CIGNA CORP
Form 10-Q
October 30, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

for the transition period from _____ to _____

Commission file number 1-08323

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

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

Two Liberty Place, 1601 Chestnut Street
Philadelphia, Pennsylvania 19192
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (215) 761-1000

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No _

Indicate by check mark whether the registrant is 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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller Reporting Company [ ]

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

As of October 17, 2008, 271,723,618 shares of the issuer's common stock were outstanding.

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.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CIGNA Corporation
Consolidated Statements of Income

	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
(In millions, except per share amounts)	2008	2007	2008	2007
Revenues				
Premiums and fees	$ 4,112	$ 3,744	$ 12,165	$ 11,209
Net investment income	272	281	802	840
Mail order pharmacy revenues	300	278	882	826
Other revenues	191	83	463	256
Realized investment gains (losses)	(23)	27	(28)	37
Total revenues	4,852	4,413	14,284	13,168
Benefits and Expenses				
Health Care medical claims expense	1,806	1,659	5,450	5,107
Other benefit expenses	1,062	837	2,907	2,507
Mail order pharmacy cost of goods sold	238	225	704	669
Guaranteed minimum income benefits expense	98	-	353	120
Other operating expenses	1,416	1,190	4,152	3,522
Total benefits and expenses	4,620	3,911	13,566	11,925
Income from Continuing Operations before Income Taxes	232	502	718	1,243
Income taxes (benefits):				
Current	65	125	274	420
Deferred	(3)	14	(54)	(34)
Total taxes	62	139	220	386
Income from Continuing Operations	170	363	498	857
Income (Loss) from Discontinued Operations, Net of Taxes	1	2	3	(5)
Net Income	$ 171	$ 365	$ 501	$ 852
Earnings Per Share - Basic:				
Income from continuing operations	$ 0.62	$ 1.30	$ 1.80	$ 3.01
Income (loss) from discontinued operations	0.01	-	0.01	(0.02)
Net income	$ 0.63	$ 1.30	$ 1.81	$ 2.99
Earnings Per Share - Diluted:				
Income from continuing operations	$ 0.62	$ 1.28	$ 1.78	$ 2.95
Income (loss) from discontinued operations	-	-	0.02	(0.01)
Net income	$ 0.62	$ 1.28	$ 1.80	$ 2.94
Dividends Declared Per Share	$ -	$ 0.010	$ 0.040	$ 0.028

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

CIGNA Corporation
Consolidated Balance Sheets

(In millions, except per share amounts)		Unaudited As of September 30, 2008		As of December 31, 2007
Assets				
Investments:				
Fixed maturities, at fair value (amortized cost, $11,777; $11,409)		$ 11,892		$ 12,081
Equity securities, at fair value (cost, $140; $127)		127		132
Commercial mortgage loans		3,558		3,277
Policy loans		1,553		1,450
Real estate		51		49
Other long-term investments		576		520
Short-term investments		64		21
Total investments		17,821		17,530
Cash and cash equivalents		1,078		1,970
Accrued investment income		251		233
Premiums, accounts and notes receivable		1,627		1,405
Reinsurance recoverables		7,048		7,331
Deferred policy acquisition costs		816		816
Property and equipment		791		625
Deferred income taxes, net		1,010		794
Goodwill		2,859		1,783
Other assets, including other intangibles		1,089		536
Separate account assets		6,386		7,042
Total assets		$ 40,776		$ 40,065
Liabilities				
Contractholder deposit funds		$ 8,555		$ 8,594
Future policy benefits		8,069		8,147
Unpaid claims and claim expenses		4,089		4,127
Health Care medical claims payable		1,054		975
Unearned premiums and fees		457		496
Total insurance and contractholder liabilities		22,224		22,339
Accounts payable, accrued expenses and other liabilities		5,105		4,127
Short-term debt		315		3
Long-term debt		2,090		1,790
Nonrecourse obligations		14		16
Separate account liabilities		6,386		7,042
Total liabilities		36,134		35,317
Contingencies — Note 15				
Shareholders' Equity				
Common stock (par value per share, $0.25; shares issued, 351)		88		88
Additional paid-in capital		2,498		2,474
Net unrealized appreciation (depreciation), fixed maturities	$ (107)		$ 140	
Net unrealized appreciation, equity securities	9		7	
Net unrealized depreciation, derivatives	(16)		(19)	

Net translation of foreign currencies	(18)		61	
Postretirement benefits liability adjustment	(122)		(138)	
Accumulated other comprehensive income (loss)		(254)		51
Retained earnings		7,582		7,113
Less treasury stock, at cost		(5,272)		(4,978)
Total shareholders' equity		4,642		4,748
Total liabilities and shareholders' equity		$ 40,776		$ 40,065
Shareholders' Equity Per Share		$ 17.05		$ 16.98

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

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CIGNA Corporation
Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity
(In millions)

	Unaudited			
Three Months Ended September 30,	2008		2007	
	Compre-hensive Income	Share-holders' Equity	Compre-hensive Income	Share-holders' Equity
Common Stock, September 30		$ 88		$ 88
Additional Paid-In Capital, July 1		2,493		2,460
Effect of issuance of stock for employee benefit plans		5		5
Additional Paid-In Capital, September 30		2,498		2,465
Accumulated Other Comprehensive Loss, July 1		(84)		(257)
Net unrealized appreciation (depreciation), fixed maturities	$ (133)	(133)	$ 51	51
Net unrealized appreciation (depreciation), equity securities	2	2	(3)	(3)
Net unrealized appreciation (depreciation) on securities	(131)		48	
Net unrealized appreciation (depreciation), derivatives	14	14	(1)	(1)
Net translation of foreign currencies	(56)	(56)	18	18
Postretirement benefits liability adjustment	3	3	16	16
Other comprehensive income (loss)	(170)		81	
Accumulated Other Comprehensive Loss, September 30		(254)		(176)
Retained Earnings, July 1		7,412		6,513
Net income	171	171	365	365
Effects of issuance of stock for employee benefit plans		(1)		(10)
Common dividends declared		-		(3)
Retained Earnings, September 30		7,582		6,865
Treasury Stock, July 1		(5,155)		(4,795)
Repurchase of common stock		(125)		(236)
Other, primarily issuance of treasury stock for employee benefit plans		8		25
Treasury Stock, September 30		(5,272)		(5,006)
Total Comprehensive Income and Shareholders' Equity	$ 1	$ 4,642	$ 446	$ 4,236

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

CIGNA Corporation
Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity
(In millions)

	Unaudited			
Nine Months Ended September 30,	2008		2007	
	Compre-hensive Income	Share-holders' Equity	Compre-hensive Income	Share-holders' Equity
Common Stock, January 1		$ 88		$ 40
Effect of issuance of stock for stock split		-		48
Common Stock, September 30		88		88
Additional Paid-In Capital, January 1		2,474		2,451
Effect of issuance of stock for employee benefit plans		24		62
Effect of issuance of stock for stock split		-		(48)
Additional Paid-In Capital, September 30		2,498		2,465
Accumulated Other Comprehensive Income (Loss), January 1 prior to implementation effect		51		(169)
Implementation effect of SFAS No.155		-		(12)
Accumulated Other Comprehensive Income (Loss), January 1 as adjusted		51		(181)
Net unrealized depreciation, fixed maturities	$ (247)	(247)	$ (73)	(73)
Net unrealized appreciation (depreciation), equity securities	2	2	(3)	(3)
Net unrealized depreciation on securities	(245)		(76)	
Net unrealized appreciation (depreciation), derivatives	3	3	(11)	(11)
Net translation of foreign currencies	(79)	(79)	23	23
Postretirement benefits liability adjustment	16	16	69	69
Other comprehensive income (loss)	(305)		5	
Accumulated Other Comprehensive Loss, September 30		(254)		(176)
Retained Earnings, January 1 prior to implementation effects		7,113		6,177
Implementation effect of SFAS No. 155		-		12
Implementation effect of FIN 48		-		(29)
Retained Earnings, January 1 as adjusted		7,113		6,160
Net income	501	501	852	852
Effects of issuance of stock for employee benefit plans		(21)		(139)
Common dividends declared		(11)		(8)
Retained Earnings, September 30		7,582		6,865
Treasury Stock, January 1		(4,978)		(4,169)
Repurchase of common stock		(347)		(1,158)
Other, primarily issuance of treasury stock for employee benefit plans		53		321
Treasury Stock, September 30		(5,272)		(5,006)
Total Comprehensive Income and Shareholders' Equity	$ 196	$ 4,642	$ 857	$ 4,236

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

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CIGNA Corporation
Consolidated Statements of Cash Flows

(In millions)	Unaudited Nine Months Ended September 30, 2008	2007
Cash Flows from Operating Activities		
Net income	$ 501	$ 852
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(3)	5
Insurance liabilities	185	17
Reinsurance recoverables	47	59
Deferred policy acquisition costs	(74)	(79)
Premiums, accounts and notes receivable	16	(120)
Other assets	(425)	(125)
Accounts payable, accrued expenses and other liabilities	717	76
Current income taxes	(5)	54
Deferred income taxes	(54)	(34)
Realized investment (gains) losses	28	(37)
Depreciation and amortization	181	147
Gains on sales of businesses (excluding discontinued operations)	(28)	(36)
Mortgage loans originated and held for sale	-	(4)
Other, net	(36)	(9)
Net cash provided by operating activities	1,050	766
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	1,123	657
Equity securities	5	25
Commercial mortgage loans	48	1,219
Other (primarily short-term and other long-term investments)	279	166
Investment maturities and repayments:		
Fixed maturities	660	662
Commercial mortgage loans	31	96
Investments purchased:		
Fixed maturities	(2,237)	(1,711)
Equity securities	(18)	(13)
Commercial mortgage loans	(359)	(608)
Other (primarily short-term and other long-term investments)	(344)	(311)
Property and equipment sales	-	74
Property and equipment purchases	(179)	(183)
Acquisition of Great-West Healthcare, net of cash acquired	(1,301)	-
Cash provided by investing activities of discontinued operations	-	65
Other (primarily other acquisitions/dispositions)	(12)	(45)
Net cash provided by (used in) investing activities	(2,304)	93
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	989	893
Withdrawals and benefit payments from contractholder deposit funds	(901)	(920)
Change in cash overdraft position	(3)	36
Net change in short-term debt	312	-
Net proceeds on issuance of long-term debt	297	498

Repayment of long-term debt		-		(378)
Repurchase of common stock		(340)		(1,185)
Issuance of common stock		37		231
Common dividends paid		(14)		(8)
Net cash provided by (used in) financing activities		377		(833)
Effect of foreign currency rate changes on cash and cash equivalents		(15)		3
Net increase (decrease) in cash and cash equivalents		(892)		29
Cash and cash equivalents, beginning of period		1,970		1,392
Cash and cash equivalents, end of period	$	1,078	$	1,421
Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	$	267	$	327
Interest paid	$	96	$	83

The accompanying Notes to the Consolidated Financial Statements 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

The consolidated financial statements include the accounts of CIGNA Corporation, its significant subsidiaries, and variable interest entities of which CIGNA Corporation is the primary beneficiary, which are referred to collectively as "the Company." Intercompany transactions and accounts have been eliminated in consolidation. These consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The interim consolidated financial statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim consolidated financial statements and notes should be read in conjunction with the Consolidated Financial Statements and Notes in the Company's Form 10-K for the year ended December 31, 2007.

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

Certain reclassifications have been made to prior period amounts to conform to the presentation of 2008 amounts.

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

Discontinued operations for the third quarter and nine months ended September 30, 2007 reflected a tax benefit associated with the disposition of Lovelace Health Systems, Inc. in 2003, an impairment loss associated with the sale of the Chilean insurance operations, and realized gains from the disposition of certain directly-owned real estate investments.

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

NOTE 2 – ACQUISITIONS AND DISPOSITIONS

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

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

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", the total purchase price has been allocated to the tangible and intangible net assets acquired based on management's estimates of their fair values and may change as additional information becomes available. Accordingly, approximately $290 million was allocated to intangible assets, primarily customer relationships and internal-use software. The weighted average amortization period for these intangible assets is currently estimated at eight years. The remainder, net of tangible net assets acquired, is goodwill which is currently estimated at $1.1 billion. Substantially all of the goodwill is tax deductible and will be amortized over the next 15 years for federal income tax purposes.

During the next several months, the Company will complete its fair value analysis of Great-West Healthcare's tangible and intangible net assets and finalize integration plans. The effect on tangible and intangible net assets and net income from these initiatives will continue to be refined and updated through March 31, 2009.

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

The following supplemental information presents selected unaudited pro forma information for the Company assuming the acquisition had occurred as of January 1, 2007. The pro forma information does not purport to represent what the Company's actual results would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods.

(In millions, except per share amounts)	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	2007
Total revenues	$ 4,801	$ 14,652	$ 14,345
Income from continuing operations	$ 385	$ 526	$ 937
Net income	$ 387	$ 529	$ 932
Earnings per share:			
Income from continuing operations			
Basic	$ 1.38	$ 1.90	$ 3.29
Diluted	$ 1.35	$ 1.88	$ 3.23
Net income			
Basic	$ 1.38	$ 1.91	$ 3.27
Diluted	$ 1.36	$ 1.90	$ 3.21

Sale of the Chilean Insurance Operations. On August 10, 2007, the Company completed the sale of its Chilean insurance operations, which was classified as a discontinued operation in the second quarter of 2007. The Company recognized an impairment loss in the second quarter of 2007 for this business of $23 million after-tax primarily relating to the write-off of unrecoverable tax assets and foreign currency translation losses. As of December 31, 2006, the assets and liabilities of the Chilean insurance operations, which were held for sale, were reported in other assets and accounts payable, accrued expenses and other liabilities.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

Fair value measurements. Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements." This standard expands disclosures about fair value measurements and clarifies how to measure fair value by focusing on the price that would be received when selling an asset or paid to transfer a liability (exit price). In addition, the Financial Accounting Standards Board (FASB) recently amended SFAS No. 157 to provide additional guidance for determining the fair value of a financial asset when the market for that instrument is not active. See Note 7 for information on the Company's fair value measurements including new required disclosures.

The Company carries certain financial instruments at fair value in the financial statements including approximately $12.1 billion in invested assets at September 30, 2008. The Company also carries derivative instruments at fair value, including assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits (GMIB) under certain variable annuity contracts issued by other insurance companies and related retrocessional contracts. The Company also reports separate account assets at fair value; however, changes in the fair values of these assets accrue directly to policyholders and are not included in the Company's revenues and expenses. At the adoption of SFAS No. 157, there were no effects to the Company's measurements of fair values for financial instruments other than for assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits discussed below. In addition, there were no effects to the Company's measurements of financial assets of adopting the recent amendment to SFAS No. 157.

At adoption, the Company was required to change certain assumptions used to estimate the fair values of assets and liabilities for reinsurance contracts covering guaranteed minimum income benefits. As a result, the Company recorded a charge of $131 million after-tax, net of reinsurance ($202 million pre-tax), in Run-off Reinsurance. This charge did not have an impact on the Company’s cash flows.

Because there is no market for these contracts, the assumptions used to estimate their fair values at adoption were determined using a hypothetical market participant's view of an exit price. The Company considered the following in determining the view of a hypothetical market participant:

- that the most likely transfer of these assets and liabilities would be through a reinsurance transaction with an independent insurer having a market capitalization and credit rating similar to that of the Company; and
- that because this block of contracts is in run-off mode, an insurer looking to acquire these contracts would have similar existing contracts with related administrative and risk management capabilities.

At adoption, the assumptions used to estimate the fair value of these contracts were determined using a hypothetical market participant's view of an exit price rather than using historical market data and actual experience to establish the Company's future expectations. For many of these assumptions, there is limited or no observable market data so determining an exit price requires the Company to exercise significant judgment and make critical accounting estimates.

The Company considers the various assumptions used to estimate fair values of these contracts in two categories: capital markets and future annuitant and retrocessionaire behavior assumptions. Estimated components of the charge by category (net of reinsurance) are described below, including how these updated assumptions differ from those used historically to estimate fair values for these contracts.

Assumptions Related to Capital Markets - $183 million of the $202 million pre-tax charge, net of estimated receivables for reinsurance, reflected the impact of changes in capital markets assumptions including market return, discount rate, the projected interest rate used to calculate the reinsured income benefits at the time of annuitization (claim interest rate), and volatility. These assumptions were updated to reflect risk-free interest rates (LIBOR swap curve) and volatility consistent with that implied by derivative instruments in a consistently active market, under the assumption that a hypothetical market participant would hedge all or a portion of the net liability. The capital markets pre-tax charge is comprised of:

- $131 million related to using risk-free interest rates to project the growth in the contractholders' underlying investment accounts rather than using an estimate of the actual returns for the underlying equity and bond mutual funds over time. Risk-free growth rates were lower than the market return assumptions at December 31, 2007 which ranged from 5-11% varying by fund type. The Company believes risk-free rates would be used by a hypothetical market participant who is expected to hedge the risk associated with these contracts because they would earn risk-free interest returns from hedging instruments. However, the Company's actual payments will be based on, among other variables, the actual returns that the contractholders earn on their underlying investment accounts.
- $23 million related to assuming implied market volatility as of January 1, 2008 for certain indices where observable in a consistently active market. The Company believes that a hypothetical market participant would use these market observable implied volatilities rather than use average historical market volatilities.
- $20 million related to projecting the interest rate used to calculate the reinsured income benefits at the time of annuitization (claim interest rate) using the market implied forward rate curve and volatility as of January 1, 2008. Claim payments are based on the 7-year Treasury Rate at the time the benefit is elected, and the Company believes that a hypothetical market participant would likely use the above market-implied approach rather than projecting the 7-year Treasury Rate grading from current levels to long-term average levels.
- $9 million related to using risk-free interest rates as of January 1, 2008 to discount the liability. The Company believes that a hypothetical market participant would use current risk-free interest rates for discounting rather than a rate anticipated to be earned on the assets invested to settle the liability. The impact of using risk-free interest rates to discount the liability is significantly less than the impact of using these rates to project the growth in contractholders' underlying investment accounts because risk-free interest rates as of January 1, 2008 are much closer to the discount rate assumption of 5.75% used at December 31, 2007 prior to the adoption of SFAS No. 157.

Assumptions Related to Future Annuitant and Retrocessionaire Behavior - $19 million of the $202 million pre-tax charge, net of estimated receivables for reinsurance, reflected the impact of the Company's view of a hypothetical market participant's assumptions for future annuitant and retrocessionaire behavior and primarily reflects incremental risk and profit charges.

The Company's results of operations related to this business are expected to continue to be volatile in future periods both because underlying assumptions will be based on current market-observable inputs which will likely change each period and because the recorded liabilities, net of receivables from reinsurers, are higher after adoption of SFAS No. 157. See Note 7 for additional information.

The FASB deferred the effective date of SFAS No. 157 until the first quarter of 2009 for non-financial assets and liabilities (such as intangible assets, property and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The FASB expects to address implementation issues during this delay. Accordingly, the Company will adopt SFAS No. 157 for non-financial assets and liabilities in the first quarter of 2009 and will evaluate the effects of adoption when the FASB provides implementation guidance.

Fair value option. Effective January 1, 2008, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose fair value measurement for many financial instruments, including insurance contracts, with subsequent changes in fair value to be reported in net income for the period. This choice is made for each individual financial instrument, is irrevocable and, after implementation, must be determined when the entity first commits to or recognizes the financial instrument. The adoption of SFAS No. 159 did not impact the Company's consolidated financial statements, as no items were initially elected for fair value measurement. For financial assets and liabilities acquired in subsequent periods, the Company will determine whether to use the fair value election at the time of acquisition.

Earnings per share. In 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," to require outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends to be included in the denominator of both basic and diluted earnings per share calculations. These new requirements must be applied through restatement of prior-period earnings per share data beginning in the first quarter of 2009. On adoption, the Company does not expect material changes to either basic or diluted earnings per share data.

NOTE 4 – EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

(Dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
Three Months Ended September 30, 2008			
Income from continuing operations	$ 170	-	$ 170
Shares (in thousands):			
Weighted average	272,705	-	272,705
Options and restricted stock grants		2,137	2,137
Total shares	272,705	2,137	274,842
EPS	$ 0.62	$ -	$ 0.62
2007			
Income from continuing operations	$ 363	-	$ 363
Shares (in thousands):			
Weighted average	279,883	-	279,883
Options and restricted stock grants		4,579	4,579
Total shares	279,883	4,579	284,462
EPS	$ 1.30	$ (0.02)	$ 1.28
Nine Months Ended September 30, 2008			
Income from continuing operations	$ 498	-	$ 498
Shares (in thousands):			
Weighted average	276,466	-	276,466
Options and restricted stock grants		2,605	2,605
Total shares	276,466	2,605	279,071
EPS	$ 1.80	$ (0.02)	$ 1.78
2007			
Income from continuing operations	$ 857	-	$ 857
Shares (in thousands):			
Weighted average	284,917	-	284,917
Options and restricted stock grants		5,316	5,316
Total shares	284,917	5,316	290,233
EPS	$ 3.01	$ (0.06)	$ 2.95

The following outstanding employee stock options were not included in the computation of diluted earnings per share because their effect would have increased diluted earnings per share (antidilutive) as their exercise price was greater than the average share price of the Company's common stock for the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Options in millions)	2008	2007	2008	2007
Antidilutive options	4.9	1.6	4.5	1.6

The Company held 78,693,702 shares of common stock in Treasury as of September 30, 2008, and 71,788,175 shares as of September 30, 2007.

NOTE 5 – HEALTH CARE MEDICAL CLAIMS PAYABLE

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

(In millions)	September 30, 2008	December 31, 2007
Incurred but not yet reported	$ 894	$ 786
Reported claims in process	122	145
Other medical expense payable	38	44
Medical claims payable	$ 1,054	$ 975

Activity in medical claims payable was as follows:

	For the period ended	
(In millions)	September 30, 2008	December 31, 2007
Balance at January 1,	$ 975	$ 960
Less: Reinsurance and other amounts recoverable	258	250
Balance at January 1, net	717	710
Acquired April 1, net	70	-
Incurred claims related to:		
Current year	5,509	6,878
Prior years	(59)	(80)
Total incurred	5,450	6,798
Paid claims related to:		
Current year	4,824	6,197
Prior years	623	594
Total paid	5,447	6,791
Ending Balance, net	790	717
Add: Reinsurance and other amounts recoverable	264	258
Ending Balance	$ 1,054	$ 975

Reinsurance and other amounts recoverable reflect amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for minimum premium products and certain administrative services only business where the right of offset does not exist. See Note 9 for additional information on reinsurance. For the nine months ended September 30, 2008, actual experience differed from the Company's key assumptions resulting in favorable incurred claims related to prior years' medical claims payable of $59 million, or 0.9% of the current year incurred claims as reported for the year ended December 31, 2007. Actual completion factors resulted in a reduction in medical claims payable of $22 million, or 0.3% of the current year incurred claims as reported for the year ended December 31, 2007 for the insured book of business. Actual medical cost trend resulted in a reduction in medical claims payable of $37 million, or 0.6% of the current year incurred claims as reported for the year ended December 31, 2007 for the insured book of business.

For the year ended December 31, 2007, actual experience differed from the Company's key assumptions, resulting in favorable incurred claims related to prior years' medical claims payable of $80 million, or 1.3% of the current year incurred claims as reported for the year ended December 31, 2006. Actual completion factors resulted in a reduction of the medical claims payable of $46 million, or 0.7% of the current year incurred claims as reported for the year ended December 31, 2006 for the insured book of business. Actual medical cost trend resulted in a reduction of the medical claims payable of $34 million, or 0.6% of the current year incurred claims as reported for the year ended December 31, 2006 for the insured book of business.

The favorable impact in 2008 and 2007 relating to completion factor and medical cost trend variances is primarily due to the release of the provision for moderately adverse conditions, which is a component of the assumptions for both completion factors and medical cost trend, established for claims incurred related to prior years. This release was substantially offset by the establishment of the provision for moderately adverse conditions established for claims incurred related to the current year.

The corresponding impact of prior year development on net income was not material for the third quarter or the nine months ended September 30, 2008. The change in the amount of the incurred claims related to prior years in the medical claims payable liability does not directly correspond to an increase or decrease in the Company's net income recognized for the following reasons:

First, due to the nature of the Company's retrospectively experience-rated business, only adjustments to medical claims payable on accounts in deficit affect net income. An increase or decrease to medical claims payable on accounts in deficit, in effect, accrue to the Company and directly impact net income. An account is in deficit when the accumulated medical costs and administrative charges, including profit charges, exceed the accumulated premium received. Adjustments to medical claims payable on accounts in surplus accrue directly to the policyholder with no impact on the Company’s net income. An account is in surplus when the accumulated premium received exceeds the accumulated medical costs and administrative charges, including profit charges.

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

The determination of liabilities for Health Care medical claims payable requires the Company to make critical accounting estimates. See Note 2(O) to the Consolidated Financial Statements in the Company’s 2007 Form 10-K.

NOTE 6 – GUARANTEED MINIMUM DEATH BENEFIT CONTRACTS

The Company’s reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured a guaranteed minimum death benefit, also known as variable annuity death benefits (VADBe), under certain variable annuities issued by other insurance companies. These variable annuities are essentially investments in mutual funds combined with a death benefit. The Company has equity and other market exposures as a result of this product. The Company maintains a program to substantially reduce the equity market exposures relating to guaranteed minimum death benefit contracts by entering into exchange-traded futures contracts.

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

The Company had future policy benefit reserves for guaranteed minimum death benefit contracts of $1.1 billion as of September 30, 2008, and $848 million as of December 31, 2007. The increase in reserves is primarily due to declines in the equity market driving down the value of the underlying mutual fund investments.

During the third quarter of 2008, the Company completed its normal review of reserves (including assumptions) and recorded a charge of $111 million pre-tax ($72 million after-tax). The charge is due to:

- adverse impacts of overall market declines of $51 million pre-tax ($33 million after-tax). This includes an increase in the provision for expected future partial surrenders and declines in the values of contractholders' non-equity investments such as bond funds, neither of which is included in the program to reduce equity market exposures;
- adverse volatility-related impacts due to turbulent equity market conditions. Volatility risk is not covered by the program to reduce equity market exposures. Also, the equity market volatility in the quarter impacted the effectiveness of the program to substantially reduce the equity market exposures. In aggregate, these volatility-related impacts totaled $55 million of the pre-tax charge ($36 million after-tax). The program to substantially reduce the equity market exposures is designed so that changes in the value of a portfolio of actively managed futures contracts will offset changes in the liability resulting from equity market movements. In periods of equity market declines, the liability will increase; the program is designed to produce gains on the futures contracts to offset the increase in the liability. However, the program will not perfectly offset the change in the liability in part because the market does not offer futures contracts that exactly match the diverse mix of equity fund investments held by contractholders. In the third quarter of 2008, the impact of this mismatch was higher than most prior periods due to the relatively large changes in market indices from day to day. In addition, the number of futures contracts used in the program is adjusted only when certain tolerances are exceeded and in periods of highly volatile equity markets when actual volatility exceeds the expected volatility assumed in the liability calculation, losses will result. These conditions have had an adverse impact on earnings, and during the third quarter of 2008, the increase in the liability due to equity market movements was only partially offset by the results of the futures contracts; and
- adverse interest rate impacts. Interest rate risk is not covered by the program to substantially reduce equity market exposures, and the interest rate returns on the futures contracts were less than the Company's long-term assumption for mean investment performance generating $5 million of the pre-tax charge ($3 million after-tax).

Activity in future policy benefit reserves for these guaranteed minimum death benefits contracts was as follows:

(In millions)	For the period ended September 30, 2008	December 31, 2007
Balance at January 1	$ 848	$ 862
Less: Reinsurance recoverable	16	17
Balance at January 1, net	832	845
Add: Incurred benefits	285	61
Less: Paid benefits	67	74
Ending Balance, net	1,050	832
Add: Reinsurance recoverable	44	16
Ending Balance	$ 1,094	$ 848

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

The following provides information about the Company's reserving methodology and assumptions for guaranteed minimum death benefits as of September 30, 2008:

- The reserves represent estimates of the present value of net amounts expected to be paid, less the present value of net future premiums. Included in net amounts expected to be paid is the excess of the guaranteed death benefits over the values of the contractholders' accounts (based on underlying equity and bond mutual fund investments).
- The reserves include an estimate for partial surrenders that essentially lock in the death benefit for a particular policy based on annual election rates that vary from 0-35% depending on the net amount at risk for each policy and whether surrender charges apply.
- The mean investment performance assumption is 5% considering the Company's program to reduce equity market exposures using futures contracts. This is reduced by fund fees ranging from 1-3% across all funds. The results of futures contracts are reflected in the liability calculation as a component of investment returns.
- The volatility assumption is based on a review of historical monthly returns for each key index (e.g. S&P 500) over a period of at least ten years. Volatility represents the dispersion of historical returns compared to the average historical return (standard deviation) for each index. The assumption is 15-30%, varying by equity fund type; 3-8%, varying by bond fund type; and 2% for money market funds. These volatility assumptions are used along with the mean investment performance assumption to project future return scenarios.
- The discount rate is 5.75%.
- The mortality assumption is 70-75% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.
- The lapse rate assumption is 0-15%, depending on contract type, policy duration and the ratio of the net amount at risk to account value.

As of September 30, 2008, the aggregate value of the underlying mutual fund investments was $21.1 billion. The death benefit coverage in force as of that date (representing the amount that the Company would have to pay if all of the approximately 675,000 contractholders had died on that date) was $7.7 billion. As of December 31, 2007, the aggregate value of the underlying mutual fund investments was $30.2 billion. The death benefit coverage in force as of that date (representing the amount that the Company would have to pay if all of the approximately 750,000 contractholders had died on that date) was $4.2 billion. The death benefit coverage in force represents the excess of

the guaranteed benefit amount over the value of the underlying mutual fund investments.

The notional amount of futures contract positions held by the Company at September 30, 2008 was $1.2 billion. The Company recorded in other revenues pre-tax gains of $70 million for the third quarter and $118 million for the nine months ended September 30, 2008, compared with pre-tax losses of $11 million for the third quarter and $46 million for the nine months ended September 30, 2007 from futures contracts. Amounts reflecting corresponding changes in liabilities for these guaranteed minimum death benefit contracts were included in benefits and expenses consistent with GAAP when a premium deficiency exists.

For further information and details on these contracts and the program adopted to reduce related equity market risk, refer to Note 7 to the Consolidated Financial Statements in the Company's 2007 Form 10-K.

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 periodically measured at fair value, such as when impaired, or, for commercial mortgage loans, when classified as "held for sale."

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

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that the Company believes a hypothetical market participant would use to determine a current transaction price. These valuation techniques involve some level of estimation and judgment by the Company which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

The Company's financial assets and liabilities carried at fair value have been classified based upon a hierarchy defined by SFAS No. 157. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date. Active markets provide pricing data for trades occurring at least weekly and include exchanges and dealer markets.
- Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Financial assets and Financial liabilities measured at fair value on a recurring basis

The following table provides information as of September 30, 2008 about the Company's financial assets and liabilities measured at fair value on a recurring basis. SFAS No. 157 disclosures for separate account assets, which are also recorded at fair value on the Company's Consolidated Balance Sheets, are provided separately as gains and losses related to these assets generally accrue directly to policyholders (see page 19).

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(In millions)		Level 1		Level 2		Level 3		Total
Assets at fair value:								
Fixed maturities (1)	$	38	$	11,125	$	729	$	11,892
Equity securities		9		98		20		127
Subtotal		47		11,223		749		12,019
Short-term investments		-		64		-		64
GMIB assets (2)		-		-		552		552
Total assets at fair value, excluding separate accounts	$	47	$	11,287	$	1,301	$	12,635
Liabilities at fair value:								
GMIB liabilities	$	-	$	-	$	1,032	$	1,032
Other derivatives (3)		-		15		-		15
Total liabilities at fair value	$	-	$	15	$	1,032	$	1,047

(1) As of September 30, 2008, fixed maturities includes $280 million of net appreciation required to adjust future policy benefits for certain annuities including $29 million of appreciation from securities classified in Level 3.
(2) Guaranteed Minimum Income Benefit (GMIB) assets represent retrocessional contracts in place from two external reinsurers which cover 55% of the exposures on these contracts. The assets are net of a liability of $18 million for the future cost of reinsurance.
(3) Derivatives other than GMIB assets and liabilities are presented net of $8 million in gross derivative assets.

Level 1: Financial Assets - $47 million

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. These assets include actively-traded U.S. government bonds and exchange-listed equity securities.

Level 2: Financial Assets - $11.3 billion and Financial Liabilities - $15 million

Fixed maturities and equity securities. Approximately 93% of the Company’s investments in fixed maturities and equity securities are classified in Level 2 including most public and private corporate debt and equity securities, federal agency and municipal bonds, non-government mortgage and asset-backed securities and preferred stocks. Because many fixed maturities and preferred stocks do not trade daily, fair values are often derived using recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset.

Typical inputs and assumptions to pricing models include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. For mortgage and asset-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

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

Other derivatives. Amounts classified in Level 2 represent over-the-counter instruments such as 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, 2008. The nature and use of these other derivatives are described in Note 10(F) to the Consolidated Financial Statements in the Company's 2007 Form 10-K.

Level 3: Financial Assets - $1.3 billion and Financial Liabilities - $1.0 billion

The Company classifies certain newly issued, privately placed, complex or illiquid securities, as well as assets and liabilities relating to guaranteed minimum income benefits in Level 3.

Fixed maturities and equity securities. Approximately 6% or $749 million of fixed maturities and equity securities are classified in this category and include:

- $436 million of mortgage and asset-backed securities;
- $213 million of primarily private corporate bonds; and
- $100 million of subordinated loans and private equity investments valued at transaction price in the absence of market data indicating a change in the estimated fair values.

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

Guaranteed minimum income benefit contracts. The Company estimates the fair value of the assets and liabilities for guaranteed minimum income benefit reinsurance contracts using assumptions regarding capital markets (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments), future annuitant and retrocessionaire behavior (including mortality, lapse, annuity election rates and retrocessional credit), as well as risk and profit charges. At adoption of SFAS No. 157, the Company updated assumptions to reflect those that the Company believes a hypothetical market participant would use to determine a current exit price for these contracts and recorded a charge to net income as described in Note 3. As certain assumptions used to estimate fair values for these contracts are largely unobservable, the Company classifies assets and liabilities associated with guaranteed minimum income benefits in Level 3 (GMIB assets and liabilities).

These GMIB assets and liabilities are estimated using a complex internal model run using many scenarios to determine the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received adjusted for risk and profit charges that the Company estimates a hypothetical market participant would require to assume this business. Net amounts expected to be paid include the excess of the expected value of the income benefits over the values of the annuitant's accounts at the time of annuitization. GMIB liabilities are reported in the Company's Consolidated Balance Sheets in Accounts payable, accrued expenses and other liabilities. GMIB assets associated with these contracts represent net receivables in connection with reinsurance that the Company has purchased from two external reinsurers and are reported in the Company's Consolidated Balance Sheets in Other assets, including other intangibles. As of September 30, 2008, Standard & Poor's (S&P) has given a financial strength rating of AA+ to one reinsurer and a financial strength rating of A- to the parent company that guarantees the recoverable from the other reinsurer. Generally, market return, interest rate and volatility assumptions are based on market observable information. Assumptions related to annuitant behavior reflect the Company's belief that a hypothetical market participant would consider the actual and expected experience of the Company as well as other relevant and available industry resources in setting policyholder behavior assumptions. The assumptions used to value the GMIB assets and liabilities as of September 30, 2008 were as follows:

- The market return and discount rate assumptions are based on the market observable LIBOR swap curve.
- The projected interest rate used to calculate the reinsured income benefits is indexed to the 7-year Treasury Rate at the time of annuitization (claim interest rate) based on contractual terms. That rate was 3.38% at September 30, 2008 and must be projected for future time periods. These projected rates vary by economic scenario and are determined by an interest rate model using current interest rate curves and the prices of instruments available in the market including various interest rate caps and zero-coupon bonds.
- The market volatility assumptions for annuitants' underlying mutual fund investments that are modeled based on the S&P 500, Russell 2000 and NASDAQ Composite are based on the market implied volatility for these indices for three to seven years grading to historical volatility levels thereafter. For the remaining 53% of underlying mutual

fund investments modeled based on other indices (with insufficient market observable data), volatility is based on the average historical level for each index over the past 10 years. Using this approach, volatility ranges from 14% to 34% for equity funds, 3% to 8% for bond funds and 1% to 2% for money market funds.

- The mortality assumption is 70% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.
- The lapse rate assumption varies by contract from 2% to 17% and depends on the time since contract issue, the relative value of the guarantee and the differing experience by issuing company of the underlying variable annuity contracts.
- The annuity election rate assumption varies by contract and depends on the annuitant's age, the relative value of the guarantee, the number of previous opportunities a contractholder has had to elect the benefit and the differing experience by issuing company of the underlying variable annuity contracts. Immediately after the expiration of the waiting period,

the assumed probability that an individual will annuitize their variable annuity contract is up to 80%. For the second and subsequent annual opportunities to elect the benefit, the assumed probability of election is up to 30%. With respect to the second and subsequent election opportunities, actual data is just beginning to emerge for the Company as well as the industry and the estimates are based on this limited data.

- The risk and profit charge assumption is based on the Company's estimate of the capital and return on capital that would be required by a hypothetical market participant.
- The Company has considered adjustments for expenses, nonperformance risk (including credit risk for retrocessionaires and the Company), and model risk and believes that a hypothetical market participant would view these adjustments as offsetting. Therefore the Company determined that no adjustment for these risks was required as of September 30, 2008.

The approach for these assumptions, including market observable reference points, is consistent with that used to estimate the fair values of these contracts at January 1, 2008. The Company regularly evaluates each of the assumptions used in establishing these assets and liabilities by considering how a hypothetical market participant would set assumptions at each valuation date. Capital markets assumptions are expected to change at each valuation date reflecting current observable market conditions. Other assumptions may also change based on a hypothetical market participant's view of actual experience as it emerges over time or other relevant and available industry data. The nonperformance risk assumption may change to reflect the willingness or ability of the retrocessionaires to make payments under their contracts. If the emergence of future experience or future assumptions differs from the assumptions used in estimating these assets and liabilities, the resulting impact could be material to the Company's consolidated results of operations, and in certain situations, could be material to the Company's financial condition.

Changes in Level 3 Financial Assets and Financial Liabilities Measured at Fair Value on a Recurring Basis

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the third quarter and nine months ended September 30, 2008. These tables exclude separate account assets which are discussed on page 19 as changes in fair values of these assets accrue directly to policyholders. Gains and losses reported in these tables may include changes in fair value that are attributable to both observable and unobservable inputs.

For the Three Months Ended September 30, 2008

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

instruments held at the reporting date	$ 3	$ 123	$ (221)	$ (98)

(1) Amounts do not accrue to shareholders and are not reflected in the Company's revenues.

For the Nine Months Ended September 30, 2008

(In millions)	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at 1/1/08:	$ 732	$ 173	$ (313)	$ (140)
Gains (losses) included in income:				
Effect of adoption of SFAS No. 157	-	244	(446)	(202)
Results of GMIB, excluding adoption effect		190	(341)	(151)
Other	3	-	-	-
Total gains (losses) included in income	3	434	(787)	(353)
Gains required to adjust future policy benefits for certain annuities (1)	7	-	-	-
Purchases, issuances, settlements	2	(55)	68	13
Transfers into Level 3	5	-	-	-
Balance at 9/30/08	$ 749	$ 552	$ (1,032)	$ (480)
Total gains (losses) included in income attributable to instruments held at the reporting date	$ 6	$ 434	$ (787)	$ (353)

(1) Amounts do not accrue to shareholders and are not reflected in the Company's revenues.

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

- Realized investment gains (losses) and Net investment income for amounts related to fixed maturities and equity securities; and
- Guaranteed minimum income benefits (income) expense for amounts related to GMIB assets and liabilities.

Reclassifications impacting Level 3 financial instruments are reported as transfers in or out of the Level 3 category as of the beginning of the quarter in which the transfer occurs. Therefore gains and losses in income only reflect activity for the period the instrument was classified in Level 3. Typically, investments that transfer out of Level 3 are classified in Level 2 as market data on the securities becomes more readily available.

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

The Company had a net GMIB liability of $480 million as of September 30, 2008, and $140 million as of December 31, 2007. The increase in the net GMIB liability is primarily due to the charge related to the adoption of SFAS No. 157, declines in the equity markets and bond fund returns driving down the value of underlying accounts, decreases in interest rates, and updates to the risk and profit charge estimate and other assumptions that are used in the fair value calculation.

For the nine months ended September 30, 2008, the GMIB assets and liabilities include a charge of $202 million for the adoption of SFAS No. 157, which is discussed in Note 3. After the adoption of SFAS No. 157 in 2008, the Company's GMIB assets and liabilities are expected to be more volatile in future periods both because the liabilities, net of receivables from reinsurers, are larger and because these assumptions will be based largely on market-observable inputs at the close of each reporting period including risk-free interest rates and market-implied volatilities.

Excluding the charge discussed above, the increase in the net GMIB liability of $151 million for the nine months ended September 30, 2008 was primarily driven by:

- the impact of declines in underlying account values in the period, driven by declines in equity markets and bond fund returns, resulting in increased exposure: $82 million;
- decreases in interest rates since December 31, 2007: $33 million;
- updates to the risk and profit charge estimate: $15 million;
- updates to other assumptions that are used in the fair value calculation: $17 million; and
- other amounts including experience varying from assumptions: $4 million.

The increase in the net GMIB liability of $98 million in the third quarter of 2008 was primarily driven by:

- the impact of declines in underlying account values in the period, driven by declines in equity markets and bond fund returns, resulting in increased exposure: $42 million;
- decreases in interest rates since June 30, 2008: $37 million;
- updates to the risk and profit charge estimate: $11 million;
- updates to other assumptions that are used in the fair value calculation: $7 million; and
- other amounts including experience varying from assumptions: $1 million.

Separate account assets

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are not included in the Company's revenues and expenses. As of September 30, 2008 separate account assets were as follows:

(In millions)	Level 1	Level 2	Level 3	Total
Guaranteed separate accounts (See Note 15)	$ 292	$ 1,507	$ -	$ 1,799
Non-guaranteed separate accounts (1)	1,419	2,739	429	4,587
Total separate account assets	$ 1,711	$ 4,246	$ 429	$ 6,386

(1) Non-guaranteed separate accounts include $1.7 billion in assets supporting the Company's pension plan, including $398 million classified in Level 3.

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

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

Separate account assets classified in Level 3 include investments primarily in securities partnerships and real estate generally valued at transaction price in the absence of market data indicating a change in the estimated fair value. Values may be adjusted when evidence is available to support such adjustments. Evidence may include market data as well as changes in the financial results and condition of the investment.

The following tables summarize the change in separate account assets reported in Level 3 for the third quarter and nine months ended September 30, 2008.

(In millions)		
Balance at 7/1/08:	$	417
Policyholder gains (1)		1
Purchases, issuances, settlements		13
Transfers out of Level 3		(2)
Balance at 9/30/08	$	429

(1) Included in this amount are gains of $1 million attributable to instruments still held at the reporting date.

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(In millions)		
Balance at 1/1/08:	$	403
Policyholder gains (1)		21
Purchases, issuances, settlements		22
Transfers out of Level 3		(17)
Balance at 9/30/08	$	429

(1) Included in this amount are gains of $6 million attributable to instruments still held at the reporting date.

Assets and Liabilities measured at fair value on a non-recurring basis

Certain financial assets and liabilities are measured at fair value on a non-recurring basis, such as commercial mortgage loans held for sale. As of September 30, 2008, the amount required to adjust these assets and liabilities to their fair value was insignificant.

NOTE 8 – INVESTMENTS

Realized Investment Gains and Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2008	2007	2008	2007
Fixed maturities	$ (67)	$ (9)	$ (108)	$ (17)
Equity securities	(20)	-	(19)	11
Commercial mortgage loans	3	7	1	6
Real estate	-	1	-	1
Other investments, including derivatives	61	28	98	36
Realized investment gains (losses) from continuing operations, before income taxes	(23)	27	(28)	37
Less income taxes (benefits)	(8)	10	(10)	13
Realized investment gains (losses) from continuing operations	(15)	17	(18)	24
Realized investment gains from discontinued operations before income taxes	-	-	-	25
Less income taxes	-	-	-	9
Realized investment gains from discontinued operations	-	-	-	16
Net realized investment gains (losses)	$ (15)	$ 17	$ (18)	