CIGNA CORP
Form 10-Q
August 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

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.)*
900 Cottage Grove Road Bloomfield, Connecticut	**06002**
(Address of principal executive offices)	*(Zip Code)*

(860) 226-6000

(Registrant's telephone number, including area code)

(860) 226-6741

(Registrant's facsimile number, including area code)

FORMER ADDRESS:
Two Liberty Place, 1601 Chestnut Street **Philadelphia, Pennsylvania 19192**
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark	**YES**	**NO**

• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.		
• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).		
• 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.		

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company

• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).		

As of July 15, 2011, 270,197,763 shares of the issuer's common stock were outstanding.

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

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ITEM 1 Financial Statements

CIGNA Corporation

Consolidated Statements of Income

(In millions, except per share amounts)	**Unaudited Three Months Ended June 30, 2011**	**2010**	**Unaudited Six Months Ended June 30, 2011**	**2010**
Revenues				
Premiums and fees	$ 4,786	$ 4,504	$ 9,519	$ 9,047
Net investment income	284	283	563	549
Mail order pharmacy revenues	349	351	688	699
Other revenues	73	193	109	247
Realized investment gains (losses):				
Other-than-temporary impairments on fixed maturities, net	(2)	-	(2)	(1)
Other realized investment gains	19	22	45	17
Total realized investment gains	17	22	43	16
TOTAL REVENUES	**5,509**	**5,353**	**10,922**	**10,558**
Benefits and Expenses				
Health Care medical claims expense	2,034	2,078	4,111	4,287
Other benefit expenses	1,058	977	2,052	1,856
Mail order pharmacy cost of goods sold	289	290	565	575
GMIB fair value loss	37	164	21	160
Other operating expenses	1,475	1,405	2,957	2,819
TOTAL BENEFITS AND EXPENSES	**4,893**	**4,914**	**9,706**	**9,697**
Income before Income Taxes	616	439	1,216	861
Income taxes:				
Current	138	68	160	155
Deferred	70	76	218	127

TOTAL TAXES	**208**	**144**	**378**	**282**
Net Income	**408**	**295**	**838**	**579**
Less: Net Income Attributable to Noncontrolling Interest	**-**	**1**	**1**	**2**
Shareholders' Net Income	**$ 408**	**$ 294**	**$ 837**	**$ 577**
Shareholders' Net Income Per Share:				
Basic	$ 1.52	$ 1.07	$ 3.11	$ 2.10
Diluted	$ 1.50	$ 1.06	$ 3.06	$ 2.08
Dividends Declared Per Share	**$ -**	**$ -**	**$ 0.040**	**$ 0.040**

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

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CIGNA Corporation

Consolidated Balance Sheets

(In millions, except per share amounts)	**Unaudited** **As of June 30, 2011**	**As of December 31, 2010**
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, $14,118; $13,445)	$ 15,505	$ 14,709
Equity securities, at fair value (cost, $161; $144)	149	127
Commercial mortgage loans	3,315	3,486
Policy loans	1,615	1,581
Real estate	112	112
Other long-term investments	869	759
Short-term investments	204	174
Total investments	21,769	20,948
Cash and cash equivalents	1,774	1,605
Accrued investment income	237	235
Premiums, accounts and notes receivable, net	1,417	1,318
Reinsurance recoverables	6,336	6,495
Deferred policy acquisition costs	1,284	1,122
Property and equipment	953	912
Deferred income taxes, net	493	782
Goodwill	3,136	3,119
Other assets, including other intangibles	1,307	1,238
Separate account assets	8,327	7,908
TOTAL ASSETS	**$ 47,033**	**$ 45,682**
LIABILITIES		
Contractholder deposit funds	$ 8,521	$ 8,509
Future policy benefits	8,179	8,147
Unpaid claims and claim expenses	4,098	4,017
Health Care medical claims payable	1,225	1,246

Unearned premiums and fees		442		416
Total insurance and contractholder liabilities		22,465		22,335
Accounts payable, accrued expenses and other liabilities		5,480		5,936
Short-term debt		330		552
Long-term debt		2,883		2,288
Separate account liabilities		8,327		7,908
TOTAL LIABILITIES		**39,485**		**39,019**
Contingencies — Note 16				
SHAREHOLDERS' EQUITY				
Common stock (par value per share, $0.25; shares issued, 351)		88		88
Additional paid-in capital		2,556		2,534
Net unrealized appreciation, fixed maturities	$ 610		$ 529	
Net unrealized appreciation, equity securities	3		3	
Net unrealized depreciation, derivatives	(34)		(24)	
Net translation of foreign currencies	123		25	
Postretirement benefits liability adjustment	(1,138)		(1,147)	
Accumulated other comprehensive loss		(436)		(614)
Retained earnings		10,658		9,879
Less treasury stock, at cost		(5,318)		(5,242)
Total shareholders' equity		7,548		6,645
Noncontrolling interest		-		18
Total equity		7,548		6,663
Total liabilities and equity		$ 47,033		$ 45,682
SHAREHOLDERS' EQUITY PER SHARE		**$ 27.93**		**$ 24.44**

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 Total Equity

(In millions, except per share amounts)	**Unaudited**			
	2011		**2010**	
Three Months Ended June 30,	**Comprehensive Income**	**Total Equity**	**Comprehensive Income**	**Total Equity**
Common Stock, April 1 and June 30,		**$ 88**		**$ 88**
Additional Paid-In Capital, April 1,		**2,547**		**2,522**
Effects of stock issuance for employee benefit plans		9		4
Additional Paid-In Capital, June 30,		**2,556**		**2,526**
Accumulated Other Comprehensive Loss, April 1,		**(569)**		**(530)**
Net unrealized appreciation, fixed maturities	$ 89	89	$ 119	119
Net unrealized depreciation, equity securities	(2)	(2)	(1)	(1)
Net unrealized appreciation on securities	87		118	
Net unrealized appreciation (depreciation), derivatives	(5)	(5)	16	16
Net translation of foreign currencies	46	46	(43)	(43)
Postretirement benefits liability adjustment	5	5	(100)	(100)
Other comprehensive income (loss)	133		(9)	
Accumulated Other Comprehensive Loss, June 30,		**(436)**		**(539)**
Retained Earnings, April 1,		**10,270**		**8,840**
Shareholders’ net income	408	408	294	294
Effects of stock issuance for employee benefit plans		(20)		(5)
Retained Earnings, June 30,		**10,658**		**9,129**
Treasury Stock, April 1,		**(5,312)**		**(5,119)**
Repurchase of common stock		(62)		(123)
Other, primarily issuance of treasury stock for employee benefit plans		56		14

Treasury Stock, June 30,		**(5,318)**		**(5,228)**
Shareholders' Comprehensive Income and Shareholders' Equity	**541**	**7,548**	**285**	**5,976**
Noncontrolling interest, April 1,		**-**		**14**
Net income attributable to noncontrolling interest	-	-	1	1
Noncontrolling interest, June 30,	**-**	**-**	**1**	**15**
TOTAL COMPREHENSIVE INCOME AND TOTAL EQUITY	**$ 541**	**$ 7,548**	**$ 286**	**$ 5,991**

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 Total Equity

	Unaudited			
(In millions, except per share amounts)	2011		2010	
Six Months Ended June 30,	**Comprehensive Income**	**Total Equity**	**Comprehensive Income**	**Total Equity**
Common Stock, January 1 and June 30,		**$ 88**		**$ 88**
Additional Paid-In Capital, January 1,		**2,534**		**2,514**
Effects of stock issuance for employee benefit plans		18		12
Effects of acquisition of noncontrolling interest		4		-
Additional Paid-In Capital, June 30,		**2,556**		**2,526**
Accumulated Other Comprehensive Loss, January 1,		**(614)**		**(618)**
Net unrealized appreciation, fixed maturities	$ 81	81	$ 191	191
Net unrealized depreciation, equity securities	-	-	(1)	(1)
Net unrealized appreciation on securities	81		190	
Net unrealized appreciation (depreciation), derivatives	(10)	(10)	20	20
Net translation of foreign currencies	98	98	(39)	(39)
Postretirement benefits liability adjustment	9	9	(92)	(92)
Other comprehensive income	178		79	
Accumulated Other Comprehensive Loss, June 30,		**(436)**		**(539)**
Retained Earnings, January 1,		**9,879**		**8,625**
Shareholders' net income	837	837	577	577
Effects of stock issuance for employee benefit plans		(47)		(62)
Common dividends declared (per share: $0.04; $0.04)		(11)		(11)

Retained Earnings, June 30,		**10,658**		**9,129**
Treasury Stock, January 1,		**(5,242)**		**(5,192)**
Repurchase of common stock		(225)		(123)
Other, primarily issuance of treasury stock for employee benefit plans		149		87
Treasury Stock, June 30,		**(5,318)**		**(5,228)**
Shareholders' Comprehensive Income and Shareholders' Equity	**1,015**	**7,548**	**656**	**5,976**
Noncontrolling interest, January 1,		**18**		**12**
Net income attributable to noncontrolling interest	1	1	2	2
Accumulated other comprehensive income attributable to noncontrolling interest	-	-	1	1
Acquisition of noncontrolling interest	-	(19)	-	-
Noncontrolling interest, June 30,	**1**	**-**	**3**	**15**
TOTAL COMPREHENSIVE INCOME AND TOTAL EQUITY	**$ 1,016**	**$ 7,548**	**$ 659**	**$ 5,991**

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

	Unaudited	
	Six Months Ended June 30,	
(In millions)	2011	2010
Cash Flows from Operating Activities		
Net income	$ 838	$ 579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166	128
Realized investment gains	(43)	(16)
Deferred income taxes	218	127
Gains on sale of businesses (excluding discontinued operations)	(14)	(12)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(104)	(100)
Reinsurance recoverables	23	17
Deferred policy acquisition costs	(116)	(87)
Other assets	(44)	(165)
Insurance liabilities	103	375
Accounts payable, accrued expenses and other liabilities	(297)	(87)
Current income taxes	(144)	18
Other, net	(7)	(4)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**579**	**773**
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	300	446
Equity securities	4	3
Commercial mortgage loans	52	37
Other (primarily short-term and other long-term investments)	556	641
Investment maturities and repayments:		
Fixed maturities	673	426
Commercial mortgage loans	201	51
Investments purchased:		

Fixed maturities		(1,511)		(1,617)
Equity securities		(15)		(4)
Commercial mortgage loans		(109)		(65)
Other (primarily short-term and other long-term investments)		(669)		(329)
Property and equipment purchases		(187)		(120)
Acquisitions and dispositions, net		1		(5)
NET CASH USED IN INVESTING ACTIVITIES		**(704)**		**(536)**
Cash Flows from Financing Activities				
Deposits and interest credited to contractholder deposit funds		676		701
Withdrawals and benefit payments from contractholder deposit funds		(596)		(629)
Change in cash overdraft position		(30)		32
Net change in short-term debt		(222)		-
Issuance of long-term debt		587		296
Repayment of long-term debt		(2)		(3)
Repurchase of common stock		(225)		(113)
Issuance of common stock		96		28
Common dividends paid		(11)		(11)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**273**		**301**
Effect of foreign currency rate changes on cash and cash equivalents		21		(13)
Net increase in cash and cash equivalents		169		525
Cash and cash equivalents, January 1,		1,605		924
Cash and cash equivalents, June 30,	$	1,774	$	1,449
Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	$	296	$	134
Interest paid	$	88	$	84

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

CIGNA Corporation is a holding company and is not an insurance company. Its subsidiaries conduct various businesses, that are described in its Annual Report on Form 10-K for the year ended December 31, 2010 ("2010 Form 10-K"). As used in this document, "CIGNA" or "the Company" may refer to CIGNA Corporation itself, one or more of its subsidiaries, or CIGNA Corporation and its consolidated subsidiaries. The Company is a global health services organization with subsidiaries that are major providers of medical, dental, disability, life and accident insurance and related products and services. The Consolidated Financial Statements include the accounts of CIGNA Corporation and its significant subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

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 2010 Form 10-K.

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.

During the three months ended March 31, 2011, the Company acquired the noncontrolling interest in a majority-owned subsidiary that the Company continues to consolidate.

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

NOTE 2 Recent Accounting Pronouncements

Deferred acquisition costs. In October 2010, the Financial Accounting Standards Board ("FASB") amended guidance (ASU 2010-26) for the accounting of costs related to the acquisition or renewal of insurance contracts to require costs such as certain sales compensation or telemarketing costs that are related to unsuccessful efforts and any indirect costs to be expensed as incurred. This new guidance must be implemented on January 1, 2012 and any changes to the Company's Consolidated Financial Statements may be recognized prospectively for acquisition costs incurred beginning in 2012 or through retrospective adjustment of comparative prior periods. The Company's deferred acquisition costs arise from sales and renewal activities primarily in its International segment and, to a lesser extent, the Health Care and corporate-owned life insurance businesses. Because the new requirements further restrict the types of costs that are deferrable, the Company expects more of its acquisition costs to be expensed when incurred under the new guidance. The Company continues to evaluate these new requirements to determine the method and estimated effects of their implementation.

Troubled debt restructurings. In April 2011, the FASB amended guidance (ASU 2011-02) to clarify for lenders that a troubled debt restructuring occurs when a debt modification is a concession to the borrower and the borrower is experiencing financial difficulties. The amendments are effective July 1, 2011 and are to be applied retrospectively to loan restructurings occurring on or after January 1, 2011. The amendment also requires new disclosures to be provided in the third quarter 2011 addressing certain troubled debt restructurings. On adoption, the Company does not expect a material effect to its results of operations or financial condition.

Fair value measurements. In May 2011, the FASB amended guidance (ASU 2011-04) to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments are effective January 1, 2012 and are to be applied prospectively. The Company is presently evaluating the new requirements to determine the potential effects of their implementation.

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NOTE 3 Earnings Per Share ("EPS")

Basic and diluted earnings per share were computed as follows:

Three Months Ended June 30,						
(Dollars in millions, except per share amounts)		**Basic**		**Effect of Dilution**		**Diluted**
2011						
Shareholders' net income	$	408			$	408
Shares *(in thousands)*:						
Weighted average		268,557				268,557
Common stock equivalents				4,176		4,176
Total shares		268,557		4,176		272,733
EPS	$	1.52	$	(0.02)	$	1.50
2010						
Shareholders' net income	$	294			$	294
Shares *(in thousands)*:						
Weighted average		275,107				275,107
Common stock equivalents				2,429		2,429
Total shares		275,107		2,429		277,536
EPS	$	1.07	$	(0.01)	$	1.06

Six Months Ended June 30,						
(Dollars in millions, except per share amounts)		**Basic**		**Effect of Dilution**		**Diluted**
2011						
Shareholders' net income	$	837			$	837
Shares *(in thousands)*:						
Weighted average		269,464				269,464
Common stock equivalents				3,836		3,836
Total shares		269,464		3,836		273,300
EPS	$	3.11	$	(0.05)	$	3.06
2010						
Shareholders' net income	$	577			$	577
Shares *(in thousands)*:						
Weighted average		275,398				275,398
Common stock equivalents				2,421		2,421
Total shares		275,398		2,421		277,819

EPS	$ 2.10	$ (0.02)	$ 2.08

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		**Six Months Ended**	
	June 30,		**June 30,**	
(In millions)	**2011**	**2010**	**2011**	**2010**
Antidilutive options	2.9	6.8	3.5	6.0

The Company held 80,740,132 shares of common stock in Treasury as of June 30, 2011, and 77,905,033 shares as of June 30, 2010.

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NOTE 4 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 that have been reported but not yet paid (reported claims in process) and other medical expense payable, that primarily comprises accruals for incentives and other amounts payable to health care professionals and facilities. Incurred but not yet reported comprises the majority of the reserve balance as follows:

(In millions)	**June 30, 2011**	**December 31, 2010**
Incurred but not yet reported	$ 1,026	$ 1,067
Reported claims in process	182	164
Other medical expense payable	17	15
MEDICAL CLAIMS PAYABLE	**$ 1,225**	**$ 1,246**

Activity in medical claims payable was as follows:

	For the period ended	
(In millions)	**June 30, 2011**	**December 31, 2010**
Balance at January 1,	$ 1,246	$ 921
Less: Reinsurance and other amounts recoverable	236	206
Balance at January 1, net	1,010	715
Incurred claims related to:		
Current year	4,232	8,663
Prior years	(121)	(93)
Total incurred	4,111	8,570
Paid claims related to:		
Current year	3,310	7,682
Prior years	809	593
Total paid	4,119	8,275
Ending Balance, net	1,002	1,010
Add: Reinsurance and other amounts recoverable	223	236
ENDING BALANCE	**$ 1,225**	**$ 1,246**

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 10 for additional information on reinsurance. For the six months ended June 30, 2011, actual experience differed from the Company's key assumptions resulting in favorable incurred claims related to prior years' medical claims payable of $121 million, or 1.4% of the current year incurred claims as reported for the year ended December 31, 2010. Actual completion factors resulted in a reduction in medical claims payable of $80 million, or 0.9% of the current year incurred claims as reported for the year ended December 31, 2010 for the insured book of business. Actual medical cost trend resulted in a reduction in medical claims payable of

$41 million, or 0.5% of the current year incurred claims as reported for the year ended December 31, 2010 for the insured book of business.

For the year ended December 31, 2010, actual experience differed from the Company's key assumptions, resulting in favorable incurred claims related to prior years' medical claims payable of $93 million, or 1.3% of the current year incurred claims as reported for the year ended December 31, 2009. Actual completion factors resulted in a reduction of the medical claims payable of $51 million, or 0.7% of the current year incurred claims as reported for the year ended December 31, 2009 for the insured book of business. Actual medical cost trend resulted in a reduction of the medical claims payable of $42 million, or 0.6% of the current year incurred claims as reported for the year ended December 31, 2009 for the insured book of business.

The favorable impacts in 2011 and 2010 relating to completion factors and medical cost trend variances include the release of the provision for moderately adverse conditions, that is a component of the assumptions for both completion factors and medical cost trend, established for claims incurred related to prior years. This release was substantially offset by the provision for moderately adverse conditions established for claims incurred related to the current year.

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The corresponding impact of prior year development on shareholders' net income was $47 million for the six months ended June 30, 2011 compared with $17 million for the six months ended June 30, 2010. The favorable effects of prior year development on net income in 2011 and 2010 primarily reflect low medical services utilization trend. The change in the amount of the incurred claims related to prior years in the medical claims payable liability does not directly correspond to an increase or decrease in the Company's shareholders' net income recognized for the following reasons:

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

Second, changes in reserves for the Company's retrospectively experience-rated business do not always impact shareholders' net income. For the Company's retrospectively experience-rated business, only adjustments to medical claims payable on accounts in deficit affect shareholders' net income. An increase or decrease to medical claims payable on accounts in deficit, in effect, accrues to the Company and directly impacts shareholders' net income. An account is in deficit when the accumulated medical costs and administrative charges, including profit charges, exceed the accumulated premium received. Adjustments to medical claims payable on accounts in surplus accrue directly to the policyholder with no impact on the Company's shareholders' net income. An account is in surplus when the accumulated premium received exceeds the accumulated medical costs and administrative charges, including profit charges.

The determination of liabilities for Health Care medical claims payable requires the Company to make critical accounting estimates. See Note 2(N) to the Consolidated Financial Statements in the Company's 2010 Form 10-K.

NOTE 5 Guaranteed Minimum Death Benefit Contracts

The Company had future policy benefit reserves for guaranteed minimum death benefit ("GMDB") contracts of $1.1 billion as of June 30, 2011 and December 31, 2010. The determination of liabilities for GMDB requires the Company to make critical accounting estimates. The Company estimates its liabilities for GMDB exposures using a complex internal model run using many scenarios and based on assumptions regarding lapse, future partial surrenders, claim mortality (deaths that result in claims), interest rates (mean investment performance and discount rate) and volatility. These assumptions are based on the Company's experience and future expectations over the long-term period, consistent with the long-term nature of this product. The Company regularly evaluates these assumptions and changes its estimates if actual experience or other evidence suggests that assumptions should be revised. If actual experience differs from the assumptions used in estimating these liabilities, the result could have a material adverse effect on the Company's consolidated results of operations, and in certain situations, could have a material adverse effect on the Company's financial condition.

In 2000, the Company determined that the GMDB reinsurance business was premium deficient because the recorded future policy benefit reserve was less than the expected present value of future claims and expenses less the expected present value of future premiums and investment income using revised assumptions based on actual and expected experience. The Company tests for premium deficiency by reviewing its reserve each quarter using current market conditions and its long-term assumptions. Under premium deficiency accounting, if the recorded reserve is determined insufficient, an increase to the reserve is reflected as a charge to current period income. Consistent with GAAP, the

Company does not recognize gains on premium deficient long duration products.

See Note 8 for further information on the Company's dynamic hedge programs that are used to reduce certain equity and interest rate exposures associated with this business.

Since December 31, 2010, the Company updated its long-term assumption for assumed mean investment performance ("growth interest rate") of the underlying equity mutual funds to use the market-observable LIBOR swap curve for the portion of the liability that is covered by the Company's recently implemented growth interest rate hedge program. The mean investment performance for the remaining liability has not changed since December 31, 2010.

During 2010, the Company performed its periodic review of assumptions and recorded a charge in the third quarter of $52 million pre-tax ($34 million after-tax) to strengthen GMDB reserves. During 2010, current short-term interest rates had declined from the level anticipated at December 31, 2009, leading the Company to increase reserves. Interest rate risk was not covered by the GMDB hedge program at that time. The Company also updated the lapse assumption for policies that have already taken or may take a significant partial withdrawal, which had a lesser reserve impact.

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

	For the period ended	
(In millions)	June 30, 2011	December 31, 2010
Balance at January 1	$ 1,138	$ 1,285
Add: Unpaid Claims	37	36
Less: Reinsurance and other amounts recoverable	51	53
Balance at January 1, net	1,124	1,268
Add: Incurred benefits	3	(20)
Less: Paid benefits	57	124
Ending balance, net	1,070	1,124
Less: Unpaid Claims	33	37
Add: Reinsurance and other amounts recoverable	48	51
ENDING BALANCE	**$ 1,085**	**$ 1,138**

Benefits paid and incurred are net of ceded amounts. Incurred benefits reflect the favorable or unfavorable impact of a rising or falling equity markets on the liability, and include the 2010 charge discussed above.

The aggregate value of the underlying mutual fund investments was $16.0 billion as of June 30, 2011 and $16.6 billion as of December 31, 2010. The death benefit coverage in force was $4.6 billion as of June 30, 2011 and $5.2 billion as of December 31, 2010. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the value of the underlying mutual fund investments for all contractholders (approximately 500,000 as of June 30, 2011 and 530,000 as of December 31, 2010).

The Company has also written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits (“GMIB”). All reinsured GMIB policies also have a GMDB benefit reinsured by the Company. See Note 6 for further information.

NOTE 6 Fair Value Measurements

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

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.

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

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The Company performs ongoing analyses of prices used to value the Company's invested assets to determine that they represent appropriate estimates of fair value. This process involves quantitative and qualitative analysis including reviews of pricing methodologies, judgments of valuation inputs, the significance of any unobservable inputs, pricing statistics and trends. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates.

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of June 30, 2011 and December 31, 2010 about the Company's financial assets and liabilities carried at fair value. Similar disclosures for separate account assets, that 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.

JUNE 30, 2011

(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 207	$ 556	$ 4	$ 767
State and local government	-	2,450	-	2,450
Foreign government	-	1,239	17	1,256
Corporate	-	9,726	369	10,095
Federal agency mortgage-backed	-	10	-	10
Other mortgage-backed	-	70	1	71
Other asset-backed	-	335	521	856
Total fixed maturities (1)	207	14,386	912	15,505
Equity securities	8	103	38	149
Subtotal	215	14,489	950	15,654
Short-term investments	-	204	-	204
GMIB assets (2)	-	-	490	490
Other derivative assets (3)	-	22	-	22
	$ 215	**$ 14,715**	**$ 1,440**	**$ 16,370**

TOTAL FINANCIAL ASSETS AT FAIR VALUE, EXCLUDING SEPARATE ACCOUNTS								
Financial liabilities at fair value:								
GMIB liabilities	$	-	$	-	$	917	$	917
Other derivative liabilities (3)		-		43		-		43
Total financial liabilities at fair value	$	-	$	43	$	917	$	960

(1) Fixed maturities includes $447 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $79 million of appreciation for securities classified in Level 3.

(2) The GMIB assets represent retrocessional contracts in place from two external reinsurers that cover 55% of the exposures on these contracts.

(3) Other derivative assets includes $9 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $12 million of interest rate swaps not designated as accounting hedges. Other derivative liabilities reflect foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 8 for additional information.

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DECEMBER 31, 2010

(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 133	$ 550	$ 4	$ 687
State and local government	-	2,467	-	2,467
Foreign government	-	1,137	17	1,154
Corporate	-	9,080	364	9,444
Federal agency mortgage-backed	-	10	-	10
Other mortgage-backed	-	85	3	88
Other asset-backed	-	348	511	859
Total fixed maturities (1)	133	13,677	899	14,709
Equity securities	6	87	34	127
Subtotal	139	13,764	933	14,836
Short-term investments	-	174	-	174
GMIB assets (2)	-	-	480	480
Other derivative assets (3)	-	19	-	19
TOTAL FINANCIAL ASSETS AT FAIR VALUE, EXCLUDING SEPARATE ACCOUNTS	**$ 139**	**$ 13,957**	**$ 1,413**	**$ 15,509**
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 903	$ 903
Other derivative liabilities (3)	-	32	-	32
Total financial liabilities at fair value	$ -	$ 32	$ 903	$ 935

(1) Fixed maturities includes $443 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $74 million of appreciation for securities classified in Level 3.

(2) The GMIB assets represent retrocessional contracts in place from two external reinsurers that cover 55% of the exposures on these contracts.

(3) Other derivative assets include $16 million of interest rate and foreign currency swaps qualifying as cash flow hedges and $3 million of interest rate swaps not designated as accounting hedges. Other derivative liabilities reflect foreign currency and interest rate swaps qualifying as cash flow hedges. See Note 8 for additional information.

Level 1 Financial Assets

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

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

Level 2 Financial Assets and Financial Liabilities

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

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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-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, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

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

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

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties, and determined that no adjustment for credit risk was required as of June 30, 2011 or December 31, 2010. The nature and use of these other derivatives are described in Note 8.

Level 3 Financial Assets and Financial Liabilities

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

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

Fixed maturities and equity securities. Approximately 6% of fixed maturities and equity securities are priced using significant unobservable inputs and classified in this category, including:

(In millions)		**June 30, 2011**		**December 31, 2010**
Other asset and mortgage-backed securities - valued using pricing models	$	522	$	514
Corporate and government bonds - valued using pricing models		328		312

Corporate bonds - valued at transaction price	62	73
Equity securities - valued at transaction price	38	34
TOTAL	**$ 950**	**$ 933**

Fair values of mortgage and asset-backed securities and corporate bonds are determined using pricing models that incorporate the specific characteristics of each asset and related assumptions including the investment type and structure, credit quality, industry and maturity date in comparison to current market indices, spreads and liquidity of assets with similar characteristics. For mortgage and asset-backed securities, inputs and assumptions to pricing may also include collateral attributes and prepayment speeds. Recent trades in the subject security or similar securities are assessed when available, and the Company may also review published research, as well as the issuer's financial statements, in its evaluation. Certain subordinated corporate bonds and private equity investments are valued at transaction price in the absence of market data indicating a change in the estimated fair values.

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Guaranteed minimum income benefit contracts. Because cash flows of the GMIB liabilities and assets are affected by equity markets and interest rates but are without significant life insurance risk and are settled in lump sum payments, the Company reports these liabilities and assets as derivatives at fair value. The Company estimates the fair value of the assets and liabilities for GMIB contracts using assumptions regarding capital markets (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments), future annuitant behavior (including mortality, lapse, and annuity election rates), and non-performance risk, as well as risk and profit charges. As certain assumptions used to estimate fair values for these contracts are largely unobservable (primarily related to future annuitant behavior), the Company classifies GMIB assets and liabilities in Level 3. The Company considered the following in determining the view of a hypothetical market participant:

- that the most likely transfer of these assets and liabilities would be through a reinsurance transaction with an independent insurer having a market capitalization and credit rating similar to that of the Company; and

- that because this block of contracts is in run-off mode, an insurer looking to acquire these contracts would have similar existing contracts with related administrative and risk management capabilities.

These GMIB assets and liabilities are estimated with a complex internal model using many scenarios to determine the present value of net amounts expected to be paid, less the present value of net future premiums expected to be received adjusted for risk and profit charges that the Company estimates a hypothetical market participant would require to assume this business. Net amounts expected to be paid include the excess of the expected value of the income benefits over the values of the annuitants' accounts at the time of annuitization. Generally, market return, interest rate and volatility assumptions are based on market observable information. Assumptions related to annuitant behavior reflect the Company's belief that a hypothetical market participant would consider the actual and expected experience of the Company as well as other relevant and available industry resources in setting policyholder behavior assumptions. The significant assumptions used to value the GMIB assets and liabilities as of June 30, 2011 were as follows:

- The market return ("growth interest rate") and discount rate assumptions are based on the market-observable LIBOR swap curve.

- The projected interest rate used to calculate the reinsured income benefits is indexed to the 7-year Treasury Rate at the time of annuitization (claim interest rate) based on contractual terms. That rate was 2.50% at June 30, 2011 and must be projected for future time periods. These projected rates vary by economic scenario and are determined by an interest rate model using current interest rate curves and the prices of instruments available in the market including various interest rate caps and zero-coupon bonds. For a subset of the business, there is a contractually guaranteed floor of 3% for the claim interest rate.

- The market volatility assumptions for annuitants' underlying mutual fund investments that are modeled based on the S&P 500, Russell 2000 and NASDAQ Composite are based on the market-implied volatility for these indices for three to seven years grading to historical volatility levels thereafter. For the remaining 51% 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 16% to 31% for equity funds, 4% to 11% for bond funds, and 1% to 2% for money market funds.

- The mortality assumption is 70% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.

- The annual lapse rate assumption reflects experience that differs by the company issuing the underlying variable annuity contracts, ranges from 1% to 12%, and depends on the time since contract issue and the relative value of the guarantee.

- The annual annuity election rate assumption reflects experience that differs by the company issuing the underlying variable annuity contracts and depends on the annuitant's age, the relative value of the guarantee and whether a contractholder has had a previous opportunity to elect the benefit. Immediately after the expiration of the waiting period, the assumed probability that an individual will annuitize their variable annuity contract is up to 80%. For the second and subsequent annual opportunities to elect the benefit, the assumed probability of election is up to 35%.

- The nonperformance risk adjustment is incorporated by adding an additional spread to the discount rate in the calculation of both (1) the GMIB liability to reflect a hypothetical market participant's view of the risk of the Company not fulfilling its GMIB obligations, and (2) the GMIB asset to reflect a hypothetical market participant's view of the reinsurers' credit risk, after considering collateral. The estimated market-implied spread is company-specific for each party involved to the extent that company-specific market data is available and is based on industry averages for similarly rated companies when company-specific data is not available. The spread is impacted by the credit default swap spreads of the specific parent companies, adjusted to reflect subsidiaries' credit ratings relative to their parent company and any available collateral. The additional spread over LIBOR incorporated into the discount rate ranged from 5 to 135 basis points for the GMIB liability and from 10 to 80 basis points for the GMIB reinsurance asset for that portion of the interest rate curve most relevant to these policies.

- 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.

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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 currently observable market conditions. Other assumptions may also change based on a hypothetical market participant's view of actual experience as it emerges over time or other factors that impact the net liability. If the emergence of future experience or future assumptions differs from the assumptions used in estimating these assets and liabilities, the resulting impact could be material to the Company's consolidated results of operations, and in certain situations, could be material to the Company's financial condition.

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

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

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three and six months ended June 30, 2011 and 2010. These tables exclude separate account assets as changes in fair values of these assets accrue directly to policyholders. Gains and losses reported in these tables may include net changes in fair value that are attributable to both observable and unobservable inputs.

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For the Three Months Ended June 30, 2011 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at April 1, 2011	$ 928	$ 459	$ (850)	$ (391)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	48	(85)	(37)
Other	2	-	-	-
Total gains (losses) included in shareholders' net income	2	48	(85)	(37)
Gains included in other comprehensive income	6	-	-	-
Gains required to adjust future policy benefits for settlement annuities [1]	11	-	-	-
Purchases, sales and settlements:				
Purchases	42	-	-	-
Settlements	(19)	(17)	18	1
Total purchases, sales and settlements	23	(17)	18	1
Transfers into/(out of) Level 3:				
Transfers into Level 3	19	-	-	-
Transfers out of Level 3	(39)	-	-	-
Total transfers into/(out of) Level 3	(20)	-	-	-
Balance at June 30, 2011	$ 950	$ 490	$ (917)	$ (427)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 2**	**$ 48**	**$ (85)**	**$ (37)**

(1) Amounts do not accrue to shareholders.

For the Three Months Ended June 30, 2010 *(In millions)*	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at April 1, 2010	$ 884	$ 479	$ (886)	$ (407)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	187	(351)	(164)
Other	8	-	-	-
	8	187	(351)	(164)

Total gains (losses) included in shareholders' net income				
Gains included in other comprehensive income	9	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	43	-	-	-
Purchases, sales and settlements:				
Purchases	5	-	-	-
Settlements	(20)	(8)	16	8
Total purchases, sales and settlements	(15)	(8)	16	8
Transfers into/(out of) Level 3:				
Transfers into Level 3	18	-	-	-
Transfers out of Level 3	(2)	-	-	-
Total transfers into/(out of) Level 3	16	-	-	-
Balance at June 30, 2010	$ 945	$ 658	$ (1,221)	$ (563)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 5**	**$ 187**	**$ (351)**	**$ (164)**

(1) Amounts do not accrue to shareholders.

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For the Six Months Ended June 30, 2011 (In millions)	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at January 1, 2011	$ 933	$ 480	$ (903)	$ (423)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	27	(48)	(21)
Other	7	-	-	-
Total gains (losses) included in shareholders' net income	7	27	(48)	(21)
Gains included in other comprehensive income	8	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	5	-	-	-
Purchases, sales and settlements:				
Purchases	49	-	-	-
Settlements	(31)	(17)	34	17
Total purchases, sales and settlements	18	(17)	34	17
Transfers into/(out of) Level 3:				
Transfers into Level 3	19	-	-	-
Transfers out of Level 3	(40)	-	-	-
Total transfers into/(out of) Level 3	(21)	-	-	-
Balance at June 30, 2011	$ 950	$ 490	$ (917)	$ (427)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 7**	**$ 27**	**$ (48)**	**$ (21)**

(1) Amounts do not accrue to shareholders.

For the Six Months Ended June 30, 2010 (In millions)	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at January 1, 2010	$ 845	$ 482	$ (903)	$ (421)
Gains (losses) included in shareholders' net income:				
GMIB fair value gain/(loss)	-	187	(347)	(160)
Other	12	-	-	-
	12	187	(347)	(160)

Total gains (losses) included in shareholders' net income				
Gains included in other comprehensive income	21	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	61	-	-	-
Purchases, sales and settlements:				
Purchases	20	-	-	-
Sales	(1)	-	-	-
Settlements	(45)	(11)	29	18
Total purchases, sales and settlements	(26)	(11)	29	18
Transfers into/(out of) Level 3:				
Transfers into Level 3	72	-	-	-
Transfers out of Level 3	(40)	-	-	-
Total transfers into/(out of) Level 3	32	-	-	-
Balance at June 30, 2010	$ 945	$ 658	$ (1,221)	$ (563)
TOTAL GAINS (LOSSES) INCLUDED IN INCOME ATTRIBUTABLE TO INSTRUMENTS HELD AT THE REPORTING DATE	**$ 9**	**$ 187**	**$ (347)**	**$ (160)**

(1) Amounts do not accrue to shareholders.

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

- Realized investment gains (losses) and net investment income for amounts related to fixed maturities and equity securities; and
- GMIB fair value (gain) loss for amounts related to GMIB assets and liabilities.

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. For the six months ended June 30, 2010, transfers into Level 3 from Level 2 primarily reflect an increase in the unobservable inputs used to value certain private corporate bonds, principally related to credit risk of the issuers.

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 tables 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.

Under the FASB's guidance for fair value measurements, the Company's GMIB assets and liabilities are expected to be volatile in future periods because the underlying capital markets assumptions will be based largely on market-observable inputs at the close of each reporting period including interest rates and market-implied volatilities.

GMIB fair value losses of $37 million for the three months ended June 30, 2011 were primarily due to declining interest rates. Fair value losses of $21 million for the six months ended June 30, 2011 were due to declining interest rates and updates to the risk and profit charge, partially offset by increases in underlying account values due to favorable equity market returns.

Beginning in February 2011, the Company implemented a dynamic equity hedge program to reduce a portion of the equity market exposures related to GMIB contracts ("GMIB equity hedge program") by entering into exchange-traded futures contracts. The Company also implemented a dynamic interest rate hedge program that reduces a portion of the interest rate exposure related to GMIB contracts ("GMIB growth interest rate hedge program") using LIBOR swap contracts and interest rate futures contracts. See Note 8 for further information.

GMIB fair value losses of $164 million for the three months ended June 30, 2010 and $160 million for the six months ended June 30, 2010, were primarily a result of declining interest rates and decreases in underlying account values that occurred during the second quarter of 2010.

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Separate account assets

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are excluded from the Company's revenues and expenses. As of June 30, 2011 and December 31, 2010 separate account assets were as follows:

June 30, 2011	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	
(In millions)	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Guaranteed separate accounts (See Note 16)	$ 292	$ 1,410	$ -	$ 1,702
Non-guaranteed separate accounts [1]	1,864	4,117	644	6,625
TOTAL SEPARATE ACCOUNT ASSETS	**$ 2,156**	**$ 5,527**	**$ 644**	**$ 8,327**

(1) As of June 30, 2011, non-guaranteed separate accounts include $3.1 billion in assets supporting the Company's pension plans, including $601 million classified in Level 3.

December 31, 2010	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	
(In millions)	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Guaranteed separate accounts (See Note 16)	$ 286	$ 1,418	$ -	$ 1,704
Non-guaranteed separate accounts [1]	1,947	3,663	594	6,204
TOTAL SEPARATE ACCOUNT ASSETS	**$ 2,233**	**$ 5,081**	**$ 594**	**$ 7,908**

(1) As of December 31, 2010, non-guaranteed separate accounts include $2.8 billion in assets supporting the Company's pension plans, including $557 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 that is their exit price.

Separate account assets classified in Level 3 include investments primarily in securities partnerships, real estate and hedge funds generally valued based on the separate account's ownership share of the equity of the investee including changes in the fair values of its underlying investments. In addition, certain fixed income funds priced using their net asset values are classified in Level 3 due to restrictions on their withdrawal.

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The following tables summarize the changes in separate account assets reported in Level 3 for the three and six months ended June 30, 2011 and 2010.

(In millions)	Three Months Ended June 30, 2011	2010
Balance at April 1	$ 559	$ 544
Policyholder gains (losses) [1]	21	(2)
Purchases, sales and settlements:		
Purchases	106	19
Sales	(1)	(9)
Settlements	(35)	(18)
Total purchases, sales and settlements	70	(8)
Transfers into/(out of) Level 3:		
Transfers into Level 3	-	1
Transfers out of Level 3	(6)	(1)
Total transfers into/(out of) Level 3	(6)	-
BALANCE AT JUNE 30	**$ 644**	**$ 534**

(1) Included in this amount are gains of $21 million at June 30, 2011 and $3 million at June 30, 2010 attributable to instruments still held.

(In millions)	Six Months Ended June 30, 2011	2010
Balance at January 1	$ 594	$ 550
Policyholder gains [1]	79	14
Purchases, sales and settlements:		
Purchases	115	43
Sales	(41)	(27)
Settlements	(94)	(27)
Total purchases, sales and settlements	(20)	(11)
Transfers into/(out of) Level 3:		
Transfers into Level 3	-	1
Transfers out of Level 3	(9)	(20)
Total transfers into/(out of) Level 3	(9)	(19)
BALANCE AT JUNE 30	**$ 644**	**$ 534**

(1) Included in this amount are gains of $61 million at June 30, 2011 and $12 million at June 30, 2010 attributable to instruments still held.

Assets and Liabilities Measured at Fair Value under Certain Conditions

Some financial assets and liabilities are not carried at fair value each reporting period, but may be measured using fair value only under certain conditions, such as investments in commercial mortgage loans and real estate entities when they become impaired. During the six months ended June 30, 2011, impaired commercial mortgage loans representing less than 1% of total investments were written down to their fair values, resulting in after-tax realized investment losses of $11 million. For the six months ended June 30, 2010, impaired commercial mortgage loans and real estate entities representing less than 1% of total investments were written down to their fair values, resulting in after-tax realized investment losses of $20 million.

During 2010, impaired commercial mortgage loans and real estate entities representing less than 1% of total investments were written down to their fair values, resulting in after-tax realized investment losses of $25 million.

These fair values were calculated by discounting the expected future cash flows at estimated market interest rates. Such market rates were derived by calculating the appropriate spread over comparable U.S. Treasury rates, based on the characteristics of the underlying collateral, including the type, quality and location of the assets. The fair value measurements were classified in Level 3 because these cash flow models incorporate significant unobservable inputs.

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Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

Most financial instruments that are subject to fair value disclosure requirements are carried in the Company's consolidated financial statements at amounts that approximate fair value. The following table provides the fair values and carrying values of the Company's financial instruments not recorded at fair value that are subject to fair value disclosure requirements at June 30, 2011 and December 31, 2010:

(In millions)	June 30, 2011 Fair Value	June 30, 2011 Carrying Value	December 31, 2010 Fair Value	December 31, 2010 Carrying Value
Commercial mortgage loans	$ 3,411	$ 3,315	$ 3,470	$ 3,486
Contractholder deposit funds, excluding universal life products	$ 1,016	$ 1,002	$ 1,001	$ 989
Long-term debt, including current maturities, excluding capital leases	$ 3,362	$ 3,087	$ 2,926	$ 2,709

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

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

Contractholder deposit funds, excluding universal life products. Generally, these funds do not have stated maturities. Approximately 50% of these balances can be withdrawn by the customer at any time without prior notice or penalty. The fair value for these contracts is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. Most of the remaining contractholder deposit funds are reinsured by the buyers of the individual life and annuity and retirement benefits businesses. The fair value for these contracts is determined using the fair value of these buyers' assets supporting these reinsured contracts. The Company had a reinsurance recoverable equal to the carrying value of these reinsured contracts.

Long-term debt, including current maturities, excluding capital leases. The fair value of long-term debt is based on quoted market prices for recent trades. When quoted market prices are not available, fair value is estimated using a discounted cash flow analysis and the Company's estimated current borrowing rate for debt of similar terms and remaining maturities.

Fair values of off-balance-sheet financial instruments were not material.

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NOTE 7 Investments

Total Realized Investment Gains and Losses

The following total realized gains and losses on investments include other-than-temporary impairments on debt securities but exclude amounts required to adjust future policy benefits for the run-off settlement annuity business:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Fixed maturities	$ 29	$ 19	$ 50	$ 34
Equity securities	1	(1)	4	3
Commercial mortgage loans	(16)	(4)	(16)	(15)
Other investments, including derivatives	3	8	5	(6)
Realized investment gains before income taxes	17	22	43	16
Less income taxes	6	8	15	5
NET REALIZED INVESTMENT GAINS	**$ 11**	**$ 14**	**$ 28**	**$ 11**

Included in pre-tax realized investment gains above were changes in valuation reserves, asset write-downs and other-than-temporary impairments on fixed maturities as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Credit-related [(1)]	$ 16	$ 5	$ 16	$ 30
Other	2	-	2	1
TOTAL	**$ 18**	**$ 5**	**$ 18**	**$ 31**

(1) Credit related losses include changes in valuation reserves and asset write-downs related to commercial mortgage loans and investments in real estate entities.

Fixed Maturities and Equity Securities

Securities in the following table are included in fixed maturities and equity securities on the Company's Consolidated Balance Sheets. These securities are carried at fair value with changes in fair value reported in other realized investment gains (losses) and interest and dividends reported in net investment income. The Company's hybrid investments include preferred stock or debt securities with call or conversion features.

(In millions)

		As of June 30, 2011		As of December 31, 2010
Included in fixed maturities:				
Trading securities (amortized cost: $3; $3)	$	3	$	3
Hybrid securities (amortized cost: $45; $45)		51		52
TOTAL	**$**	**54**	**$**	**55**
Included in equity securities:				
Hybrid securities (amortized cost: $112; $108)	$	95	$	86

Fixed maturities included $59 million at June 30, 2011, that were pledged as collateral to brokers as required under certain futures contracts. These fixed maturities were primarily federal government securities.

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The following information about fixed maturities excludes trading and hybrid securities. The amortized cost and fair value by contractual maturity periods for fixed maturities were as follows at June 30, 2011:

(In millions)		**Amortized Cost**		**Fair Value**
Due in one year or less	$	836	$	847
Due after one year through five years		4,711		5,053
Due after five years through ten years		5,153		5,615
Due after ten years		2,557		3,002
Other asset and mortgage-backed securities		813		934
TOTAL	**$**	**14,070**	**$**	**15,451**

Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without penalties. Also, in some cases the Company may extend maturity dates.

Gross unrealized appreciation (depreciation) on fixed maturities (excluding trading securities and hybrid securities with a fair value of $54 million at June 30, 2011 and $55 million at December 31, 2010) by type of issuer is shown below.

	June 30, 2011							
(In millions)		**Amortized Cost**		**Unrealized Appreciation**		**Unrealized Depreciation**		**Fair Value**
Federal government and agency	$	542	$	226	$	(1)	$	767
State and local government		2,249		209		(8)		2,450
Foreign government		1,191		69		(4)		1,256
Corporate		9,275		802		(33)		10,044
Federal agency mortgage-backed		9		1		-		10
Other mortgage-backed		62		11		(3)		70
Other asset-backed		742		122		(10)		854
TOTAL	**$**							