2016.

C. Other Tax Matters

The Internal Revenue Service (IRS) is expected to complete their examination of the Company s 2011 and 2012 consolidated federal income tax returns during the fourth quarter of 2016, the result of which are expected to have minimal effect on consolidated shareholders net income.

Note 15 Segment Information

The financial results of the Company s businesses are reported in the following segments:

Global Health Care aggregates the Commercial and Government operating segments due to their similar economic characteristics, products and services and regulatory environment:

- The ***Commercial*** operating segment encompasses both the U.S. commercial and certain international health care businesses serving employers and their employees, other groups and individuals. Products and services include medical, dental, behavioral health, vision, and prescription drug benefit plans, health advocacy programs and other products and services to insured and self-insured customers.

- The ***Government*** operating segment offers Medicare Advantage and Medicare Part D plans to seniors. This segment also offers Medicaid plans in selected markets.

Global Supplemental Benefits includes supplemental health, life and accident insurance products offered in selected international markets and in the U.S.

Group Disability and Life provides group long-term and short-term disability, group life, accident and specialty insurance products and related services.

Other Operations consist of:

- corporate-owned life insurance (COLI);

- run-off reinsurance business that is predominantly comprised of GMDB and GMIB business effectively exited through reinsurance with Berkshire in 2013;

- 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.

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Corporate reflects amounts not allocated to operating 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, expense associated with frozen pension plans and certain costs for corporate projects, including overhead.

In the Company s segment disclosures, we present operating revenues, defined as total revenues excluding realized investment results. The Company excludes realized investment results from this measure because its portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment. As a result, gains or losses created in this process may not be indicative of the past or future underlying performance of the business.

The Company uses adjusted income (loss) from operations as its principal financial measure of segment operating performance because management believes it best reflects the underlying results of business operations and permits analysis of trends in underlying revenue, expenses and profitability. Adjusted income from operations is defined as shareholders net income (loss) excluding after-tax realized investment gains and losses, net amortization of other acquired intangible assets and special items. Income or expense amounts are excluded from adjusted income from operations for the following reasons:

- Realized investment results are excluded because, as noted above, the Company s portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment.

- Net amortization of other intangible assets is excluded because it relates to costs incurred for acquisitions and, as a result, it does not relate to the core performance of the Company s business operations.

- Special items, if any, are excluded because management believes they are not representative of the underlying results of operations.

For the three months and nine months ended September 30, 2016, the Company reported special item charges consisting of $49 million and $123 million of pre-tax costs ($46 million and $108 million after-tax) related to the proposed merger with Anthem. Management excludes these costs from adjusted income from operations because the size and nature of the Anthem merger is not comparable with the Company s previous acquisition activity. See Note 3 for additional details.

For the three months and nine months ended September 30, 2016, the Company also reported special item charges consisting of $40 million of pre-tax costs ($25 million after-tax) related to litigation matters further described in Note 16. These charges are excluded from adjusted income from operations because Management believes that the nature and size of these matters are not representative of the underlying results of the Company s operations.

For the nine months ended September 30, 2015, the Company reported special item charges consisting of a $100 million pre-tax loss ($65 million after-tax) on the early extinguishment of debt described in more detail in Note 15 of the Company s 2015 Form 10-K. For the three months and nine months ended September 30, 2015, the Company reported special item charges consisting of $35 million of pre-tax costs ($29 million after-tax) related to the proposed merger with Anthem as previously described.

In connection with adopting ASU 2016-09 effective January 1, 2016, the Company recognized $25 million in adjusted income from operations for Corporate for the nine months ended September 30, 2016 for certain income tax effects of stock-based compensation. See Note 2 for further discussion.

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Summarized segment financial information was as follows:

(In millions)	Global Health Care	Global Supplemental Benefits	Group Disability and Life	Other Operations	Corporate	Total
Three Months Ended September 30, 2016						
Premiums, fees and other revenues and mail order pharmacy revenues	**$ 7,636**	**$ 837**	**$ 1,026**	**$ 28**	**$ (4)**	**$ 9,523**
Net investment income	**77**	**29**	**85**	**87**	**4**	**282**
Operating revenues	**$ 7,713**	**$ 866**	**$ 1,111**	**$ 115**	**$ -**	**$ 9,805**
Total revenues	**$ 7,775**	**$ 868**	**$ 1,128**	**$ 109**	**$ -**	**$ 9,880**
Shareholders net income (loss)	**$ 413**	**$ 77**	**$ 65**	**$ 9**	**$ (108)**	**$ 456**
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	**(42)**	**-**	**(12)**	**5**	**1**	**(48)**
Amortization of other acquired intangible assets, net	**20**	**4**	**-**	**-**	**-**	**24**
Special Item:						
Charges associated with litigation matters	**25**	**-**	**-**	**-**	**-**	**25**
Merger-related transaction costs	**-**	**-**	**-**	**-**	**46**	**46**
Total special items	**25**	**-**	**-**	**-**	**46**	**71**
Adjusted income (loss) from operations	**$ 416**	**$ 81**	**$ 53**	**$ 14**	**$ (61)**	**$ 503**
Three Months Ended September 30, 2015						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 7,323	$ 767	$ 980	$ 28	$ (4)	$ 9,094
Net investment income	85	26	84	90	-	285
Operating revenues	$ 7,408	$ 793	$ 1,064	$ 118	$ (4)	$ 9,379
Total revenues	$ 7,427	$ 792	$ 1,055	$ 119	$ (4)	$ 9,389
Shareholders net income (loss)	$ 475	$ 58	$ 78	$ 17	$ (81)	$ 547
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	(14)	1	6	-	-	(7)
Amortization of other acquired intangible assets, net	21	3	-	-	-	24
Special Item:						
Merger-related transaction costs	-	-	-	-	29	29
Adjusted income (loss) from operations	$ 482	$ 62	$ 84	$ 17	$ (52)	$ 593
Nine Months Ended September 30, 2016						
Premiums, fees and other revenues and mail order pharmacy revenues	**$ 23,207**	**$ 2,425**	**$ 3,065**	**$ 83**	**$ (14)**	**$ 28,766**
Net investment income	**230**	**82**	**253**	**270**	**13**	**848**
Operating revenues	**$ 23,437**	**$ 2,507**	**$ 3,318**	**$ 353**	**$ (1)**	**$ 29,614**
Total revenues	**$ 23,510**	**$ 2,507**	**$ 3,356**	**$ 352**	**$ (1)**	**$ 29,724**
Shareholders net income (loss)	**$ 1,414**	**$ 214**	**$ 81**	**$ 53**	**$ (277)**	**$ 1,485**
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	**(49)**	**1**	**(25)**	**1**	**1**	**(71)**
Amortization of other acquired intangible assets, net	**56**	**16**	**-**	**-**	**-**	**72**
Special Item:						
Charges associated with litigation matters	**25**	**-**	**-**	**-**	**-**	**25**
Merger-related transaction costs	**-**	**-**	**-**	**-**	**108**	**108**
Total special items	**25**	**-**	**-**	**-**	**108**	**133**
Adjusted income (loss) from operations	**$ 1,446**	**$ 231**	**$ 56**	**$ 54**	**$ (168)**	**$ 1,619**

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(In millions)		Global Health Care		Global Supplemental Benefits		Group Disability and Life		Other Operations		Corporate		Total
Nine Months Ended September 30, 2015												
Premiums, fees and other revenues and mail order pharmacy revenues	$	22,110	$	2,266	$	2,934	$	90	$	(14)	$	27,386
Net investment income		251		78		252		276		1		858
Operating revenues	$	22,361	$	2,344	$	3,186	$	366	$	(13)	$	28,244
Total revenues	$	22,437	$	2,344	$	3,207	$	373	$	(13)	$	28,348
Shareholders net income (loss)	$	1,440	$	195	$	254	$	61	$	(282)	$	1,668
After-tax adjustments to reconcile to adjusted income from operations:												
Net realized investment (gains) losses		(50)		1		(13)		(6)		-		(68)
Amortization of other acquired intangible assets, net		64		12		-		-		-		76
Special Items:												
Debt extinguishment costs		-		-		-		-		65		65
Merger-related transaction costs		-		-		-		-		29		29
Total special items		-		-		-		-		94		94
Adjusted income (loss) from operations	$	1,454	$	208	$	241	$	55	$	(188)	$	1,770

The Company had receivables, net of allowances, from CMS of $1.2 billion as of September 30, 2016 and $1.5 billion as of December 31, 2015. These amounts were included in the Consolidated Balance Sheet in premiums, accounts and notes receivable and reinsurance recoverables. Premiums from CMS were 20% of consolidated revenues for the nine months ended September 30, 2016 and 21% for the nine months ended September 30, 2015.

Note 16 Contingencies and Other Matters

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

A. Financial Guarantees: Retiree and Life Insurance Benefits

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, 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 life insurance or retiree 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 of the retirement benefits business (Prudential Retirement Insurance and Annuity Company) has the right to redirect the management of the related assets to provide for benefit payments. As of September 30, 2016, employers maintained assets that exceeded the benefit obligations. Benefit obligations under these arrangements were $493 million as of September 30, 2016 and approximately 13% of these 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, 2016. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy. See Note 7 for further information on the fair value hierarchy.

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

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B. GMIB Contracts

Under these guarantees, the future payment amounts are dependent on annuitants underlying mutual fund investment values and interest rate levels prior to and at the date of annuitization election that 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 these contracts. Accordingly, the Company calculated an exposure, without considering any reinsurance coverage, using the following hypothetical assumptions:

- no annuitants surrendered their accounts;
- all annuitants lived to elect their benefit;
- all annuitants elected to receive their benefit on the next available date (2016 through 2022); and
- all underlying mutual fund investment values remained at the September 30, 2016 value of $892 million with no future returns.

The Company has reinsurance coverage in place that covers the exposures on these contracts. Using these hypothetical assumptions, this GMIB exposure is $762 million, which is lower than the recorded liability for GMIB calculated using fair value assumptions. See Notes 6, 7 and 9 for further information on GMIB contracts.

C. Certain Other Guarantees

The Company had indemnification obligations to lenders of up to $166 million as of September 30, 2016, related to borrowings by certain real estate joint ventures that the Company either records as an investment or consolidates. These borrowings, that 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 2018 through 2021. 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, 2016.

As of September 30, 2016, the Company guaranteed that it would compensate the lessors for a shortfall of up to $41 million in the market value of certain leased equipment at the end of its leases. Guarantees of $16 million expire in the fourth quarter of 2016 and $25 million expire in 2022. The Company had liabilities for these guarantees of $19 million as of September 30, 2016.

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

The Company had indemnification obligations as of September 30, 2016 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, because 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, 2016.

D. Guaranty Fund Assessments

The Company operates in a regulatory environment that may require its participation in assessments under state insurance guaranty association laws. The Company s exposure to assessments for certain obligations of insolvent insurance companies to policyholders and claimants is based on its share of business written in the relevant jurisdictions. For the nine months ended September 30, 2016 and 2015, charges related to guaranty fund assessments were immaterial to the Company s results of operations.

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The Company is aware that Penn Treaty Network America Insurance Company, together with its subsidiary American Network Insurance Company (collectively Penn Treaty) is in rehabilitation. In 2012, the state court denied the regulator s amended petitions for liquidation and set forth specific requirements and a deadline for the regulator to develop a plan of rehabilitation without liquidating Penn Treaty. The regulator has appealed the court s decision. More recently, the state court has been holding settlement conferences to attempt to resolve outstanding issues with the rehabilitation plan. In July 2016, the regulator, who is the rehabilitator, filed another amended petition for liquidation with the court. Based on the developments in this matter, it is reasonably likely that a guaranty fund assessment related to Penn Treaty will be finalized either in the fourth quarter of 2016 or in 2017. Due to the uncertainties surrounding this matter, the Company s share of this guaranty fund assessment related to Penn Treaty is uncertain, but based on current information it is estimated at approximately $80 million after-tax. The Company continues to monitor this situation.

E. Legal and Regulatory Matters

The Company is routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a global health services business. These actions may include benefit disputes, breach of contract claims, tort claims, provider disputes, disputes regarding reinsurance arrangements, employment and employment discrimination-related suits, employee benefit claims, wage and hour claims, privacy, intellectual property claims and real estate-related disputes. There are currently, and may be in the future, attempts to bring class action lawsuits against the industry. The Company also is regularly engaged in IRS audits and may be subject to examinations by various state and foreign taxing authorities. Disputed income tax matters arising from these examinations, including those resulting in litigation, are accounted for under the FASB s guidance for uncertain tax positions. Further information on income tax matters can be found in Note 14.

The business of administering and insuring health services programs, particularly health care and group insurance programs, is heavily regulated by federal and state laws and administrative agencies, such as state departments of insurance and the U.S. Departments of Health and Human Services (HHS), Treasury, Labor and Justice, as well as the courts. Health care regulation and legislation in its various forms, including the implementation of Health Care Reform, other regulatory reform initiatives, such as those relating to Medicare programs, or additional changes in existing laws or regulations or their interpretations, could have a material adverse effect on the Company s business, results of operations and financial condition.

In addition, there is heightened review by federal and state regulators of the health care, disability and life insurance industry business and related reporting practices. Cigna is frequently the subject of regulatory market conduct reviews and other examinations of its business and reporting practices, audits and investigations by state insurance and health and welfare departments, state attorneys general, CMS and the Office of Inspector General (OIG). With respect to Cigna s Medicare Advantage business, CMS and OIG perform audits to determine a health plan s compliance with federal regulations and contractual obligations, including compliance with proper coding practices (sometimes referred to as Risk Adjustment Data Validation audits or RADV audits), that may result in retrospective adjustments to payments made to health plans. Regulatory actions can result in assessments, civil or criminal fines or penalties or other sanctions, including loss of licensing or exclusion from participating in government programs.

As a global company, Cigna is also subject to the laws, regulations and rules of the foreign jurisdictions in which it conducts business. Foreign laws and rules, and regulatory audit and investigation practices, may differ from or be more stringent than, similar requirements in the U.S.

Regulation, legislation and judicial decisions have resulted in changes to industry and the Company s business practices, financial liability or other sanctions and will continue to do so in the future.

When the Company (in the course of its regular review of pending litigation and legal or regulatory matters) has determined that a material loss is reasonably possible, the matter is disclosed. Such matters are described below. In accordance with GAAP, when litigation and regulatory matters present loss contingencies that are both probable and estimable, the Company accrues the estimated loss by a charge to net income. The amount accrued represents the Company s best estimate of the probable loss at the time. If only a range of estimated losses can be determined, the Company accrues an amount within the range that, in the Company s judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, the Company accrues the minimum amount of the range. In cases when the Company has accrued an estimated loss, the accrued amount may differ materially from the ultimate amount of the loss. In many proceedings, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any loss. The Company provides disclosure in the aggregate for material pending litigation and legal or regulatory matters, including accruals, range of loss, or a statement that such information cannot be estimated. As a litigation or regulatory matter develops, the Company monitors the matter for further developments that could affect the amount previously accrued, if any, and updates such amount accrued or disclosures previously provided as appropriate.

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The outcome of litigation and other legal or regulatory matters is always uncertain, and unfavorable outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the matters pending against it and is defending itself vigorously. Except as otherwise noted, the Company believes that the legal actions, regulatory matters, proceedings and investigations currently pending against it should not have a material adverse effect on the Company s results of operations, financial condition or liquidity based upon our current knowledge and taking into consideration current accruals. The Company had pre-tax reserves as of September 30, 2016 of approximately $230 million ($150 million after-tax) for the matters described below under Litigation Matters as well as litigation related to the Company s claim processing practices for a commercial client. Due to numerous uncertain factors presented in these cases, it is not possible to estimate an aggregate range of loss (if any) for these matters at this time. In light of the uncertainties involved in these matters, there is no assurance that their ultimate resolution will not exceed the amounts currently accrued by the Company. An adverse outcome in one or more of these matters could be material to the Company s results of operations, financial condition or liquidity for any particular period.

Litigation Matters

Amara cash balance pension plan litigation. In December, 2001, Janice Amara filed a class action lawsuit in the U.S. District Court for the District of Connecticut against Cigna Corporation and the Cigna Pension Plan (the Plan) on behalf of herself and other similarly situated Plan participants affected by the 1998 conversion to a cash balance formula. The plaintiffs allege various violations of the Employee Retirement Income Security Act of 1974 (ERISA), including that the Plan s cash balance formula discriminates against older employees; that the conversion resulted in a wear-away period (when the pre-conversion accrued benefit exceeded the post-conversion benefit); and that the Plan communications contained inaccurate or inadequate disclosures about these conditions.

In 2008, the District Court (1) affirmed the Company s right to convert to a cash balance plan prospectively beginning in 1998; (2) found for plaintiffs on the disclosure claim only; and (3) required the Company to pay pre-1998 benefits under the pre-conversion traditional annuity formula and post-1997 benefits under the post-conversion cash balance formula. The Second Circuit upheld this decision. From 2008 through the present, this case has undergone a series of court proceedings that resulted in the original District Court order being largely upheld. In 2015, the Company submitted to the District Court its proposed method for calculating the additional pension benefits due to class members and plaintiffs responded in August 2015.

In January 2016, the District Court ordered the method of calculating the additional pension benefits due to class members. The court order left several aspects of the calculation of additional plan benefits open to interpretation. The parties continue to work towards obtaining agreement around differences in interpretation. The timing of the resolution of these differences remains uncertain. Once resolved, the Plan will be amended to comply with the agreed-upon interpretation of the District Court s order and the benefits will begin to be paid. The Company s reserve for this litigation remains reasonable at September 30, 2016 based on a calculation consistent with the Company s interpretation of the court order.

Ingenix. In April 2004, the Company was sued in a number of putative nationwide class actions alleging that the Company improperly underpaid claims for out-of-network providers through the use of data provided by Ingenix, Inc., a subsidiary of one of the Company s competitors. These actions were consolidated into *Franco v. Connecticut General Life Insurance Company, et al.*, pending in the U.S. District Court for the District of New Jersey. The consolidated amended complaint, filed in 2009 on behalf of subscribers, health care providers and various medical associations, asserted claims related to benefits and disclosure under ERISA, the Racketeer Influenced and Corrupt

Organizations (RICO) Act, the Sherman Antitrust Act and New Jersey state law and seeks recovery for alleged underpayments from 1998 through the present. Other major health insurers have been the subject of, or have settled, similar litigation.

In September 2011, the District Court (1) dismissed all claims by the health care provider and medical association plaintiffs for lack of standing; and (2) dismissed the antitrust claims, the New Jersey state law claims and the ERISA disclosure claim. In January 2013 and again in April 2014, the District Court denied separate motions by the plaintiffs to certify a nationwide class of subscriber plaintiffs. The Third Circuit denied plaintiff s request for an immediate appeal of the January 2013 ruling. As a result, the case is proceeding on behalf of the named plaintiffs only. In June 2014, the District Court granted the Company s motion for summary judgment to terminate all claims, and denied the plaintiffs partial motion for summary judgment. In July 2014, the plaintiffs appealed all of the District Court s decisions in favor of the Company, including the class certification decision, to the Third Circuit. On May 2, 2016, the Third Circuit affirmed the District Court s decisions denying class certification for the claims asserted by members, the granting of summary judgment on the individual plaintiffs claims, as well as the dismissal of the antitrust claims. However, the Third Circuit also reversed the earlier dismissal of the providers ERISA claims. The Company will continue to vigorously defend its position.

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Regulatory Matters

CMS actions. In January 2016, CMS issued a Notice of Imposition of Immediate Intermediate Sanctions (the Notice) to the Company. The Notice required us to suspend certain enrollment and marketing activities for Medicare Advantage-Prescription Drug and Medicare Part D Plans. The sanctions do not impact the right of current enrollees to remain covered by our Medicare Advantage-Prescription Drug or Medicare Part D Plans. We continue to devote significant resources to our remediation efforts. For the nine months ended September 30, 2016, costs related to our CMS audit response were approximately $80 million after-tax.

CMS imposed sanctions based on its findings of deficiencies with the Company s operations of its Parts C and D appeals and grievances, Part D formulary and benefit administration and compliance program. While we are working with CMS to address the audit findings and have the sanctions lifted as quickly as possible, these matters will not be resolved in time to participate in the 2017 Medicare Advantage and Part D annual enrollment period that began in October 2016 and ends on December 7, 2016. The impact of disenrollment is not material to 2016 consolidated revenues and earnings. In 2017, Medicare enrollment and consolidated revenues will be materially impacted due to our inability to participate in annual enrollment. However, management does not anticipate that 2017 shareholders net income will be materially affected because we expect to offset the margin impact of the revenue loss with several factors including significantly lower costs to remediate the sanctions and other operational efficiencies.

On October 12, 2016, CMS announced Medicare Star Quality Ratings (Star Ratings) for 2017 (see page 22 of our 2015 Form 10-K for further description of Star Ratings). While Star Ratings are based on a number of plan performance measures that are evaluated each year, the projected Star Ratings for our plans included certain reductions which are primarily attributable to our CMS audit discussed above. Under these revised Star Ratings, approximately 20% of our Medicare Advantage customers would be in a 4 Stars or greater plan. We do not believe that these Star Ratings reflect the quality offerings Cigna HealthSpring provides to beneficiaries.

We will work fully with CMS through their process as well as consider additional alternatives to ensure that final Star Ratings more accurately reflect our performance. We remain committed to our partnership with CMS and to delivering quality products and services to seniors, while working to mitigate the impact these Star Ratings could have on our offerings in 2018. There is no financial impact in 2016 or 2017 because these ratings apply to plans for the 2018 payment year.

Disability claims regulatory matter. During the second quarter of 2013, the Company finalized an agreement with the Departments of Insurance for Maine, Massachusetts, Pennsylvania, Connecticut and California (together, the monitoring states) related to the Company s long-term disability claims handling practices. The agreement requires primarily: (1) enhanced procedures related to documentation and disposition and (2) a two-year monitoring period followed by a re-examination that began in the second quarter of 2016. Management believes the Company has addressed the requirements of the agreement. If the monitoring states find material non-compliance with the agreement upon re-examination, the Company may be subject to additional costs and penalties or requests to change its business practices that could negatively impact future earnings for this business.

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Other Legal Matters

On July 21, 2016, the DOJ and certain state attorneys general filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia seeking to block the merger with Anthem. Trial is scheduled to begin on November 21, 2016. The Company will continue to defend itself in this matter.

Following announcement of the Company s merger agreement with Anthem as discussed in Note 3, putative class action complaints (collectively the complaints or Cigna Merger Litigation) were filed by purported Cigna shareholders on behalf of a purported class of Cigna shareholders. Additional lawsuits arising out of or relating to the merger agreement or the merger may be filed in the future.

Cigna, members of the Cigna board of directors, Anthem and Anthem Merger Sub Corp (Merger Sub) have been named as defendants. The plaintiffs generally assert that the members of the Cigna board of directors breached their fiduciary duties to the Cigna shareholders during merger negotiations and by entering into the merger agreement and approving the merger, and that Cigna, Anthem and Merger Sub aided and abetted such breaches of fiduciary duties. The allegations include, among other things, that (1) the merger consideration undervalues Cigna, (2) the sales process leading up to the merger was flawed due to purported conflicts of interest of members of the Cigna board of directors and (3) certain provisions of the merger agreement inappropriately favor Anthem and inhibit competing bids. Plaintiffs seek, among other things, injunctive relief enjoining the merger, rescission of the merger agreement to the extent already implemented, and costs and damages.

Effective November 24, 2015, solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, the Company, the Company s directors, Anthem and Merger Sub entered into a Memorandum of Understanding (MOU) to settle the Cigna Merger Litigation. Subject to approval by the Connecticut Superior Court, Judicial District of Hartford and further definitive documentation in a settlement agreement that wi