CIGNA CORP
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

for the transition period from _____ to _____

Commission file number 1-08323

Cigna Corporation

(Exact name of registrant as specified in its charter)

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

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

(860) 226-6000

Registrant s telephone number, including area code

(860) 226-6741

Registrant s facsimile number, including area code

Not Applicable

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

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

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

Large accelerated filer R	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o	Emerging growth company o

• If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 21, 2017, 251,778,121 shares of the issuer s common stock were outstanding.

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Cigna Corporation

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

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Part I. *FINANCIAL INFORMATION*

Item 1. *FINANCIAL STATEMENTS*

Cigna Corporation

Consolidated Statements of Income

(In millions, except per share amounts)	Unaudited Three Months Ended June 30, 2017	2016	Unaudited Six Months Ended June 30, 2017	2016
Revenues:				
Premiums	**$ 8,010**	$ 7,654	**$ 16,113**	$ 15,400
Fees and other revenues	**1,192**	1,197	**2,415**	2,398
Net investment income	**308**	294	**611**	566
Mail order pharmacy revenues	**757**	748	**1,467**	1,445
Realized investment gains (losses):				
Other-than-temporary impairments on fixed maturities	**(2)**	(3)	**(9)**	(30)
Other realized investment gains, net	**53**	70	**106**	65
Net realized investment gains	**51**	67	**97**	35
TOTAL REVENUES	**10,318**	9,960	**20,703**	19,844
Benefits and Expenses:				
Global Health Care medical costs	**4,924**	4,777	**9,909**	9,538
Other benefit expenses	**1,335**	1,414	**2,702**	2,782
Mail order pharmacy costs	**626**	630	**1,207**	1,204
Other operating expenses	**2,271**	2,289	**4,801**	4,610
Amortization of other acquired intangible assets, net	**28**	37	**60**	78
TOTAL BENEFITS AND EXPENSES	**9,184**	9,147	**18,679**	18,212

Income before Income Taxes		**1,134**		813		**2,024**		1,632
Income taxes (benefits):								
Current		**304**		338		**590**		632
Deferred		**20**		(28)		**31**		(17)
TOTAL INCOME TAXES		**324**		310		**621**		615
Net Income		**810**		503		**1,403**		1,017
Less: Net (Loss) Attributable to Noncontrolling Interests		**(3)**		(7)		**(8)**		(12)
SHAREHOLDERS NET INCOME	**$**	**813**	$	510	**$**	**1,411**	$	1,029
Shareholders Net Income Per Share:								
Basic	**$**	**3.20**	$	2.00	**$**	**5.54**	$	4.03
Diluted	**$**	**3.15**	$	1.97	**$**	**5.45**	$	3.97
Dividends Declared Per Share	**$**	**-**	$	-	**$**	**0.04**	$	0.04

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

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Cigna Corporation

Consolidated Statements of Comprehensive Income

	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
Shareholders net income	**$ 813**	$ 510	**$ 1,411**	$ 1,029
Net unrealized appreciation, securities	**67**	177	**74**	350
Net translation of foreign currencies	**27**	(40)	**139**	41
Shareholders other comprehensive income, net of tax	**106**	144	**236**	406
Comprehensive income (loss) attributable to noncontrolling interests:				
Net (loss) attributable to other noncontrolling interests	**(2)**	(5)	**(5)**	(9)
Total comprehensive (loss) attributable to noncontrolling interests	**(1)**	(8)	**(8)**	(10)

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

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Cigna Corporation

Consolidated Balance Sheets

	Unaudited	
(In millions, except per share amounts)	**As of June 30, 2017**	**As of December 31, 2016**
Assets:		
Fixed maturities, at fair value (amortized cost, $21,222; $19,942)	**$ 22,513**	$ 20,961
Commercial mortgage loans	**1,741**	1,666
Other long-term investments	**1,463**	1,462
Total investments	**27,932**	26,815
Premiums, accounts and notes receivable, net	**3,419**	3,077
Deferred policy acquisition costs	**2,011**	1,818
Deferred tax assets, net	**199**	304
Other assets, including other intangibles	**2,287**	2,227
TOTAL ASSETS	**$ 61,738**	$ 59,360
Contractholder deposit funds	**$ 8,350**	$ 8,458
Unpaid claims and claim expenses	**5,039**	4,917
Unearned premiums	**1,181**	634
Accounts payable, accrued expenses and other liabilities	**6,601**	6,414
Long-term debt	**4,622**	4,756
TOTAL LIABILITIES	**47,133**	45,575
Redeemable noncontrolling interests	**58**	58
Common stock (par value per share, $0.25; shares issued, 296; authorized, 600)	**74**	74
Accumulated other comprehensive (loss)	**(1,146)**	(1,382)
Less treasury stock, at cost	**(2,406)**	(1,716)
Other noncontrolling interests	**1**	4
Total liabilities and equity	**$ 61,738**	$ 59,360

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

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the three months ended June 30, 2017** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive (Loss)**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at April 1, 2017	**$ 74**	**$ 2,912**	**$ (1,252)**	**$ 14,356**	**$ (1,864)**	**$ 14,226**	**$ 3**	**$ 14,229**	**$ 56**
Other comprehensive income			**106**			**106**		**106**	**2**
Repurchase of common stock					**(692)**	**(692)**		**(692)**	
BALANCE AT JUNE 30, 2017	**$ 74**	**$ 2,922**	**$ (1,146)**	**$ 15,102**	**$ (2,406)**	**$ 14,546**	**$ 1**	**$ 14,547**	**$ 58**

For the three months ended June 30, 2016	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive (Loss)**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at April 1, 2016	$ 74	$ 2,874	$ (988)	$ 12,541	$ (1,826)	$ 12,675	$ 9	$ 12,684	$ 73
Other comprehensive income (loss)			144			144		144	(1)
Other transactions impacting noncontrolling interests		(5)				(5)	4	(1)	1

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

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the six months ended June 30, 2017** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive (Loss)**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Other non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at January 1, 2017	**$ 74**	**$ 2,892**	**$ (1,382)**	**$ 13,855**	**$ (1,716)**	**$ 13,723**	**$ 4**	**$ 13,727**	**$ 58**
Effect of issuing stock for employee benefit plans		**33**		**(154)**	**252**	**131**		**131**	
Other comprehensive income			**236**			**236**		**236**	**-**
Net income (loss)				**1,411**		**1,411**	**(5)**	**1,406**	**(3)**
Common dividends declared (per share: $0.04)				**(10)**		**(10)**		**(10)**	
Repurchase of common stock					**(942)**	**(942)**		**(942)**	
Other transactions impacting noncontrolling interests		**(3)**				**(3)**	**2**	**(1)**	**3**
BALANCE AT JUNE 30, 2017	**$ 74**	**$ 2,922**	**$ (1,146)**	**$ 15,102**	**$ (2,406)**	**$ 14,546**	**$ 1**	**$ 14,547**	**$ 58**

For the six months ended June 30, 2016 *(In millions)*									
Balance at January 1, 2016	$ 74	$ 2,859	$ (1,250)	$ 12,121	$ (1,769)	$ 12,035	$ 9	$ 12,044	$ 69
Effect of issuing stock for employee benefit plans		31		(94)	80	17		17	
Other comprehensive income			406			406		406	2
Net income (loss)				1,029		1,029	(9)	1,020	(3)
Common dividends declared (per share: $0.04)				(10)		(10)		(10)	
Repurchase of common stock					(110)	(110)		(110)	
Other transactions impacting noncontrolling interests		(11)				(11)	8	(3)	3
BALANCE AT JUNE 30, 2016	**$ 74**	**$ 2,879**	**$ (844)**	**$ 13,046**	**$ (1,799)**	**$ 13,356**	**$ 8**	**$ 13,364**	**$ 71**

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

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Cigna Corporation

Consolidated Statements of Cash Flows

(In millions)		Unaudited Six Months Ended June 30, 2017		2016
Cash Flows from Operating Activities				
Net income	**$**	**1,403**	$	1,017
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		**286**		310
Realized investment (gains)		**(97)**		(35)
Deferred income taxes (benefits)		**31**		(17)
Net changes in assets and liabilities, net of non-operating effects:				
Premiums, accounts and notes receivable		**(222)**		(520)
Reinsurance recoverables		**64**		(4)
Deferred policy acquisition costs		**(137)**		(123)
Other assets		**(71)**		(83)
Insurance liabilities		**973**		607
Accounts payable, accrued expenses and other liabilities		**(159)**		(58)
Current income taxes		**83**		54
Distributions from partnership investments (1)		**74**		71
Other, net		**48**		48
NET CASH PROVIDED BY OPERATING ACTIVITIES (1)		**2,276**		1,267
Cash Flows from Investing Activities				
Proceeds from investments sold:				
Fixed maturities and equity securities		**930**		712
Investment maturities and repayments:				
Fixed maturities and equity securities		**945**		738
Commercial mortgage loans		**118**		69
Other sales, maturities and repayments (primarily short-term and other long-term investments) (1)		**1,059**		285
Investments purchased or originated:				
Fixed maturities and equity securities		**(2,938)**		(1,701)
Commercial mortgage loans		**(194)**		(16)
Other (primarily short-term and other long-term investments)		**(444)**		(401)
Property and equipment purchases		**(194)**		(254)
Acquisitions, net of cash acquired		**(14)**		(4)
NET CASH (USED IN) INVESTING ACTIVITIES (1)		**(732)**		(572)
Cash Flows from Financing Activities				
Deposits and interest credited to contractholder deposit funds		**686**		779
Withdrawals and benefit payments from contractholder deposit funds		**(733)**		(703)
Net change in short-term debt		**(14)**		(111)
Repayment of long-term debt		**(250)**		-
Repurchase of common stock		**(895)**		(139)
Issuance of common stock		**76**		14
Other, net		**(13)**		(63)
NET CASH (USED IN) FINANCING ACTIVITIES		**(1,143)**		(223)
Effect of foreign currency rate changes on cash and cash equivalents		**25**		14
Net increase in cash and cash equivalents		**426**		486
Cash and cash equivalents, January 1,		**3,185**		1,968
Cash and cash equivalents, June 30,	**$**	**3,611**	$	2,454
Supplemental Disclosure of Cash Information:				
Income taxes paid, net of refunds	**$**	**504**	$	579
Interest paid	**$**	**123**	$	122

(1) As required in adopting Accounting Standard Update (ASU) 2016-15, the Company retrospectively reclassified $71 million of cash distributions from partnership earnings from investing to operating activities for the six months ended June 30, 2016. The comparable amount reported in operating activities in 2017 was $74 million. See Note 2 for further discussion.

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

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CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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Note 1 Description of Business

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

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

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

- The ***Commercial*** operating segment (Commercial segment) encompasses both the U.S. commercial and certain international health care businesses serving employers and their employees, other groups and individuals. Products and services include medical, dental, behavioral health, vision, and prescription drug benefit plans, health advocacy programs and other products and services to insured and self-insured customers.
- The ***Government*** operating segment (Government segment) offers Medicare Advantage and Medicare Part D plans to seniors. This segment also offers Medicaid plans in selected markets.

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

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

Other Operations consist of:

- corporate-owned life insurance (COLI);

- run-off reinsurance business that is predominantly comprised of guaranteed minimum death benefit (GMDB) and guaranteed minimum income benefit (GMIB) business effectively exited through reinsurance with Berkshire Hathaway Life Insurance Company of Nebraska (Berkshire) in 2013;

- deferred gains recognized from the 1998 sale of the individual life insurance and annuity business and the 2004 sale of the retirement benefits business; and

- run-off settlement annuity business.

Corporate reflects amounts not allocated to operating segments, such as net interest expense (defined as interest on corporate debt less net investment income on investments not supporting segment operations), interest on uncertain tax positions, certain litigation matters, intersegment eliminations, compensation cost for stock options and related excess tax benefits, expense associated with frozen pension plans and certain costs for corporate projects, including overhead.

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Note 2 Significant Accounting Policies

Basis of Presentation

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

These interim Consolidated Financial Statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes included in the Company s 2016 Annual Report on Form 10-K (2016 Form 10-K). The preparation of interim Consolidated Financial Statements necessarily relies heavily on estimates. This and certain other factors, including the seasonal nature of portions of the health care and related benefits business, as well as competitive and other market conditions, call for caution in estimating full-year results based on interim results of operations.

Recent Accounting Pronouncements

The Company s 2016 Form 10-K includes discussion of significant recent accounting pronouncements that either have impacted or may impact our financial statements in the future.

The following tables provide information about recently adopted and recently issued or changed accounting guidance (applicable to Cigna) that have occurred since the Company filed its 2016 Form 10-K.

Recently Adopted Accounting Guidance

Accounting Standard and Adoption Date	Requirements and Effects of Adopting New Guidance
Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) (Accounting Standards Update (ASU) 2016-15)	Specifies how certain transactions should be classified in the statement of cash flows. While the standard addresses multiple types of transactions, only a change in the treatment of distributions from equity method investments impacted the Company.
Early adopted as of December 31, 2016	Effects of adoption: using the nature of distribution approach, the Company reported $74 million of cash receipts related to distributions from partnership earnings in operating activities for the six months ended June 30, 2017. The Company reclassified $71 million of cash receipts for the six months ended June 30, 2016 from investing to operating activities in the Consolidated Statements of Cash Flows.

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Recently Issued Accounting Guidance Not Yet Adopted

Accounting Standard and Effective Date Applicable for Cigna	**Requirements and Expected Effects of New Guidance Not Yet Adopted**
Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07) Required as of January 1, 2018	Requires employers to separate the service cost component from the other components of net benefit cost. Under the new guidance, only service cost is eligible for capitalization (as either deferred policy acquisition costs or capitalized software). This change in the capitalization rule is to be applied prospectively upon adoption. In addition, income statement captions used for each component of net benefit cost must be disclosed. Expected effects: the Company expects the effect of this new guidance to be immaterial to its results of operations.
Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) Required as of January 1, 2018	Requires: • Entities to measure equity investments at fair value in net income if they are neither consolidated nor accounted for under the equity method • Cumulative effect adjustment to the beginning balance of retained earnings at adoption Expected effects: • Certain limited partnership interests carried at cost of $230 million as of June 30, 2017 will be reported at fair value at adoption • An increase to retained earnings of approximately $50 million, after-tax, if implemented as of June 30, 2017. Actual cumulative effect adjustment will depend on investments held and market conditions at adoption.

Revenue from Contracts with Customers (ASU 2014-09 and related amendments) Required as of January 1, 2018	Requires: • Companies to estimate and allocate the expected customer contract revenues among distinct goods or services based on relative standalone selling prices • Revenues to be recognized as goods or services are delivered • New disclosures including the presentation of relevant categories of revenues and information about related contract assets and liabilities • Adoption through retrospective restatement with or without using certain practical expedients or adoption with a cumulative effect adjustment Expected effects: • Applies to the Company s non-insurance, administrative service and mail order pharmacy contracts but does not apply to certain contracts within the scope of other GAAP, such as the Company's insurance and investment contracts accounted for under ASC 944 • The Company expects to adopt the new guidance through retrospective restatement • The Company does not expect the adoption of the new guidance to have a material impact to its pattern of revenue recognition or net income. Adoption of this new guidance could result in reclassifications within the Consolidated Statements of Income. • The Company is continuing to evaluate the new requirements. Specifically, the Company is evaluating the combination of contract guidance for certain customers when the Company provides both insurance and non-insurance products, the deferral of revenue for services provided after the termination of certain administrative contracts and the Company s status as principal or agent for certain performance obligations.

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Note 3 Mergers and Acquisitions

Termination of Proposed Merger with Anthem, Inc. (Anthem)

On May 12, 2017, Cigna announced that the merger agreement between the Company and Anthem had been terminated. See Note 16 for discussion of ongoing litigation related to the termination of the merger agreement.

The following table presents merger-related costs incurred by the Company for the three months and six months ended June 30, 2017 and 2016. Merger-related costs primarily consist of fees for legal, advisory and other professional services. In addition, because the merger was not consummated, certain merger-related costs that were previously not deductible for federal income tax purposes became deductible. The Company recognized an incremental tax benefit for these newly deductible costs in the second quarter of 2017 as presented below.

	Three Months Ended			
	June 30, 2017		June 30, 2016	
(In millions)	Before-tax	After-tax	Before-tax	After-tax
Merger-related transaction costs	**$ 16**	**$ 12**	$ 34	$ 26
Tax (benefit) - previously non-deductible costs	**-**	**(59)**	-	-
Merger-related transaction costs (benefits), net	**$ 16**	**$ (47)**	$ 34	$ 26

	Six Months Ended			
	June 30, 2017		June 30, 2016	
(In millions)	Before-tax	After-tax	Before-tax	After-tax
Merger-related transaction costs	**$ 79**	**$ 61**	$ 74	$ 62
Tax (benefit) - previously non-deductible costs	**-**	**(59)**	-	-
Merger-related transaction costs, net	**$ 79**	**$ 2**	$ 74	$ 62

Acquisitions

The Company completed certain acquisitions during 2017, the results of which were not material to its results of operations, liquidity or financial condition.

Note 4 Earnings Per Share

Basic and diluted earnings per share (EPS) were computed as follows:

	Three Months Ended					
	June 30, 2017			June 30, 2016		
(Shares in thousands, dollars in millions, except per share amounts)	**Basic**	**Effect of Dilution**	**Diluted**	**Basic**	**Effect of Dilution**	**Diluted**
Shareholders net income	**$ 813**		**$ 813**	**$ 510**		**$ 510**
Shares*:*						
Weighted average	**254,087**		**254,087**	255,381		255,381
Common stock equivalents		**3,974**	**3,974**		4,119	4,119
Total shares	**254,087**	**3,974**	**258,061**	255,381	4,119	259,500
EPS	**$ 3.20**	**$ (0.05)**	**$ 3.15**	**$ 2.00**	**$ (0.03)**	**$ 1.97**

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	Six Months Ended					
	June 30, 2017			June 30, 2016		
(Shares in thousands, dollars in millions, except per share amounts)	**Basic**	**Effect of Dilution**	**Diluted**	**Basic**	**Effect of Dilution**	**Diluted**
Shareholders net income	**$ 1,411**		**$ 1,411**	**$** 1,029		$ 1,029
Shares:						
Weighted average	**254,879**		**254,879**	255,101		255,101
Common stock equivalents		**4,034**	**4,034**		4,372	4,372
Total shares	**254,879**	**4,034**	**258,913**	255,101	4,372	259,473
EPS	**$ 5.54**	**$ (0.09)**	**$ 5.45**	**$** 4.03	$ (0.06)	$ 3.97

The following outstanding employee stock options were not included in the computation of diluted earnings per share for the three months and six months ended June 30, 2017 and 2016 because their effect was anti-dilutive.

	Three Months Ended		Six Months Ended	
(In millions)	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Anti-dilutive options	**1.2**	2.6	**1.9**	2.0

The Company held 43,286,059 shares of common stock in Treasury as of June 30, 2017, and 39,587,801 shares as of June 30, 2016.

Note 5 Debt

The outstanding amounts of debt and capital leases were as follows:

(In millions)	**June 30, 2017**	**December 31, 2016**
Short-term:		
Current maturities of long-term debt	**$ 131**	$ 250
Other, including capital leases	**10**	26
Total short-term debt	**$ 141**	$ 276
Long-term:		
$131 million, 6.35% Notes due 2018	**$ -**	$ 131
$250 million, 4.375% Notes due 2020 (1)	**252**	252
$300 million, 5.125% Notes due 2020 (1)	**302**	301
$78 million, 6.37% Notes due 2021	**78**	78
$300 million, 4.5% Notes due 2021 (1)	**302**	302
$750 million, 4% Notes due 2022	**744**	744
$100 million, 7.65% Notes due 2023	**100**	100
$17 million, 8.3% Notes due 2023	**17**	17
$900 million, 3.25% Notes due 2025	**894**	893

$300 million, 7.875% Debentures due 2027		**299**		299
$83 million, 8.3% Step Down Notes due 2033		**82**		82
$500 million, 6.15% Notes due 2036		**498**		498
$300 million, 5.875% Notes due 2041		**296**		296
$750 million, 5.375% Notes due 2042		**743**		743
Other, including capital leases		**15**		20
Total long-term debt	**$**	**4,622**	$	4,756

(1) The Company has entered into interest rate swap contracts hedging a portion of these fixed-rate debt instruments. See Note 11 for further information about the Company s interest rate risk management and these derivative instruments.

The Company repaid $250 million of long-term notes that matured in the first quarter of 2017.

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The Company has a five-year revolving credit and letter of credit agreement for $1.5 billion that permits up to $500 million to be used for letters of credit. This agreement extends through December 12, 2019 and is diversified among 16 banks, with 3 banks each having 12% of the commitment and the remainder spread among 13 banks in varying amounts. The credit agreement includes options subject to consent by the administrative agent and the committing banks to increase the commitment amount to $2 billion and to extend the term past December 12, 2019. The credit agreement is available for general corporate purposes, including for the issuance of letters of credit. The credit agreement contains customary covenants and restrictions, including a financial covenant that the Company may not permit its leverage ratio total consolidated debt to total consolidated capitalization (each as defined in the credit agreement) to be greater than 0.50. The leverage ratio calculation excludes the following items that are included in accumulated other comprehensive loss on the Company s consolidated balance sheets: net unrealized appreciation on fixed maturities and the portion of the post-retirement benefits liability adjustment attributable to pension.

In addition to the $4.8 billion of debt outstanding as of June 30, 2017, the Company had $10.7 billion of borrowing capacity within the maximum debt coverage covenant in the credit agreement. This additional borrowing capacity includes the $1.5 billion available under the credit agreement. Letters of credit outstanding as of June 30, 2017 totaled $13 million.

The Company was in compliance with its debt covenants as of June 30, 2017.

Note 6 Global Health Care Medical Costs Payable

Medical costs payable for the Global Health Care segment reflects estimates of the ultimate cost of claims that have been incurred but not reported, including expected development on reported claims, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities. See Note 7 to the Consolidated Financial Statements in the Company s 2016 Form 10-K for further information about the assumptions and estimates used to establish this liability.

Activity in medical costs payable was as follows:

	Three Months Ended		Six Months Ended	
(In millions)	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Beginning balance	**$ 2,770**	$ 2,646	**$ 2,532**	$ 2,355
Less: Reinsurance and other amounts recoverable	**256**	207	**275**	243
Beginning balance, net	**2,514**	2,439	**2,257**	2,112
Incurred costs related to:				
Current year	**4,986**	4,796	**10,147**	9,621
Prior years	**(62)**	(19)	**(238)**	(83)
Total incurred	**4,924**	4,777	**9,909**	9,538
Paid costs related to:				

Current year	**4,674**	4,595	**7,893**	7,580
Prior years	**175**	252	**1,684**	1,701
Total paid	**4,849**	4,847	**9,577**	9,281
Ending balance, net	**2,589**	2,369	**2,589**	2,369
Add: Reinsurance and other amounts recoverable	**259**	208	**259**	208
Ending balance	**$ 2,848**	$ 2,577	**$ 2,848**	$ 2,577

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Reinsurance and other amounts recoverable includes amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for certain business where the Company administers the plan benefits but the right of offset does not exist. See Note 8 for additional information on reinsurance.

The total of incurred but not reported liabilities plus expected development on reported claims, including reported claims in process, was $2.7 billion at June 30, 2017 and $2.4 billion at June 30, 2016. The remaining balance in both periods reflects amounts due for physician incentives and other medical care expenses and services payable.

For the periods ended June 30, incurred costs related to prior years were attributable to the following factors:

(Dollars in millions)	**Three Months Ended**					
		June 30, 2017				**June 30, 2016**
		$	**%(1)**		**$**	**%(2)**
Actual completion factors	**$**	**30**	**0.2%**	$	12	0.1%
Medical cost trend		**23**	**0.1**		-	-
Other (3)		**9**	**-**		7	-
Total favorable (unfavorable) variance	**$**	**62**	**0.3%**	$	19	0.1%

(Dollars in millions)	**Six Months Ended**					
		June 30, 2017				**June 30, 2016**
		$	**%(1)**		**$**	**%(2)**
Actual completion factors	**$**	**108**	**0.6%**	$	63	0.3%
Medical cost trend		**121**	**0.6**		28	0.1
Other (3)		**9**	**-**		(8)	-
Total favorable (unfavorable) variance	**$**	**238**	**1.2%**	$	83	0.4%

(1) Percentage of current year incurred costs as reported for the year ended December 31, 2016.

(2) Percentage of current year incurred costs as reported for the year ended December 31, 2015.

(3) Other amounts in 2017 primarily related to an increase in the 2016 reinsurance reimbursement rate from the Centers for Medicare and Medicaid Services (CMS) under the Patient Protection and Affordable Care Act (the Health Care Reform Act). Other amounts in 2016 primarily related to increased medical costs in the Government segment resulting from additional provider risk sharing.

Incurred costs related to prior years in the table above, although adjusted through shareholders net income, do not directly correspond to an increase or decrease to shareholders net income. The primary reason for this difference is that decreases to prior year incurred costs pertaining to the portion of the liability established for moderately adverse conditions are not considered as impacting shareholders net income if they are offset by increases in the current year provision for moderately adverse conditions.

The net impact of prior year development on shareholders net income was a $36 million increase for the three months and a $97 million increase for the six months ended June 30, 2017. The net impact of prior year development for the three months and six months ended June 30, 2016 was not significant. Favorable prior year development for the three months and six months ended June 30, 2017 was attributed almost equally between medical cost trend and completion factors, resulting from lower than expected utilization of medical services.

Note 7 Liabilities for Unpaid Claims and Claim Expenses

The following information relates to the Company s unpaid claims and claim expense liabilities that are related to short-duration insurance contracts. See Note 8 to the Consolidated Financial Statements in the Company s 2016 Form 10-K for further information about the assumptions and estimates used to establish this liability.

The liability for unpaid claims and claim expenses by segment as of June 30 is as follows:

(In millions)	**June 30, 2017**	June 30, 2016
Group Disability and Life	**$ 4,400**	$ 4,245
Global Supplemental Benefits	**452**	373
Other Operations	**187**	213
Unpaid claims and claim expenses	**$ 5,039**	$ 4,831

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Activity in the Company s Group Disability and Life and the Global Supplemental Benefits segments liabilities for unpaid claims and claim expenses are presented in the following table. Liabilities associated with the Company s Other Operations segment are excluded because they pertain to obligations for long-duration insurance contracts or, if short-duration, the liabilities have been fully reinsured.

	Three Months Ended		Six Months Ended	
(In millions)	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Beginning balance	**$ 4,809**	$ 4,513	**$ 4,726**	$ 4,359
Less: Reinsurance	**123**	115	**121**	115
Beginning balance, net	**4,686**	4,398	**4,605**	4,244
Incurred claims related to:				
Current year	**1,076**	1,124	**2,224**	2,112
Prior years:				
Interest accretion	**40**	42	**83**	85
All other incurred	**(7)**	(19)	**(71)**	86
Total incurred	**1,109**	1,147	**2,236**	2,283
Paid claims related to:				
Current year	**703**	683	**1,074**	1,010
Prior years	**367**	360	**1,058**	1,020
Total paid	**1,070**	1,043	**2,132**	2,030
Foreign currency	**(3)**	(4)	**13**	1
Ending balance, net	**4,722**	4,498	**4,722**	4,498
Add: Reinsurance	**130**	120	**130**	120
Ending balance	**$ 4,852**	$ 4,618	**$ 4,852**	$ 4,618

Reinsurance in the table above reflects amounts due from reinsurers related to unpaid claims liabilities. The Company s insurance subsidiaries enter into agreements with other companies primarily to limit losses from large exposures and to permit recovery of a portion of incurred losses. See Note 8 for additional information on reinsurance.

The majority of the liability for unpaid claims and claim expenses is related to disability claims with long-tailed payouts. Interest earned on assets backing these liabilities is an integral part of pricing and reserving, and is therefore the basis for determining the rate used to discount these liabilities. Accordingly, interest accreted on prior year balances is shown as a separate component of prior year incurred claims. This interest is calculated by applying the average discount rate used in determining the liability balance to the average liability balance over the period. The remaining prior year incurred claims amount primarily reflects updates to the Company s liability estimates and variances between actual experience during the period relative to the assumptions and expectations reflected in determining the liability. Assumptions reflect the Company s expectations over the life of the book of business and can vary from actual experience in any period, both favorably and unfavorably, with variation in resolution rates being the most significant driver for the long-term disability business and variations in mortality and morbidity being the most significant factors for other business. Favorable prior year incurred claims reported for the six months ended June 30, 2017 largely reflect improved claim resolution rates. Unfavorable prior year incurred claims reported for the six months ended June 30, 2016 included the impact of modifications made to our disability claims management process and a period of elevated life claims.

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Note 8 Reinsurance

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

Reinsurance Recoverables

The majority of the Company s reinsurance recoverables resulted from acquisition and disposition transactions in which the underwriting company was not acquired. Components of the Company s reinsurance recoverables are presented below:

(In millions)

Line of Business	Reinsurer(s)	June 30, 2017	December 31, 2016	Collateral and Other Terms at June 30, 2017
Ongoing operations:				
Global Health Care, Global Supplemental Benefits, Group Disability and Life, COLI	Various	**$ 489**	$ 478	Recoverables from approximately 80 reinsurers including the U.S. Government, used in the ordinary course of business. Current balances range from less than $1 million up to $93 million. Excluding the recoverable from the U.S. Government of $45 million, over 60% of the balance is from companies rated as investment grade by Standard & Poor s, and 12% is secured by assets in trusts or letters of credit.
Total recoverables related to ongoing operations		**489**	478	
Acquisition, disposition or runoff activities:				
Individual Life and Annuity (sold in 1998)	Lincoln National Life and Lincoln Life & Annuity of New York	**3,508**	3,586	Both companies ratings are sufficient to avoid triggering a contractual obligation to fully secure the outstanding balance.
GMDB	Berkshire	**1,024**	1,085	100% secured by assets in a trust.
	Other	**41**	44	100% secured by assets in a trust or letters of credit.

Retirement Benefits Business (sold in 2004)	Prudential Retirement Insurance and Annuity	**885**	921	100% secured by assets in a trust.
Supplemental Benefits Business (2012 acquisition)	Great American Life	**290**	297	100% secured by assets in a trust.
Other run-off reinsurance	Various	**65**	67	100% secured by assets in trusts.
Total recoverables related to acquisition, disposition or runoff activities		**5,813**	6,000	
Total reinsurance recoverables		**$ 6,302**	$ 6,478	

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The Company bears the risk of loss if its reinsurers and retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company. The Company reviews its reinsurance arrangements and establishes reserves against the recoverables if recovery is not considered probable.

Effects of Reinsurance

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

	Three Months Ended		Six Months Ended	
(In millions)	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Ceded premiums:				
Individual life insurance and annuity business sold	**$ 33**	$ 40	**$ 72**	$ 81
Other	**54**	73	**135**	168
Total ceded premiums	**$ 87**	$ 113	**$ 207**	$ 249
Reinsurance recoveries:				
Individual life insurance and annuity business sold	**$ 66**	$ 66	**$ 136**	$ 134
Other	**17**	105	**46**	201
Total reinsurance recoveries	**$ 83**	$ 171	**$ 182**	$ 335

The decrease in reinsurance recoveries in 2017 is primarily due to the ceded GMDB business. The ceded reserves decreased during the three months and six months ended June 30, 2017 primarily due to favorable equity market conditions, while the ceded reserves increased during the three months and six months ended June 30, 2016 due to changes in the capital market and other assumptions that are used to calculate the reserves.

Effective Exit of GMDB and GMIB Business

In 2013, the Company entered into an agreement with Berkshire to effectively exit the GMDB and GMIB business via a reinsurance transaction. Berkshire reinsured 100% of the Company s future claim payments in this business, net of other reinsurance arrangements existing at that time. The Berkshire reinsurance agreement is subject to an overall limit with approximately $3.5 billion remaining as of June 30, 2017.

GMDB is accounted for as reinsurance and GMIB assets and liabilities are reported as derivatives at fair value as discussed below. GMIB assets are reported in other assets, including intangibles, and GMIB liabilities are reported in accounts payable, accrued expenses and other liabilities.

GMDB

The Company estimates the gross liability and reinsurance recoverable with an internal model based on the Company s experience and future expectations over an extended period, consistent with the long-term nature of this product. As a result of the reinsurance transaction, reserve increases have a corresponding increase in the recorded reinsurance recoverable, provided the increased recoverable remains within the overall Berkshire limit (including the GMIB asset presented below). The ending net retained reserve covers ongoing administrative expenses, as well as minor claim exposure retained by the Company.

Because the product is premium deficient, the Company records an increase to the net retained reserve if it is inadequate based on the model.

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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, 2017**	**December 31, 2016**
Balance at January 1	**$ 1,224**	$ 1,252
Add: Unpaid claims	**16**	18
Less: Reinsurance and other amounts recoverable	**1,129**	1,164
Balance at January 1, net	**111**	106
Add: Incurred benefits	**-**	4
Less: Paid benefits (recoveries)	**(1)**	(1)
Ending balance, net	**112**	111
Less: Unpaid claims	**17**	16
Add: Reinsurance and other amounts recoverable	**1,065**	1,129
Ending balance	**$ 1,160**	$ 1,224

Incurred and paid benefits are net of ceded amounts. Unpaid claims are presented before deducting ceded amounts.

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

(Dollars in millions, excludes impact of reinsurance ceded)	**June 30, 2017**	**December 31, 2016**
Account value	**$ 10,671**	$ 10,650
Net amount at risk	**$ 2,264**	$ 2,458
Number of contractholders	**270,000**	285,000

GMIB

In this business, the Company reinsured contracts with issuers of GMIB products. The Company s exposure represents the excess of a contractually guaranteed amount over the level of variable annuity account values. Payment by the Company depends on the actual account value in the underlying mutual funds and the level of interest rates when the contractholders elect to receive minimum income payments that must occur within 30 days of a policy anniversary after the appropriate waiting period. The Company has purchased retrocessional coverage (GMIB assets) for these contracts.

The Company reports GMIB liabilities and assets as derivatives at fair value because the cash flows of these liabilities and assets are affected by equity markets and interest rates, but are without significant life insurance risk and are settled in lump sum payments.

As of June 30, 2017 and December 31, 2016, there were three reinsurers for GMIB as follows:

(In millions)

Line of Business	Reinsurer	June 30, 2017	December 31, 2016	Collateral and Other Terms at June 30, 2017
GMIB	Berkshire	**$ 359**	$ 370	100% secured by assets in a trust.
	Liberty Re (Bermuda) Ltd.	**197**	202	100% secured by assets in a trust.
Total GMIB recoverables reported in other assets		**$ 777**	$ 799	

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Assumptions used in fair value measurement. The Company estimates the fair value of the assets and liabilities for GMIB contracts utilizing various assumptions. Assumptions that affect GMIB assets and liabilities include capital market assumptions (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments) and future annuitant behavior (including mortality, lapse, and annuity election rates). As certain assumptions used to estimate fair values for these contracts are largely unobservable (primarily related to future annuitant behavior), the Company classifies GMIB assets and liabilities in Level 3 in the fair value hierarchy presented in Note 9.

The only assumption expected to impact future shareholders net income is non-performance risk. The non-performance risk adjustment reflects a market participant s view of nonpayment risk by adding an additional spread to the discount rate in the fair value calculation of both (a) the GMIB liabilities to be paid by the Company, and (b) the GMIB assets to be paid by the reinsurers, after considering collateral.

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

GMIB guarantees. Future payments are not fixed and determinable under the terms of these contracts. Accordingly, the Company calculated exposure, without considering any reinsurance coverage, using the following hypothetical assumptions:

- no annuitants surrendered their accounts;
- all annuitants lived to elect their benefit;
- all annuitants elected to receive their benefit on the next available date (2017 through 2021); and
- all underlying mutual fund investment values remained at the June 30, 2017 value of $806 million with no future returns.

The Company has reinsurance coverage in place that covers the exposures on these contracts. Using these hypothetical assumptions, GMIB exposure is $648 million that is lower than the recorded liability for GMIB calculated using fair value assumptions.

Note 9 Fair Value Measurements

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

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

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

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

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

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of June 30, 2017 and December 31, 2016 about the Company s financial assets and liabilities carried at fair value. Separate account assets that are also recorded at fair value on the Company s Consolidated Balance Sheets are reported separately under the heading separate account assets as gains and losses related to these assets generally accrue directly to policyholders.

(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
June 30, 2017				
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	**$ 379**	**$ 521**	**$ -**	**$ 900**
State and local government	**-**	**1,381**	**-**	**1,381**
Foreign government	**-**	**2,274**	**39**	**2,313**
Corporate	**-**	**16,982**	**454**	**17,436**
Mortgage and other asset-backed	**-**	**334**	**149**	**483**
Total fixed maturities (1)	**379**	**21,492**	**642**	**22,513**
Equity securities	**410**	**116**	**109**	**635**
Subtotal	**789**	**21,608**	**751**	**23,148**
Short-term investments	**-**	**138**	**-**	**138**
GMIB assets	**-**	**-**	**777**	**777**
Other derivative assets	**-**	**3**	**-**	**3**
Total financial assets at fair value, excluding separate accounts	**$ 789**	**$ 21,749**	**$ 1,528**	**$ 24,066**
Financial liabilities at fair value:				
GMIB liabilities	**$ -**	**$ -**	**$ 764**	**$ 764**
Other derivative liabilities	**-**	**7**	**-**	**7**
Total financial liabilities at fair value, excluding separate accounts	**$ -**	**$ 7**	**$ 764**	**$ 771**

(1) Fixed maturities includes $627 million of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $18 million of appreciation for securities classified in Level 3. See Note 10 for additional information.

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(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
December 31, 2016				
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 374	$ 503	$ -	$ 877
State and local government	-	1,435	-	1,435
Foreign government	-	2,066	47	2,113
Corporate	-	15,552	498	16,050
Mortgage and other asset-backed	-	329	157	486
Total fixed maturities (1)	374	19,885	702	20,961
Equity securities	396	113	74	583
Subtotal	770	19,998	776	21,544
Short-term investments	-	691	-	691
GMIB assets	-	-	799	799
Other derivative assets	-	10	-	10
Total financial assets at fair value, excluding separate accounts	$ 770	$ 20,699	$ 1,575	$ 23,044
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 780	$ 780
Other derivative liabilities	-	5	-	5
Total financial liabilities at fair value, excluding separate accounts	$ -	$ 5	$ 780	$ 785

(1) Fixed maturities includes $524 million of net appreciation required to adjust future policy benefits for run-off settlement annuity business including $14 million of appreciation for securities classified in Level 3. See Note 10 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 do not trade daily, third-party pricing services and internal methods often use recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

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

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

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties and determined that no adjustment for credit risk was required as of June 30, 2017 or December 31, 2016. Level 2 also includes exchange-traded interest rate swap contracts. Credit risk related to the clearinghouse counterparty and the Company is considered minimal when estimating the fair values of these derivatives because of upfront margin deposits and daily settlement requirements. The nature and use of these other derivatives are described in Note 11.

Level 3 Financial Assets and Financial Liabilities

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

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

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

Quantitative Information about Unobservable Inputs

The following tables summarize the fair value and significant unobservable inputs used in pricing the following securities that were developed directly by the Company as of June 30, 2017 and December 31, 2016. The range and weighted average basis point amounts (bps) for fixed maturity spreads (adjustment to discount rates) and price-to-earnings multiples for equity investments reflect the Company s best estimates of the unobservable adjustments a market participant would make to calculate these fair values.

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

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

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

Hybrid equity securities. The significant unobservable input used to value the following hybrid equity securities is an adjustment for liquidity due to limited trading activity. These cumulative preferred shares are deemed likely to exercise certain call options and the Company estimates an adjustment used to discount cash flows based on current market conditions and issuer circumstances.

(Fair value in millions)		Fair Value	Unobservable Input	Unobservable Adjustment Range (Weighted Average)
As of June 30, 2017				
Fixed maturities:				
Mortgage and other asset-backed securities	**$**	**149**	**Liquidity**	**60 - 350 (90) bps**
			Weighting of credit spreads	**180 - 280 (220) bps**
Corporate and government fixed maturities		**470**	**Liquidity**	**70 - 980 (260) bps**
Total fixed maturities		**619**		
Equity securities:				
Private equity securities		**76**	**Price-to-EBITDA multiples**	**5.0 - 12.0 (8.3)**
Hybrid equity securities		**33**	**Liquidity**	**230 (230) bps**
Total equity securities		**109**		
Subtotal		**728**		
Securities not priced by the Company(1)		**23**		
Total Level 3 securities	**$**	**751**		
As of December 31, 2016				
Fixed maturities:				
Mortgage and other asset-backed securities	$	157	Liquidity	60 - 330 (90) bps
			Weighting of credit spreads	160 - 470 (230) bps

Corporate and government fixed maturities		490	Liquidity	80 - 1,300 (340) bps
Total fixed maturities		647		
Private equity securities		74	Price-to-EBITDA multiples	4.2 - 11.6 (8.5)
Subtotal		721		
Securities not priced by the Company(1)		55		
Total Level 3 securities	$	776		

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

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

GMIB contracts. See discussion in Note 8.

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

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three months and six months ended June 30, 2017 and 2016. Separate account asset changes are reported separately under the heading separate account assets as the changes in fair values of these assets accrue directly to the policyholders. Gains and losses reported in these tables may include net changes in fair value that are attributable to both observable and unobservable inputs.

For the Three Months Ended June 30, 2017	**Changes in Level 3 financial assets and financial liabilities**			
(In millions)	**Fixed Maturities & Equity Securities**	**GMIB Assets**	**GMIB Liabilities**	**GMIB Net**
Balance at April 1, 2017	**$ 727**	**$ 777**	**$ (761)**	**$ 16**
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	**-**	**15**	**(15)**	**-**
Other	**1**	**-**	**(3)**	**(3)**
Total gains (losses) included in shareholders net income	**1**	**15**	**(18)**	**(3)**
Gains included in other comprehensive income	**5**	**-**	**-**	**-**
Gains required to adjust future policy benefits for settlement annuities (1)	**9**	**-**	**-**	**-**
Purchases, sales and settlements:				
Purchases	**65**	**-**	**-**	**-**
Sales	**(23)**	**-**	**-**	**-**
Settlements	**(12)**	**(15)**	**15**	**-**
Total purchases, sales and settlements	**30**	**(15)**	**15**	**-**
Transfers into/(out of) Level 3:				
Transfers into Level 3	**36**	**-**	**-**	**-**
Transfers out of Level 3	**(57)**	**-**	**-**	**-**
Total transfers into/(out of) Level 3	**(21)**	**-**	**-**	**-**
Balance at June 30, 2017	**$ 751**	**$ 777**	**$ (764)**	**$ 13**
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	**$ -**	**$ 15**	**$ (18)**	**$ (3)**

(1) Amounts do not accrue to shareholders.

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For the Three Months Ended June 30, 2016

(In millions)	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at April 1, 2016	$ 792	$ 957	$ (941)	$ 16
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	-	32	(32)	-
Other	9	-	12	12
Total gains (losses) included in shareholders net income	9	32	(20)	12
Losses included in other comprehensive income	(1)	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	24	-	-	-
Purchases, sales and settlements:				
Purchases	23	-	-	-
Sales	(125)	-	-	-
Settlements	(5)	(14)	14	-
Total purchases, sales and settlements	(107)	(14)	14	-
Transfers into/(out of) Level 3:				
Transfers into Level 3	63	-	-	-
Transfers out of Level 3	(37)	-	-	-
Total transfers into/(out of) Level 3	26	-	-	-
Balance at June 30, 2016	$ 743	$ 975	$ (947)	$ 28
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	$ (1)	$ 32	$ (20)	$ 12

For the Six Months Ended June 30, 2017

(In millions)	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at January 1, 2017	**$ 776**	**$ 799**	**$ (780)**	**$ 19**
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	-	**4**	**(4)**	-
Other	**24**	**1**	**(7)**	**(6)**
Total gains (losses) included in shareholders net income	**24**	**5**	**(11)**	**(6)**
Losses included in other comprehensive income	**(3)**	-	-	-
Gains required to adjust future policy benefits for settlement annuities **(1)**	**9**	-	-	-
Purchases, sales and settlements:				
Purchases	**90**	-	-	-
Sales	**(70)**	-	-	-
Settlements	**(39)**	**(27)**	**27**	-
Total purchases, sales and settlements	**(19)**	**(27)**	**27**	-
Transfers into/(out of) Level 3:				
Transfers into Level 3	**76**	-	-	-
Transfers out of Level 3	**(112)**	-	-	-
Total transfers into/(out of) Level 3	**(36)**	-	-	-
Balance at June 30, 2017	**$ 751**	**$ 777**	**$ (764)**	**$ 13**
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	**$ (6)**	**$ 5**	**$ (11)**	**$ (6)**

(1) Amounts do not accrue to shareholders.

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For the Six Months Ended June 30, 2016

(In millions)	Fixed Maturities & Equity Securities	GMIB Assets	GMIB Liabilities	GMIB Net
Balance at January 1, 2016	$ 726	$ 907	$ (885)	$ 22
Gains (losses) included in shareholders net income:				
GMIB fair value gain/(loss)	-	93	(93)	-
Other	(16)	(1)	7	6
Total gains (losses) included in shareholders net income	(16)	92	(86)	6
Losses included in other comprehensive income	(1)	-	-	-
Gains required to adjust future policy benefits for settlement annuities (1)	35	-	-	-
Purchases, sales and settlements:				
Purchases	47	-	-	-
Sales	(125)	-	-	-
Settlements	(16)	(24)	24	-
Total purchases, sales and settlements	(94)	(24)	24	-
Transfers into/(out of) Level 3:				
Transfers into Level 3	191	-	-	-
Transfers out of Level 3	(98)	-	-	-
Total transfers into/(out of) Level 3	93	-	-	-
Balance at June 30, 2016	$ 743	$ 975	$ (947)	$ 28
Total gains (losses) included in shareholders net income attributable to instruments held at the reporting date	$ (23)	$ 92	$ (86)	$ 6

(1) Amounts do not accrue to shareholders.

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

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

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

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company s best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. During 2017 and 2016, transfers between Level 2 and Level 3 primarily reflect changes in liquidity and credit risk estimates for certain private placement issuers across several sectors including metals, mining, energy, capital goods and consumer products.

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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. See Note 10 to the Consolidated Financial Statements contained in the Company s 2016 Form 10-K for additional policy information related to separate accounts.

As of June 30, 2017 and December 31, 2016, separate account assets were as follows:

(In millions)		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
June 30, 2017								
Guaranteed separate accounts (See Note 16)	**$**	**229**	**$**	**289**	**$**	**-**	**$**	**518**
Non-guaranteed separate accounts (1)		**1,438**		**5,363**		**316**		**7,117**
Subtotal	**$**	**1,667**	**$**	**5,652**	**$**	**316**		**7,635**
Non-guaranteed separate accounts priced at NAV as a practical expedient (1)								**833**
Total separate account assets							**$**	**8,468**
December 31, 2016								
Guaranteed separate accounts (See Note 16)	$	238	$	262	$	-	$	500
Non-guaranteed separate accounts (1)		1,368		4,885		331		6,584
Subtotal	$	1,606	$	5,147	$	331		7,084
Non-guaranteed separate accounts priced at NAV as a practical expedient (1)								856
Total separate account assets							$	7,940

(1) Non-guaranteed separate accounts included $3.9 billion as of June 30, 2017 and $3.7 billion as of December 31, 2016 in assets supporting the Company s pension plans, including $0.3 billion classified in Level 3 for both periods and $0.8 billion as of June 30, 2017 and $0.9 billion as of December 31, 2016 priced at net asset value (NAV) as a practical expedient.

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

- corporate and structured bonds valued using recent trades of similar securities or pricing models that discount future cash flows at estimated market interest rates as described above; and

- actively-traded institutional and retail mutual fund investments and separate accounts priced using the daily net asset value that is the exit price.

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Separate account assets classified in Level 3 primarily support Cigna s pension plans, and include certain newly issued, privately-placed, complex, or illiquid securities that are priced using methods discussed above, as well as commercial mortgage loans that are valued according to the methodologies discussed below. The following tables summarize the changes in separate account assets reported in Level 3 for the three months and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Balance, beginning of period	**$ 330**	$ 317	**$ 331**	$ 297
Policyholder gains	**10**	2	**37**	1
Purchases, sales and settlements:				
Purchases	**7**	1	**17**	5
Sales	**(17)**	-	**(52)**	(1)
Settlements	**-**	-	**(1)**	(2)
Total purchases, sales and settlements	**(10)**	1	**(36)**	2
Transfers into/(out of) Level 3:				
Transfers into Level 3	**1**	16	**1**	39
Transfers out of Level 3	**(15)**	(3)	**(17)**	(6)
Total transfers into/(out of) Level 3	**(14)**	13	**(16)**	33
Balance, end of period	**$ 316**	$ 333	**$ 316**	$ 333

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

	Fair Value as of		Unfunded	Redemption Frequency	Redemption Notice
(In millions)	**June 30, 2017**	**December 31, 2016**	**Commitments**	**(if currently eligible) (1)**	**Period (1)**
Security Partnerships	**$ 390**	$ 424	$ 357	Not applicable	Not applicable
Real Estate Funds	**237**	231	-	Quarterly	45-90 days
Hedge Funds	**206**	201	-	Up to Annually, varying by fund	30-90 days
Total	**$ 833**	$ 856	$ 357		

(1) The attributes noted are effective as of June 30, 2017 and December 31, 2016.

Assets and Liabilities Measured at Fair Value under Certain Conditions

Some financial assets and liabilities are not carried at fair value each reporting period, but may be measured using fair value only under certain conditions, such as investments in real estate, partnership entities and commercial mortgage loans when they become impaired. Impaired values for these asset types classified as Level 3 representing less than 1% of total investments, were written down to their fair values, resulting in realized investment losses of $2 million after-tax for the six months ended June 30, 2017 and 2016.

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Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

The following table includes the Company s financial instruments not recorded at fair value that are subject to fair value disclosure requirements at June 30, 2017 and December 31, 2016. In addition to universal life products and capital leases, financial instruments that are carried in the Company s Consolidated Financial Statements at amounts that approximate fair value are excluded from the following table.

(In millions)	Classification in the Fair Value Hierarchy	June 30, 2017 Fair Value	June 30, 2017 Carrying Value	December 31, 2016 Fair Value	December 31, 2016 Carrying Value
Commercial mortgage loans	Level 3	**$ 1,756**	**$ 1,741**	$ 1,682	$ 1,666
Contractholder deposit funds, excluding universal life products	Level 3	**$ 1,175**	**$ 1,170**	$ 1,215	$ 1,212
Long-term debt, including current maturities, excluding capital leases	Level 2	**$ 5,422**	**$ 4,738**	$ 5,460	$ 4,991

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

***Commercial mortgage loans*.** The Company estimates the fair value of commercial mortgage loans generally by discounting the contractual cash flows 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. The fair value measurements were classified in Level 3 because the cash flow models incorporate significant unobservable inputs.

***Contractholder deposit funds, excluding universal life products*.** Generally, these funds do not have stated maturities. Approximately 70% of these balances can be withdrawn by the customer at any time without prior notice or penalty. The fair value for these contracts is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. Most of the remaining contractholder deposit funds are reinsured by the buyers of the individual life and annuity and retirement benefits businesses. The fair value for these contracts is determined using the fair value of these buyers assets supporting these reinsured contracts. The Company had reinsurance recoverables equal to the carrying value of these reinsured contracts. These instruments were classified in Level 3 because certain inputs are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement.

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

remaining maturities. These measurements were classified in Level 2 because the fair values are based on quoted market prices or other inputs that are market observable or can be corroborated by market data.

Fair values of off-balance sheet financial instruments were not material as of June 30, 2017 and December 31, 2016.

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Note 10 Investments

Cigna s investment portfolio consists of a broad range of investments including fixed maturities and equity securities, commercial mortgage loans, other long-term investments and short-term investments. The sections below provide more detail regarding our investment balances, net investment income and realized investment gains and losses. See Note 9 for information about the valuation of the Company s investment portfolio. See Note 11 to the Consolidated Financial Statements contained in the Company s 2016 Form 10-K for accounting policies for each investment type.

A. Investment Portfolio

Fixed Maturities and Equity Securities

The amortized cost and fair value by contractual maturity periods for fixed maturities were as follows at June 30, 2017:

(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 1,393	$ 1,407
Due after one year through five years	6,822	7,079
Due after five years through ten years	8,905	9,176
Due after ten years	3,649	4,368
Mortgage and other asset-backed securities	453	483
Total fixed maturities	$ 21,222	$ 22,513

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

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

	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
(In millions)		June 30, 2017		
Federal government and agency	$ 663	$ 240	$ (3)	$ 900
State and local government	1,277	106	(2)	1,381
Foreign government	2,202	125	(14)	2,313
Corporate	16,627	877	(68)	17,436

Mortgage and other asset-backed		**453**		**32**		**(2)**		**483**
Total fixed maturities	**$**	**21,222**	**$**	**1,380**	**$**	**(89)**	**$**	**22,513**

(In millions)				December 31, 2016				
Federal government and agency	$	658	$	223	$	(4)	$	877
State and local government		1,342		99		(6)		1,435
Foreign government		1,998		129		(14)		2,113
Corporate		15,483		716		(149)		16,050
Mortgage and other asset-backed		461		29		(4)		486
Total fixed maturities	$	19,942	$	1,196	$	(177)	$	20,961

The above table includes investments with a fair value of $2.8 billion at June 30, 2017 and $2.7 billion at December 31, 2016 supporting liabilities of the Company s run-off settlement annuity business. These investments had gross unrealized appreciation of $630 million and gross unrealized depreciation of $3 million at June 30, 2017, compared with gross unrealized appreciation of $539 million and gross unrealized depreciation of $15 million at December 31, 2016.

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

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

The table below summarizes fixed maturities in an unrealized loss position at June 30, 2017 by the length of time these securities have been in an unrealized loss position. These fixed maturities were primarily corporate securities with a decline in fair value that reflects an increase in market yields since purchase.

	June 30, 2017			
(Dollars in millions)	**Fair Value**	**Amortized Cost**	**Unrealized Depreciation**	**Number of Issues**
One year or less:				
Investment grade	$ 3,449	$ 3,515	$ (66)	791
Below investment grade	$ 399	$ 408	$ (9)	401
More than one year:				
Investment grade	$ 220	$ 229	$ (9)	40
Below investment grade	$ 71	$ 76	$ (5)	14

There are no available for sale equity securities with a significant unrealized loss reflected in accumulated other comprehensive income at June 30, 2017.

Equity securities include hybrid investments consisting of preferred stock with call features that are carried at fair value with changes in fair value reported in other realized investment gains (losses) and dividends reported in net investment income. As of June 30, 2017, fair values of these securities were $61 million and amortized cost was $75 million, compared with fair value of $36 million and amortized cost of $49 million as of December 31, 2016.

Commercial Mortgage Loans

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

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

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

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The following tables summarize the credit risk profile of the Company s commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios, as of June 30, 2017 and December 31, 2016:

(In millions)

	Debt Service Coverage Ratio					
Loan-to-Value Ratios	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
As of June 30, 2017						
Below 50%	**$ 354**	**$ 15**	**$ -**	**$ -**	**$ 30**	**$ 399**
50% to 59%	**635**	**27**	**-**	**-**	**15**	**677**
60% to 69%	**541**	**-**	**-**	**-**	**-**	**541**
70% to 79%	**84**	**-**	**-**	**-**	**35**	**119**
80% to 89%	**-**	**-**	**-**	**-**	**-**	**-**
90% to 100%	**-**	**-**	**-**	**-**	**5**	**5**
Total	**$ 1,614**	**$ 42**	**$ -**	**$ -**	**$ 85**	**$ 1,741**
As of December 31, 2016						
Below 50%	$ 335	$ 15	$ -	$ -	$ -	$ 350
50% to 59%	517	46	-	30	-	593
60% to 69%	624	14	-	-	-	638
70% to 79%	-	-	29	-	35	64
80% to 89%	-	-	-	-	-	-
90% to 100%	-	-	-	-	21	21
Total	$ 1,476	$ 75	$ 29	$ 30	$ 56	$ 1,666

The Company s annual in-depth review of its commercial mortgage loan investments is the primary mechanism for identifying emerging risks in the portfolio. The most recent review was completed by the Company s investment professionals in the second quarter of 2017 and included an analysis of each underlying property s December 31, 2016 annual financial statements, rent rolls, operating plans and budgets for 2017, a physical inspection of the property and other pertinent factors. Based on historical results, current leases, lease expirations and rental conditions in each market, the Company estimates the current year and future stabilized property income and fair value and categorizes the investments as loans in good standing, potential problem loans or problem loans. Based on property values and cash flows estimated as part of this review, the portfolio s average loan-to-value ratio remained at 57% at June 30, 2017 compared with December 31, 2016, primarily due to stable collateral values in the majority of underlying properties. The portfolio s average debt service coverage ratio improved to 2.10 at June 30, 2017 compared with 1.95 at December 31, 2016, driven by loans paid off with lower debt service coverage ratios and new loans with higher debt service coverage ratios.

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

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

Problem and potential problem mortgage loans, net of valuation reserves, totaled $5 million at June 30, 2017 and $21 million at December 31, 2016.

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

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

	June 30, 2017			December 31, 2016		
(In millions)	**Gross**	**Reserves**	**Net**	**Gross**	**Reserves**	**Net**
Impaired commercial mortgage loans with valuation reserves	**$ 6**	**$ (1)**	**$ 5**	$ 26	$ (5)	$ 21
Impaired commercial mortgage loans without valuation reserves	**-**	**-**	**-**	-	-	-
Total impaired commercial mortgage loans	**$ 6**	**$ (1)**	**$ 5**	$ 26	$ (5)	$ 21

For the six months ended June 30, 2017, the average recorded investment in impaired loans decreased to $14 million in 2017 compared with $102 million for the six months ended June 30, 2016, primarily due to the foreclosure of one impaired loan and the full payoff of another.

Changes in valuation reserves for commercial mortgage loans were not material for the six months ended June 30, 2017 and 2016.

Short-Term Investments and Cash Equivalents

Short-term investments and cash equivalents included the following types of issuers:.

(In millions)	**June 30, 2017**	**December 31, 2016**
Corporate securities	**$ 1,700**	$ 2,234
Federal government securities	**$ 673**	$ 378
Foreign government securities	**$ 109**	$ 94
Money market funds	**$ 20**	$ 11

B. **Realized Investment Gains and Losses**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Fixed maturities	**$ 14**	$ 6	**$ 16**	$ (12)
Equity securities	**1**	11	**34**	1
Commercial mortgage loans	**(1)**	4	**(1)**	4
Other investments, including derivatives	**37**	46	**48**	42
Realized investment gains before income taxes	**51**	67	**97**	35
Less income taxes	**17**	23	**32**	12
Net realized investment gains	**$ 34**	$ 44	**$ 65**	$ 23

Included in these realized investment gains were pre-tax other-than-temporary impairments on debt securities and other asset write-downs of $13 million for the six months ended June 30, 2017 and $43 million for the six months ended June 30, 2016.

Realized gains reported in the above table in other investments, including derivatives for the three months and six months ended June 30, 2017 and 2016 primarily reflected sales of real estate investments.

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The following table presents sales information for available-for-sale fixed maturities and equity securities. Gross gains on sales and gross losses on sales exclude amounts required to adjust future policy benefits for the run-off settlement annuity business.

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions)		**2017**		**2016**		**2017**		**2016**
Proceeds from sales	**$**	**516**	$	351	**$**	**930**	$	712
Gross gains on sales	**$**	**12**	$	22	**$**	**59**	$	34
Gross losses on sales	**$**	**2**	$	1	**$**	**4**	$	6

Note 11 Derivative Financial Instruments

The Company uses derivative financial instruments to manage the characteristics of investment assets (such as duration, yield, currency and liquidity) to meet the varying demands of the related insurance and contractholder liabilities (such as paying claims, investment returns and withdrawals) and to hedge interest rate risk of its long-term debt. The Company has written and purchased GMIB reinsurance contracts in its run-off reinsurance business that are accounted for as freestanding derivatives and discussed in Note 8. Derivatives in the Company s separate accounts are excluded from the following discussion because associated gains and losses generally accrue directly to separate account policyholders.

Accounting policy. The Company applies hedge accounting when derivatives are designated, qualified and highly effective as hedges. Effectiveness is formally assessed and documented at inception and each period throughout the life of a hedge using various quantitative methods appropriate for each hedge, including regression analysis and dollar offset. Under hedge accounting, the changes in fair value of the derivative and the hedged risk are generally recognized together and offset each other when reported in shareholders net income. Changes in the fair value of a derivative instrument may not always equal changes in the fair value of the hedged item. This is referred to as hedge ineffectiveness and is generally recorded in realized investment gains and losses. In the event of an early hedge termination, the changes in fair value of derivatives that qualified for hedge accounting are reported in shareholders net income, generally as a part of realized investment gains and losses. See Note 9 for further information on our policies for determining fair value. Derivative cash flows are generally reported in operating activities.

The following tables provide information on the Company s specific applications of derivative financial instruments during the periods ended June 30, 2017 and December 31, 2016.

Fair Value Hedge of Long-Term Corporate Debt	**Notional Value (in millions)**				
	June 30, 2017			**December 31, 2016**	
Type of instrument. Interest rate swap contracts	$	**750**		$	750

Purpose. To convert a portion of the interest rate exposure on the Company s long-term debt from fixed to variable rates. This more closely aligns the Company s interest expense with the interest income received on its cash equivalent and short-term investment balances. The variable rates are benchmarked to LIBOR.

Terms of derivative instruments. The Company provides upfront margin and settles fair value changes and net interest between variable and fixed rates daily with a central clearinghouse.

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

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Economic Hedges of a Fixed Maturity Bond Portfolio	**Notional Value (in millions)**			
	June 30, 2017		**December 31, 2016**	
Type of instrument. Foreign currency forward contracts	$	**205**	$	149

Purpose. To hedge the foreign exchange related changes in fair values of a U.S. dollar-denominated fixed maturity bond portfolio to reflect the local currency for the Company s foreign subsidiary in South Korea.

Terms of derivative instruments. The Company agrees to purchase South Korean won in exchange for U.S. dollars at a future date, generally within three months from the contracts trade dates.

Accounting. As these arrangements were not designated as accounting hedges, fair values are reported in short-term investments or accounts payable, accrued expenses, and other liabilities, and changes in fair values are reported in other realized investment gains and losses.

Fair Value Hedges of Fixed Maturity Bonds and Associated Firm Commitments	**Notional Value (in millions)**			
	June 30, 2017		**December 31, 2016**	
Type of instrument. Foreign currency swap contracts	$	**181**	$	78

Purpose. To hedge the foreign exchange related changes in fair values of the Company s fixed maturity bonds and associated firm commitments.

Terms of derivative instruments. The Company periodically exchanges cash flows between two currencies for both principal and interest. Foreign currency swaps are Euros and British pounds and have terms for periods of up to twelve years.

Accounting. Using fair value hedge accounting, swap fair values are reported in other long-term investments or accounts payable, accrued expenses and other liabilities. Fair values of the firm commitments attributable to the hedged risk are reported in other assets, including other intangibles or accounts payable, accrued expenses and other liabilities. Changes in fair values of the swap contracts, as well as changes in the fair values of the hedged bonds and firm commitments attributable to the hedged risk, are reported in other realized investment gains and losses.

Cash Flow Hedges of Fixed Maturity Bonds	**Notional Value (in millions)**	
	June 30, 2017	**December 31, 2016**
Type of instrument. Foreign currency swap contracts	$ **31**	$ 55

Purpose. To hedge the foreign currency cash flows of its fixed maturity bonds to match associated insurance liabilities.

Terms of derivative instruments. The Company periodically exchanges cash flows between two currencies for both principal and interest. Foreign currency swaps are Canadian dollars and Japanese yen and have terms for periods of up to four years.

Accounting. Using cash flow hedge accounting, fair values are reported in other long-term investments or accounts payable, accrued expenses, and other liabilities. Changes in fair values are reported in accumulated other comprehensive income and amortized into net investment income or other realized investment gains and losses as interest or principal payments are received.

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As of June 30, 2017 and December 31, 2016, and for the three months and six months ended June 30, 2017 and 2016, the effects of these derivative instruments on the Consolidated Financial Statements were not material, including the amounts of gains or losses reclassified from accumulated other comprehensive income into shareholders net income. No material amounts were excluded from the assessment of hedge effectiveness and no significant gains or losses were recognized due to hedge ineffectiveness.

Collateral and termination features. The Company routinely monitors exposure to credit risk associated with derivatives and diversifies the portfolio among approved dealers of high credit quality to minimize this risk. As of June 30, 2017, the Company had $12 million in cash on deposit representing the upfront margin required for the Company s centrally-cleared derivative instruments. Certain of the Company s over-the-counter derivative instruments contain provisions requiring either the Company or the counterparty to post collateral or demand immediate payment depending on the amount of the net liability position and predefined financial strength or credit rating thresholds. Collateral posting requirements vary by counterparty. The net asset or liability positions of these derivatives were not material as of June 30, 2017 or December 31, 2016.

Note 12 Variable Interest Entities

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

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

The Company owns interests in security and real estate limited partnerships defined as variable interest entities that invest in the equity or mezzanine debt of privately held companies and real estate properties. General partners unaffiliated with the Company control decisions that most significantly impact these partnerships operations and the limited partners do not have substantive kick-out or participating rights. The Company s maximum exposure to these entities of $2.3 billion across approximately 110 limited partnerships as of June 30, 2017 includes $1.1 billion reported in other long-term investments and commitments to contribute an additional $1.2 billion. The Company s non-controlling interest in each of these limited partnerships is generally less than 10% of the partnership ownership interests.

In the normal course of its investing activities, the Company also makes passive investments in certain asset-backed and corporate securities that are issued by variable interest entities whose sponsors or issuers are unaffiliated with the Company. The Company receives fixed-rate cash flows from these investments and the maximum potential exposure to loss is limited to its carrying amount of $0.5 billion as of June 30, 2017, that is reported in fixed maturities. The Company s combined ownership interests are insignificant relative to the total principal amounts issued by these entities.

The Company is also involved in real estate joint ventures for which all decisions significantly affecting the entities economic performance are subject to unanimous approval by the equity holders. As a result, the Company determined that the power over these entities is shared equally, and there is no primary beneficiary. The Company s maximum exposure to loss was approximately equal to its carrying value of $0.1 billion as of June 30, 2017, that is reported in other long-term investments.

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

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

- it has no power to direct the activities that most significantly impact the entities economic performance; or
- it has neither the right to receive benefits nor the obligation to absorb losses that could be significant to these variable interest entities.

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

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Note 13 Accumulated Other Comprehensive Income (Loss)

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

(In millions)		**Pre-Tax**		**Tax (Expense) Benefit**		**After-Tax**
Three Months Ended June 30,						
2017						
Net unrealized appreciation, securities, April 1,	**$**	**560**	**$**	**(191)**	**$**	**369**
Unrealized appreciation on securities arising during the period		**115**		**(38)**		**77**
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)		**(15)**		**5**		**(10)**
Net unrealized appreciation, securities arising during the period		**100**		**(33)**		**67**
Net unrealized appreciation, securities, June 30,	**$**	**660**	**$**	**(224)**	**$**	**436**
Net translation of foreign currencies, April 1,	**$**	**(279)**	**$**	**22**	**$**	**(257)**
Net translation of foreign currencies arising during the period		**30**		**(3)**		**27**
Net translation of foreign currencies, June 30,	**$**	**(249)**	**$**	**19**	**$**	**(230)**
Postretirement benefits liability adjustment, April 1,	**$**	**(2,099)**	**$**	**735**	**$**	**(1,364)**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		**17**		**(7)**		**10**
Net change due to valuation update		**2**		**-**		**2**
Net postretirement benefits liability adjustment arising during the period		**19**		**(7)**		**12**
Postretirement benefits liability adjustment, June 30,	**$**	**(2,080)**	**$**	**728**	**$**	**(1,352)**
2016						
Net unrealized appreciation, securities, April 1,	$	867	$	(276)	$	591
Unrealized appreciation on securities arising during the period		285		(97)		188
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)		(17)		6		(11)
Net unrealized appreciation, securities arising during the period		268		(91)		177
Net unrealized appreciation, securities, June 30,	$	1,135	$	(367)	$	768
Net unrealized appreciation, derivatives, April 1,	$	6	$	(2)	$	4
Unrealized (depreciation) on derivatives arising during the period		(1)		-		(1)
Net unrealized appreciation, derivatives, June 30,	$	5	$	(2)	$	3
Net translation of foreign currencies, April 1,	$	(212)	$	19	$	(193)
Net translation of foreign currencies arising during the period		(39)		(1)		(40)
Net translation of foreign currencies, June 30,	$	(251)	$	18	$	(233)
Postretirement benefits liability adjustment, April 1,	$	(2,139)	$	749	$	(1,390)
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		16		(6)		10
Net change due to valuation update		(4)		2		(2)
Net postretirement benefits liability adjustment arising during the period		12		(4)		8
Postretirement benefits liability adjustment, June 30,	$	(2,127)	$	745	$	(1,382)

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(In millions)		**Pre-Tax**		**Tax (Expense) Benefit**		**After-Tax**
Six Months Ended June 30,						
2017						
Net unrealized appreciation, securities, January 1,	**$**	**542**	**$**	**(180)**	**$**	**362**
Unrealized appreciation on securities arising during the period		**168**		**(62)**		**106**
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)		**(50)**		**18**		**(32)**
Net unrealized appreciation, securities arising during the period		**118**		**(44)**		**74**
Net unrealized appreciation, securities, June 30,	**$**	**660**	**$**	**(224)**	**$**	**436**
Net unrealized appreciation, derivatives, January 1,	**$**	**4**	**$**	**(1)**	**$**	**3**
Reclassification adjustment for (gains) included in shareholders net income (net realized investment gains)		**(4)**		**1**		**(3)**
Net unrealized appreciation, derivatives, June 30,	**$**	**-**	**$**	**-**	**$**	**-**
Net translation of foreign currencies, January 1,	**$**	**(390)**	**$**	**21**	**$**	**(369)**
Net translation of foreign currencies arising during the period		**141**		**(2)**		**139**
Net translation of foreign currencies, June 30,	**$**	**(249)**	**$**	**19**	**$**	**(230)**
Postretirement benefits liability adjustment, January 1,	**$**	**(2,120)**	**$**	**742**	**$**	**(1,378)**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		**32**		**(12)**		**20**
Reclassification adjustment for settlement loss (other operating expenses)		**6**		**(2)**		**4**
Net change due to valuation update		**2**		**-**		**2**
Net postretirement benefits liability adjustment arising during the period		**40**		**(14)**		**26**
Postretirement benefits liability adjustment, June 30,	**$**	**(2,080)**	**$**	**728**	**$**	**(1,352)**
2016						
Net unrealized appreciation, securities, January 1,	$	612	$	(194)	$	418
Unrealized appreciation on securities arising during the period		512		(169)		343
Reclassification adjustment for losses included in shareholders net income (realized investment gains)		11		(4)		7
Net unrealized appreciation, securities arising during the period		523		(173)		350
Net unrealized appreciation, securities, June 30,	$	1,135	$	(367)	$	768
Net unrealized appreciation, derivatives, January 1,	$	10	$	(3)	$	7
Unrealized (depreciation), derivatives arising during the period		(5)		1		(4)
Net unrealized appreciation, derivatives, June 30,	$	5	$	(2)	$	3
Net translation of foreign currencies, January 1,	$	(295)	$	21	$	(274)
Net translation of foreign currencies arising during the period		44		(3)		41
Net translation of foreign currencies, June 30,	$	(251)	$	18	$	(233)
Postretirement benefits liability adjustment, January 1,	$	(2,155)	$	754	$	(1,401)
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)		32		(11)		21
Net change due to valuation update		(4)		2		(2)
Net postretirement benefits liability adjustment arising during the period		28		(9)		19
Postretirement benefits liability adjustment, June 30,	$	(2,127)	$	745	$	(1,382)

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Note 14 Pension and Other Postretirement Benefit Plans

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

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

For the six months ended June 30, 2017, the Company s unrecognized actuarial losses and prior service costs (reported in accumulated other comprehensive income) decreased by $40 million pre-tax in the aggregate ($26 million after-tax) resulting in an increase in shareholders equity. This change was primarily the result of amortization.

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

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Service cost	**$ 1**	$ 1	**$ 1**	$ 1	**$ -**	$ -	**$ -**	$ -
Interest cost	**45**	49	**93**	99	**2**	2	**5**	5
Expected long-term return on plan assets	**(64)**	(62)	**(129)**	(124)	**-**	-	**-**	-
Amortization of:								
Net loss from past experience	**17**	16	**33**	33	**-**	-	**-**	-
Prior service cost	**-**	-	**-**	-	**-**	-	**(1)**	(1)
Settlement loss	**-**	-	**6**	-	**-**	-	**-**	-
Net cost	**$ (1)**	$ 4	**$ 4**	$ 9	**$ 2**	$ 2	**$ 4**	$ 4

The Company funds its domestic qualified pension plans at least at the minimum amount required by the Pension Protection Act of 2006. During the six months ended June 30, 2017, the Company made a voluntary pension contribution of $150 million. No additional contributions are required for the remainder of 2017.

Note 15 Income Taxes

A. Income Tax Expense

The consolidated effective tax rate decreased to 30.7% for the six months ended June 30, 2017 compared with 37.7% for the six months ended 2016. The significantly lower effective tax rate for 2017 was attributable to the one year moratorium on the non-deductible health insurance industry tax and recognizing an incremental tax benefit associated with merger-related costs. See Note 3 for additional details regarding merger-related costs.

The Company maintains a capital management strategy to retain overseas a significant portion of the earnings from its foreign operations. As of June 30, 2017, undistributed earnings were approximately $2.8 billion. These undistributed earnings are deployed outside of the U.S. predominantly in support of the liquidity and regulatory capital requirements of our foreign operations. The Company does not intend to repatriate these earnings to the U.S. and as a result, income taxes are provided using the respective foreign jurisdictions tax rate. If the Company had intended to repatriate these foreign earnings to the U.S., the Company s Consolidated Balance Sheets would have included an additional $390 million of deferred tax liabilities as of June 30, 2017.

B. Unrecognized Tax Benefits

Changes in unrecognized tax benefits were immaterial for the six months ended June 30, 2017.

Note 16 Contingencies and Other Matters

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

A. Financial Guarantees: Retiree and Life Insurance Benefits

Separate account assets are contractholder funds maintained in accounts with specific investment objectives. The Company records separate account liabilities equal to separate account assets. In certain cases, the Company guarantees a minimum level of benefits for retirement and insurance contracts written in separate accounts. The Company establishes an additional liability if management believes that the Company will be required to make a payment under these guarantees.

The Company guarantees that separate account assets will be sufficient to pay certain life insurance or retiree benefits. The sponsoring employers are primarily responsible for ensuring that assets are sufficient to pay these benefits and are required to maintain assets that exceed a certain percentage of benefit obligations. This percentage varies depending on the asset class within a sponsoring employer s portfolio (for example, a bond fund would require a lower percentage than a riskier equity fund) and thus will vary as the composition of the portfolio changes. If employers do not maintain the required levels of separate account assets, the Company or an affiliate of the buyer of the retirement benefits business (Prudential Retirement Insurance and Annuity Company) has the right to redirect the management of the related assets to provide for benefit payments. As of June 30, 2017, employers maintained assets that exceeded the benefit obligations. Benefit obligations under these arrangements were $485 million as of June 30, 2017 and approximately 13% of these are reinsured by an affiliate of the buyer of the retirement benefits business. The remaining guarantees are provided by the Company with minimal reinsurance from third parties. There were no additional liabilities required for these guarantees as of June 30, 2017. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy. See Note 9 for further information on the fair value hierarchy.

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

B. GMIB Contracts

See Note 8 for discussion.

C. Certain Other Guarantees

The Company had financial guarantees and indemnification obligations to lenders of approximately $104 million as of June 30, 2017, related to borrowings by certain real estate joint ventures that the Company either records as an investment or consolidates. These borrowings, most of which are nonrecourse to the Company, are secured by the joint ventures real estate properties with fair values in excess of the loan amounts and mature at various dates beginning in 2018 through 2021. The Company s indemnification obligations would require payment to lenders for any actual damages resulting from certain acts such as unauthorized ownership transfers, misappropriation of rental payments by others or environmental damages. Based on initial and ongoing reviews of property management and operations, the Company does not expect that payments will be required under these financial guarantees or indemnification obligations. Any payments that might be required could be recovered through a refinancing or sale of the assets. In some cases, the Company also has recourse to partners for their proportionate share of amounts paid. There were no liabilities required for these financial guarantees and indemnification obligations as of June 30, 2017.

As of June 30, 2017, the Company guaranteed that it would compensate the lessors for a shortfall of up to $32 million in the market value of certain leased equipment at the end of its leases. Guarantees of $25 million expire in 2022 and $7 million expire in 2026. The Company had liabilities for these guarantees of $4 million as of June 30, 2017.

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

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The Company had indemnification obligations as of June 30, 2017 in connection with acquisition and disposition transactions. These indemnification obligations are triggered by the breach of representations or covenants provided by the Company, such as representations for the presentation of financial statements, the filing of tax returns, compliance with law or the identification of outstanding litigation. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential amount due is subject to contractual limitations based on a percentage of the transaction purchase price, while in other cases limitations are not specified or applicable. The Company does not believe that it is possible to determine the maximum potential amount due under these obligations, because not all amounts due under these indemnification obligations are subject to limitation. There were no liabilities required for these indemnification obligations as of June 30, 2017.

D. Guaranty Fund Assessments

The Company operates in a regulatory environment that may require its participation in assessments under state insurance guaranty association laws. The Company s exposure to assessments for certain obligations of insolvent insurance companies to policyholders and claimants is based on its share of business written in the relevant jurisdictions.

On March 1, 2017, the Commonwealth Court of Pennsylvania entered an order of liquidation of Penn Treaty Network America Insurance Company, together with its subsidiary American Network Insurance Company (collectively Penn Treaty , a long-term care insurance carrier), triggering guaranty fund coverage and accrual of a liability. For the six months ended June 30, 2017, the Company recorded in operating expenses approximately $130 million pre-tax (approximately $85 million after-tax), representing its estimate of the total assessments, net of small reductions for premium tax offsets for insurance contracts currently written. Some of the assessments were recorded on a discounted basis, using a weighted average discount rate of 3.5%. As of June 30, 2017, the recorded liability was approximately $100 million and total future cash outflows as of June 30, 2017 are expected to approximate $130 million. This assessment is expected to be updated in future periods for changes in the estimate of the insolvency. In addition, a portion of this assessment is expected to be offset in the future by premium tax credits that will be recognized in the period received.

E. Legal and Regulatory Matters

The Company is routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a global health services business. These actions may include benefit disputes, breach of contract claims, tort claims, provider disputes, disputes regarding reinsurance arrangements, employment and employment discrimination-related suits, employee benefit claims, wage and hour claims, privacy, claims arising from consumer protection laws, intellectual property claims and real estate-related disputes. There are currently, and may be in the future, attempts to bring class action lawsuits against the industry. The Company also is regularly engaged in Internal Revenue Service (IRS) audits and may be subject to examinations by various state and foreign taxing authorities. Disputed income tax matters arising from these examinations, including those resulting in litigation, are accounted for under GAAP guidance for uncertain tax positions. Further information on income tax matters can be found in Note 15.

The business of administering and insuring health services programs, particularly health care and group insurance programs, is heavily regulated by federal and state laws and administrative agencies, such as state departments of insurance and the U.S. Departments of Health and Human

Services, Treasury, Labor and Justice, as well as the courts. Health care regulation and legislation in its various forms, including the Health Care Reform Act, other regulatory reform initiatives, such as those relating to Medicare programs, or additional changes in existing laws or regulations or their interpretations, could have a material adverse effect on the Company s business, results of operations and financial condition.

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

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The Department of Justice (DOJ) is currently conducting an industry review of the risk adjustment data submission practices and business processes, including review of medical charts, of Medicare Advantage organizations under Medicare Parts C and D. In connection with this industry review, in December 2016, the Company received a Civil Investigative Demand from the Civil Division of the DOJ. We are in the process of voluntarily cooperating with the DOJ s request and responding to the information request.

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

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

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

The outcome of litigation and other legal or regulatory matters is always uncertain, and unfavorable outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the matters pending against it and is defending itself vigorously. Except as otherwise noted, the Company believes that the legal actions, regulatory matters, proceedings and investigations currently pending against it should not have a material adverse effect on the Company s results of operations, financial condition or liquidity based upon our current knowledge and taking into consideration current accruals. The Company had pre-tax reserves as of June 30, 2017 of approximately $190 million ($125 million after-tax) for the matters discussed below under Litigation Matters. Due to numerous uncertain factors presented in these cases, it is not possible to estimate an aggregate range of loss (if any) for these matters at this time. In light of the uncertainties involved in these matters, there is no assurance that their ultimate resolution will not exceed the amounts currently accrued by the Company. An adverse outcome in one or more of these matters could be material to the Company s results of operations, financial condition or liquidity for any particular period.

Litigation Matters

Amara cash balance pension plan litigation. In December 2001, Janice Amara filed a class action lawsuit in the U.S. District Court for the District of Connecticut against Cigna Corporation and the Cigna Pension Plan (the Plan) on behalf of herself and other similarly situated Plan participants affected by the 1998 conversion to a cash balance formula. The

plaintiffs allege various violations of the Employee Retirement Income Security Act of 1974 (ERISA), including that the Plan s cash balance formula discriminates against older employees; that the conversion resulted in a wear-away period (when the pre-conversion accrued benefit exceeded the post-conversion benefit); and that the Plan communications contained inaccurate or inadequate disclosures about these conditions.

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

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In January 2016, the District Court ordered the method of calculating the additional pension benefits due to class members. The court order left several aspects of the calculation of additional plan benefits open to interpretation. During 2016, the Company submitted its interpretation of the Court Order and the plaintiffs filed various objections. On January 10, 2017, the District Court issued an additional ruling regarding certain aspects of the calculation of additional plan benefits. On July 14, 2017, the District Court ruled on a motion for clarification and reconsideration, clarifying and modifying aspects of the January 10, 2017 Order. The Company s reserve for this litigation remains reasonable at June 30, 2017, based on calculations consistent with the Company s interpretation of the updated guidance from the Court. The Plaintiffs have filed a motion for reconsideration of the July 14, 2017 Order. The final timing of the resolution of this matter therefore remains uncertain. Once resolved, the Plan will be amended to comply with the final interpretation of the District Court s order and the benefits will begin to be paid.

Ingenix. In April 2004, the Company was sued in a number of putative nationwide class actions alleging that the Company improperly underpaid claims for out-of-network providers through the use of data provided by Ingenix, Inc., a subsidiary of one of the Company s competitors. These actions were consolidated into *Franco v. Connecticut General Life Insurance Company, et al.*, pending in the U.S. District Court for the District of New Jersey. The consolidated amended complaint, filed in 2009 on behalf of subscribers, health care providers and various medical associations, asserted claims related to benefits and disclosure under ERISA, the Racketeer Influenced and Corrupt Organizations (RICO) Act, the Sherman Antitrust Act and New Jersey state law and seeks recovery for alleged underpayments from 1998 through the present. Other major health insurers have been the subject of, or have settled, similar litigation.

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

Regulatory Matters

CMS actions. On June 16, 2017, the Company received notification from CMS that the sanctions issued in January 2016 requiring us to suspend certain enrollment and marketing activities for Medicare Advantage-Prescription Drug and Medicare Part D Plans have been lifted. Accordingly, the Company has resumed marketing of its Medicare Advantage-Prescription Drug and Medicare Part D Plans and began enrolling beneficiaries with effective dates beginning July 1, 2017.

For the six months ended June 30, 2017, Medicare enrollment and consolidated revenues were materially impacted due to our inability to participate in 2017 annual enrollment, and management expects that trend to continue for the remainder of 2017. However, management anticipates that full-year 2017 shareholders net income will not be materially affected because we expect the margin impact of the revenue loss

to be offset by 2017 remediation costs that are significantly lower than the $100 million after-tax amount reported in 2016 and other operational efficiencies to improve 2017 results.

In October 2016, CMS announced projected Medicare Star Quality Ratings (Star Ratings) for the 2018 payment year. The projected Star Ratings for our plans included certain reductions that were primarily attributable to our CMS audit discussed above. Following an appeal, two of our Star Ratings measures were updated, affecting our overall Star Rating. Based on the final Medicare Star Ratings for the 2018 payment year, we expect that approximately 60% of our Medicare Advantage customers will be in a 4 Star or greater plan.

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

Other Legal Matters

Antitrust Litigation. On July 21, 2016, the DOJ and certain state attorneys general filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia (the District Court) seeking to block the merger with Anthem. On February 8, 2017, the District Court issued an order enjoining the proposed merger and, on April 28, 2017, the Appeals Court affirmed the decision of the District Court. On May 5, 2017, Anthem filed a petition for a writ of certiorari with the United States Supreme Court seeking appeal of the U.S. Court of Appeals decision affirming the District Court s order enjoining the merger. As a result of the termination of the merger agreement as further described below, the petition to the Supreme Court is now moot.

Litigation with Anthem. On February 14, 2017, the Company delivered a notice to Anthem terminating the merger agreement, and notifying Anthem that it must pay the Company the $1.85 billion reverse termination fee pursuant to the terms of the merger agreement. Also on February 14, 2017, the Company filed suit against Anthem in the Delaware Court of Chancery (the Chancery Court). The complaint sought declaratory judgments that the Company s termination of the merger agreement was valid and that Anthem was not permitted to extend the termination date. The complaint also sought payment of the reverse termination fee and additional damages in an amount exceeding $13 billion, including the lost premium value to the Company s shareholders caused by Anthem s willful breaches of the merger agreement.

Also on February 14, 2017, Anthem filed a lawsuit in the Chancery Court against the Company seeking (i) a temporary restraining order to enjoin Cigna from terminating and taking any action contrary to the terms of the merger agreement, (ii) specific performance compelling Cigna to comply with the merger agreement and (iii) damages.

On February 15, 2017, the Chancery Court granted Anthem s motion for a temporary restraining order and issued an order temporarily enjoining the Company from terminating the merger agreement. On May 11, 2017, the Chancery Court denied Anthem s motion for a preliminary injunction to enjoin Cigna from terminating the merger agreement but stayed its ruling pending Anthem s determination as to whether to seek an appeal. On May 12, 2017, Anthem notified Cigna and the Chancery Court that it did not intend to appeal the Chancery Court s decision. As a result, the merger agreement was terminated.

The litigation between the parties remains pending. We believe in the merits of our claims and dispute Anthem s claims, and we intend to vigorously defend ourselves and pursue our claims. The outcomes of lawsuits are inherently unpredictable, and we may be unsuccessful in the ongoing litigation or any future claims or litigation.

Shareholder Litigation. Following announcement of the Company s merger agreement with Anthem in 2015, putative class action complaints (collectively the complaints or Cigna Merger Litigation) were filed by purported Cigna shareholders on behalf of a purported class of Cigna shareholders.

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

Solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, the Company, the Company s directors, Anthem and Merger Sub previously entered into a Memorandum of Understanding (MOU) to settle the Cigna Merger Litigation. The termination of the proposed acquisition of the Company by Anthem, as announced on May 12, 2017, has rendered moot both the MOU and the Cigna Merger Litigation. On July 21, 2017, a Stipulation and Proposed Order for Dismissal With Prejudice was submitted to the Connecticut Superior Court, Judicial District of Hartford (the Court). Subject to approval by the Court, the Cigna Merger Litigation has been resolved.

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Note 17 Segment Information

See Note 1 for a description of the Company s reporting segments.

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

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

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

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

- Special items, if any, are excluded because management believes they are not representative of the underlying results of operations. This is generally because the nature and size of these matters are not indicative of our ongoing business operations. Further context about these items is provided in the footnotes listed in the table below.

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
(In millions)	**Before-tax**	**After-tax**	**Before-tax**	**After-tax**
Merger-related transaction costs (benefits) - see Note 3	**$ 16**	**$ (47)**	$ 34	$ 26

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	Before-tax	**After-tax**	**Before-tax**	**After-tax**
Long-term care guaranty fund assessment - see Note 16(D)	**$ 129**	**$ 83**	$ -	$ -

Merger-related transaction costs - see Note 3	**79**	**2**	74	62
Total impact from special items	**$ 208**	**$ 85**	$ 74	$ 62

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Summarized segment financial information was as follows:

(In millions)	Global Health Care	Global Supplemental Benefits	Group Disability and Life	Other Operations	Corporate	Total
Three Months Ended June 30, 2017						
Premiums, fees and other revenues and mail order pharmacy revenues	**$ 7,993**	**$ 924**	**$ 1,023**	**$ 30**	**$ (11)**	**$ 9,959**
Net investment income	**92**	**31**	**89**	**88**	**8**	**308**
Operating revenues	**$ 8,085**	**$ 955**	**$ 1,112**	**$ 118**	**$ (3)**	**$ 10,267**
Total revenues	**$ 8,117**	**$ 954**	**$ 1,134**	**$ 116**	**$ (3)**	**$ 10,318**
Shareholders net income (loss)	**$ 599**	**$ 101**	**$ 97**	**$ 17**	**$ (1)**	**$ 813**
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	**(22)**	**-**	**(14)**	**2**	**-**	**(34)**
Amortization of other acquired intangible assets, net	**14**	**4**	**-**	**-**	**-**	**18**
Special item:						
Merger-related transaction (benefits)	**-**	**-**	**-**	**-**	**(47)**	**(47)**
Adjusted income (loss) from operations	**$ 591**	**$ 105**	**$ 83**	**$ 19**	**$ (48)**	**$ 750**
Three Months Ended June 30, 2016						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 7,759	$ 808	$ 1,010	$ 28	$ (6)	$ 9,599
Net investment income	81	27	88	93	5	294
Operating revenues	$ 7,840	$ 835	$ 1,098	$ 121	$ (1)	$ 9,893
Total revenues	$ 7,868	$ 835	$ 1,122	$ 136	$ (1)	$ 9,960
Shareholders net income (loss)	$ 487	$ 78	$ 3	$ 30	$ (88)	$ 510
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains)	(19)	-	(15)	(10)	-	(44)
Amortization of other acquired intangible assets, net	18	5	-	-	-	23
Special item:						
Merger-related transaction costs	-	-	-	-	26	26
Adjusted income (loss) from operations	$ 486	$ 83	$ (12)	$ 20	$ (62)	$ 515

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(In millions)	Global Health Care	Global Supplemental Benefits	Group Disability and Life	Other Operations	Corporate	Total
Six Months Ended June 30, 2017						
Premiums, fees and other revenues and mail order pharmacy revenues	**$ 16,099**	**$ 1,805**	**$ 2,055**	**$ 60**	**$ (24)**	**$ 19,995**
Net investment income	**184**	**59**	**178**	**174**	**16**	**611**
Operating revenues	**$ 16,283**	**$ 1,864**	**$ 2,233**	**$ 234**	**$ (8)**	**$ 20,606**
Total revenues	**$ 16,341**	**$ 1,876**	**$ 2,263**	**$ 231**	**$ (8)**	**$ 20,703**
Shareholders net income (loss)	**$ 1,143**	**$ 178**	**$ 156**	**$ 37**	**$ (103)**	**$ 1,411**
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	**(38)**	**(9)**	**(20)**	**2**	**-**	**(65)**
Amortization of other acquired intangible assets, net	**28**	**10**	**-**	**-**	**-**	**38**
Special items:						
Long-term care guaranty fund assessment	**68**	**-**	**15**	**-**	**-**	**83**
Merger-related transaction costs	**-**	**-**	**-**	**-**	**2**	**2**
Adjusted income (loss) from operations	**$ 1,201**	**$ 179**	**$ 151**	**$ 39**	**$ (101)**	**$ 1,469**
Six Months Ended June 30, 2016						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 15,571	$ 1,588	$ 2,039	$ 55	$ (10)	$ 19,243
Net investment income	153	53	168	183	9	566
Operating revenues	$ 15,724	$ 1,641	$ 2,207	$ 238	$ (1)	$ 19,809
Total revenues	$ 15,735	$ 1,639	$ 2,228	$ 243	$ (1)	$ 19,844
Shareholders net income (loss)	$ 1,001	$ 137	$ 16	$ 44	$ (169)	$ 1,029
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	(7)	1	(13)	(4)	-	(23)
Amortization of other acquired intangible assets, net	36	12	-	-	-	48
Special item:						
Merger-related transaction costs	-	-	-	-	62	62
Adjusted income (loss) from operations	$ 1,030	$ 150	$ 3	$ 40	$ (107)	$ 1,116

The Company had net receivables from CMS of $0.5 billion as of June 30, 2017 and $0.6 billion as of December 31, 2016. These amounts were included in the Consolidated Balance Sheets in premiums, accounts and notes receivable and reinsurance recoverables. Premiums from CMS were 17% of consolidated revenues for the six months ended June 30, 2017 and 21% for the six months ended June 30, 2016. These amounts were reported in the Global Health Care segment.

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

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Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide information to assist you in better understanding and evaluating our financial condition as of June 30, 2017 compared with December 31, 2016 and our results of operations for the three months and six months ended June 30, 2017 compared with the same periods last year. We encourage you to read this MD&A in conjunction with our Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K), in particular the Risk Factors contained in Part I, Item 1A of that form.

Unless otherwise indicated, financial information in the MD&A is presented in accordance with accounting principles generally accepted in the United States of America (GAAP). See Note 2 to the Consolidated Financial Statements in our 2016 Form 10-K for additional information regarding our significant accounting policies. The preparation of interim consolidated financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the health care and related benefits business, as well as competitive and other market conditions, call for caution in estimating full-year results based on interim results of operations. In some of our financial tables in this MD&A, we present percentage changes or N/M when those changes are so large as to become not meaningful. Changes in percentages are expressed in basis points (bps).

In this MD&A, our consolidated measures operating revenues and adjusted income from operations are not determined in accordance with GAAP and should not be viewed as substitutes for the most directly comparable GAAP measures total revenues and shareholders net income.

We define operating revenues as total revenues excluding realized investment results. We exclude realized investment results from this measure because our portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment. As a result, gains or losses created in this process may not be indicative of the past or future underlying performance of the business.

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

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

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

- *Special items, if any, are excluded because management believes they are not representative of the underlying results of operations. See Note 17 to the Consolidated Financial Statements for descriptions of special items.*

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on Cigna s current expectations and projections about future trends, events and uncertainties. These statements are not historical facts. Forward-looking statements may include, among others, statements concerning future financial or operating performance, including our ability to deliver personalized and innovative solutions for our customers and clients; future growth, business strategy, strategic or operational initiatives; economic, regulatory or competitive environments, particularly with respect to the pace and extent of change in these areas; financing or capital deployment plans and amounts available for future deployment; our prospects for growth in the coming years; and other statements regarding Cigna s future beliefs, expectations, plans, intentions, financial condition or performance. You may identify forward-looking statements by the use of words such as believe, expect, plan, intend, anticipate, estimate, predict, potential, may, other words or expressions of similar meaning, although not all forward-looking statements contain such terms.

Forward-looking statements are subject to risks and uncertainties, both known and unknown, that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Such risks and uncertainties include, but are not limited to: our ability to achieve our financial, strategic and operational plans or initiatives; our ability to predict and manage medical costs and price effectively and develop and maintain good relationships with physicians, hospitals and other health care providers; the impact of modifications to our operations and processes, including those in our disability business; our ability to identify potential strategic acquisitions or transactions and realize the expected benefits of such transactions; the substantial level of government regulation over our business and the potential effects of new laws or regulations or changes in existing laws or regulations; the outcome of litigation, regulatory audits, investigations, actions and/or guaranty fund assessments; uncertainties surrounding participation in government-sponsored programs such as Medicare; the effectiveness and security of our information technology and other business systems; unfavorable industry, economic or political conditions including foreign currency movements; acts of war, terrorism, natural disasters or pandemics; uncertainty as to the outcome of the litigation between Cigna and Anthem, Inc. with respect to the termination of the merger agreement, the reverse termination fee and/or contract and non-contract damages for claims each party has filed against the other, including the risk that a court finds that Cigna has not complied with its obligations under the merger agreement, is not entitled to receive the reverse termination fee or is liable for breach of the merger agreement; as well as more specific risks and uncertainties discussed in Part I, Item 1A Risk Factors and Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our 2016 Form 10-K and as described from time to time in our future reports filed with the Securities and Exchange Commission (SEC) as well as the risks and uncertainties described in Anthem s most recent report on Form 10-K and subsequent reports filed with the SEC.

You should not place undue reliance on forward-looking statements that speak only as of the date they are made, are not guarantees of future performance or results, and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Cigna undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law.

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EXECUTIVE OVERVIEW

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as Cigna, the Company, we, our or us) is a g health services organization dedicated to a mission of helping individuals improve their health, well-being and sense of security. Since 2009, our strategy in support of our mission has been to Go Deep, Go Global and Go Individual . To further accelerate the differentiated value we deliver for our customers, clients, partners and communities, we have evolved this strategy in order to expand avenues for growth and performance. Cigna s newly evolved strategy is to:

- ***Go Deeper*** by expanding and deepening our customer, client and partner relationships as well as our relationships in targeted sub-segments and geographies;

- ***Go Local*** by ensuring our products, solutions and services are both personalized and highly localized for the benefit of our customers, clients and partners; and

- ***Go Beyond*** by innovating and further differentiating our businesses, the experiences we deliver, and overall social impact.

We execute this strategy with a differentiated set of medical, dental, disability, life and accident insurance and related products and services offered by our subsidiaries. In addition to our ongoing operations, we also have certain run-off operations.

For further information on our business and strategy, please see Item 1, Business in our 2016 Form 10-K.

Summarized below are key measures of our performance by reporting segment for the three months and six months ended June 30, 2017 and 2016:

Financial highlights by segment

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions, except per share amounts)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Total revenues(1)	**$ 10,318**	$ 9,960	4%	**$ 20,703**	$ 19,844	4%
Operating revenues(1)						
Global Health Care	**$ 8,085**	$ 7,840	3%	**$ 16,283**	$ 15,724	4%

Global Supplemental Benefits		**955**		835	14		**1,864**		1,641	14
Group Disability and Life		**1,112**		1,098	1		**2,233**		2,207	1
Other Operations		**118**		121	(2)		**234**		238	(2)
Corporate		**(3)**		(1)	(200)		**(8)**		(1)	N/M
Consolidated operating revenues	**$**	**10,267**	$	9,893	4%	**$**	**20,606**	$	19,809	4%
Shareholders net income (1)	**$**	**813**	$	510	59%	**$**	**1,411**	$	1,029	37%
Adjusted income (loss) from operations (1)										
Global Health Care	**$**	**591**	$	486	22%	**$**	**1,201**	$	1,030	17%
Global Supplemental Benefits		**105**		83	27		**179**		150	19
Group Disability and Life		**83**		(12)	N/M		**151**		3	N/M
Other Operations		**19**		20	(5)		**39**		40	(3)
Corporate		**(48)**		(62)	23		**(101)**		(107)	6
Total adjusted income from operations	**$**	**750**	$	515	46%	**$**	**1,469**	$	1,116	32%
Earnings per share (diluted):										
Shareholders net income (1)	**$**	**3.15**	$	1.97	60%	**$**	**5.45**	$	3.97	37%
Adjusted income from operations (1)	**$**	**2.91**	$	1.98	47%	**$**	**5.67**	$	4.30	32%

	As of June 30, 2017	2016	
Global medical customers (in thousands)	**15,654**	15,141	3%

(1) See page 51 for reconciliations of consolidated operating revenues to consolidated total revenues and adjusted income from operations to shareholders net income.

See Note 1 to the Consolidated Financial Statements for a description of our reporting segments. For further analysis and explanation of individual segment results, see the Segment Reporting section of this MD&A beginning on page 58.

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Consolidated results of operations (GAAP basis)

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Premiums	**$ 8,010**	$ 7,654	5%	**$ 16,113**	$ 15,400	5%
Fees and other revenues	**1,192**	1,197	-	**2,415**	2,398	1
Net investment income	**308**	294	5	**611**	566	8
Mail order pharmacy revenues	**757**	748	1	**1,467**	1,445	2
Consolidated operating revenues	**10,267**	9,893	4	**20,606**	19,809	4
Net realized investment gains	**51**	67	(24)	**97**	35	177
Total revenues	**10,318**	9,960	4	**20,703**	19,844	4
Global Health Care medical costs	**4,924**	4,777	3	**9,909**	9,538	4
Other benefit expenses	**1,335**	1,414	(6)	**2,702**	2,782	(3)
Mail order pharmacy costs	**626**	630	(1)	**1,207**	1,204	-
Operating expenses	**2,271**	2,289	(1)	**4,801**	4,610	4
Amortization of other acquired intangible assets, net	**28**	37	(24)	**60**	78	(23)
Total benefits and expenses	**9,184**	9,147	-	**18,679**	18,212	3
Income before income taxes	**1,134**	813	39	**2,024**	1,632	24
Income taxes	**324**	310	5	**621**	615	1
Net income	**810**	503	61	**1,403**	1,017	38
Less: net (loss) attributable to noncontrolling interests	**(3)**	(7)	57	**(8)**	(12)	33
Shareholders net income	**$ 813**	$ 510	59%	**$ 1,411**	$ 1,029	37%

Reconciliation of shareholders net income to adjusted income from operations

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Change Favorable (Unfavorable)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Change Favorable (Unfavorable)
Shareholders net income	**$ 813**	$ 510	59%	**$ 1,411**	$ 1,029	37%
After-tax adjustments required to reconcile to adjusted income from operations:						
Net realized investment (gains)	**(34)**	(44)		**(65)**	(23)	
Amortization of other acquired intangible assets, net	**18**	23		**38**	48	
Special items:						
Long-term care guaranty fund assessment	**-**	-		**83**	-	
Merger-related transaction costs (benefits)	**(47)**	26		**2**	62	
Total special items	**(47)**	26		**85**	62	
Adjusted income from operations	**$ 750**	$ 515	46%	**$ 1,469**	$ 1,116	32%

Other key consolidated financial data

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Change Favorable (Unfavorable)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Change Favorable (Unfavorable)

Earnings per share (diluted):									
Shareholders net income	$	**3.15**	$	1.97	60%	$	**5.45**	$	3.97	37%
After-tax adjustments required to reconcile to adjusted income from operations:										
Net realized investment (gains)		**(0.13)**		(0.18)			**(0.25)**		(0.09)	
Amortization of other acquired intangible assets, net		**0.07**		0.09			**0.15**		0.18	
Special items:										
Long-term care guaranty fund assessment		**-**		-			**0.32**		-	
Merger-related transaction costs (benefits)		**(0.18)**		0.10			**-**		0.24	
Adjusted income from operations	$	**2.91**	$	1.98	47%	$	**5.67**	$	4.30	32%
Effective tax rate		**28.6%**		38.1%	950bps		**30.7%**		37.7%	700bps

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Earnings, Revenue and Medical Customer Commentary

Shareholders net income increased for the three months and six months ended June 30, 2017 compared with the same periods in 2016 primarily due to higher adjusted income from operations and the recognition of a tax benefit for certain merger-related costs reported as a special item in the second quarter of 2017 (see Note 3 to the Consolidated Financial Statements). For the six months ended June 30, 2017 the recognition of the long-term care guaranty fund assessment charge reported as a special item in the first quarter of 2017 partially offset the increase.

Adjusted income from operations increased for the three months and the six months ended June 30, 2017 compared with the same periods in 2016 due to higher earnings in each of our ongoing reportable segments: Global Health Care, Global Supplemental Benefits and Group Disability and Life. These increases were primarily driven by overall customer growth in Global Health Care and Global Supplemental Benefits and increased contributions from specialty businesses in Global Health Care. Significantly improved claim experience in Group Disability and Life also contributed to these increases.

Revenues for the three months and six months ended June 30, 2017 increased compared with the same periods in 2016 primarily due to business growth in Global Health Care and Global Supplemental Benefits. Components of the revenue increases were as follows:

- ***Premiums*** increased, primarily reflecting customer growth in the Commercial segment and in Global Supplemental Benefits. Expected decreases in Government segment premiums due to Medicare disenrollment partially offset these increases. See the Health Care Industry Developments starting on page 53 for additional discussion of our Medicare business.

- ***Fees and other revenues*** were flat for the three months ended June 30, 2017 compared with the same period in 2016. The increase for the six months ended June 30, 2017 compared with the same period in 2016 was largely the result of growth in our specialty businesses and an increased customer base for our administrative services only business.

- ***Net investment income*** was higher in each period, reflecting growth in average invested assets partially offset by lower yields.

- ***Mail order pharmacy revenues.*** The modest increases in each period primarily reflect price increases in line with pharmacy trend.

- ***Realized investment results*** decreased for the three months ended June 30, 2017 compared with the same period in 2016 primarily due to lower results related to guaranteed minimum income benefit (GMIB) nonperformance risk. For the six months ended June 30, 2017, realized investment results increased compared with the same period in 2016 primarily due to higher gains on sales of alternative and real estate investments as well as lower impairment losses.

Global medical customers. Our medical customer base increased as of June 30, 2017 compared with June 30, 2016, reflecting growth across all of our Commercial market segments, partially offset by the expected Medicare Advantage disenrollment.

Commentary on Other Components of Consolidated Results of Operations

- ***Global Health Care medical costs.*** The increases for the three months and six months ended June 30, 2017 compared with the same periods in 2016 were primarily due to customer growth in the Commercial segment and modest medical cost trend, partially offset by expected decreases in Government segment customers due to disenrollment. Favorable prior year reserve development in 2017 also partially offset the increases.

- ***Other benefit expenses.*** The decreases for the three months and six months ended June 30, 2017 compared with the same periods in 2016 were the result of improvements in our disability and life claims experience offset by customer growth in Global Supplemental Benefits.

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- ***Operating expenses.*** The decrease for the three months ended June 30, 2017 compared with the same period in 2016 was due to the moratorium on the health insurance industry tax in 2017 and a reduction in costs related to our Centers for Medicare and Medicaid Services (CMS) audit response, partially offset by additional volume-based expenses reflecting business growth. For the six months ended June 30, 2017, the increase compared with the same period in 2016 was primarily the result of higher pre-tax special item charges and additional volume-based expenses. Those factors were partially offset by the moratorium on the health insurance industry tax in 2017 and lower CMS audit response costs. See the Health Care Industry Developments starting on page 53 for discussion of the health insurance industry tax.

- ***Effective tax rate.*** The decreases in our effective tax rates for the three months and six months ended June 30, 2017 compared with the same periods in 2016 were primarily due to the moratorium on the health insurance industry tax in 2017 and recognizing the incremental tax benefit associated with certain merger-related costs.

Termination of Proposed Merger with Anthem, Inc.

On May 12, 2017, we announced that the merger agreement between Cigna and Anthem, Inc. has been terminated. See Note 3 and Note 16(E) to the Consolidated Financial Statements for additional details.

Health Care Industry Developments and Other Matters Affecting Our Global Health Care Segment

Our 2016 Form 10-K provides a detailed description of The Patient Protection and Affordable Care Act (the Health Care Reform Act or ACA) provisions and other legislative initiatives that impact our health care business, including regulations issued by CMS and the Departments of the Treasury and Health and Human Services (HHS). The table presented below provides an update of the impact of these items and other matters affecting our Global Health Care segment as of June 30, 2017.

Item	Description
Medicare Advantage (MA)	**CMS sanctions:** As further discussed in Note 16(E) to the Consolidated Financial Statements, on June 16, 2017, the Company received notification from CMS that the marketing and enrollment sanctions imposed by CMS on January 21, 2016 have been lifted. Cigna has resumed marketing of its Medicare Advantage-Prescription Drug and Medicare Part D Plans and began enrolling beneficiaries with effective dates beginning July 1, 2017.

For the three months and six months ended June 30, 2017, Medicare enrollment and consolidated revenues were materially impacted due to our inability to participate in 2017 annual enrollment, and management expects that trend to continue for the remainder of 2017. However, management anticipates that full-year 2017 shareholders net income will not be materially affected because we expect the margin impact of the revenue loss to be offset by 2017 remediation costs that are significantly lower than the $100 million after-tax amount reported in 2016 and other operational efficiencies to improve 2017 results. The impact of disenrollment was not material to 2016 consolidated revenues and earnings.

Medicare Star Quality Ratings (Star Ratings): During 2016, CMS took actions related to our Star Ratings scheduled to take effect in 2018. These actions are discussed further in Note 16(E) to the Consolidated Financial Statements. Based on the final Star Ratings for the 2018 payment year, we expect that approximately 60% of our Medicare Advantage customers will be in a 4 Star or greater plan.

2018 MA Rates: Final MA reimbursement rates for 2018 were published by CMS in April 2017. We do not expect the new rates to have a material impact on our consolidated results of operations in 2018.

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Item	Description
Health Care Reform Act Taxes and Fees **Industry Tax**	**Health Insurance Industry Tax:** From 2014 through 2016, this non-deductible tax was levied based on a ratio of an insurer s net health insurance premiums written for the previous calendar year compared to premiums written by the U.S. health insurance industry in total. In December 2015, federal appropriations legislation imposed a one-year moratorium on the industry tax for 2017, with reinstatement expected in 2018 under the currently enacted legislation unless otherwise changed by subsequent legislative or regulatory action. The amount of the tax was approximately $310 million in 2016, and we recognized approximately $155 million in operating expenses for the six months ended June 30, 2016. Because this tax is not deductible for federal income tax purposes, it negatively impacted our effective tax rate in 2016. Our pricing actions in 2017 reflected the moratorium on the industry tax, whereas in 2016 we included this tax in our premium rates (primarily for Commercial business). Given the current health care proposals being discussed by the federal government, the future of this industry tax remains uncertain beyond 2017.
Reinsurance Fee	**Reinsurance Fee:** This fee was applicable only from 2014 through 2016. For our insured business, the amount of the fee was approximately $45 million in 2016, and we recognized approximately $25 million for the six months ended June 30, 2016.
Public Health Exchanges	**Public Health Exchanges:** For 2017, we offer individual coverage on seven public health insurance exchanges in the following states: Colorado, Illinois, Maryland, Missouri, North Carolina, Tennessee and Virginia.

Risk Mitigation Programs

See Note 2(K) to the Consolidated Financial Statements in our 2016 Form 10-K for a description of these programs that commenced in 2014 and our related accounting policy. The risk corridor and reinsurance programs ended as of December 31, 2016.

The following table presents the after-tax impact of these programs on shareholders net income for the three months and six months ended June 30, 2017 and 2016 and our net receivable (payable) balances as of June 30, 2017 and December 31, 2016.

Net Receivable (Payable) Balance	After-tax Impact on Shareholders Net Income	
	Three Months Ended	Six Months Ended

(In millions)	**June 30, 2017**	December 31, 2016	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Risk Corridor						
Risk corridor (gross)	**$ 109**	$ 124	**$ (9)**	$ (11)	**$ (9)**	$ (15)
Risk corridor allowance	**(109)**	(124)	**9**	-	**9**	-
Net risk corridor	**-**	-	**-**	(11)	**-**	(15)
Reinsurance (1)	**45**	63	**4**	14	**-**	16
Risk Adjustment, net (1)	**(83)**	1	**(33)**	25	**(51)**	22
Total	**$ (38)**	$ 64	**$ (29)**	$ 28	**$ (51)**	$ 23

(1) For the reinsurance program, receivables are reported in reinsurance recoverables. Receivables, net of allowances, for the risk adjustment program of $88 million as of June 30, 2017 and $52 million as of December 31, 2016 are reported in premiums, accounts and notes receivable. Payables for the risk adjustment program of $171 million as of June 30, 2017 and $51 million as of December 31, 2016 are reported in accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheets.

See the MD&A in our 2016 Form 10-K for discussion of our decision to record an allowance for the balance of our risk corridor receivable. As of June 30, 2017, we continued to carry an allowance on our risk corridor receivable based on the current status of court decisions. However, we continue to believe that the government has a binding obligation to satisfy the risk corridor receivable.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We maintain liquidity at two levels: the subsidiary level and the parent company level.

Liquidity requirements at the subsidiary level generally consist of:

- medical costs and benefit payments to policyholders; and
- operating expense requirements, primarily for employee compensation and benefits, information technology and facilities costs.

Our subsidiaries normally meet their operating requirements by:

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

Liquidity requirements at the parent company level generally consist of:

- debt service and dividend payments to shareholders;
- pension plan funding; and
- repurchases of common stock.

The parent company normally meets its liquidity requirements by:

- maintaining appropriate levels of cash and various types of marketable investments;
- collecting dividends from its subsidiaries;
- using proceeds from issuance of debt and equity securities; and
- borrowing from its subsidiaries.

Cash flows for the six months ended June 30, were as follows:

(In millions)	**2017**	2016
Operating activities (1)	**$ 2,276**	$ 1,267
Investing activities (1)	**$ (732)**	$ (572)
Financing activities	**$ (1,143)**	$ (223)

(1) As required in adopting Accounting Standards Update (ASU) 2016-15, we retrospectively reclassified $71 million of cash distributions from partnership earnings from investing to operating activities for the six months ended June 30, 2016. The comparable amount reported in operating activities in 2017 was $74 million. See Note 2 to the Consolidated Financial Statements for further discussion.

Cash flows from operating activities consist of cash receipts and disbursements for premiums, fees and other revenues, mail order pharmacy, investment income, taxes and benefits and expenses. Because certain income and expense transactions do not generate cash, and because cash transactions related to revenues and expenses may occur in periods different from when those revenues and expenses are recognized in shareholders net income, cash flows from operating activities can significantly differ from shareholders net income.

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

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

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Operating activities

Cash provided by operating activities increased for the six months ended June 30, 2017 compared with the same period in 2016, primarily driven by an early receipt of July 2017 monthly payments from CMS of approximately $700 million for our Medicare Advantage and Part D businesses and higher net income, partially offset by a voluntary pension contribution of $150 million.

Investing activities

Cash used in investing activities increased for the six months ended June 30, 2017 compared with the same period in 2016, primarily due to an increase in net investment purchases.

Financing activities

Cash used in financing activities increased for the six months ended June 30, 2017 compared with the same period in 2016, primarily due to higher share repurchases and repayment of long-term debt.

We maintain a share repurchase program, authorized by our Board of Directors. Under this program, we may repurchase shares from time to time, depending on market conditions and alternate uses of capital. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions, and alternate uses of capital. The share repurchase program may be effected through open market purchases or privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, including through Rule 10b5-1 trading plans. The program may be suspended or discontinued at any time.

Through August 3, 2017, we had repurchased 7.7 million shares for approximately $1.3 billion. The total remaining share repurchase authorization as of August 3, 2017 was $2.5 billion.

Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2017**	2016	**2017**	2016
Interest expense	**$ 60**	$ 62	**$ 122**	$ 125

Capital Resources

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

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

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We prioritize our use of capital resources to:

- provide the capital necessary to support growth and maintain or improve the financial strength ratings of subsidiaries;
- consider acquisitions that are strategically and economically advantageous; and
- return capital to investors through share repurchase.

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

Liquidity and Capital Resources Outlook

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

At June 30, 2017, there was $2.2 billion in cash and marketable investments available at the parent company level. For the remainder of 2017, the parent company s cash obligations are approximately $120 million for interest payments. We repaid $250 million of long-term debt and made a voluntary pension contribution of $150 million in the first quarter of 2017.

We expect to have sufficient liquidity to meet the obligations discussed above, based on the parent company s current cash position and current projections for subsidiary dividends. In addition, we are actively monitoring our debt obligations and may engage in issuance or redemption activities as needed in accordance with our capital management strategy, that could result in charges material to net income.

Our cash projections may not be realized and the demand for funds could exceed available cash if our ongoing businesses experience unexpected shortfalls in earnings, or we experience material adverse effects from one or more risks or uncertainties described more fully in the Risk Factors section of the 2016 Form 10-K. In those cases, we expect to have the flexibility to satisfy liquidity needs through a variety of measures including intercompany borrowings and sales of liquid investments. The parent company may borrow up to $1.3 billion from its insurance subsidiaries without additional state approval. As of June 30, 2017, the parent company had approximately $134 million of net intercompany loans payable to its insurance subsidiaries. Alternatively, to satisfy parent company liquidity requirements we may use short-term borrowings, such as the commercial paper program and the committed revolving credit and letter of credit agreement of up to $1.5 billion, subject to the

maximum debt leverage covenant in the credit agreement. As of June 30, 2017, short-term borrowing capacity of $1.5 billion under the credit agreement was available to us. Including this $1.5 billion, we have borrowing capacity of $10.7 billion within the maximum debt leverage covenant in the credit agreement described in Note 5 to the Consolidated Financial Statements, in addition to the $4.8 billion of debt outstanding.

Though we believe we have adequate sources of liquidity, significant disruption or volatility in the capital and credit markets could affect our ability to access those markets for additional borrowings or could increase costs associated with borrowing funds.

Despite passing a budget for fiscal year 2018, the state of Illinois continues to be delinquent in processing payments for premiums and fees due to its ongoing financial difficulties. The total amount due to us from the state under our commercial and Medicaid contracts was approximately $115 million as of June 30, 2017. We continue to monitor our receivable balances and work with the state on the timing of payments. In 2017, all of our contracts with the state of Illinois are terminating.

Overseas earnings. We maintain a capital management strategy to retain overseas a significant portion of the earnings from our foreign operations. As of June 30, 2017, undistributed earnings were approximately $2.8 billion. These undistributed earnings are deployed outside of the U.S. predominantly in support of the liquidity and regulatory capital requirements of our foreign operations. Approximately $310 million of cash and cash equivalents held overseas as of June 30, 2017 would be subject to additional tax expense representing the difference between the U.S. and foreign tax rates, if repatriated. We continue to expect most of the undistributed earnings and future earnings to be reinvested to support growth initiatives overseas. This strategy does not materially limit our ability to meet our liquidity and capital needs in the U.S.

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Guarantees and Contractual Obligations

We are contingently liable for various contractual obligations entered into during the ordinary course of business. See Note 16 to the Consolidated Financial Statements for additional information.

Contractual obligations. We have updated our contractual obligations previously provided in our 2016 Form 10-K for the following item:

- Investment commitments: the Company has entered into new commitments to invest in security and real estate limited partnerships and to purchase investments. See Note 12 to the Consolidated Financial Statements for additional information.

(In millions, on an undiscounted basis)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Off-Balance Sheet					
Purchase obligations	$ **1,789**	$ **821**	$ **669**	$ **206**	$ **93**

CRITICAL ACCOUNTING ESTIMATES

The preparation of Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures in the Consolidated Financial Statements. We consider an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material effect on our consolidated results of operations or financial condition.

We have discussed the development and selection of our critical accounting estimates and reviewed the disclosures presented in our 2016 Form 10-K with the Audit Committee of our Board of Directors. We regularly evaluate items that may impact critical accounting estimates. Our most critical accounting estimates, as well as the effects of hypothetical changes in material assumptions used to develop each estimate, are described in the 2016 Form 10-K. As of June 30, 2017, there were no significant changes to the critical accounting estimates from what was reported in our 2016 Form 10-K.

Management believes the current assumptions used to estimate amounts reflected in our Consolidated Financial Statements are appropriate. However, if actual experience differs from the assumptions used in estimating amounts reflected in our Consolidated Financial Statements, the resulting changes could have a material adverse effect on our consolidated results of operations, and in certain situations, could have a material adverse effect on liquidity and our financial condition.

SEGMENT REPORTING

The following section of this MD&A discusses the results of each of our reporting segments. In these segment discussions, we present operating revenues, defined as total revenues excluding realized investment results and adjusted income from operations, defined as shareholders net income (loss) excluding after-tax realized investment results, net amortization of other acquired intangible assets and special items. Ratios presented in this segment discussion exclude the same items as adjusted income from operations. See Note 17 to the Consolidated Financial Statements for additional discussion of these metrics.

In these segment discussions, we also present adjusted margin, defined as adjusted income from operations divided by operating revenues.

See the MD&A Executive Overview beginning on page 50 for summarized financial results of each of our reporting segments.

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Global Health Care Segment

As described in the Segment Reporting introduction on page 58, the performance of the Global Health Care segment is measured using adjusted income from operations as presented in the table below. The key factors affecting adjusted income from operations for this segment are:

- customer growth;
- sales of specialty products;
- operating expenses as a percentage of operating revenues (operating expense ratio); and
- medical costs as a percentage of premiums (medical care ratio or MCR) for our commercial and government businesses.

Results of Operations

Global Health Care segment financial summary	**Three Months Ended June 30,**		**Change**	**Six Months Ended June 30,**		**Change**
(In millions)	**2017**	**2016**	**Favorable (Unfavorable)**	**2017**	**2016**	**Favorable (Unfavorable)**
Operating revenues	**$ 8,085**	$ 7,840	3%	**$ 16,283**	$ 15,724	4%
Adjusted income from operations	**$ 591**	$ 486	22%	**$ 1,201**	$ 1,030	17%
Adjusted margin	**7.3%**	6.2%	110bps	**7.4%**	6.6%	80bps
Medical Care Ratios:						
Commercial	**78.7%**	78.8%	10bps	**78.2%**	77.3%	(90)bps
Government	**86.1%**	86.4%	30bps	**86.0%**	86.3%	30bps
Consolidated Global Health Care	**81.0%**	81.7%	70bps	**80.6%**	80.9%	30bps
Operating expense ratio	**19.9%**	20.9%	100bps	**20.2%**	21.0%	80bps

	As of June 30,		
(In thousands)	**2017**	**2016**	**% Change**
Customers:			
Total commercial risk	**2,927**	2,502	17%
Total government	**491**	598	(18)
Total risk	**3,418**	3,100	10
Service	**12,236**	12,041	2
Total medical customers	**15,654**	15,141	3%

	As of		
(In millions)	June 30, 2017	December 31, 2016	% Change
Global Health Care medical costs payable	$ **2,848**	$ 2,532	12%

Adjusted income from operations. The increases for the three months and six months ended June 30, 2017 compared with the same periods in 2016 reflected growth in our Commercial segment including increased contributions from our specialty products, higher margins in our U.S. Individual business, and lower operating expenses in our Government segment related to the moratorium on the health insurance industry tax in 2017 and our CMS audit response. These increases were partially offset by lower customer volumes in our Government segment. Adjusted income from operations included favorable after-tax prior year reserve development of $36 million for the three months and $97 million for the six months ended June 30, 2017. For the comparable periods in 2016, prior year reserve development was not material.

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Operating revenues. The increases for the three months and six months ended June 30, 2017 compared with the same periods in 2016 were primarily due to customer growth in our Commercial risk business, partially offset by lower customer volumes in our Government segment.

Medical care ratios. The Commercial medical care ratio decreased slightly for the three months ended June 30, 2017 compared with the same period in 2016, reflecting improved performance in our U.S. Individual business and more favorable prior year reserve development, offset by the moratorium on the health insurance industry tax in 2017. For the six months ended June 30, 2017 compared to the same period in 2016, the Commercial medical care ratio increased, reflecting the 2017 moratorium on the health insurance industry tax partially offset by more favorable prior year reserve development and improved performance in our U.S. Individual business.

The Government medical care ratio decreased for the three months ended June 30, 2017 compared with the same period in 2016, primarily reflecting lower Medicare Part D claim costs. For the six months ended June 30, 2017 compared with the same period in 2016, the Government medical care ratio decreased, reflecting more favorable prior year reserve development partially offset by unfavorable 2017 claim experience.

Operating expense ratio. The operating expense ratio decreased for the three months and six months ended June 30, 2017, compared to the same periods in 2016, primarily reflecting the moratorium on the health insurance industry tax in 2017. The decrease for the three months ended June 30, 2017 also reflects lower costs related to our CMS audit response.

Other Items Affecting Health Care Results

Medical Customers

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

- is covered under an insurance policy, managed care arrangement, or service agreement issued by us;
- has access to our provider network for covered services under their medical plan; or

- has medical claims and services that are administered by us.

Our medical customer base was higher at June 30, 2017 compared to December 31, 2016, reflecting growth across all market segments in our Commercial businesses, partially offset by declines in our Medicare Advantage business.

Global Health Care Medical Costs Payable

Medical costs payable was higher at June 30, 2017 compared to December 31, 2016, primarily due to seasonality in our stop loss products and customer growth in our commercial risk businesses. (See Note 6 to the Consolidated Financial Statements for additional information.)

Global Supplemental Benefits Segment

As described in the Segment Reporting introduction on page 58, the performance of the Global Supplemental Benefits segment is measured using adjusted income from operations. The key factors affecting adjusted income from operations for this segment are:

- premium growth, including new business and customer retention;
- benefit expenses as a percentage of premiums (loss ratio);
- operating expenses and acquisition expenses as a percentage of operating revenues (expense ratio and acquisition cost ratio); and
- the impact of foreign currency movements.

Throughout this discussion and the table presented below, prior period currency adjusted income from operations, revenues, and benefits and expenses are calculated by applying the current period s exchange rates to reported results in the prior period. A strengthening U.S. Dollar against foreign currencies decreases these measures, while a weakening U.S. Dollar produces the opposite effect.

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Results of Operations

Global Supplemental Benefits segment financial summary	**Three Months Ended June 30,**		**Change Favorable**	**Six Months Ended June 30,**		**Change Favorable**
(In millions)	**2017**	**2016**	**(Unfavorable)**	**2017**	**2016**	**(Unfavorable)**
Operating revenues	**$ 955**	$ 835	14%	**$ 1,864**	$ 1,641	14%
Adjusted income from operations	**$ 105**	$ 83	27%	$ **179**	$ 150	19%
Operating revenues, using 2017 currency exchange rates	**$ 955**	$ 843	13%	**$ 1,864**	$ 1,661	12%
Adjusted income from operations, using 2017 currency exchange rates	**$ 105**	$ 84	25%	**$ 179**	$ 153	17%
Adjusted margin	**11.0**%	9.9%	110bps	**9.6**%	9.1%	50bps
Loss ratio	**54.2**%	55.3%	110bps	**56.3**%	55.8%	(50)bps
Acquisition cost ratio	**17.0**%	18.2%	120bps	**17.1**%	18.3%	120bps
Expense ratio (excluding acquisition costs)	**17.2**%	17.2%	-bps	**17.2**%	17.7%	50bps

Adjusted income from operations. Results increased for the three months ended June 30, 2017 compared with the same period in 2016, reflecting business growth and favorable claims experience in South Korea as well as lower acquisition cost ratios, partially offset by higher claims in the U.S. For the six months ended June 30, 2017 adjusted income from operations increased compared with the same period in 2016 reflecting business growth, primarily in South Korea and China, lower acquisition cost and operating expense ratios, partially offset by higher taxes and higher claims in the U.S.

Operating revenues increased for the three months and six months ended June 30, 2017 compared with the same periods in 2016 primarily due to business growth, particularly in South Korea and the U.S.

The segment s ***loss ratio*** decreased for the three months ended June 30, 2017 compared with the same period in 2016, primarily due to favorable claims experience in South Korea, partially offset by higher claims in the U.S. For the six months ended June 30, 2017 the loss ratio increased compared with the same period in 2016, primarily due to higher claims in the U.S. and a change in business mix toward products with higher loss ratios, primarily in South Korea and the U.S. Favorable claims experience in South Korea partially offset these increases.

The ***acquisition cost ratio*** decreased for the three months and six months ended June 30, 2017 compared with the same periods in 2016 due to lower spending in certain markets and a shift toward higher premium markets with lower acquisition costs, primarily in South Korea and the U.S.

Operating expense ratio. The operating expense ratio (excluding acquisition costs) was flat for the three months ended June 30, 2017 and decreased for the six months ended June 30, 2017 compared with the same periods in 2016 reflecting strong operating expense management.

Other Items Affecting Global Supplemental Benefits Results

For our Global Supplemental Benefits segment, South Korea is the single largest geographic market. South Korea generated 51% of the segment s operating revenues and 89% of the segment s adjusted income from operations for the six months ended June 30, 2017. On a consolidated basis, our operations in South Korea represented 5% of our operating revenues and 11% of adjusted income from operations for the six months ended June 30, 2017.

As a global company, our business is exposed to risks inherent in foreign operations. While we continue to monitor and evaluate the impacts of the U.K. vote to exit the European Union, the political unrest in Turkey and tensions in the Korean Peninsula, we do not expect these events to materially impact the results of the Global Supplemental Benefits segment in 2017 or 2018.

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Group Disability and Life Segment

As described in the Segment Reporting introduction on page 58, the performance of the Group Disability and Life segment is measured using adjusted income from operations. The key factors affecting adjusted income from operations for this segment are:

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

Results of Operations

Group Disability and Life segment financial summary	**Three Months Ended June 30,**		**Change**	**Six Months Ended June 30,**		**Change**
(In millions)	**2017**	**2016**	**Favorable (Unfavorable)**	**2017**	**2016**	**Favorable (Unfavorable)**
Operating revenues	**$ 1,112**	$ 1,098	1%	**$ 2,233**	$ 2,207	1%
Adjusted income (loss) from operations	**$ 83**	$ (12)	N/M%	**$ 151**	$ 3	N/M%
Adjusted margin	**7.5%**	(1.1)%	860bps	**6.8%**	0.1%	670bps
Loss ratio	**76.3%**	90.0%	1,370bps	**77.3%**	87.7%	1,040bps
Expense ratio	**22.5%**	22.5%	-bps	**22.6%**	22.4%	(20)bps

Adjusted income from operations. We implemented modifications to our disability claims management process in the first quarter of 2016 that temporarily extended the claims processing cycle and significantly lowered our claim resolution rate. As our modified claims management process has matured in recent periods, we have seen our claim resolution rate improve, resulting in significantly more favorable disability results in 2017. We also had significantly unfavorable life claims experience in the second quarter of 2016 that negatively impacted results in that period. Life claims have returned to normal levels in subsequent periods driving comparably favorable life results. Life results in 2016 were further dampened by a $17 million after-tax unfavorable impact of reserve reviews.

Operating revenues increased for the three months and six months ended June 30, 2017 compared with the same periods in 2016 due to business growth and higher investment income driven by higher asset levels.

The segment s ***loss ratio*** decreased for the three months and six months ended June 30, 2017 compared with the same periods in 2016 due to improvement in the disability claim resolution rate as noted above, lower disability new claim incidence and significantly improved life claims experience.

Operating expense ratio. The operating expense ratio increased slightly for the six months ended June 30, 2017 compared with the same period in 2016 due to modestly higher claims management costs and selling expenses.

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Other Operations

As described in the Segment Reporting introduction on page 58, the performance of the Other Operations segment is measured using adjusted income from operations. Cigna s corporate-owned life insurance (COLI) business contributes the majority of earnings in Other Operations. Other Operations also includes the results from the run-off reinsurance and settlement annuity businesses, as well as the remaining deferred gains recognized from the sale of the individual life insurance and annuity and retirement benefits businesses.

Results of Operations

Other Operations segment financial summary	**Three Months Ended June 30,**		**Change Favorable**	**Six Months Ended June 30,**		**Change Favorable**
(In millions)	**2017**	**2016**	**(Unfavorable)**	**2017**	**2016**	**(Unfavorable)**
Operating revenues	**$ 118**	$ 121	(2)%	**$ 234**	$ 238	(2)%
Adjusted income from operations	**$ 19**	$ 20	(5)%	**$ 39**	$ 40	(3)%
Adjusted margin	**16.1%**	16.5%	(40)bps	**16.7%**	16.8%	(10)bps

Adjusted income from operations was lower for the three months and six months ended June 30, 2017 compared with the same periods in 2016 due to less favorable claims experience and lower interest margins in the COLI business.

Operating revenues decreased for the three months and six months ended June 30, 2017 compared with the same periods in 2016 primarily due to lower investment income yields partially offset by lower ceded premiums in the COLI business.

Corporate

Description

Corporate reflects amounts not allocated to operating segments, such as net interest expense (defined as interest on corporate debt less net investment income on investments not supporting segment operations), interest on uncertain tax positions, certain litigation matters, intersegment eliminations, compensation cost for stock options and related excess tax benefits, expense associated with our frozen pension plans and certain overhead and project costs.

Corporate financial summary	**Three Months Ended**	**Six Months Ended**

	June 30,			June 30,		
(In millions)	**2017**	2016	% Change	**2017**	2016	% Change
Adjusted (loss) from operations	**$ (48)**	$ (62)	23%	**$ (101)**	$ (107)	6%

Corporate s ***adjusted loss from operations*** was lower for the three months and six months ended June 30, 2017 compared with the same periods in 2016, primarily due to higher excess tax benefits on stock compensation driven by increased option exercise activity in 2017. For the six months ended June 30, 2017, higher net investment income also contributed to the lower loss, partially offset by higher operating expenses.

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INVESTMENT ASSETS

The following table presents our investment asset portfolio, excluding separate account assets, as of June 30, 2017 and December 31, 2016. Additional information regarding our investment assets and related accounting policies is included in Notes 9, 10, 11, 12 and 13 to the Consolidated Financial Statements.

(In millions)		**June 30, 2017**		**December 31, 2016**
Fixed maturities	**$**	**22,513**	$	20,961
Equity securities		**635**		583
Commercial mortgage loans		**1,741**		1,666
Policy loans		**1,442**		1,452
Other long-term investments		**1,463**		1,462
Short-term investments		**138**		691
Total investment assets	**$**	**27,932**	$	26,815

Fixed Maturities

Investments in fixed maturities include publicly traded and privately placed debt securities, mortgage and other asset-backed securities and preferred stocks redeemable by the investor. These investments are classified as available for sale and are carried at fair value on our balance sheet. Additional information regarding valuation methodologies, key inputs and controls is included in Note 9 to the Consolidated Financial Statements. More detailed information about fixed maturities by type of issuer and maturity dates is included in Note 10 to these Consolidated Financial Statements.

The following table reflects our fixed maturity portfolio by type of issuer as of June 30, 2017 and December 31, 2016:

(In millions)		**June 30, 2017**		**December 31, 2016**
Federal government and agency	**$**	**900**	$	877
State and local government		**1,381**		1,435
Foreign government		**2,313**		2,113
Corporate		**17,436**		16,050
Mortgage and other asset-backed		**483**		486
Total fixed maturities	**$**	**22,513**	$	20,961

The fixed maturity portfolio increased $1.6 billion during the six months ended June 30, 2017, primarily reflecting an increase in investable funds. As of June 30, 2017, $19.9 billion, or 88%, of the fixed maturities in our investment portfolio were investment grade (Baa and above, or equivalent), and the remaining $2.6 billion were below investment grade. The majority of the bonds that were below investment grade were rated at the higher end of the non-investment grade spectrum. These quality characteristics have not materially changed from the prior year and are consistent with our investment strategy.

State and local government. Our investment in state and local government securities, with an average quality rating of Aa2, was diversified by issuer and geography with no single exposure greater than $30 million as of June 30, 2017. We assess each issuer s credit quality based on a fundamental analysis of underlying financial information and do not rely solely on statistical rating organizations or monoline insurer guarantees.

Foreign government. We invest in high quality foreign government obligations, with an average quality rating of Aa3 as of June 30, 2017. These investments were concentrated in Asia, primarily South Korea, consistent with the geographic locations of our international business operations. Foreign government obligations also included $225 million of investments in European sovereign debt, none of which were in countries with significant political or economic concerns such as Portugal, Italy, Ireland, Greece, Spain and Turkey.

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Corporate. As of June 30, 2017, corporate fixed maturities included the following:

- Private placement investments were $5.6 billion. These investments are generally less marketable than publicly-traded bonds, however yields on these investments tend to be higher than yields on publicly-traded bonds with comparable credit risk. We perform a credit analysis of each issuer, diversify investments by industry and issuer and require financial and other covenants that allow us to monitor issuers for deteriorating financial strength and pursue remedial actions, if warranted.

- Investments in companies that are domiciled or have significant business interests in Italy, Ireland, Spain and Turkey were $413 million. These investments have an average quality rating of Baa3 and are diversified by industry sector, including approximately 2% invested in financial institutions.

- Investments in the energy and natural gas sector were $1.8 billion with gross unrealized losses of $11 million. These investments had an average quality rating of Baa2 and were diversified by issuer with no exposure greater than $65 million.

- Retail sector fixed maturity investments were approximately $440 million with gross unrealized losses of $4 million. These investments had an average quality rating of Baa1 and were diversified across approximately 45 issuers with no exposure exceeding $40 million.

In addition to amounts classified in fixed maturities on our Consolidated Balance Sheets, we operate a joint venture in China in which we have a 50% ownership interest. We account for this joint venture on the equity basis of accounting and report it in other assets, including other intangibles. This entity had an investment portfolio of approximately $4.2 billion that is primarily invested in local Chinese corporate and government fixed maturities and has no investments with a material unrealized loss as of June 30, 2017.

Equity Securities

As of June 30, 2017, approximately $400 million in equity securities were invested in an exchange traded fund (ETF) as part of a program to invest available funds in high quality and liquid assets. The underlying assets of the ETF are primarily U.S. investment grade corporate bonds and there was a gross unrealized gain of $6 million as of June 30, 2017 due to a decrease in market yields since purchase.

Commercial Mortgage Loans

Our commercial mortgage loans are fixed rate loans, diversified by property type, location and borrower. Loans are secured by high quality commercial properties and are generally made at less than 70% of the property s value at origination of the loan. Property value, debt service coverage, quality, building tenancy and stability of cash flows are all important financial underwriting considerations. We hold no direct residential mortgage loans and do not originate or service securitized mortgage loans.

We completed the annual in-depth review of our commercial mortgage loan portfolio during the second quarter of 2017. The results of the 2017 review were in line with the prior year and confirmed the strength of the overall portfolio. For further discussion of the results of this review and changes in key loan metrics, see Note 10 to the Consolidated Financial Statements.

Commercial real estate capital markets remain very active for well-leased, quality commercial real estate located in strong institutional investment markets. The vast majority of properties securing the mortgages in our mortgage loan portfolio possess these characteristics. As of June 30, 2017, we had $137 million of commercial mortgage loans in the retail sector for various shopping centers in the U.S. The loan-to-value ratio for these loans was 49%, and the debt service coverage ratio was 2.15. All of these loans were current.

As of June 30, 2017, the $1.7 billion commercial mortgage loan portfolio consisted of approximately 60 loans, including one impaired loan with a carrying value of $5 million, net of a $1 million reserve, that was classified as a problem loan. As of June 30, 2017, we had $103 million of loans maturing in the next twelve months. Given the quality and diversity of the underlying real estate, positive debt service coverage and significant borrower cash investment generally ranging between 30 and 40%, we remain confident that borrowers will continue to perform as expected under their contract terms.

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Other Long-term Investments

As of June 30, 2017, other long-term investments of $1.5 billion included investments in security partnership and real estate funds as well as direct investments in real estate joint ventures. The funds typically invest in mezzanine debt or equity of privately held companies (securities partnerships) and equity real estate. Given our subordinate position in the capital structure of these underlying entities, we assume a higher level of risk for higher expected returns. To mitigate risk, these investments are diversified across approximately 125 separate partnerships, and approximately 70 general partners who manage one or more of these partnerships. Also, the funds underlying investments are diversified by industry sector or property type, and geographic region. No single partnership investment exceeded 4% of our securities and real estate partnership portfolio.

Problem and Potential Problem Investments

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

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

We recognize interest income on problem bonds and commercial mortgage loans only when payment is actually received. The amount that would have been reflected in net income if interest on non-accrual investments had been recognized in accordance with the original terms was not significant for the six months ended June 30, 2017 or 2016.

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

	June 30, 2017			December 31, 2016		
(In millions)	**Gross**	**Reserve**	**Net**	**Gross**	**Reserve**	**Net**
Problem bonds	**$ 54**	**$ (9)**	**$ 45**	$ 70	$ (9)	$ 61
Problem commercial mortgage loans	**6**	**(1)**	**5**	26	(5)	21
Foreclosed real estate	**48**	**-**	**48**	49	-	49
Total problem investments	**$ 108**	**$ (10)**	**$ 98**	$ 145	$ (14)	$ 131
Potential problem bonds	**$ 15**	**$ (8)**	**$ 7**	$ 12	$ (7)	$ 5
Potential problem commercial mortgage loans	**-**	**-**	**-**	-	-	-
Total potential problem investments	**$ 15**	**$ (8)**	**$ 7**	$ 12	$ (7)	$ 5

Problem and potential problem investments decreased by $31 million since December 31, 2016 due to payoffs and paydowns of problem bonds and mortgage loans and new impairments on problem bonds.

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Investment Outlook

Although financial markets in the United States remained stable during the first half of 2017, we continue to closely monitor global macroeconomic trends and the potential impact to our investment portfolio. Recently, the retail sector of the U.S. economy has shown some weakness and that trend is expected to continue. See the fixed maturities and commercial mortgage loan sections for further information on our investments in that sector. Future realized and unrealized investment results will be driven largely by market conditions that exist when a transaction occurs or at the reporting date. These future conditions are not reasonably predictable; however, we believe that the vast majority of our investments will continue to perform under their contractual terms. Based on our strategy to match the duration of invested assets to the duration of insurance and contractholder liabilities, we expect to hold a significant portion of these assets for the long term. Although future impairment losses resulting from interest rate movements and credit deterioration due to both company-specific and the global economic uncertainties discussed above remain possible, we do not expect these losses to have a material adverse effect on our financial condition or liquidity.

MARKET RISK

Financial Instruments

Our assets and liabilities include financial instruments subject to the risk of potential losses from adverse changes in market rates and prices. Our primary market risk exposures are interest rate risk and foreign currency exchange rate risk. Certain financial instruments, such as insurance-related assets and liabilities, are excluded from these hypothetical calculations. We encourage you to read this in conjunction with Market Risk Financial Instruments included in Part II, Item 7 of our 2016 Form 10-K. As of June 30, 2017, there are no material changes in our risk exposures from that reported in our 2016 Form 10-K.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

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

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

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Item 1. LEGAL PROCEEDINGS

The information contained under Litigation Matters , Regulatory Matters and Other Legal Matters in Note 16 to the Consolidated Financial Statements is incorporated herein by reference.

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Item 1A. RISK FACTORS

Cigna s Annual Report on Form 10-K for the year ended December 31, 2016 includes a detailed description of its risk factors.

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

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

The following table provides information about Cigna s share repurchase activity for the quarter ended June 30, 2017:

Issuer Purchases of Equity Securities

Period	Total # of shares purchased (1)	Average price paid per share	Total # of shares purchased as part of publicly announced program (2)	Approximate dollar value of shares that may yet be purchased as part of publicly announced program (3)
April 1-30, 2017	501,603	$ 152.70	501,353	$ 3,432,234,183
May 1-31, 2017	1,454,307	$ 161.01	1,376,108	$ 3,210,810,676
June 1-30, 2017	2,356,307	$ 167.36	2,355,629	$ 2,816,574,122
Total	4,312,217	**$** 163.51	4,233,090	N/A

(1) Includes shares tendered by employees as payment of taxes withheld upon issuance of the global employee stock award and the vesting of restricted stock and strategic performance shares granted under the Company s equity compensation plans. Employees tendered 250 shares in April, 78,199 shares in May and 678 shares in June 2017.

(2) Additionally, the Company maintains a share repurchase program, authorized by the Board of Directors. Under this program, the Company may repurchase shares from time to time, depending on market conditions and alternate uses of capital. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions and alternate uses of capital. The share repurchase program may be effected through open market purchases or privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, including through Rule 10b5-1 trading plans. The program may be suspended or discontinued at any time. From July 1, 2017 through August 3, 2017, the Company repurchased 1.8 million shares for approximately $308 million. The remaining share repurchase authorization under the program was $2.5 billion as of August 3, 2017.

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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Item 6. EXHIBITS

(a) See Exhibit Index

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SIGNATURE

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

Cigna Corporation

Date:	August 4, 2017
By:	/s/ Eric P. Palmer
	Eric P. Palmer
	Executive Vice President
	Chief Financial Officer
	(Duly Authorized Officer and Principal Financial Officer)

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INDEX TO EXHIBITS

Number	Description	Method of Filing
3.1	Restated Certificate of Incorporation of the registrant as last amended October 28, 2011	Filed as Exhibit 3.1 to the registrant s Form 10-Q for the quarterly period ended September 30, 2011 and incorporated herein by reference.
3.2	By-Laws of the registrant as last amended and restated December 6, 2012	Filed as Exhibit 3.2 to the registrant s Form 10-K for the year ended December 31, 2012 and incorporated herein by reference.
10.1*	Offer letter for Eric P. Palmer dated June 16, 2017	Filed as Exhibit 10.1 to the registrant s Form 8-K filed June 19, 2017 and incorporated herein by reference.
10.2*	Agreement and Release between the Company and Thomas A. McCarthy dated June 16, 2017	Filed as Exhibit 10.2 to the registrant s Form 8-K filed June 19, 2017 and incorporated herein by reference.
10.3*	Advisory Services Agreement between the Company and Thomas A. McCarthy dated June 16, 2017	Filed as Exhibit 10.3 to the registrant s Form 8-K filed June 19, 2017 and incorporated herein by reference.
12	Computation of Ratios of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.
31.2	Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.
32.1	Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350	Furnished herewith.
32.2	Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350	Furnished herewith.
101	Financial statements from the quarterly report on Form 10-Q of Cigna Corporation for the quarter ended June 30, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Total Equity; (v) the Consolidated Statements of Cash Flow; and (vi) the Notes to the Consolidated Financial Statements	Filed herewith.

*Management contracts and compensatory plans or arrangements.

Shareholders may obtain copies of exhibits by writing to Cigna Corporation, Shareholder Services Department, 1601 Chestnut Street, Philadelphia, PA 19192.