ALBEMARLE CORP
Form 8-K
February 23, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) February 23, 2006 (February 16, 2006)

ALBEMARLE CORPORATION

(Exact name of Registrant as specified in charter)

Virginia	**1-12658**	**54-1692118**
(State or other jurisdiction of incorporation)	**(Commission file number)**	**(IRS employer identification no.)**

330 South Fourth Street, Richmond, Virginia	**23219**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code (804) 788-6000

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 1 Registrant s Business and Operations

Item 1.01 Entry into a Material Definitive Agreement.

2006 Base Salaries

On February 16, 2006, the Executive Compensation Committee of the Board of Directors (the Committee) of Albemarle Corporation (the Company) approved the following 2005 bonuses under the Company s 2003 Incentive Plan (the Incentive Plan) for the Company s named executive officers (the Named Executive Officers): Mark C. Rohr, President and Chief Executive Officer ($1,000,000); John M. Steitz, Senior Vice President Business Operations ($350,000); Richard J. Diemer, Jr., Senior Vice President and Chief Financial Officer ($200,000); Luther C. Kissam, IV, Vice President, General Counsel and Secretary ($290,000); William M. Gottwald, Chairman of the Board ($313,000); and George A. Newbill, Senior Vice President Manufacturing Operations ($260,000).

2006 Incentive Plan Target Bonuses

As set forth in Item 1 of the Company s Current Report on Form 8-K filed on December 14, 2005, on December 8, 2005, the Committee approved the 2006 target percentages for the executive officers of the Company, pursuant to the Incentive Plan. Under the Incentive Plan, each of the Named Executive Officers is eligible to receive an annual cash incentive payment of zero to two times a target percentage of their respective base salaries if certain criteria to be established by the Committee are met for 2006. On February 16, 2006, the Committee established the annual incentive plan metrics for 2006 bonuses based on the following factors: annual net income before special items, reduction in working capital, sustainability and corporate governance, and development of people and culture.

Section 9 Financial Statements and Exhibits

Item 9.01. Financial Statement and Exhibits.

(c) *Exhibits.*

10.1 Form of Notice of Performance Unit Award

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 23, 2006

ALBEMARLE CORPORATION

By: /s/ Luther C. Kissam, IV
Luther C. Kissam, IV
Senior Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit Number	**Exhibit**
10.1	Form of Notice of Performance Unit Award

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2013

2012

2013

2012

Medical:

Guaranteed cost

	$ 1,123	$ 1,075	$ 3,338	$ 3,160
Experience-rated(1)	570	480	1,710	1,510
Stop loss	479	422		

	1,410
	1,242
International health care	
	433
	413
	1,315
	1,222
Dental	
	285
	251
	850
	744
Medicare	

	1,404
	1,342
	4,255
	3,653
Medicaid	
	81
	60
	235
	135
Medicare Part D	
	302
	322
	1,089
	1,105

Other	185	168	549	501
Total premiums	4,862	4,533	14,751	13,272
Fees	837	774		

	2,459	2,302		
Total premiums and fees	**$ 5,699**	**$ 5,307**	**$ 17,210**	**$ 15,574**

(1) Includes minimum premium business that has a risk profile similar to experience-rated funding arrangements. The risk portion of minimum premium revenue is reported in experience-rated medical premium whereas the self funding portion of minimum premium revenue is reported in fees. Also, includes certain non-participating cases for which special customer level reporting of experience is required.

Premiums and fees increased 7% for the three months and 11% for the nine months ended September 30, 2013 compared with the same periods in 2012, primarily driven by growth in the U.S. Commercial ASO customer base resulting in higher fees, stop loss revenues and specialty contribution, as well as rate increases on most products, relatively consistent with underlying medical cost trends. Premiums and fees from the international health care business increased primarily due to new sales and, to a lesser extent, the conversion of Vanbreda business from service to risk. The increase in the Government segment was due to a higher customer base in Medicare Advantage, partially offset by the impact of sequestration effective April 1, 2013 (see the Industry Developments section of this MD&A for further information). In addition, the nine months ended September 30, 2013 also benefited from an additional month of premium from HealthSpring reflecting the timing of the acquisition on January 31, 2012.

Net investment income increased 34% for the three months and 27% for the nine months ended September 30, 2013 compared with the same periods in 2012, reflecting higher yields, with the nine months ended September 30, 2013 also benefiting from higher assets.

Table of Contents

Mail order pharmacy revenue increased 17% for the three months and 12% for the nine months ended September 30, 2013 compared with the same periods of 2012 primarily reflecting higher prescription volume for specialty medications (injectibles).

Other revenues consist primarily of revenues earned on direct channel sales of certain specialty products, including behavioral health and disease management, as well as revenues for management services provided to independent physician associations and health plans.

Benefits and Expenses

Global Health Care segment benefits and expenses consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2013**	**2012**	**2013**	**2012**
Medical claims expense	$ 3,913	$ 3,561	$ 11,864	$ 10,584
Mail order pharmacy cost of goods sold	390	324	1,096	975
Operating expenses (excluding special items)	1,375	1,298	4,054	3,871
Special item(s)	-	65	37	96
Total benefits and expenses	**$ 5,678**	**$ 5,248**	**$ 17,051**	**$ 15,526**

	Three Months Ended September 30,		Nine Months Ended September 30,	
Selected ratios	**2013**	**2012**	**2013**	**2012**
Guaranteed cost medical care ratio	82.9%	80.2%	79.8%	78.9%
Medicare Advantage medical care ratio	85.5%	80.0%	84.2%	80.5%
Medicare Part D medical care ratio	69.9%	69.8%	88.2%	87.1%
Operating expense ratio (including special items)	21.8%	23.3%	21.6%	23.2%
Operating expense ratio (excluding special items)	21.8%	22.2%	21.4%	22.6%

Medical claims expense increased 10% for the three months and 12% for the nine months ended September 30, 2013 compared with the same periods in 2012, primarily reflecting medical cost inflation and customer growth and, to a lesser extent, higher medical costs in Medicare Advantage. The nine months ended September 30, 2013 was also driven by an additional month of claims expense from HealthSpring.

Operating expenses (including special items) increased 1% for the three months and 3% for the nine months ended September 30, 2013 compared with the same periods in 2012. Excluding special items, operating expenses increased 6% for the three months and 5% for the nine months ended September 30, 2013 compared with the same periods in 2012. For the three months ended September 30, 2013, the increase was primarily due to higher spending to enhance our capabilities, including the costs associated with our new PBM service arrangement, and customer-driven volume growth partially offset by operating cost efficiencies. For the nine months ended September 30, 2013, the increase is primarily due to an additional month of operating expenses from HealthSpring, as well as customer-driven volume growth, and spending to enhance our capabilities, including the costs associated with our new PBM service arrangement, partially offset by operating cost efficiencies and the postretirement plan curtailment gain.

One measure of the segment s overall operating efficiency is the operating expense ratio, calculated as total operating expenses divided by segment revenues. The table above shows operating expense ratios for the Global Health Care segment.

The operating expense ratios, both including and excluding special items, decreased for the three months and nine months ended September 30, 2013 compared to the same periods in 2012. These decreases were primarily driven by revenue growth and operating cost efficiencies partially offset by higher spending to enhance our capabilities, including the costs associated with our new PBM service arrangement. For the nine months ended September 30, 2013, the operating expense ratio also benefited from the additional month of activity from HealthSpring. The HealthSpring business has a substantially lower operating expense ratio when compared to the Company s commercial businesses.

Table of Contents

Other Items Affecting Health Care Results

Global Health Care Medical Claims Payable

Medical claims payable is higher at September 30, 2013 compared to December 31, 2012, reflecting customer growth, as well as the seasonal buildup of Stop Loss reserves. (See Note 5 to the Consolidated Financial Statements for additional information).

Effective Tax Rate

The segment s effective tax rate for the three months ended September 30, 2013 was 33.5% compared to 35.8% for the same period of 2012. For the nine months ended September 30, 2013, the segment s effective tax rate was 34.9% compared to 36.2 % for the same period of 2012. The lower effective tax rates in 2013 were largely attributable to the recognition of tax benefits related to certain of the segment s foreign operations. See Note 15 for further information.

Medical Customers

A medical customer is defined as a person meeting any one of the following criteria:

- is covered under an insurance policy or service agreement issued by the Company;
- has access to the Company s provider network for covered services under their medical plan; or
- has medical claims that are administered by the Company.

As of September 30, estimated total medical customers were as follows:

(In thousands)	**2013**	**2012**
Commercial Risk:		
U.S. Guaranteed cost	1,119	1,119
U.S. Experience-rated (1)	789	762
International health care - risk	773	736
Total commercial risk	2,681	2,617

Medicare	463	420
Medicaid	25	21
Total government	488	441
Total risk	3,169	3,058
Service, including international health care	11,131	10,913
Total medical customers	**14,300**	**13,971**

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

The Company s overall medical customer base as of September 30, 2013 increased 2% when compared with September 30, 2012, primarily driven by continued growth in the regional, select, individual, and government market segments.

Global Supplemental Benefits Segment

Segment Description

As explained in the Introduction section of this MD&A and Note 16 to the Consolidated Financial Statements, effective December 31, 2012, the Company changed its external reporting segments. Prior year information has been conformed to the new segment structure.

The Global Supplemental Benefits segment includes supplemental health, life and accident insurance products offered in the U.S. and foreign markets, primarily in Asia, as well as Medicare supplemental coverage following the 2012 acquisition of Great American Supplemental Benefits.

Table of Contents

The key factors affecting segment earnings and adjusted income from operations for this segment are:

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

Throughout this discussion, prior period currency adjusted income from operations, revenues, and benefits and expenses are being calculated by applying the current period s exchange rates to reported results in the prior period. A strengthening U.S. Dollar against foreign currencies will decrease segment earnings, while a weakening U.S. Dollar produces the opposite effect.

Results of Operations

FINANCIAL SUMMARY *(In millions)*	**Three Months Ended September 30, 2013**	**2012**	**Nine Months Ended September 30, 2013**	**2012**
Premiums and fees	$ 634	$ 493	$ 1,851	$ 1,392
Net investment income	25	22	75	65
Other revenues	4	7	21	18
Segment revenues	663	522	1,947	1,475
Benefits and expenses	612	477	1,753	1,346
Income before taxes	51	45	194	129
Income taxes	12	11	48	25
Income attributable to redeemable noncontrolling interest	-	-	3	-
Segment earnings	**39**	**34**	**143**	**104**
Less: special items (after-tax) included in segment earnings:				
Charge for realignment and efficiency plan (See Note 7 to the Consolidated Financial Statements)	**-**	(6)	**-**	(6)
Adjusted income from operations	**$ 39**	**$ 40**	**$ 143**	**$ 110**
Adjusted income from operations, using actual 2013 currency exchange rates	$ 39	$ 41	$ 143	$ 113
Realized investment gains (losses), net of taxes	$ (1)	$ 1	$ 5	$ 4

Global Supplemental Benefits segment earnings increased 15% for the three months and 38% for the nine months ended September 30, 2013 compared with the same periods in 2012. Segment earnings for the three months and nine months ended September 30, 2012 included a $6 million after tax charge associated with the realignment and efficiency plan. For the nine months ended September 30, 2012, segment earnings also included an $8 million favorable adjustment related to the expansion of a capital management strategy (see further discussion in the Liquidity and Capital Resources section of the MD&A).

Excluding the effect of these items and applying actual 2013 currency exchange rates to 2012 results, adjusted income from operations decreased 5% for the three months ended September 30, 2013. The decrease was primarily driven by strategically planned investment spending and costs for new affinity partnerships to support future business growth, as well as higher benefits expense. These unfavorable effects were largely offset by business growth and the acquisitions of Great American Supplemental Benefits and Finans Emeklilik (the acquisitions) during the second half of 2012.

For the nine months ended September 30, 2013, adjusted income from operations increased 36% excluding the effect of the items mentioned above and applying 2013 currency exchange rates to 2012 results. This increase was primarily driven by business growth, primarily in South Korea, lower acquisition costs in Europe reflecting a decision to cease selling activities in certain markets, and the earnings of the acquisitions during the second half of 2012, partially offset by higher benefits expenses.

Revenues

Premiums and fees increased 29% for the three months and 33% for the nine months ended September 30, 2013. Applying actual 2013 currency exchange rates to 2012 results, premiums and fees increased by 28% for the three months and 31% for the nine months ended September 30, 2013, compared with the same periods in 2012. These increases are primarily attributable to the acquisitions, and to a lesser extent, strong persistency, and new sales growth, particularly in South Korea.

Table of Contents

Net investment income increased by 14% for the three months and 15% for the nine months ended September 30, 2013 compared with the same periods last year. These increases were primarily due to the acquisitions in the second half of 2012.

Benefits and Expenses

Benefits and expenses increased by 28% for the three months and 30% for the nine months ended September 30, 2013. Excluding the realignment and efficiency charge from 2012 and applying actual 2013 currency exchange rates to 2012 results, benefits and expenses increased by 30% for the three months and nine months ended September 30, 2013, compared with the same periods in 2012. These increases were primarily due to the acquisitions in the second half of 2012 and business growth.

Loss ratios increased for the three months and nine months ended September 30, 2013 reflecting the inherently higher loss ratios of the Great American Supplemental Benefits business.

Policy acquisition expenses increased for the three months and nine months ended September 30, 2013, reflecting the acquisitions and business growth, partially offset by lower acquisition costs in Europe reflecting a decision to cease selling activities in certain markets.

Expense ratios increased for the three months and for the nine months ended September 30, 2013 compared to the same periods last year. The increases were primarily driven by strategically planned investment spending to support future business growth, partially offset by the impact of the lower expense ratios associated with the Great American Supplemental Benefits business.

Other Items Affecting Global Supplemental Benefits Results

For the Company s Global Supplemental Benefits segment, South Korea is the single largest geographic market. South Korea generated 50% of the segment s revenues and 84% of the segment s earnings for the nine months ended September 30, 2013. Due to the concentration of business in South Korea, the Global Supplemental Benefits segment is exposed to potential losses resulting from economic, regulatory and geopolitical developments in that country, as well as foreign currency movements affecting the South Korean currency, that could have a significant impact on the segment s results and the Company s consolidated financial results. For the nine months ended September 30, 2013, our Global Supplemental Benefits Segment operations in Korea represented 4% of Cigna s total consolidated revenues and 11% of Cigna s shareholders net income.

Table of Contents

Group Disability and Life Segment

Segment Description

As explained in the Introduction section of this MD&A and Note 16 to the Consolidated Financial Statements, effective December 31, 2012, the Company changed its external reporting segments. The Group Disability and Life segment includes group disability, life, accident and specialty insurance, including certain disability and life insurance business previously reported in the former Health Care segment. Prior year information has been conformed to the new segment structure.

Key factors affecting segment earnings and adjusted income from operations for this segment are:

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

Results of Operations

FINANCIAL SUMMARY *(In millions)*	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Premiums and fees	$ 848	$ 775	$ 2,552	$ 2,305
Net investment income	82	74	238	223
Other revenues	-	-	1	-
Segment revenues	930	849	2,791	2,528
Benefits and expenses	801	758	2,523	2,211
Income before income taxes	129	91	268	317
Income taxes	37	27	74	94
Segment earnings	**92**	**64**	**194**	**223**
Less special items (after-tax) included in segment earnings:				
Charge for disability claims regulatory matter (See Note 17 to the Consolidated Financial Statements)	**-**	-	**(51)**	-
Charge for realignment and efficiency plan (See Note 7 to the Consolidated Financial Statements)	**-**	(2)	**-**	(2)
Adjusted income from operations	**$ 92**	**$ 66**	**$ 245**	**$ 225**
Realized investment gains, net of taxes	$ 6	$ 1	$ 36	$ 6

Segment earnings increased 44% for the three months ended September 30, 2013 compared with the same period in 2012 primarily as a result of higher adjusted income from operations. Adjusted income from operations increased 39% reflecting the favorable impact of Disability and Specialty reserve reviews, higher net investment income and a lower operating expense ratio, partially offset by unfavorable Life claims experience. Results for the three months ended September 30, 2013 included the favorable after-tax effect of reserve reviews of $26 million as compared to the favorable after-tax effect of reserve reviews of $5 million in the three months ended September 30, 2012.

For the nine months ended September 30, 2013, segment earnings decreased 13% as a result of the charge related to a disability claims regulatory matter partially offset by higher adjusted income from operations. Adjusted income from operations increased 9% due to favorable disability claim experience, higher net investment income and a lower operating expense ratio, partially offset by a higher life loss ratio. Results included the favorable after-tax effects of reserve reviews of $55 million for the nine months ended September 30, 2013 and $43 million for the nine months ended September 30, 2012. Results in the nine months ended September 30, 2013 also included the $20 million favorable after-tax effect of a higher discount rate on claims incurred during 2013 as a result of the reallocation of higher yielding assets to the disability and life portfolio.

Revenues

Premiums and fees increased 9% for the three months and 11% for the nine months ended September 30, 2013 compared with the same periods in 2012 reflecting strong disability and life new sales, in-force growth and continued strong persistency.

Table of Contents

Net investment income increased 11% for the three months and 7% for the nine months ended September 30, 2013 compared with the same periods in 2012 as a result of higher assets, partnership investment income and prepayment fees partially offset by lower yields.

Benefits and Expenses

Benefits and expenses increased 6% for the three months ended September 30, 2013 compared with the same period in 2012, primarily as a result of premium growth in the disability and life businesses and a higher life loss ratio offset by a lower operating expense ratio. The higher life loss ratio reflects higher new claims. The lower operating expense ratio is driven by lower overhead. Benefits and expenses for the three months ended September 30, 2013 include the before-tax favorable impact of reserve reviews of $36 million compared with $7 million for the same period in 2012.

Benefits and expenses increased 14% for the nine months ended September 30, 2013 compared with the same period in 2012 as a result of the $77 million before-tax impact of the disability claims regulatory matter, premium growth in the disability and life business and a higher loss ratio in the life business, partially offset by a lower disability loss ratio and a lower operating expense ratio. The higher life loss ratio reflects higher new claims. The lower disability loss ratio is driven by lower new claims. The lower operating expense ratio is driven by lower overhead. Benefits and expenses for the nine months ended September 30, 2013 include the before-tax favorable impact of reserve reviews of $78 million compared with $60 million for the same period in 2012. Benefits and expenses for the nine months ended September 30, 2013 also included the before-tax favorable effect of $28 million related to an increase in the discount rate for 2013 incurred claims.

Run-off Reinsurance Segment

Segment Description

The Company s reinsurance operations were discontinued and are now an inactive business in run-off mode since the sale of the U.S. individual life, group life and accidental death reinsurance business in 2000.

Effective February 4, 2013, the Company reinsured 100% of the Company s future exposures for the Run-off GMDB and GMIB business, net of retrocessional arrangements in place prior to February 4, 2013, up to a specified limit. See Note 6 to the Consolidated Financial and the Introduction section of this MD&A for additional information.

In 2010, the Company effectively exited from its workers compensation and personal accident reinsurance business by purchasing retrocessional coverage from a Bermuda subsidiary of Enstar Group Limited.

The Company excludes the results of the GMIB business from adjusted income (loss) from operations because the fair value of GMIB assets and liabilities is recalculated each quarter using updated capital market assumptions. Prior to February 4, 2013, the resulting changes in fair value that were reported in shareholders   net income were volatile and unpredictable. Beginning on February 4, 2013, net changes in GMIB fair values are expected to be de minimus. Additionally, changes in GMIB fair value due to non-performance risk are reflected in realized investment gains or losses.

Table of Contents

Results of Operations

FINANCIAL SUMMARY (In millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Premiums and fees	$ -	$ 5	$ 1	$ 16
Net investment income	2	25	17	77
Other revenues	-	(42)	(39)	(106)
Segment revenues	2	(12)	(21)	(13)
Benefits and expenses	1	(50)	726	(2)
Income (loss) before income taxes	1	38	(747)	(11)
Income taxes (benefits)	1	13	(261)	(4)
Segment earnings (loss)	**-**	**25**	**(486)**	**(7)**
Less: results of GMIB business	**-**	32	25	22
Less: special item (after-tax) included in segment earnings:				
Charge related to reinsurance transaction	**-**		(507)	-
Adjusted loss from operations	**$ -**	**$ (7)**	**$ (4)**	**$ (29)**
Realized investment gains (losses) net of taxes	$ (4)	$ 1	$ 13	$ -

Segment results for the three months ended September 30, 2013 were lower than the same period in 2012, primarily due to the absence of third quarter 2012 GMIB gains, partially offset by the third quarter 2012 GMDB reserve strengthening. For the nine months ended September 30, 2013, segment results reflect the after-tax charge related to the February 4, 2013 reinsurance transaction of $507 million. See Note 6 to the Consolidated Financial Statements for further information around the loss on reinsurance.

See the Benefits and Expenses section for further discussion of the results of the GMIB and GMDB business, including the impact of the February 4, 2013 reinsurance transaction.

Net Investment Income

Net investment income decreased for the three months and the nine months ended September 30, 2013 compared with the same periods in 2012, primarily attributable to the sale or reallocation of investment assets as a result of the reinsurance transaction with Berkshire.

Other Revenues

Other revenues consisted of gains and (losses) from futures and swap contracts used in the GMDB and GMIB equity and interest rate hedge programs that were discontinued beginning February 4, 2013. The components were as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,

(In millions)	**2013**	**2012**	**2013**	**2012**
GMDB - Equity Hedge Program	$ -	$ (36)	$ (28)	$ (100)
GMDB - Growth Interest Rate Hedge Program	-	1	(4)	6
GMIB - Equity Hedge Program	-	(8)	(6)	(14)
GMIB - Growth Interest Rate Hedge Program	-	1	(1)	2
Other revenues	**$ -**	**$ (42)**	**$ (39)**	**$ (106)**

These hedging programs generally produced losses when equity markets and interest rates were rising and gains when equity markets and interest rates were falling. Amounts reflecting related changes in liabilities for GMDB contracts were included in benefits and expenses consistent with GAAP for a premium deficient book of business, resulting in no effect on shareholders net income (see below Other Benefits and Expenses). Changes in liabilities for GMIB contracts, including the portion covered by the hedges, were recorded in GMIB fair value (gain) loss.

Table of Contents

Benefits and Expenses

Benefits and expenses were comprised of the following:

(In millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
GMIB fair value (gain)	$ -	$ (53)	$ -	$ (33)
Other benefits and expenses	1	3	726	31
Benefits and expenses	$ 1	$ (50)	$ 726	$ (2)

GMIB fair value (gain). GMIB fair value results for the nine months ended September 30, 2013 reflect gains through February 4, 2013 from increases in underlying account values and interest rates fully offset by the charge related to the February 4, 2013 reinsurance transaction.

GMIB fair value gains of $53 million for the three months ended September 30, 2012 and $33 million for the nine months ended September 30, 2012 were primarily due to updates in the claim exposure calculation, a reduction in annuitization rates, and the effect of increases in underlying account values, partially offset by a reduction in lapse rates and general declines in interest rates.

Other Benefits and Expenses. Other benefits and expenses are comprised of the following:

(In millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Results of GMDB equity and interest rate hedging programs	$ -	$ (35)	$ (32)	$ (94)
Reserve strengthening	-	10	727	43
Other GMDB, primarily accretion of discount	-	21	5	60
GMDB benefit expense	-	(4)	700	9
Other, including operating expenses	1	7	26	22
Other benefits and expenses	$ 1	$ 3	$ 726	$ 31

Results of GMDB hedging programs. The reductions in benefits expense in 2013 and 2012 reflect favorable equity market performance. Results for 2013 are limited to market activity prior to the hedge program s discontinuance resulting from the reinsurance transaction with Berkshire.

Reserve strengthening. The reserve strengthening for the nine months ended September 30, 2013 was driven by the reinsurance transaction of February 4, 2013. The reserve strengthening in the three months ended September 30, 2012 primarily reflected an update to management s consideration of the anticipated impact of continued low short-term interest rates. This evaluation also led management to lower the mean investment performance assumption for equity funds from 4.75% to 4.00% for those funds not subject to the growth interest rate hedge program. This impact was partially offset by favorable equity market conditions. For the nine months ended September 30, 2012, reserve strengthening also included reductions to the lapse assumptions and, to a lesser extent, an increase to the volatility and correlation assumptions.

Other benefits and expenses. Other, including operating expenses, increased for the nine months ended September 30, 2013 primarily due to expenses associated with the reinsurance transaction of February 4, 2013.

Table of Contents

Other Operations Segment

Segment Description

Cigna s Other Operations segment includes the results of the following businesses:

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

Results of Operations

FINANCIAL SUMMARY *(In millions)*	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Premiums and fees	$ 25	$ 22	$ 78	$ 73
Net investment income	96	96	291	293
Other revenues	13	14	36	41
Segment revenues	134	132	405	407
Benefits and expenses	104	99	317	312
Income before taxes	30	33	88	95
Income taxes (benefits)	(5)	11	14	32
Segment earnings	**35**	**22**	**74**	**63**
Adjusted income from operations	**$ 35**	**$ 22**	**$ 74**	**$ 63**
Realized investment gains (losses), net of taxes	$ 2	$ 1	$ 8	$ (1)

Segment earnings and adjusted income from operations increased 59% for the three months and 17% for the nine months ended September 30, 2013 compared with the same periods in 2012, resulting from the $14 million favorable impact of the 2009-2010 IRS examinations completed during the third quarter of 2013. Nine month results are partially offset by the continued decline in deferred gain amortization associated with the sold businesses. See Note 15 to the Consolidated Financial Statements for additional information on the IRS examinations.

Premiums and fees. Premiums and fees reflect revenue primarily on universal and whole life insurance policies in the COLI business. Premiums and fees increased for the three months and nine months ended September 30, 2013, compared with the same periods in 2012 primarily due to strong persistency and higher transaction fees.

Net investment income. Net investment income decreased slightly for the nine months ended September 30, 2013 compared with the same period in 2012, primarily reflecting lower assets and lower average yields.

Other revenues. Other revenues decreased for the three months and nine months ended September 30, 2013, compared with the same periods in 2012 primarily due to lower investment management fees and lower deferred gain amortization related to the sold retirement benefits and individual life insurance and annuity businesses.

For more information regarding the sale of these businesses, see Note 6 to the Consolidated Financial Statements.

Benefits and expenses. Benefits and expenses increased for the three months ended September 30, 2013 compared with the same period in 2012, primarily due to higher COLI mortality experience and higher amortization of deferred acquisition costs.

Benefits and expenses increased for the nine months ended September 30, 2013 compared with the same period in 2012, primarily due to scheduled lump sum annuity payments and higher amortization of deferred acquisition costs for COLI. These increases are partially offset by lower investment management fees.

Table of Contents

Corporate

Description

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 the Company s frozen pension plans, certain corporate project costs and corporate overhead expenses such as directors expenses.

FINANCIAL SUMMARY	**Three Months Ended September 30,**				**Nine Months Ended September 30,**			
(In millions)		**2013**		**2012**		**2013**		**2012**
Segment loss	$	(54)	$	(63)	$	(167)	$	(203)
Less: special items (after-tax) included in segment loss:								
Costs associated with HealthSpring acquisition		-		(12)		-		(33)
Adjusted loss from operations	**$**	**(54)**	**$**	**(51)**	**$**	**(167)**	**$**	**(170)**

The decrease in Corporate s segment loss for the three months and nine months ended September 30, 2013 compared with the same periods in 2012 is primarily attributable to the absence of the costs associated with the HealthSpring acquisition treated as special items in 2012.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

Liquidity requirements at the subsidiary level generally consist of:

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

The Company s subsidiaries normally meet their operating requirements by:

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

Liquidity requirements at the parent company level generally consist of:

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

The parent company normally meets its liquidity requirements by:

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

Cash flows for the nine months ended September 30, were as follows:

(In millions)		**2013**		2012
Operating activities	**$**	**107**	$	1,557
Investing activities	**$**	**740**	$	(3,864)
Financing activities	**$**	**(771)**	$	(150)

Cash flows from operating activities consist of cash receipts and disbursements for premiums and fees, mail order pharmacy, other revenues, investment income, taxes, benefits and expenses, and, prior to February 4, 2013, gains and losses recognized in connection with the Company s GMDB and GMIB equity hedge programs. Because certain income and expense transactions do not generate cash, and because cash transactions related to revenues and expenses may occur in periods different from when those revenues and expenses are recognized in shareholders net income, cash flows from operating activities can be significantly different from shareholders net income.

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

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

Operating activities

Cash provided by operating activities included payments totaling \$2.2 billion to Berkshire in connection with the February 4, 2013 reinsurance transaction. Excluding those payments, cash flows from operating activities increased by \$746 million for the nine months

Table of Contents

ended September 30, 2013 compared with the same period in 2012 primarily due to the favorable effects of higher adjusted income from operations, business growth in the ongoing operating segments, lower VADBe hedge losses and lower tax payments.

Investing activities

Cash provided by investing activities was $740 million for the nine months ended September 30, 2013. This consisted primarily of the proceeds from net investment sales of $1.2 billion that were used largely to fund the reinsurance payments to Berkshire, partially offset by purchases of property and equipment of $414 million.

Cash used in investing activities was $3,864 million for the nine months ended September 30, 2012. This use of cash consisted primarily of the acquisition of HealthSpring of $3.2 billion (net of cash acquired), the acquisition of Great American Supplemental Benefits of $271 million (net of cash acquired), net purchases of investments of $67 million and net purchases of property and equipment (primarily internal-use software) of $329 million.

Financing activities

Cash used in financing activities for the nine months ended September 30, 2013 primarily reflected repurchases of common stock of $836 million (net of unsettled purchases of $27 million at September 30, 2013) and a decrease in short-term debt of $100 million, primarily commercial paper that had been used to partially fund the reinsurance payment to Berkshire. Partially offsetting the effects of those activities were proceeds from the issuance of common stock of $132 million and net deposits from contractholders of $49 million.

The Company maintains a Rule 10b5-1 share repurchase program, authorized by the Board of Directors that permits the Company to repurchase shares at times when it otherwise might be precluded from doing so under insider trading laws or because of self-imposed trading black-out periods. The decision to repurchase shares depends on market conditions and alternate uses of capital. The Company may suspend activity under this program from time to time and may also remove such suspensions, generally without public announcement. Through October 31, 2013 the Company repurchased 13.6 million shares for approximately $1.0 billion. The remaining share repurchase authority as of October 31, 2013 was $312 million.

Cash used in financing activities for the nine months ended September 30, 2012 primarily reflected the repayment of debt assumed in the HealthSpring acquisition of $326 million and repurchases of common stock for $85 million, partially offset by the change in short-term debt of $123 million primarily from the issuance of commercial paper, proceeds from the issuance of common stock from employee benefit plans of $58 million and net deposits from contractholders of $72 million.

Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2013**	**2012**	**2013**	**2012**
Interest expense	$ 68	$ 68	$ 203	$ 201

Capital Resources

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

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

Table of Contents

The Company prioritizes its use of capital resources to:

- provide the capital necessary to support growth and maintain or improve the financial strength ratings of subsidiaries including pension funding obligations;

- consider acquisitions that are strategically and economically advantageous; and

- return capital to investors through share repurchase.

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

Liquidity and Capital Resources Outlook

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

At September 30, 2013, there was approximately $500 million in cash and short-term investments available at the parent company level. For the fourth quarter of 2013, the parent company has combined cash obligations of approximately $185 million for commercial paper maturities, interest and pension contributions. The parent company expects, based on its current cash position and current projections for subsidiary dividends, to have sufficient liquidity to meet its obligations.

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

- ongoing businesses experience unexpected shortfalls in earnings;

- regulatory restrictions or rating agency capital guidelines reduce the amount of dividends available to be distributed to the parent company from the insurance and HMO subsidiaries;

- significant disruption or volatility in the capital and credit markets reduces the Company s ability to raise capital; or

- a substantial increase in funding over current projections is required for the Company s pension plan.

In those cases, the Company expects to have the flexibility to satisfy liquidity needs through a variety of measures, including intercompany borrowings and sales of liquid investments. The parent company may borrow up to $1.2 billion from its principal insurance subsidiaries without state approval. As of September 30, 2013, the Company s insurance subsidiaries had $203 million of net intercompany loan balances owed to the parent company.

In addition, the Company may use short-term borrowings, such as the commercial paper program, the committed revolving credit and letter of credit agreement of up to $1.5 billion subject to the maximum debt leverage covenant in its line of credit agreement. As of September 30, 2013, the Company had $1.5 billion of borrowing capacity under the credit agreement, reflecting $39 million of letters of credit issued out of the credit facility. Within the maximum debt leverage covenant in the line of credit agreement, the Company has an additional $5.7 billion of borrowing capacity in addition to the $5.2 billion of debt outstanding.

In 2013 the Company effectively exited the run-off reinsurance business and paid the $2.2 billion reinsurance premium due to Berkshire. This reinsurance premium was funded primarily from investment asset sales, parent company cash, commercial paper borrowings and securities repurchase agreements. All obligations related to the financing of the reinsurance premium were satisfied as of June 30, 2013.

The Company maintains a capital management strategy to permanently invest the earnings of certain of its foreign operations overseas. During the first quarter of 2012, the Company expanded this strategy to its China and Indonesia operations. Permanently invested earnings are generally deployed in these countries, and where possible, other foreign jurisdictions, in support of the liquidity and capital needs of the Company s foreign operations. As of September 30, 2013 permanently reinvested earnings were approximately $862 million. Approximately $400 million of cash and cash equivalents held in these countries would, if repatriated, be subject to a charge representing the difference between the U.S. and foreign tax rates. This strategy does not materially limit the Company s ability to meet its liquidity and capital needs in the United States. Cash and cash equivalents in foreign operations are held primarily to meet local liquidity and surplus needs with excess funds generally invested in longer duration high quality securities.

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

Table of Contents

Guarantees and Contractual Obligations

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

There is no update to the contractual obligations previously provided in the Company s 2012 Form 10-K.

INVESTMENT ASSETS

During the nine months ended September 30, 2013, the Company s fixed maturities decreased approximately $2.1 billion due primarily to asset sales to fund the reinsurance transaction with Berkshire and a decrease in net appreciation driven by an increase in market yields; however, the mix of investments and their primary characteristics have not materially changed since December 31, 2012. The Company s fixed maturity portfolio continues to be diversified by issuer and industry type and the Company s commercial mortgage loan portfolio remains diversified by property type, geographic location and borrower.

The Company s investment assets do not include separate account assets. Additional information regarding the Company s investment assets and related accounting policies is included in Notes 2, 8, 9, 10, 11 and 14 to the Consolidated Financial Statements. More detailed information about the fixed maturities portfolios by type of issuer, maturity dates, and, for mortgages, by debt service coverage and loan-to-value ratios is included in Note 9 to the Consolidated Financial Statements and Notes 2, 11, 12 and 18 to the Consolidated Financial Statements in the Company s 2012 Form 10-K.

Fixed Maturities

Investments in fixed maturities include publicly traded and privately placed debt securities, mortgage and other asset-backed securities, preferred stocks redeemable by the investor and hybrid and trading securities. 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. 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 the appropriate level within the fair value hierarchy as defined in Note 8 to the Consolidated Financial Statements, based on the significance of unobservable inputs. The Company reviews methodologies and processes 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. These analyses include reviewing to ensure that prices do not become stale and whether changes from prior valuations are reasonable or require additional review. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates. Exceptions identified during these processes indicate that adjustments to prices are infrequent and do not significantly impact valuations.

The following table reflects the Company s fixed maturity portfolio by type of issuer as of September 30, 2013 and December 31, 2012:

(In millions)	**September 30, 2013**	**December 31, 2012**
Federal government and agency	$ 724	$ 902
State and local government	2,196	2,437
Foreign government	1,177	1,322
Corporate	10,507	11,896
Federal agency mortgage-backed	83	122
Other mortgage-backed	67	89
Other asset-backed	891	937
Total	**$ 15,645**	**$ 17,705**

Table of Contents

As of September 30, 2013, $13.8 billion, or 88%, of the fixed maturities in the Company s investment portfolio were investment grade (Baa and above, or equivalent), and the remaining $1.8 billion were below investment grade. The majority of the bonds that are below investment grade are rated at the higher end of the non-investment grade spectrum. These quality characteristics have not materially changed during the year.

The net appreciation of the Company s fixed maturity portfolio decreased approximately $874 million in the nine months ended September 30, 2013 driven by an increase in market yields and realized investment gains associated with asset sales. Although overall asset values are well in excess of amortized cost, there are specific securities with amortized cost in excess of fair value by $85 million in aggregate as of September 30, 2013. See Note 9 to the Consolidated Financial Statements for further information.

Corporate fixed maturities includes private placement investments of $4.6 billion that are generally less marketable than publicly-traded bonds. However, yields on these investments tend to be higher than yields on publicly-traded bonds with comparable credit risk. The Company performs a credit analysis of each issuer, diversifies investments by industry and issuer and requires financial and other covenants that allow the Company to monitor issuers for deteriorating financial strength and pursue remedial actions, if warranted. Also included in corporate fixed maturities are investments in companies that are domiciled or have significant business interests in European countries with significant political or economic concerns (Portugal, Italy, Ireland, Greece and Spain). Fixed maturity investments in these companies represent approximately $388 million at September 30, 2013, have an average quality rating of Baa and are diversified by industry sector. Financial institutions comprised approximately 2% of investments in these companies.

The Company invests in high quality foreign government obligations, with an average quality rating of Aa as of September 30, 2013. These investments are primarily concentrated in Asia consistent with the geographic distribution of the international business operations, including government obligations of South Korea, Indonesia, Taiwan and Hong Kong. Foreign government obligations also include $181 million of investments in European sovereign debt, none of which are in countries with significant political or economic concerns.

The Company s investment in state and local government securities is diversified by issuer and geography with no single exposure greater than $32 million. The Company assesses each issuer s credit quality based on a fundamental analysis of underlying financial information and does not rely solely on statistical rating organizations or monoline insurer guarantees. As of September 30, 2013, 97% of the Company s investments in these securities were rated A3 or better excluding guarantees by monoline bond insurers, consistent with the prior year. As of September 30, 2013, approximately 63% or $1,390 million of the Company s total investments in state and local government securities were guaranteed by monoline bond insurers, providing additional credit quality support. The quality ratings of these investments with and without this guaranteed support as of September 30, 2013 were as follows:

		As of September 30, 2013	
		Fair Value	
(In millions)	**Quality Rating**	**With Guarantee**	**Without Guarantee**
State and local governments	Aaa	$ 130	$ 129
	Aa1-Aa3	923	903
	A1-A3	323	314
	Baa1-Baa3	14	18
	Ba1-Ba3	-	26
Total state and local governments		**$ 1,390**	**$ 1,390**

As of September 30, 2013, the Company s investments in other asset and mortgage-backed securities totaling $1,041 million included $469 million of private placement securities with an average quality rating of Baa- that are guaranteed by monoline bond insurers. Quality ratings without considering the guarantees for these other asset-backed securities were not available.

71

Table of Contents

As of September 30, 2013, the Company had no direct investments in monoline bond insurers. Guarantees provided by various monoline bond insurers for certain of the Company s investments in state and local governments and other asset-backed securities as of September 30, 2013 were:

(In millions)	As of September 30, 2013	
Guarantor		**Indirect Exposure**
National Public Finance Guarantee (formerly MBIA, Inc.)	$	1,130
Assured Guaranty Municipal Corp (formerly Financial Security Assurance)		533
AMBAC		162
Financial Guaranty Insurance Co.		34
Total	**$**	**1,859**

Commercial Mortgage Loans

The Company s commercial mortgage loans are fixed rate loans, diversified by property type, location and borrower. Loans are secured by high quality commercial properties and are generally made at less than 75% of the property s value at origination of the loan. Property value, debt service coverage, quality, building tenancy and stability of cash flows are all important financial underwriting considerations. The Company holds no direct residential mortgage loans and does not securitize or service mortgage loans.

The Company completed its annual in-depth review of its commercial mortgage loan portfolio during the second quarter of 2013. This review included an analysis of each property s year-end 2012 financial statements, rent rolls, operating plans and budgets for 2013, a physical inspection of the property and other pertinent factors. Based on property values and cash flows estimated as part of this review and subsequent fundings and repayments, the portfolio s average loan-to-value improved to 63% at September 30, 2013 from 65% at December 31, 2012, reflecting modest improvement in valuation for the majority of the underlying properties. These valuation changes varied by property type, with apartments demonstrating the greatest appreciation, office and retail properties showing modest improvement and hotel and industrial properties exhibiting slight value declines. The portfolio s average debt service coverage ratio was estimated to be 1.59 at September 30, 2013, a slight improvement from 1.56 as of December 31, 2012. The average debt service coverage ratio improved substantially for hotel properties, was relatively flat for apartments, office properties and retail properties and declined for industrial properties.

Commercial real estate capital markets remain most active for well leased, quality commercial real estate located in strong institutional investment markets. The vast majority of properties securing the mortgages in the Company s mortgage portfolio possess these characteristics. While commercial real estate fundamentals continued to improve, the improvement has varied across geographies and property types.

The following table reflects the commercial mortgage loan portfolio as of September 30, 2013, summarized by loan-to-value ratio based primarily on the annual loan review completed during the second quarter of 2013.

Loan-to-Value Distribution

Loan-to-Value Ratios		**Amortized Cost**		
(In millions)	**Senior**	**Subordinated**	**Total**	**% of Mortgage Loans**
Below 50%	$ 308	$ 60	$ 368	15%
50% to 59%	741	-	741	31%
60% to 69%	524	24	548	23%
70% to 79%	230	22	252	10%
80% to 89%	293	10	303	13%
90% to 99%	170	5	175	7%
100% or above	16	1	17	1%
Totals	**$ 2,282**	**$ 122**	**$ 2,404**	**100%**

As summarized above, $122 million or 5% of the commercial mortgage loan portfolio is comprised of subordinated notes that were fully underwritten and originated by the Company using its standard underwriting procedures and are secured by first mortgage loans. Senior interests in these first mortgage loans were then sold to other institutional investors. This strategy allowed the Company to effectively utilize its origination capabilities to underwrite high quality loans, limit individual loan exposures, and achieve attractive

Table of Contents

risk adjusted yields. In the event of a default, the Company would pursue remedies up to and including foreclosure jointly with the holders of the senior interest, but would receive repayment only after satisfaction of the senior interest.

In the table above, the 100% or above category is comprised of two loans with carrying values equal to the value of the underlying properties.

Commercial mortgage loans are considered impaired when it is probable that the Company will not collect all amounts due according to the terms of the original loan agreement. The commercial mortgage portfolio consists of approximately 125 loans, including six impaired loans with a carrying value totaling $113 million that are classified as problem or potential problem loans. Two of these loans totaling $31 million are current based on restructured terms, three loans totaling $81 million, net of $8 million in reserves, are current, and one loan for $1 million, net of $3 million in reserves, is delinquent. See Note 9 to the Consolidated Financial Statements for additional information regarding impaired commercial mortgage loans. All of the remaining loans continue to perform under their contractual terms. The Company has $254 million of loans maturing in the next twelve months. Given the quality and diversity of the underlying real estate, positive debt service coverage and significant borrower cash investment averaging 30%, the Company believes that the vast majority of borrowers will continue to perform as expected under their contract terms.

Other Long-term Investments

The Company s other long-term investments include $1,167 million in security partnership and real estate funds, as well as direct investments in real estate joint ventures. The funds typically invest in mezzanine debt or equity of privately held companies (securities partnerships) and equity real estate. Given these investments subordinate position in the capital structure of these underlying entities, the Company assumes a higher level of risk for higher expected returns. To mitigate risk, investments are diversified across approximately 90 separate partnerships and approximately 55 general partners who manage one or more of these partnerships. Also, the funds underlying investments are diversified by industry sector or property type, and geographic region. No single partnership investment exceeds 7% of the Company s securities and real estate partnership portfolio.

Although the total fair values of these investments exceeded their carrying values as of September 30, 2013, the fair value of the Company s ownership interest in certain funds that are carried at cost was less than carrying value by $39 million. The Company expects to recover its carrying value over the average remaining life of these investments of approximately 4 years. Given the current economic environment, future impairments are possible; however, the Company does not expect those losses to have a material effect on its results of operations, financial condition or liquidity.

Problem and Potential Problem Investments

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

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

The Company recognizes interest income on problem bonds and commercial mortgage loans only when payment is actually received because of the risk profile of the underlying investment. The additional amount that would have been reflected in net income if interest on non-accrual investments had been recognized in accordance with the original terms was not significant for the nine months ended September 30, 2013 or 2012.

Table of Contents

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

	September 30, 2013			December 31, 2012		
(In millions)	Gross	Reserve	Net	Gross	Reserve	Net
Problem bonds	$ 9	$ (9)	$ -	$ 35	$ (17)	$ 18
Problem commercial mortgage loans (1)	57	(18)	39	104	(16)	88
Foreclosed real estate	29	-	29	29	-	29
Total problem investments	**$ 95**	**$ (27)**	**$ 68**	**$ 168**	**$ (33)**	**$ 135**
Potential problem bonds	$ 30	$ (9)	$ 21	$ 30	$ (9)	$ 21
Potential problem commercial mortgage loans	136	(8)	128	162	(7)	155
Total potential problem investments	**$ 166**	**$ (17)**	**$ 149**	**$ 192**	**$ (16)**	**$ 176**

(1) At September 30, 2013, included $7 million and at December 31, 2012, included $29 million of restructured loans classified in Other long-term investments that were previously reported in commercial mortgage loans.

Net problem and potential problem investments representing approximately 1% of total investments, excluding policy loans at September 30, 2013, decreased by $94 million from December 31, 2012, primarily reflecting payoff activity.

Included in after-tax realized investment results were changes in valuation reserves and asset write-downs related to commercial mortgage loans and investments in real estate entities and other-than-temporary impairments on fixed maturity securities as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Credit-related (1)	$ -	$ -	$ (5)	$ (9)
Other	(2)	-	(7)	(1)
Total	**$ (2)**	**$ -**	**$ (12)**	**$ (10)**

(1) Credit-related losses include other-than-temporary declines in fair value of fixed maturities and changes in valuation reserves and asset write-downs related to commercial mortgage loans and investments in real estate entities. There were no credit losses on fixed maturities for which a portion of the impairment was recognized in other comprehensive income.

Investment Outlook

Financial markets in the United States continued to stabilize during 2013; however, fixed income asset values declined during this period due to rising interest rates. Future realized and unrealized investment results will be driven largely by market conditions that exist when a transaction occurs or at the reporting date. These future conditions are not reasonably predictable. Management believes that the vast majority of the Company s fixed maturity investments will continue to perform under their contractual terms, and that declines in their fair values below carrying value are temporary. Based on the strategy to match the duration of invested assets to the duration of insurance and contractholder liabilities, the Company expects to hold a significant portion of these assets for the long term. The Company could experience losses related to investment impairments resulting from unfavorable credit deterioration and equity market and interest rate movements. These losses could adversely impact the Company s consolidated results of operations and financial condition and liquidity by potentially reducing the capital of the Company s insurance subsidiaries and reducing their dividend-paying capabilities.

Management believes the commercial mortgage loan portfolio is positioned to perform well due to its solid aggregate loan-to-value ratio and strong debt service coverage. Although future impairments remain possible in the current economic environment, management does not expect those losses to have a material adverse effect on the Company s financial condition or liquidity.

Table of Contents

MARKET RISK

Financial Instruments

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

During the nine months ended September 30, 2013, the impact of asset sales (primarily to fund the February 4, 2013 reinsurance transaction) and an increase in market yields resulted in a decrease of fair values for certain of the Company s financial instruments, primarily fixed maturities, commercial mortgage loans and long-term debt. As a result, the effect of a hypothetical increase in interest rates of 100 basis points on the fair values of these financial instruments decreased from approximately $685 million at December 31, 2012 to approximately $535 million at September 30, 2013. Certain financial instruments, such as insurance-related assets and liabilities, are excluded from this hypothetical calculation.

Stock Market Performance

The performance of equity markets can have a significant effect on the Company s pension liabilities since equity securities comprise a significant portion of the assets of the Company s employee pension plans.

Table of Contents

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

Cigna Corporation and its subsidiaries (the Company) and its representatives may from time to time make written and oral forward-looking statements, including statements contained in press releases, in the Company s filings with the Securities and Exchange Commission, in its reports to shareholders and in meetings with analysts and investors. Forward-looking statements may contain information about financial prospects, economic conditions, trends and other uncertainties. These forward-looking statements are based on management s beliefs and assumptions and on information available to management at the time the statements are or were made. Forward-looking statements include, but are not limited to, the information concerning possible or assumed future business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, trends and, in particular, the Company s strategic initiatives, litigation and other legal matters, operational improvement initiatives in the Company s health care operations, and the Company s outlook for full year 2013 and beyond results. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words believe , expect , plan , intend , anticipate , estimate , predict , potential , may , shoul expressions.

By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as a result of a variety of factors. Some factors that could cause actual results to differ materially from the forward-looking statements include:

1. health care reform legislation, as well as additional changes in state or federal regulation, that could, among other items, affect the way the Company does business, increase costs, limit the ability to effectively estimate, price for and manage medical costs, and affect the Company s products, services, market segments, technology and processes;

2. adverse changes in state, federal and international laws and regulations, including increased medical, administrative, technology or other costs resulting from new legislative and regulatory requirements imposed on the Company s businesses;

3. risks associated with pending and potential state and federal class action lawsuits, disputes regarding reinsurance arrangements, other litigation and regulatory actions challenging the Company s businesses, including disputes related to payments to health care professionals, government investigations and proceedings, tax audits and related litigation, and regulatory market conduct and other reviews, audits and investigations, including the possibility that the Cigna-HealthSpring business may be adversely affected by potential changes in risk adjustment data validation audit and payment adjustment methodology;

4. challenges and risks associated with implementing improvement initiatives and strategic actions in the ongoing operations of the businesses, including those related to: (i) growth in targeted geographies, product lines, buying segments and distribution channels, (ii) offering products that meet emerging market needs, (iii) strengthening underwriting and pricing effectiveness, (iv) strengthening medical cost results and a growing medical customer base, (v) delivering quality service to members and health care professionals using effective technology solutions, and (vi) lowering administrative costs;

5. the unique political, legal, operational, regulatory and other challenges associated with expanding our business globally;

6. challenges and risks associated with the successful management of the Company s outsourcing projects or key vendors;

7. the ability of the Company to execute its growth plans by successfully leveraging capabilities and integrating acquired businesses, including the Cigna-HealthSpring business by, among other things, operating Medicare Advantage plans and Cigna-HealthSpring s prescription drug plan, retaining and growing the customer base, realizing revenue, expense and other synergies, renewing contracts on

competitive terms or maintaining performance under Medicare contracts, successfully leveraging the information technology platform of the acquired businesses, and retaining key personnel;

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

9. risks associated with the Company s information technology strategy, including that the failure to make effective investments or execute improvements may impede the Company s ability to deliver services efficiently;

10. the failure to maintain effective prevention, detection and control systems for regulatory compliance and detection of fraud and abuse;

11. risks associated with the pharmacy benefits management agreement with Catamaran Corporation, including without limitation, those related to the ability to transition and implement successfully the agreement in a timely, cost-efficient manner without an adverse impact on service to clients and customers, and the failure to achieve projected operating efficiencies, estimated earnings per share accretion and estimated financial contribution to the Company s results;

12. risks associated with the Company s mail order pharmacy business that, among other things, includes any potential operational deficiencies or service issues as well as loss or suspension of state pharmacy licenses;

13. liability associated with the Company s operations of onsite clinics and medical facilities, including the health care centers operated by the Cigna-HealthSpring business;

14. heightened competition, particularly price competition, that could reduce product margins and constrain growth in the Company s

Table of Contents

businesses, primarily the Global Health Care business;

15. significant stock market declines, that could, among other things, impact the Company s pension plans in future periods as well as the recognition of additional pension obligations;

16. significant changes in market interest rates or sustained deterioration in the commercial real estate markets that could reduce the value of the Company s investment assets;

17. downgrades in the financial strength ratings of the Company s insurance subsidiaries, that could, among other things, adversely affect new sales and retention of current business or limit the subsidiaries ability to dividend capital to the parent company, resulting in changes in statutory reserve or capital requirements or other financial constraints;

18. significant deterioration in global market economic conditions and market volatility, that could have an adverse effect on the Company s investments, liquidity and access to capital markets;

19. unfavorable developments in economic conditions, that could, among other things, have an adverse effect on the impact on the businesses of our customers (including the amount and type of health care services provided to their workforce, loss in workforce and ability to pay their obligations), the businesses of hospitals and other providers (including increased medical costs) or state and federal budgets for programs, such as Medicare or social security, resulting in a negative impact to the Company s revenues or results of operations;

20. risks associated with the Company s reinsurance arrangements for the run-off retirement benefits, life insurance and annuity business, variable annuity death benefits and guaranteed minimum income benefits businesses, including but not limited to, failure by the reinsurer to meet its reinsurance obligations or that the reinsurance does not otherwise provide adequate protection; or

21. potential public health epidemics, pandemics, natural disasters and bio-terrorist activity, that could, among other things, cause the Company s covered medical and disability expenses, pharmacy costs and mortality experience to rise significantly, and cause operational disruption, depending on the severity of the event and number of individuals affected.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Table of Contents

Item 4. CONTROLS AND PROCEDURES

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

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

Table of Contents

Item 1. LEGAL PROCEEDINGS

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

Table of Contents

Item 1A. RISK FACTORS

Cigna s Annual Report on Form 10-K for the year ended December 31, 2012 includes a detailed description of its risk factors.

Table of Contents

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

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

The following table provides information about Cigna s share repurchase activity for the quarter ended September 30, 2013:

Issuer Purchases of Equity Securities

Period	Total # of shares purchased (1)	Average price paid per share	Total # of shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased as part of publicly announced program (3)
July 1-31, 2013	2,591,224	$ 75.82	2,589,761	$ 814,711,171
August 1-31, 2013	2,429,597	$ 78.27	2,306,568	$ 634,016,118
September 1-30, 2013	2,267,262	$ 80.35	2,265,310	$ 452,004,337
Total	**7,288,083**	**$ 78.05**	**7,161,639**	**N/A**

(1) Includes shares tendered by employees as payment of taxes withheld on the exercise of stock options and the vesting of restricted stock granted under the Company s equity compensation plans. Employees tendered 1,463 shares in July, 123,029 shares in August and 1,952 shares in September 2013.

(2) Cigna has had a repurchase program for many years, and has had varying levels of repurchase authority and activity under this program. The program has no expiration date. Cigna suspends activity under this program from time to time and also removes such suspensions, generally without public announcement. Remaining authorization under the program was approximately $452 million as of September 30, 2013. Remaining authorization under the program was approximately $312 million as of October 31, 2013.

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

82

Table of Contents

Item 6. EXHIBITS

(a) See Exhibit Index

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cigna Corporation

Date:	October 31, 2013
By:	/s/ Thomas A. McCarthy
	Thomas A. McCarthy
	Executive Vice President
	Chief Financial Officer
	(Duly Authorized Officer and Principal Financial Officer)

Table of Contents

INDEX TO EXHIBITS

Number	Description	Method of Filing
3.1	Restated Certificate of Incorporation of the registrant as last amended April 23, 2008	Filed as Exhibit 3.1 to the registrant s Form 10-Q for the period ended March 31, 2008 and incorporated herein by reference.
3.2	By-Laws of the registrant as last amended and restated December 6, 2012	Filed as Exhibit 3.2 to the registrant s Form 10-K for the year ended December 31, 2012 and incorporated herein by reference.
4.1	(a) Indenture dated August 16, 2006 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 4.1(a) to the registrant s Form 10-K for the year ended December 31, 2012 and incorporated herein by reference.
	(b) Supplemental Indenture No. 1 dated November 10, 2006 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 4.1(b) to the registrant s Form 10-K for the year ended December 31, 2012 and incorporated herein by reference.
	(c) Supplemental Indenture No. 2 dated March 15, 2007 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 4.1 (c) to the registrant s Form 10-Q for the period ended March 31, 2011 and incorporated herein by reference.
	(d) Supplemental Indenture No. 3 dated March 7, 2008 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 4.1 to the registrant s Form 8-K on March 10, 2008 and incorporated herein by reference.
	(e) Supplemental Indenture No. 4 dated May 7, 2009 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 99.2 to the registrant s Form 8-K on May 12, 2009 and incorporated herein by reference.
	(f) Supplemental Indenture No. 5 dated May 17, 2010 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 99.2 to the registrant s Form 8-K on May 28, 2010 and incorporated herein by reference.
	(g) Supplemental Indenture No. 6 dated December 8, 2010 between Cigna Corporation and U.S. Bank National Association	Filed as Exhibit 99.2 to the registrant s Form 8-K on December 9, 2010 and incorporated herein by reference.
	(h) Supplemental Indenture No. 7 dated March 7, 2011 between Cigna Corporation	Filed as Exhibit 99.2 to the registrant s Form 8-K on March 8, 2011 and incorporated herein by reference.

Table of Contents

		and U.S. Bank Association		
		(i) Supplemental Indenture No. 8 dated November 10, 2011 between Cigna Corporation and U.S. Bank National Association		Filed as Exhibit 4.1 to the registrant s Form 8-K on November 14, 2011 and incorporated herein by reference.
4.2		Indenture dated January 1, 1994 between Cigna Corporation and Marine Midland Bank		Filed as Exhibit 4.2 to the registrant s Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.
4.3		Indenture dated June 30, 1988 between Cigna Corporation and Bankers Trust		Filed as Exhibit 4.3 to the registrant s Form 10-K for the year ended December 31, 2009 and incorporated herein by reference.
10.1		Agreement and Release dated July 10, 2013 between Ralph J. Nicoletti and Connecticut General Life Insurance Company		Filed as Exhibit 10.1 to the registrant s Form 8-K on July 17, 2013 and incorporated herein by reference.
12		Computation of Ratio of Earnings to Fixed Charges		Filed herewith.
31.1		Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934		Filed herewith.
31.2		Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934		Filed herewith.
32.1		Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350		Furnished herewith.
32.2		Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350		Furnished herewith.
101		Financial statements from the quarterly report on Form 10-Q of Cigna Corporation for the quarter ended September 30, 2013 formatted in XBRL: (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Total Equity; (v) the Consolidated Statements of Cash Flow; and (vi) the Notes to the Consolidated Financial Statements		Filed herewith.