AETNA INC /PA/
Form 10-Q
October 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013
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: 1-16095

Aetna Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2229683
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
151 Farmington Avenue, Hartford, CT	06156
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(860) 273-0123

Former name, former address and former fiscal year, if changed since last report: N/A

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

Indicate by check mark 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 (§232.405 of this chapter)
during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes o No

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 367.5 million shares of the registrant's voting common stock with a par value of $.01 per share outstanding at September 30, 2013.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2013

Unless the context otherwise requires, references to the terms “we”, “our” or “us” used throughout this Quarterly Report on Form 10-Q (except the Report of Independent Registered Public Accounting Firm on page 38), refer to Aetna Inc. (a Pennsylvania corporation) (“Aetna”) and its subsidiaries (collectively, the “Company”).

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Income
(Unaudited)

(Millions, except per common share data)	For the Three Months Ended September 30, 2013	2012	For the Nine Months Ended September 30, 2013	2012
Revenue:				
Health care premiums	$11,025.2	$7,246.8	$28,512.3	$21,602.1
Other premiums	525.9	482.1	1,561.5	1,427.2
Group annuity contract conversion premium	54.1	—	54.1	—
Fees and other revenue [1]	1,233.1	954.9	3,326.1	2,881.7
Net investment income	210.0	216.2	670.1	681.6
Net realized capital (losses) gains	(12.7)	17.3	(12.2)	77.6
Total revenue	13,035.6	8,917.3	34,111.9	26,670.2
Benefits and expenses:				
Health care costs [2]	9,161.9	5,847.7	23,548.3	17,613.5
Current and future benefits	557.0	517.3	1,655.4	1,512.5
Benefit expense on group annuity contract conversion	54.1	—	54.1	—
Operating expenses:				
Selling expenses	353.9	272.8	983.3	820.5
General and administrative expenses	1,950.6	1,366.8	5,154.8	4,131.5
Total operating expenses	2,304.5	1,639.6	6,138.1	4,952.0
Interest expense	86.1	68.5	247.4	192.2
Amortization of other acquired intangible assets	65.3	34.1	149.5	108.9
Reduction of reserve for anticipated future losses on discontinued products	—	—	(86.0)	—
Loss on early extinguishment of long-term debt	—	35.4	—	35.4
Total benefits and expenses	12,228.9	8,142.6	31,706.8	24,414.5
Income before income taxes	806.7	774.7	2,405.1	2,255.7
Income taxes:				
Current	283.5	239.6	826.0	696.1
Deferred	4.2	35.5	36.0	90.4
Total income taxes	287.7	275.1	862.0	786.5
Net income including non-controlling interests	519.0	499.6	1,543.1	1,469.2
Less: Net income (loss) attributable to non-controlling interests	.4	.4	(1.6)	1.4
Net income attributable to Aetna	$518.6	$499.2	$1,544.7	$1,467.8
Earnings per common share:				
Basic	$1.40	$1.49	$4.39	$4.29
Diluted	$1.38	$1.47	$4.35	$4.23

[1] Fees and other revenue include administrative services contract member co-payments and plan sponsor reimbursements related to our mail order and specialty pharmacy operations of $21.7 million and $62.3 million (net of pharmaceutical and processing costs of $286.3 million and $834.0 million) for the three and nine months ended September 30, 2013, respectively, and $18.8 million and $58.3 million (net of pharmaceutical and processing costs of $295.9 million and $875.7 million) for the three and nine months ended September 30, 2012,

respectively.

(2) Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of $25.9 million and $85.0 million for the three and nine months ended September 30, 2013, respectively, and $29.5 million and $97.5 million for the three and nine months ended September 30, 2012, respectively.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Statements of Comprehensive Income
(Unaudited)

(Millions)	For the Three Months Ended September 30, 2013	2012	For the Nine Months Ended September 30, 2013	2012
Net income including non-controlling interests	$519.0	$499.6	$1,543.1	$1,469.2
Other comprehensive income (loss), net of tax:				
Previously impaired debt securities: [1]				
Net unrealized (losses) gains ($(9.7), $5.4, $(62.8) and $9.4 pretax)	(6.3)	3.5	(40.8)	6.1
Less: reclassification of (losses) gains to earnings ($(3.1), $.6, $(31.7) and $5.7 pretax)	(2.0)	.4	(20.6)	3.7
Total previously impaired debt securities [1]	(4.3)	3.1	(20.2)	2.4
All other securities:				
Net unrealized (losses) gains ($(12.0), $247.6, $(740.1) and $487.1 pretax)	(7.8)	160.9	(481.1)	316.6
Less: reclassification of (losses) gains to earnings ($(21.6), $19.9, $(26.4) and $88.8 pretax)	(14.1)	13.3	(17.2)	58.1
Total all other securities	6.3	147.6	(463.9)	258.5
Foreign currency and derivatives:				
Net unrealized gains ($6.1, $4.6, $35.2 and $4.0 pretax)	4.0	3.0	22.9	2.6
Less: reclassification of losses to earnings ($(1.4), $(1.4), $(4.0) and $(3.7) pretax)	(.9)	(.9)	(2.6)	(2.4)
Total foreign currency and derivatives	4.9	3.9	25.5	5.0
Pension and other postretirement benefit ("OPEB") plans:				
Amortization of net actuarial losses ($(19.6), $(18.6), $(58.3) and $(56.0) pretax)	12.7	12.1	37.9	36.4
Amortization of prior service cost ($1.1, $1.0, $3.0 and $3.0 pretax)	(.7)	(.7)	(2.0)	(2.0)
Total pension and OPEB plans	12.0	11.4	35.9	34.4
Other comprehensive income (loss)	18.9	166.0	(422.7)	300.3
Comprehensive income including non-controlling interests	537.9	665.6	1,120.4	1,769.5
Less: Comprehensive income (loss) attributable to non-controlling interests	.4	.4	(1.6)	1.4
Comprehensive income attributable to Aetna	$537.5	$665.2	$1,122.0	$1,768.1

(1) Represents unrealized (losses) gains on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Balance Sheets

(Millions)	(Unaudited) At September 30, 2013	At December 31, 2012
Assets:		
Current assets:		
Cash and cash equivalents	$2,082.4	$2,579.2
Investments	2,036.4	2,221.9
Premiums receivable, net	1,233.2	804.7
Other receivables, net	2,001.7	808.0
Accrued investment income	204.3	194.3
Collateral received under securities loan agreements	550.2	47.1
Income taxes receivable	19.8	139.9
Deferred income taxes	546.1	426.5
Other current assets	1,357.8	1,022.8
Total current assets	10,031.9	8,244.4
Long-term investments	20,498.6	19,698.2
Reinsurance recoverables	766.3	876.8
Goodwill	10,205.7	6,214.4
Other acquired intangible assets, net	2,159.2	818.7
Property and equipment, net	715.6	540.0
Other long-term assets	942.0	854.9
Separate Accounts assets	3,933.6	4,247.1
Total assets	$49,252.9	$41,494.5
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	$4,531.1	$2,992.5
Future policy benefits	725.8	739.9
Unpaid claims	669.2	620.7
Unearned premiums	479.2	403.5
Policyholders' funds	1,660.7	1,276.9
Collateral payable under securities loan agreements	550.2	47.1
Current portion of long-term debt	392.2	—
Accrued expenses and other current liabilities	3,237.5	2,383.6
Total current liabilities	12,245.9	8,464.2
Future policy benefits	6,701.6	6,853.7
Unpaid claims	1,593.6	1,546.9
Policyholders' funds	1,231.2	1,364.0
Long-term debt, less current portion	7,874.1	6,481.3
Deferred income taxes	550.4	473.5
Other long-term liabilities	1,453.0	1,634.6
Separate Accounts liabilities	3,933.6	4,247.1
Total liabilities	35,583.4	31,065.3
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock ($.01 par value; 2.6 billion shares authorized and 367.5 million shares issued and outstanding in 2013; 2.6 billion shares authorized and 327.6 million shares issued and		

outstanding in 2012) and additional paid-in capital	4,356.4	1,095.3
Retained earnings	10,717.9	10,343.9
Accumulated other comprehensive loss	(1,456.1)	(1,033.4)
Total Aetna shareholders' equity	13,618.2	10,405.8
Non-controlling interests	51.3	23.4
Total equity	13,669.5	10,429.2
Total liabilities and equity	$49,252.9	$41,494.5

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Statements of Shareholders' Equity
(Unaudited)

(Millions)	Number of Common Shares Outstanding	Attributable to Aetna Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Aetna Shareholders' Equity	Non-Controlling Interests	Total Equity
Nine Months Ended September 30, 2013							
Balance at December 31, 2012	327.6	$1,095.3	$10,343.9	$ (1,033.4)	$10,405.8	$ 23.4	$10,429.2
Net income (loss)	—	—	1,544.7	—	1,544.7	(1.6)	1,543.1
Other increases in non-controlling interest	—	—	—	—	—	29.5	29.5
Other comprehensive loss (Note 8)	—	—	—	(422.7)	(422.7)	—	(422.7)
Common shares issued to acquire Coventry	52.2	3,064.6	—	—	3,064.6	—	3,064.6
Common shares issued for benefit plans, including tax benefits	3.9	196.7	—	—	196.7	—	196.7
Repurchases of common shares	(16.2)	(.2)	(957.5)	—	(957.7)	—	(957.7)
Dividends declared	—	—	(213.2)	—	(213.2)	—	(213.2)
Balance at September 30, 2013	367.5	$4,356.4	$10,717.9	$ (1,456.1)	$13,618.2	$ 51.3	$13,669.5
Nine Months Ended September 30, 2012							
Balance at December 31, 2011	349.7	$962.8	$10,346.6	$ (1,189.2)	$10,120.2	$ 24.4	$10,144.6
Net income	—	—	1,467.8	—	1,467.8	1.4	1,469.2
Other decreases in non-controlling interest	—	—	—	—	—	(2.7)	(2.7)
Other comprehensive income (Note 8)	—	—	—	300.3	300.3	—	300.3
Common shares issued for benefit plans, including tax benefits	6.0	110.9	—	—	110.9	—	110.9
Repurchases of common shares	(21.2)	(.2)	(924.3)	—	(924.5)	—	(924.5)
Dividends declared	—	—	(177.9)	—	(177.9)	—	(177.9)
	334.5	$1,073.5	$10,712.2	$ (888.9)	$10,896.8	$ 23.1	$10,919.9

Balance at September 30, 2012

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Statements of Cash Flows
(Unaudited)

(Millions)	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net income including non-controlling interests	$1,543.1	$1,469.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital losses (gains)	12.2	(77.6)
Depreciation and amortization	406.5	338.0
Debt fair value amortization	(24.2)	—
Equity in earnings of affiliates, net	(18.2)	(18.1)
Stock-based compensation expense	90.6	96.2
Reduction of reserve for anticipated future losses on discontinued products	(86.0)	—
Reversal of allowance and gain on sale of reinsurance recoverable	(49.4)	—
Amortization of net investment premium	38.1	15.6
Loss on early extinguishment of long-term debt	—	35.4
Changes in assets and liabilities:		
Accrued investment income	9.4	7.6
Premiums due and other receivables	(308.5)	(253.7)
Income taxes	99.4	232.7
Other assets and other liabilities	(38.1)	(589.9)
Health care and insurance liabilities	(16.9)	20.4
Other, net	(3.4)	4.1
Net cash provided by operating activities	1,654.6	1,279.9
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	11,117.3	8,236.7
Cost of investments	(10,298.5)	(8,444.2)
Additions to property, equipment and software	(331.6)	(252.5)
Cash used for acquisitions, net of cash acquired	(1,635.9)	(8.6)
Other, net	2.5	—
Net cash used for investing activities	(1,146.2)	(468.6)
Cash flows from financing activities:		
Net repayment of long-term debt	—	(123.6)
Net issuance of long-term debt	—	712.9
Net repayment of short-term debt	—	(355.9)
Deposits and interest credited for investment contracts	3.4	3.9
Withdrawals of investment contracts	(9.7)	(16.0)
Common shares issued under benefit plans, net	39.0	(13.9)
Stock-based compensation tax benefits	62.9	30.0
Common shares repurchased	(957.7)	(924.5)
Dividends paid to shareholders	(205.2)	(180.6)
Collateral on interest rate swaps	32.6	17.6
Contributions (distributions), non-controlling interests	29.5	(2.7)
Net cash used for financing activities	(1,005.2)	(852.8)
Net decrease in cash and cash equivalents	(496.8)	(41.5)
Cash and cash equivalents, beginning of period	2,579.2	679.7
Cash and cash equivalents, end of period	$2,082.4	$638.2
Supplemental cash flow information:		

Interest paid	$229.6	$153.1
Income taxes paid	699.5	523.8

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

We conduct our operations in three business segments:

- Health Care consists of medical, pharmacy benefit management services, dental, behavioral health and vision plans offered on both an Insured basis (where we assume all or a majority of the risk for medical and dental care costs) and an employer-funded basis (where the plan sponsor under an administrative services contract ("ASC") assumes all or a majority of this risk) and emerging businesses products and services, such as Accountable Care Solutions ("ACS"), that complement and enhance our medical products. Medical products include point-of-service ("POS"), preferred provider organization ("PPO"), health maintenance organization ("HMO") and indemnity benefit plans. Medical products also include health savings accounts ("HSAs") and Aetna HealthFund®, consumer-directed health plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account (which may be funded by the plan sponsor and/or the member in the case of HSAs). We also offer Medicare and Medicaid products and services and other medical products, such as medical management and data analytics services, medical stop loss insurance, workers' compensation administrative services and products that provide access to our provider network in select markets.

- Group Insurance primarily includes group life insurance and group disability products. Group life products are offered on an Insured basis and include basic and supplemental group term life, group universal life, supplemental or voluntary programs and accidental death and dismemberment coverage. Group disability products consist primarily of short-term and long-term disability insurance (and products which combine both), which are offered to employers on both an Insured and an ASC basis, and absence management services offered to employers, which include short-term and long-term disability administration and leave management. Group Insurance also includes long-term care products that were offered primarily on an Insured basis, which provide benefits covering the cost of care in private home settings, adult day care, assisted living or nursing facilities. We no longer solicit or accept new long-term care customers.

- Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax-qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services. Large Case Pensions also includes certain discontinued products (refer to Note 17 beginning on page 36 for additional information). We do not actively market Large Case Pensions products, but continue to accept deposits from existing customers and manage the run-off of our existing business.

On May 7, 2013 we completed the acquisition of Coventry Health Care, Inc. ("Coventry") in a transaction valued at approximately $8.7 billion, including the fair value of Coventry's outstanding debt (refer to Note 3 beginning on page 7 for additional information).

2. Summary of Significant Accounting Policies

Interim Financial Statements
These interim financial statements necessarily rely on estimates, including assumptions as to annualized tax rates. In the opinion of management, all adjustments necessary for a fair statement of results for the interim periods have been made. All such adjustments are of a normal, recurring nature. The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes presented in our 2012 Annual Report on Form 10-K (our "2012 Annual Report"). Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting

principles (“GAAP”), but that is not required for interim reporting purposes, has been condensed or omitted. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2012 Annual Report, unless the information contained in those disclosures materially changed and is required by GAAP. We evaluated subsequent events that occurred after September 30, 2013 through the date the financials were issued and determined there were no other items to disclose.

Principles of Consolidation
These unaudited consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Aetna and the subsidiaries we control. All significant intercompany balances have been eliminated in consolidation.

Reclassifications
Certain reclassifications were made to 2012 financial information to conform with 2013 presentation.

New Accounting Standards
Testing Intangibles for Impairment
Effective January 1, 2013, we adopted new accounting guidance for testing indefinite-lived intangible assets for impairment. Under this guidance, an entity has the option first to assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If management determines that an indefinite-lived intangible asset's fair value is likely greater than its carrying value, then no additional analysis is necessary, as the indefinite-lived intangible asset is not impaired. The adoption of this new guidance did not have an impact on our financial position or operating results.

Future Application of Accounting Standards
Fees Paid to the Federal Government by Health Insurers
Effective January 1, 2014, we will adopt new accounting guidance relating to the recognition and income statement reporting of any mandated fees to be paid to the federal government by health insurers. This guidance will apply primarily to new fees enacted in the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, “Health Care Reform”). The mandated fees are expected to be material, and this new accounting guidance will result in the recognition of this expense on a straight-line basis beginning in 2014.

Amendments to the Scope, Measurement and Disclosure Requirements of Investment Companies
Effective January 1, 2014, we will adopt new accounting guidance relating to the approach for determining whether an entity is considered an investment company. This guidance clarifies the characteristics and sets measurement and disclosure requirements for an investment company. The adoption of this new guidance is not expected to have an impact on our financial position or operating results.

3. Completed Acquisition; Completed Disposition

Completed Acquisition
On August 19, 2012, we entered into a definitive agreement (as amended, the “Merger Agreement”) to acquire Coventry. On May 7, 2013 (the “Effective Date”), we completed our acquisition of Coventry in a transaction valued at approximately $8.7 billion, including $1.8 billion fair value of Coventry's outstanding debt. Coventry is a diversified managed health care company that offers a full portfolio of risk and fee-based products, including Medicare Advantage and Medicare Part D programs, Medicaid managed care plans, group and individual health insurance, coverage for specialty services such as workers' compensation administrative services, and network rental services.

Pursuant to the terms of the Merger Agreement, by and among Aetna, Jaguar Merger Subsidiary, Inc., a wholly-owned subsidiary of Aetna (“Merger Sub”), and Coventry, Merger Sub merged with and into Coventry (the “Merger”), with Coventry continuing as the surviving corporation and a wholly-owned subsidiary of Aetna.

Under the terms of the Merger Agreement, Coventry stockholders received $27.30 in cash and 0.3885 of an Aetna common share for each share of Coventry common stock (including restricted shares but excluding shares held by Coventry as treasury stock) outstanding at the effective time of the Merger. As a result, on the Effective Date, we issued approximately 52.2 million common shares, with a fair value of approximately $3.1 billion and paid approximately $3.8 billion in cash in exchange for all of the outstanding shares of Coventry common stock and outstanding awards. Substantially all of Coventry's outstanding equity awards vested and were paid out in cash and canceled in connection with the Merger. An insignificant amount of outstanding Coventry equity awards that pursuant to their terms did not become vested at the effective time of the Merger (the "Rollover Units") were converted into cash-settled Aetna restricted stock units in connection with the Merger. We funded the cash portion of the purchase price through a combination of available cash on hand and proceeds from the issuance of long-term debt and commercial paper.

The components of consideration transferred for the acquisition of Coventry were as follows:
(Certain amounts may reflect rounding adjustments)

(Millions, except per common share data)	Conversion Calculation	Fair Value	Form of Consideration
Consideration Transferred:			
Number of shares of Coventry common stock outstanding at May 7, 2013:	133.7		
Multiplied by Aetna's share price at May 7, 2013, multiplied by the exchange ratio ($58.69*0.3885)	$22.80	$3,047.4	Aetna Common Shares
Multiplied by the per common share cash consideration	$27.30	$3,648.7	Cash
Number of shares underlying in-the-money Coventry stock options vested and unvested outstanding as of May 7, 2013, canceled and exchanged for cash	4.9		
Multiplied by the excess, if any, of (1) the sum of (x) the per common share cash consideration plus (y) the Aetna closing share price [(1)] multiplied by the exchange ratio ($57.93*0.3885) over (2) the weighted-average exercise price of such in-the-money stock options	$15.94	$78.1	Cash
Number of Coventry performance share units and restricted stock units outstanding at May 7, 2013, canceled and paid in cash	1.6		
Multiplied by the equity award cash consideration	$49.80	$58.5	Cash [(2)]
Number of Coventry restricted shares outstanding at May 7, 2013:	1.1		
Less: employee tax withholdings	(.4)	$18.8	Cash
Net restricted shares outstanding at May 7, 2013	.7		
Multiplied by Aetna's share price at May 7, 2013, multiplied by the exchange ratio ($58.69*0.3885)	$22.80	$17.2	Aetna Common Shares
Multiplied by the per common share cash consideration	$27.30	$20.5	Cash
Other consideration transferred [(3)]		6.9	
Total consideration transferred		$6,896.1	

(1) Based on the average of the volume weighted averages of the trading prices of Aetna common shares on the New York Stock Exchange for each of the five consecutive trading days ending on the trading day that was two trading days prior to the Effective Date.

(2) Pursuant to the terms of certain employment agreements, an aggregate of approximately .5 million performance share units and restricted stock units did not automatically vest upon the change of control of Coventry. In the absence of such automatic vesting upon a change in control, pursuant to GAAP, Aetna estimated the fair value of

these awards at the Effective Date and attributed that fair value to pre-Merger and post-Merger services. Accordingly, $6.9 million of the fair value of these awards was attributed to pre-Merger services and is included in the estimated consideration transferred, and approximately $19.0 million will be accounted for in Aetna's post-Merger financial statements as transaction-related costs and reflected as a selling, general and administrative expense in Aetna's statements of income.

(3) Certain of Coventry's named executive officers received payments pursuant to employment agreements entered into prior to the Coventry acquisition. The total compensation paid in cash pursuant to such agreements in connection with the Merger was $6.5 million. Other consideration transferred also includes the portion of the fair value of the Rollover Units that was attributed to pre-Merger services. The fair value attributable to post-Merger services will be recorded as selling, general and administrative expense in Aetna's post-Merger financial statements.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values at the Effective Date. The following table summarizes the estimated fair values of major classes of assets acquired and liabilities assumed as part of the Merger, reconciled to the total consideration transferred:

(Millions)	At May 7, 2013
Cash and cash equivalents	$2,195.6
Investments	2,156.4
Premiums and other receivables, net	1,141.1
Intangible assets acquired	1,490.0
Property and equipment	174.8
Other assets	97.5
Total assets acquired	7,255.4
Health care costs payable	1,440.1
Long-term debt	1,803.8
Net deferred tax liabilities (1)	257.0
Other liabilities	854.9
Total liabilities assumed	4,355.8
Total identifiable net assets	2,899.6
Goodwill acquired	3,996.5
Total consideration transferred	$6,896.1

(1) Includes $521.5 million of deferred tax liabilities on identifiable intangible assets acquired and $75.8 million of deferred tax assets on the fair value adjustment to Coventry's outstanding debt.

The estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as intangible asset lives, can materially impact our operating results. We will finalize the Coventry purchase accounting for the various open items as soon as reasonably possible during the measurement period. The finalization of our purchase accounting assessment could result in changes in the valuation of assets and liabilities acquired which could be material.

As of the Effective Date, the expected fair value of premiums receivable and other receivables approximated their historical cost. The gross contractual receivable for premiums receivable was $485.5 million, of which $12.5 million is not expected to be collectible. The gross contractual receivable for other receivables was $682.2 million, of which $14.1 million is not expected to be collectible.

In connection with the acquisition of Coventry, all of Coventry's outstanding debt remained outstanding. Debt is required to be measured at fair value under the acquisition method of accounting. As a result of this fair value adjustment, the carrying value of Coventry's debt increased by approximately $217 million; this increase will be amortized as a reduction to interest expense over the remaining life of the debt.

The fair value and weighted-average useful lives for all intangible assets acquired are as follows:

	Fair Value (Millions)	Useful Life (Years)
Customer lists	$810.0	10
Provider networks	550.0	17
Trademarks/tradenames	100.0	10
Technology	30.0	4
Total	$1,490.0	

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other intangible assets acquired that do not qualify for separate recognition. Specifically, the goodwill recognized with the acquisition of Coventry includes expected synergies and other benefits that we believe will result from combining the operations of Coventry with the operations of Aetna, as well as any intangible assets that do not qualify for separate recognition.

We preliminarily recorded goodwill related to this acquisition of approximately $4.0 billion, of which $267 million will be tax deductible. All of the goodwill related to this acquisition has been assigned to our Health Care segment.

The amounts recognized for certain assets acquired and liabilities assumed are preliminary until the initial accounting for the acquisition is complete. The following items, among others, are considered preliminary until we gather sufficient information for the initial accounting to be complete:

- the nature and amounts recognized for current and deferred income tax assets and liabilities;
- the nature, amounts recognized and measurement basis of certain liabilities, including liabilities arising from contingencies recognized at acquisition (refer to Note 14 beginning on page 30 for additional information); and
- quantitative information related to goodwill recorded at acquisition.

Actual and Pro Forma Impact of Acquisition

The results of Coventry have been included in our results from the Effective Date through September 30, 2013. The following table presents revenue and net income of Coventry included in our results for the three and nine months ended September 30, 2013:

(Millions)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Revenue	$3,531.3	$5,599.8
Net Income	112.8	169.0

The following table presents supplemental pro forma information as if the Merger had occurred on January 1, 2012 for the nine months ended September 30, 2013 and for the three and nine months ended September 30, 2012. The pro forma consolidated results are not necessarily indicative of what our consolidated results would have been had the Merger been completed on January 1, 2012. In addition, the pro forma consolidated results do not purport to project the future results of the combined company nor do they reflect the expected realization of any cost savings associated with the Merger.

	Three Months Ended	Nine Months Ended September 30,	
(Millions, except per common share data)	September 30, 2012	2013	2012
Total revenue	$12,253.3	$38,906.6	$37,031.8
Net income	600.0	1,775.3	1,810.1
Earnings per share:			
Basic	$1.55	$4.73	$4.59
Diluted	1.54	4.68	4.53

We incurred transaction and integration-related costs related to the acquisition of Coventry of $34.6 million ($51.2 million pretax) and $140.6 million ($189.6 million pretax) during the three and nine months ended September 30, 2013, respectively, and $12.5 million ($13.8 million pretax) during the three and nine months ended September 30, 2012. Transaction costs include advisory, legal and other professional fees and transaction-related payments that are reflected in our GAAP Consolidated Statements of Income in general and administrative expenses, as well as the cost of the bridge credit agreement that was in effect prior to the Coventry acquisition, which is reflected in the GAAP Consolidated Statements of Income in interest expense. Transaction costs also include transaction-related payments as well as expenses related to the negative cost of carry associated with the permanent financing that we obtained in November 2012 for the acquisition of Coventry. The components of the negative cost of carry are reflected in our GAAP Consolidated Statements of Income in interest expense, net investment income, and general and administrative expenses. Integration-related costs are reflected in our GAAP Consolidated Statements of Income in general and administrative expenses.

The unaudited pro forma consolidated results for the three months ended September 30, 2012 and the nine months ended September 30, 2013 and 2012 reflect the following pro forma adjustments:

- Elimination of intercompany transactions between Aetna and Coventry, primarily related to network rental fees.
- Foregone interest income associated with cash and cash equivalents and investments assumed to have been used to partially fund the Merger.
- Foregone interest income associated with adjusting the amortized cost of Coventry's investment portfolio to fair value as of the completion of the Merger.
- Elimination of historical Coventry intangible asset amortization expense and capitalized internal-use software amortization expense and addition of intangible asset amortization expense relating to intangibles valued as part of the acquisition.
- Additional interest expense from the long-term debt Aetna issued in November 2012 as well as the interest expense on short-term debt Aetna issued in March and April 2013. Interest expense was also reduced for the amortization of the fair value adjustment to long-term debt.
- Elimination of transaction-related costs incurred by Aetna and/or Coventry during 2013 and 2012.
- Adjustment of the modifications above for the applicable tax impact.
- Conforming adjustments to align Coventry's presentation to Aetna's accounting policies. At this time, we are not aware of any accounting policy differences that would have a material impact on the combined company's financial statements, however, as we complete our review of Coventry's accounting policies, it is possible that other policy differences may be identified that, when conformed, could have a material impact on the combined company financial statements.
- Elimination of revenue and directly identifiable costs related to the sale of Aetna's Missouri Medicaid business, Missouri Care, Incorporated (“Missouri Care”), to WellCare Health Plans, Inc. on March 31, 2013.

Completed Disposition

In connection with the acquisition of Coventry, on March 31, 2013, we completed the sale of Missouri Care to WellCare Health Plans, Inc. The sale price was not material and did not have a material impact on our financial position or operating results.

4. Earnings Per Common Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is computed in a similar manner, except that the weighted average number of common shares outstanding is adjusted for the dilutive effects of our outstanding stock-based compensation awards, but only if the effect is dilutive.

The computations of basic and diluted EPS for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per common share data)	2013	2012	2013	2012
Net income attributable to Aetna	$518.6	$499.2	$1,544.7	$1,467.8
Weighted average shares used to compute basic EPS	371.1	334.8	351.8	342.2
Dilutive effect of outstanding stock-based compensation awards (1)	4.1	3.8	3.7	5.0
Weighted average shares used to compute diluted EPS	375.2	338.6	355.5	347.2
Basic EPS	$1.40	$1.49	$4.39	$4.29
Diluted EPS	$1.38	$1.47	$4.35	$4.23

(1) Stock-based compensation awards are not included in the calculation of diluted EPS if the exercise price is greater than the average market price of Aetna common shares during the period (i.e., the awards are anti-dilutive). Approximately 2.2 million stock appreciation rights were not included in the calculation of diluted EPS for the nine months ended September 30, 2013 and 11.0 million and 8.6 million stock appreciation rights were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2012, respectively, because they were anti-dilutive. All stock options were included in the calculation of diluted EPS for the three and nine months ended September 30, 2013 and 2012.

In connection with the May 7, 2013 acquisition of Coventry, we issued approximately 52.2 million Aetna common shares in exchange for all the outstanding shares of Coventry common stock. Those Aetna common shares were outstanding and included in the calculation of weighted average shares used to compute basic EPS for the period from the Effective Date through September 30, 2013. In future periods, those Aetna common shares will be outstanding for the full reporting period and will be weighted accordingly.

5. Operating Expenses

For the three and nine months ended September 30, 2013 and 2012, selling expenses (which include broker commissions, the variable component of our internal sales force compensation and premium taxes) and general and administrative expenses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Selling expenses	$353.9	$272.8	$983.3	$820.5
General and administrative expenses:				
Salaries and related benefits	1,119.4	780.4	2,914.5	2,336.7
Other general and administrative expenses (1) (2)	831.2	586.4	2,240.3	1,794.8
Total general and administrative expenses	1,950.6	1,366.8	5,154.8	4,131.5
Total operating expenses	$2,304.5	$1,639.6	$6,138.1	$4,952.0

(1) Includes $51.2 million and $171.4 million of transaction and integration-related costs related to the acquisition of Coventry, including advisory, legal and other professional services fees and transaction-related payments as well as integration costs incurred in the three and nine months ended September 30, 2013, respectively and $10.0 million during the three and nine months ended September 30, 2012.

(2) In 2008, as a result of the liquidation proceedings of Lehman Re Ltd. (“Lehman Re”), a subsidiary of Lehman Brothers Holdings Inc., we recorded an allowance against our reinsurance recoverable from Lehman Re. This reinsurance was placed in 1999 and was on a closed book of paid-up group whole life insurance business. In the

second quarter of 2013, we sold our claim against Lehman Re to an unrelated third party including the reinsurance recoverable and terminated the reinsurance arrangement. Upon the sale of the claim and termination of the arrangement, we released the related allowance thereby reducing other general and administrative expenses by $42.2 million pretax.

Refer to the reconciliation of operating earnings to net income attributable to Aetna in Note 15 beginning on page 34 for additional information.

6. Goodwill and Other Acquired Intangible Assets

The change in goodwill for the nine months ended September 30, 2013 was as follows:

(Millions)	2013
Balance, beginning of the period	$6,214.4
Goodwill acquired:	
Coventry [1]	3,996.5
Other	(5.2)
Balance, end of the period [2]	$10,205.7

(1) Goodwill related to the acquisition of Coventry is considered preliminary, pending the final allocation of the applicable purchase price.

(2) At September 30, 2013, approximately $113 million was assigned to the Group Insurance segment, with the remainder assigned to the Health Care segment.

Other acquired intangible assets at September 30, 2013 and December 31, 2012 were comprised of the following:

(Millions)	Cost	Accumulated Amortization	Net Balance	Amortization Period (Years)	
September 30, 2013					
Provider networks	$1,253.2	$493.4	$759.8	12-25	(1)
Customer lists	1,347.0	326.7	1,020.3	5-14	(1)
Value of business acquired (“VOBA”)	149.2	43.7	105.5	20	(2)
Technology	146.6	43.4	103.2	4-10	
Other	6.7	1.8	4.9	2-15	
Definite-lived trademarks	165.0	21.8	143.2	9-20	
Indefinite-lived trademarks	22.3	—	22.3		
Total other acquired intangible assets	$3,090.0	$930.8	$2,159.2		
December 31, 2012					
Provider networks	$703.2	$458.2	$245.0	12-25	(1)
Customer lists	657.4	370.2	287.2	5-14	(1)
Value of business acquired	149.2	29.2	120.0	20	(2)
Technology	116.6	28.0	88.6	5-10	
Other	6.7	1.5	5.2	2-15	
Definite-lived trademarks	65.0	14.6	50.4	9-20	
Indefinite-lived trademarks	22.3	—	22.3		
Total other acquired intangible assets	$1,720.4	$901.7	$818.7		

(1) The amortization period for our provider networks and customer lists includes an assumption of renewal or extension of these arrangements. At September 30, 2013 and December 31, 2012, the periods prior to the next renewal or extension for our provider networks primarily ranged from 1 to 3 years and the period prior to the next renewal or extension for our customer lists was less than one year and two years, respectively. Any costs related to the renewal or extension of these contracts are expensed as incurred.

(2) VOBA is being amortized over the expected life of the acquired contracts in proportion to estimated premium.

Refer to Note 3 on page 7 for additional information about other acquired intangible assets in connection with the acquisition of Coventry on the Effective Date.

We estimate annual pretax amortization for other acquired intangible assets for 2013 and in each of the next five years to be as follows:

(Millions)	
2013	$214.6
2014	238.4
2015	222.5
2016	215.5
2017	201.1
2018	192.9

7. Investments

Total investments at September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013			December 31, 2012		
(Millions)	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	$1,897.8	$17,361.1	$19,258.9	$2,006.8	$16,821.0	$18,827.8
Mortgage loans	136.3	1,419.9	1,556.2	214.4	1,429.2	1,643.6
Other investments	2.3	1,717.6	1,719.9	.7	1,448.0	1,448.7
Total investments	$2,036.4	$20,498.6	$22,535.0	$2,221.9	$19,698.2	$21,920.1

On the Effective Date, we completed the acquisition of Coventry. As a result, on that date we acquired approximately $2.2 billion of current and long-term investments, primarily consisting of state and municipal bonds and U.S. corporate securities.

Debt and Equity Securities

Debt and equity securities available for sale at September 30, 2013 and December 31, 2012 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
September 30, 2013					
Debt securities:					
U.S. government securities	$1,424.0	$83.8	$(1.0	)	$1,506.8
States, municipalities and political subdivisions	3,852.6	138.1	(76.5	)	3,914.2
U.S. corporate securities	7,272.2	505.6	(122.9	)	7,654.9
Foreign securities	3,114.3	207.4	(54.2	)	3,267.5
Residential mortgage-backed securities	951.5	22.6	(11.7	)	962.4
Commercial mortgage-backed securities	1,321.2	95.6	(4.7	) (1)	1,412.1
Other asset-backed securities	379.8	17.9	(2.2	) (1)	395.5
Redeemable preferred securities	56.8	8.7	(.4	)	65.1
Total debt securities	18,372.4	1,079.7	(273.6	)	19,178.5
Equity securities	46.3	38.3	(4.2	)	80.4
Total debt and equity securities (2)	$18,418.7	$1,118.0	$(277.8	)	$19,258.9
December 31, 2012					
Debt securities:					
U.S. government securities	$1,413.4	$147.9	$(1.8	)	$1,559.5
States, municipalities and political subdivisions	2,770.9	267.9	(4.3	)	3,034.5
U.S. corporate securities	6,926.2	871.7	(7.3	)	7,790.6
Foreign securities	2,988.1	391.3	(8.8	)	3,370.6
Residential mortgage-backed securities	929.5	49.9	(.4	)	979.0
Commercial mortgage-backed securities	1,268.7	149.7	(1.8	) (1)	1,416.6
Other asset-backed securities	517.4	28.3	(3.6	) (1)	542.1
Redeemable preferred securities	89.6	12.3	(7.3	)	94.6
Total debt securities	16,903.8	1,919.0	(35.3	)	18,787.5
Equity securities	38.3	5.1	(3.1	)	40.3
Total debt and equity securities (2)	$16,942.1	$1,924.1	$(38.4	)	$18,827.8

(1) At September 30, 2013 and December 31, 2012, we held securities for which we previously recognized $22.9 million and $25.2 million, respectively, of non-credit related impairments in accumulated other comprehensive loss. These securities had a net unrealized capital gain at September 30, 2013 and December 31, 2012 of $8.5 million and $9.6 million, respectively.

(2) Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results (refer to Note 17 beginning on page 36 for additional information on our accounting for discontinued products). At September 30, 2013, debt and equity securities with a fair value of approximately $3.7 billion, gross unrealized capital gains of $320.2 million and gross unrealized capital losses of $63.3 million and, at December 31, 2012, debt and equity securities with a fair value of approximately $4.0 billion, gross unrealized capital gains of $559.4 million and gross unrealized capital losses of $19.4 million were included in total debt and equity securities, but support our experience-rated and discontinued products. Changes in net unrealized capital gains (losses) on these securities are not reflected in accumulated other comprehensive income.

The fair value of debt securities at September 30, 2013 is shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be restructured, called or prepaid.

(Millions)	Fair Value
Due to mature:	
Less than one year	$731.9
One year through five years	5,054.2
After five years through ten years	5,643.6
Greater than ten years	4,978.8
Residential mortgage-backed securities	962.4
Commercial mortgage-backed securities	1,412.1
Other asset-backed securities	395.5
Total	$19,178.5

Mortgage-Backed and Other Asset-Backed Securities

All of our residential mortgage-backed securities at September 30, 2013 were issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and carry agency guarantees and explicit or implicit guarantees by the U.S. Government. At September 30, 2013, our residential mortgage-backed securities had an average credit quality rating of AAA and a weighted average duration of 4.5 years.

Our commercial mortgage-backed securities have underlying loans that are dispersed throughout the United States. Significant market observable inputs used to value these securities include probability of default and loss severity. At September 30, 2013, these securities had an average credit quality rating of AA+ and a weighted average duration of 2.7 years.

Our other asset-backed securities have a variety of underlying collateral (e.g., automobile loans, credit card receivables and home equity loans). Significant market observable inputs used to value these securities include the unemployment rate, loss severity and probability of default. At September 30, 2013, these securities had an average credit quality rating of AA and a weighted average duration of 2.8 years.

Unrealized Capital Losses and Net Realized Capital Gains (Losses)

When a debt or equity security is in an unrealized capital loss position, we monitor the duration and severity of the loss to determine if sufficient market recovery can occur within a reasonable period of time. We recognize an other-than-temporary impairment (“OTTI”) when we intend to sell a debt security that is in an unrealized capital loss position or if we determine a credit-related loss on a debt or equity security has occurred.

Summarized below are the debt and equity securities we held at September 30, 2013 and December 31, 2012 that were in an unrealized capital loss position, aggregated by the length of time the investments have been in that position:

	Less than 12 months		Greater than 12 months		Total [1]	
(Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013						
Debt securities:						
U.S. government securities	$82.1	$.6	$13.7	$.4	$95.8	$1.0
States, municipalities and political subdivisions	1,598.9	74.1	31.0	2.4	1,629.9	76.5
U.S. corporate securities	2,183.7	120.2	15.8	2.7	2,199.5	122.9
Foreign securities	923.9	53.0	22.6	1.2	946.5	54.2
Residential mortgage-backed securities	333.6	9.5	27.9	2.2	361.5	11.7
Commercial mortgage-backed securities	153.6	4.4	19.3	.3	172.9	4.7
Other asset-backed securities	92.5	2.2	5.5	—	98.0	2.2
Redeemable preferred securities	10.1	.4	—	—	10.1	.4
Total debt securities	5,378.4	264.4	135.8	9.2	5,514.2	273.6
Equity securities	10.8	1.3	5.2	2.9	16.0	4.2
Total debt and equity securities [1]	$5,389.2	$265.7	$141.0	$12.1	$5,530.2	$277.8
December 31, 2012						
Debt securities:						
U.S. government securities	$138.3	$1.4	$15.1	$.4	$153.4	$1.8
States, municipalities and political subdivisions	264.6	3.0	28.5	1.3	293.1	4.3
U.S. corporate securities	598.4	6.1	10.8	1.2	609.2	7.3
Foreign securities	270.4	1.4	35.6	7.4	306.0	8.8
Residential mortgage-backed securities	51.7	.3	2.1	.1	53.8	.4
Commercial mortgage-backed securities	6.3	.1	46.1	1.7	52.4	1.8
Other asset-backed securities	44.8	.1	1.5	3.5	46.3	3.6
Redeemable preferred securities	12.2	.2	10.0	7.1	22.2	7.3
Total debt securities	1,386.7	12.6	149.7	22.7	1,536.4	35.3
Equity securities	16.4	2.1	13.0	1.0	29.4	3.1
Total debt and equity securities [1]	$1,403.1	$14.7	$162.7	$23.7	$1,565.8	$38.4

(1) At September 30, 2013 and December 31, 2012, debt and equity securities in an unrealized capital loss position of $63.3 million and $19.4 million, respectively, and with related fair value of $922.4 million and $225.2 million, respectively, related to experience-rated and discontinued products.

We reviewed the securities in the tables above and concluded that these are performing assets generating investment income to support the needs of our business. In performing this review, we considered factors such as the quality of the investment security based on research performed by our internal credit analysts and external rating agencies and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. At September 30, 2013, we did not have the intention to sell the debt securities that were in an unrealized capital loss position.

The maturity dates for debt securities in an unrealized capital loss position at September 30, 2013 were as follows:

	Supporting experience-rated and discontinued products		Supporting remaining products		Total	
(Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Due to mature:						
Less than one year	$—	$—	$23.9	$.2	$23.9	$.2
One year through five years	72.4	1.5	898.4	13.8	970.8	15.3
After five years through ten years	383.0	18.8	1,843.2	85.5	2,226.2	104.3
Greater than ten years	421.6	38.2	1,239.3	97.0	1,660.9	135.2
Residential mortgage-backed securities	6.6	.1	354.9	11.6	361.5	11.7
Commercial mortgage-backed securities	8.7	.4	164.2	4.3	172.9	4.7
Other asset-backed securities	14.1	.3	83.9	1.9	98.0	2.2
Total	$906.4	$59.3	$4,607.8	$214.3	$5,514.2	$273.6

Net realized capital (losses) gains for the three and nine months ended September 30, 2013 and 2012, excluding amounts related to experience-rated contract holders and discontinued products, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
OTTI losses on debt securities	$(2.4)	$(1.8)	$(29.6)	$(10.4)
Portion of OTTI losses on debt securities recognized in other comprehensive income	—	—	—	.1
Net OTTI losses on debt securities recognized in earnings	(2.4)	(1.8)	(29.6)	(10.3)
Net realized capital (losses) gains, excluding OTTI losses on debt securities	(10.3)	19.1	17.4	87.9
Net realized capital (losses) gains	$(12.7)	$17.3	$(12.2)	$77.6

Net realized capital losses for the three months ended September 30, 2013 were primarily attributable to losses from the sales of debt securities and yield-related OTTI on debt securities. Net realized capital losses for the nine months ended September 30, 2013 were primarily attributable to yield-related OTTI on debt securities, primarily on U.S. Treasury securities, which was partially offset by gains from the sale of other debt securities. Net realized capital gains for the three and nine months ended September 30, 2012 were primarily attributable to the sale of debt securities, partially offset by losses from derivative transactions.

Excluding amounts related to experience-rated and discontinued products, proceeds from the sale of debt securities and the related gross realized capital gains and losses for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Proceeds on sales	$1,434.0	$1,323.3	$5,216.5	$4,138.6
Gross realized capital gains	25.0	30.8	83.9	135.7
Gross realized capital losses	34.9	1.9	78.3	13.2

Mortgage Loans

Our mortgage loans are collateralized by commercial real estate. During the three and nine months ended September 30, 2013 and 2012 we had the following activity in our mortgage loan portfolio:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
New mortgage loans	$62.8	$71.8	$126.4	$132.3
Mortgage loans fully repaid	49.1	4.5	168.7	41.8
Mortgage loans foreclosed	—	—	—	16.7

At September 30, 2013 and December 31, 2012, we had no material problem, restructured or potential problem mortgage loans. We also had no material impairment reserves on these loans at September 30, 2013 or December 31, 2012.

We assess our mortgage loans on a regular basis for credit impairments, and annually assign a credit quality indicator to each loan. Our credit quality indicator is internally developed and categorizes our portfolio on a scale from 1 to 7. Category 1 represents loans of superior quality, and Categories 6 and 7 represent loans where collections are at risk. The vast majority of our mortgage loans fall into the Level 2 to 4 ratings. These ratings represent loans where credit risk is minimal to acceptable; however, these loans may display some susceptibility to economic changes. Category 5 represents loans where credit risk is not substantial but these loans warrant management's close attention. These indicators are based upon several factors, including current loan to value ratios, property condition, market trends, credit worthiness of the borrower and deal structure. Based upon our most recent assessments at September 30, 2013 and December 31, 2012, our mortgage loans were given the following credit quality indicators:

(In Millions, except credit ratings indicator)	September 30, 2013	December 31, 2012
1	$118.2	$94.0
2 to 4	1,346.5	1,451.1
5	32.5	60.2
6 and 7	59.0	38.3
Total	$1,556.2	$1,643.6

Variable Interest Entities

In determining whether to consolidate a variable interest entity ("VIE"), we consider several factors including whether we have the power to direct activities, the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We have relationships with certain real estate partnerships and one hedge fund partnership that are considered VIEs, but are not consolidated. We record the amount of our investment in these partnerships as long-term investments on our balance sheets and recognize our share of partnership income or losses in earnings. Our maximum exposure to loss as a result of our investment in these partnerships is our investment balance at September 30, 2013 and December 31, 2012 of approximately $212 million and $215 million, respectively, and the risk of recapture of tax credits related to the real estate partnerships previously recognized, which we do not consider significant. We do not have a future obligation to fund losses or debts on behalf of these investments; however, we may voluntarily contribute funds. The real estate partnerships construct, own and manage low-income housing developments and had total assets of approximately $5.9 billion and $5.4 billion at September 30, 2013 and December 31, 2012, respectively. The hedge fund partnership had total assets of approximately $7.2 billion and $7.0 billion at September 30, 2013 and December 31, 2012, respectively.

Non-controlling (Minority) Interests

At September 30, 2013 and December 31, 2012, continuing business non-controlling interests were approximately $51 million and $23 million, respectively, primarily related to third party interests in our investment holdings as well as third party interests in certain of our operating entities. The non-controlling entities' share was included in total equity. Net income attributable to non-controlling interests was $.4 million for the three months ended September 30, 2013 and net loss attributable to non-controlling interests was $1.6 million for the nine months ended September 30, 2013, and net income attributable to non-controlling interests was $.4 million and $1.4 million for the three and nine months ended September 30, 2012, respectively.

Net Investment Income

Sources of net investment income for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Debt securities	$193.9	$186.0	$573.9	$574.7
Mortgage loans	27.2	25.3	76.1	90.8
Other investments	(2.2)	13.1	46.8	39.2
Gross investment income	218.9	224.4	696.8	704.7
Less: investment expenses	(8.9)	(8.2)	(26.7)	(23.1)
Net investment income [1]	$210.0	$216.2	$670.1	$681.6

(1) Net investment income includes $61.5 million and $210.3 million for the three and nine months ended September 30, 2013, respectively, and $79.8 million and $238.6 million for the three and nine months ended September 30, 2012, respectively, related to investments supporting our experience-rated and discontinued products.

8. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive loss for the nine months ended September 30, 2013 and 2012:

	Net Unrealized Gains (Losses) Securities			Pension and OPEB Plans		
(Millions)	Previously Impaired [1]	All Other	Foreign Currency and Derivatives	Unrecognized Net Actuarial Losses	Unrecognized Prior Service Cost	Total Accumulated Other Comprehensive (Loss) Income
Nine months ended September 30, 2013						
Balance at December 31, 2012	$57.3	$825.2	$(29.5)	$(1,909.4)	$23.0	$(1,033.4)
Other comprehensive (loss) income before reclassifications	(40.8)	(481.1)	22.9	—	—	(499.0)
Amounts reclassified from accumulated other comprehensive income	20.6 [2]	17.2 [2]	2.6 [3]	37.9 [4]	(2.0) [4]	76.3
Other comprehensive (loss) income	(20.2)	(463.9)	25.5	37.9	(2.0)	(422.7)
Balance at September 30, 2013	$37.1	$361.3	$(4.0)	$(1,871.5)	$21.0	$(1,456.1)
Nine months ended September 30, 2012						

Balance at December 31, 2011	$58.2	$595.2	$(33.7)	$(1,834.6)	$25.7	$(1,189.2)
Other comprehensive (loss) income	2.4	258.5	5.0	36.4	(2.0)	300.3
Balance at September 30, 2012	$60.6	$853.7	$(28.7)	$(1,798.2)	$23.7	$(888.9)

(1) Represents unrealized losses on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

(2) Reclassifications out of accumulated other comprehensive income for previously impaired debt securities and all other securities are reflected in net realized capital gains (losses) within the Consolidated Statement of Income.

(3) Reclassifications out of accumulated other comprehensive income for foreign currency gains (losses) and derivatives are reflected in net realized capital gains (losses) within the Consolidated Statement of Income, except for derivatives related to interest rate swaps which are reflected in interest expense and were not material during the nine months ended September 30, 2013.

(4) Reclassifications out of accumulated other comprehensive income for pension and OPEB plan expenses are reflected in general and administrative expenses within the Consolidated Statement of Income (Refer to Note 10 of Condensed Notes to Consolidated Financial Statements beginning on page 27 for additional information).

Refer to the Consolidated Statements of Comprehensive Income on page 2 for additional information regarding reclassifications out of accumulated other comprehensive income on a pretax basis.

9. Financial Instruments

The preparation of our consolidated financial statements in accordance with GAAP requires certain of our assets and liabilities to be reflected at their fair value, and others on another basis, such as an adjusted historical cost basis. In this note, we provide details on the fair value of financial assets and liabilities and how we determine those fair values. We present this information for those financial instruments that are measured at fair value for which the change in fair value impacts net income or other comprehensive income separately from other financial assets and liabilities.

Financial Instruments Measured at Fair Value in our Balance Sheets
Certain of our financial instruments are measured at fair value in our balance sheets. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information (“inputs”) that qualifies a financial asset or liability for each level:
Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2 – Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable markets.
Level 3 – Developed from unobservable data, reflecting our own assumptions.

Financial assets and liabilities are classified based upon the lowest level of input that is significant to the valuation. When quoted prices in active markets for identical assets and liabilities are available, we use these quoted market prices to determine the fair value of financial assets and liabilities and classify these assets and liabilities as Level 1. In other cases where a quoted market price for identical assets and liabilities in an active market is either not available or not observable, we estimate fair value using valuation methodologies based on available and observable market information or by using a matrix pricing model. These financial assets and liabilities would then be classified as Level 2. If quoted market prices are not available, we determine fair value using broker quotes or an internal analysis of each investment’s financial performance and cash flow projections. Thus, financial assets and liabilities may be classified in Level 3 even though there may be some significant inputs that may be observable.

The following is a description of the valuation methodologies used for our financial assets and liabilities that are measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Debt Securities – Where quoted prices are available in an active market, our debt securities are classified in Level 1 of the fair value hierarchy. Our Level 1 debt securities are comprised primarily of U.S. Treasury securities. If Level 1 valuations are not available, the fair value is determined using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. We obtained one price for each of our Level 2 debt securities and did not adjust any of these prices at September 30, 2013 or December 31, 2012.

We also value certain debt securities using Level 3 inputs. For Level 3 debt securities, fair values are determined by outside brokers or, in the case of certain private placement securities, are priced internally. Outside brokers determine the value of these debt securities through a combination of their knowledge of the current pricing environment and market flows. We obtained one non-binding broker quote for each of these Level 3 debt securities and did not adjust any of these quotes at September 30, 2013 or December 31, 2012. The total fair value of our broker quoted securities was approximately $99 million at September 30, 2013 and $117 million at December 31, 2012. Examples of these broker quoted Level 3 debt securities include certain U.S. and foreign corporate securities and certain of our commercial mortgage-backed securities as well as other asset-backed securities. For some of our private placement securities, our internal staff determines the value of these debt securities by analyzing spreads of corporate and sector indices as well as interest spreads of comparable public bonds. Examples of these private placement Level 3 debt securities include certain U.S. and foreign securities and certain tax-exempt municipal securities.

Equity Securities – We currently have two classifications of equity securities: those that are publicly-traded and those that are privately-held. Our publicly-traded securities are classified as Level 1 because quoted prices are available for these securities in an active market. For privately-held equity securities, there is no active market; therefore, we classify these securities as Level 3 because we price these securities through an internal analysis of each investment's financial statements and cash flow projections. Significant unobservable inputs consist of earnings and revenue multiples, discount for lack of marketability and comparability adjustments. An increase or decrease in any of these unobservable inputs would result in a change in the fair value measurement, which may be significant.

Derivatives – Where quoted prices are available in an active market, our derivatives are classified in Level 1 of the fair value hierarchy. Certain of our derivative instruments are valued using models that primarily use market observable inputs and therefore are classified as Level 2 because they are traded in markets where quoted market prices are not readily available.

Financial assets and liabilities measured at fair value on a recurring basis in our balance sheets at September 30, 2013 and December 31, 2012 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
September 30, 2013				
Assets:				
Debt securities:				
U.S. government securities	$1,272.9	$233.9	$—	$1,506.8
States, municipalities and political subdivisions	—	3,912.9	1.3	3,914.2
U.S. corporate securities	—	7,618.4	36.5	7,654.9
Foreign securities	—	3,226.0	41.5	3,267.5
Residential mortgage-backed securities	—	962.4	—	962.4
Commercial mortgage-backed securities	—	1,404.7	7.4	1,412.1
Other asset-backed securities	—	362.7	32.8	395.5
Redeemable preferred securities	—	61.0	4.1	65.1
Total debt securities	1,272.9	17,782.0	123.6	19,178.5
Equity securities	17.8	.3	62.3	80.4
Derivatives	—	41.8	—	41.8
Total	$1,290.7	$17,824.1	$185.9	$19,300.7
Liabilities:				
Derivatives	$—	$2.2	$—	$2.2
December 31, 2012				
Assets:				
Debt securities:				
U.S. government securities	$1,311.4	$248.1	$—	$1,559.5
States, municipalities and political subdivisions	—	3,031.8	2.7	3,034.5
U.S. corporate securities	—	7,736.0	54.6	7,790.6
Foreign securities	—	3,317.9	52.7	3,370.6
Residential mortgage-backed securities	—	979.0	—	979.0
Commercial mortgage-backed securities	—	1,396.5	20.1	1,416.6
Other asset-backed securities	—	512.6	29.5	542.1
Redeemable preferred securities	—	80.5	14.1	94.6
Total debt securities	1,311.4	17,302.4	173.7	18,787.5
Equity securities	18.2	—	22.1	40.3
Derivatives	—	8.9	—	8.9
Total	$1,329.6	$17,311.3	$195.8	$18,836.7
Liabilities:				
Derivatives	$—	$.3	$—	$.3

There were no transfers between Levels 1 and 2 during the three or nine months ended September 30, 2013 and 2012.

The gross transfers into (out of) Level 3 during the three and nine months ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Gross transfers into Level 3	$3.8	$—	$3.8	$1.8
Gross transfers out of Level 3	(21.7)	(7.4)	(48.9)	(30.1)
Net transfers (out of) Level 3	$(17.9)	$(7.4)	$(45.1)	$(28.3)

Gross transfers out of Level 3 during the three and nine months ended September 30, 2013 primarily related to securities of States, municipalities and political subdivisions; U.S. corporate securities; and Foreign securities. The fair value of securities transferred out of Level 3 had been based on broker quotes and effective in the third quarter of 2013 is based primarily on a matrix pricing model, which uses quoted market prices of debt securities with similar characteristics. Gross transfers into Level 3 during the three and nine months ended September 30, 2013 primarily were due to quoted prices for certain securities no longer being available in active markets.

Financial Instruments Not Measured at Fair Value in our Balance Sheets
The following is a description of the valuation methodologies used for estimating the fair value of our financial assets and liabilities that are carried on our balance sheets at adjusted cost or contract value.

Mortgage loans: Fair values are estimated by discounting expected mortgage loan cash flows at market rates that reflect the rates at which similar loans would be made to similar borrowers. These rates reflect our assessment of the credit worthiness of the borrower and the remaining duration of the loans. The fair value estimates of mortgage loans of lower credit quality, including problem and restructured loans, are based on the estimated fair value of the underlying collateral.

Bank loans: Where fair value is determined by quoted market prices of bank loans with similar characteristics, our bank loans are classified as Level 2 because they are traded in markets where quoted market prices of identical bank loans are not readily available. For bank loans classified as Level 3, fair value is determined by outside brokers using an internal analysis through a combination of their knowledge of the current pricing environment and market flows.

Investment contract liabilities:
•With a fixed maturity: Fair value is estimated by discounting cash flows at interest rates currently being offered by, or available to, us for similar contracts.
•Without a fixed maturity: Fair value is estimated as the amount payable to the contract holder upon demand. However, we have the right under such contracts to delay payment of withdrawals that may ultimately result in paying an amount different than that determined to be payable on demand.

Long-term debt: Fair values are based on quoted market prices for the same or similar issued debt or, if no quoted market prices are available, on the current rates estimated to be available to us for debt of similar terms and remaining maturities.

The carrying value and estimated fair value classified by level of fair value hierarchy for certain of our financial instruments at September 30, 2013 and December 31, 2012 were as follows:

	Carrying	Estimated Fair Value			
(Millions)	Value	Level 1	Level 2	Level 3	Total
September 30, 2013					
Assets:					
Mortgage loans	$1,556.2	$—	$—	$1,598.6	$1,598.6
Bank loans	142.2	—	130.1	10.5	140.6
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	9.2	—	—	9.2	9.2
Without a fixed maturity	578.5	—	—	547.4	547.4
Long-term debt	8,266.3	—	8,716.0	—	8,716.0
December 31, 2012					
Assets:					
Mortgage loans	$1,643.6	$—	$—	$1,698.6	$1,698.6
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	18.5	—	—	18.5	18.5
Without a fixed maturity	590.2	—	—	611.1	611.1
Long-term debt	6,481.3	—	7,408.7	—	7,408.7

Separate Accounts Measured at Fair Value in our Balance Sheets

Separate Accounts assets in our Large Case Pensions business represent funds maintained to meet specific objectives of contract holders. Since contract holders bear the investment risk of these assets, a corresponding Separate Accounts liability has been established equal to the assets. These assets and liabilities are carried at fair value. Net investment income and capital gains and losses accrue directly to such contract holders. The assets of each account are legally segregated and are not subject to claims arising from our other businesses. Deposits, withdrawals, net investment income and realized and unrealized capital gains and losses on Separate Accounts assets are not reflected in our statements of income, shareholders' equity or cash flows.

Separate Accounts assets include debt and equity securities and derivative instruments. The valuation methodologies used for these assets are similar to the methodologies described beginning on page 21. Separate Accounts assets also include investments in common/collective trusts that are carried at fair value. Common/collective trusts invest in other investment funds otherwise known as the underlying funds. The Separate Accounts' interests in the common/collective trust funds are based on the fair values of the investments of the underlying funds and therefore are classified as Level 2. The assets in the underlying funds primarily consist of equity securities. Investments in common/collective trust funds are valued at their respective net asset value per share/unit on the valuation date.

Separate Accounts financial assets at September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013				December 31, 2012			
(Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities	$685.7	$2,163.9	$.6	$2,850.2	$721.7	$2,343.9	$.4	$3,066.0
Equity securities	209.4	1.6	—	211.0	194.9	1.0	—	195.9
Derivatives	—	.2	—	.2	—	(1.8)	—	(1.8)
Common/collective trusts	—	692.7	—	692.7	—	749.0	—	749.0
Total [(1)]	$895.1	$2,858.4	$.6	$3,754.1	$916.6	$3,092.1	$.4	$4,009.1

(1) Excludes $179.5 million and $238.0 million of cash and cash equivalents and other receivables at September 30, 2013 and December 31, 2012, respectively.

Gross transfers of Separate Accounts financial assets out of Level 3 during the nine months ended September 30, 2013 and 2012 were $4.6 million and $.6 million, respectively. For the three and nine months ended September 30, 2013 and 2012, there were no transfers of Separate Accounts financial assets between Levels 1 and 2 and no transfers of Separate Accounts financial assets into or out of Level 3 except as previously stated.

Offsetting Financial Assets and Liabilities

Certain financial assets and liabilities are offset in our balance sheets or are subject to master netting arrangements or similar agreements with the applicable counterparty. Financial assets, including derivative assets, subject to offsetting and enforceable master netting arrangements as of September 30, 2013 and December 31, 2012 were as follows:

		Gross Amounts Not Offset In the Balance Sheets		
(Millions)	Gross Amounts of Recognized Assets [(1)]	Financial Instruments	Cash Collateral Received	Net Amount
September 30, 2013				
Derivatives	$41.8	$—	$(40.4)	$1.4
Total	$41.8	$—	$(40.4)	$1.4
December 31, 2012				
Derivatives	$9.4	$12.5	$(7.5)	$14.4
Total	$9.4	$12.5	$(7.5)	$14.4

(1) There were no amounts offset in our balance sheets at September 30, 2013 or December 31, 2012.

Financial liabilities, including derivative liabilities, subject to offsetting and enforceable master netting arrangements as of September 30, 2013 and December 31, 2012 were as follows:

(Millions)	Gross Amounts of Recognized Liabilities [1]	Gross Amounts Not Offset In the Balance Sheets Financial Instruments	Cash Collateral Paid	Net Amount
September 30, 2013				
Derivatives	$6.1	$(10.7)	$(.9)	$(5.5)
Securities lending	550.2	(550.2)	—	—
Total	$556.3	$(560.9)	$(.9)	$(5.5)
December 31, 2012				
Derivatives	$.3	$—	$—	$.3
Securities lending	47.1	(47.1)	—	—
Total	$47.4	$(47.1)	$—	$.3

[1] There were no amounts offset in our balance sheets at September 30, 2013 or December 31, 2012.

10. Pension and Other Postretirement Plans

Defined Benefit Retirement Plans

Components of the net periodic benefit (income) cost of our defined benefit pension plans and other postretirement benefit ("OPEB") plans for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Pension Plans				OPEB Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012	2013	2012	2013	2012
Service cost	$—	$—	$—	$—	$—	$—	$—	$.1
Amortization of prior service cost	(.1)	(.1)	(.3)	(.3)	(1.0)	(.9)	(2.7)	(2.7)
Interest cost	67.9	74.6	203.6	223.8	2.8	3.6	8.3	10.8
Expected return on plan assets	(99.1)	(96.8)	(297.3)	(290.5)	(.6)	(.6)	(1.8)	(2.0)
Recognized net actuarial losses	19.0	17.5	56.6	52.7	.6	1.1	1.7	3.3
Net periodic benefit (income) cost	$(12.3)	$(4.8)	$(37.4)	$(14.3)	$1.8	$3.2	$5.5	$9.5

During each of the third quarters of 2013 and 2012, we made $60 million in voluntary cash contributions to our tax-qualified noncontributory defined benefit pension plan.

11. Debt

The carrying value of our long-term debt at September 30, 2013 and December 31, 2012 was as follows:

(Millions)	September 30, 2013	December 31, 2012
Senior notes, 6.3%, due 2014	$392.2	$—
Senior notes, 6.125%, due 2015	243.4	—
Senior notes, 6.0%, due 2016	748.8	748.5
Senior notes, 5.95%, due 2017	438.2	—
Senior notes, 1.75%, due 2017	248.8	248.6
Senior notes, 1.5%, due 2017	498.0	497.7
Senior notes, 6.5%, due 2018	494.9	494.8
Senior notes, 3.95%, due 2020	744.1	743.4
Senior notes, 5.45%, due 2021	705.8	—
Senior notes, 4.125%, due 2021	494.7	494.1
Senior notes, 2.75%, due 2022	984.6	983.4
Senior notes, 6.625%, due 2036	769.8	769.7
Senior notes, 6.75%, due 2037	530.6	529.5
Senior notes, 4.5%, due 2042	479.9	479.3
Senior notes, 4.125%, due 2042	492.5	492.3
Total long-term debt	8,266.3	6,481.3
Less current portion of long-term debt [1]	392.2	—
Total long-term debt, less current portion	$7,874.1	$6,481.3

[1] At September 30, 2013, our 6.3% senior notes due August 2014 are classified as current in the accompanying consolidated balance sheet.

As discussed in Note 3 beginning on page 7, our total long-term debt outstanding increased by $1.8 billion as a result of the acquisition of Coventry, which includes $216.6 million to adjust the Coventry long-term debt to its estimated fair value at the Effective Date. The principal amounts of the outstanding Coventry notes are $375 million of 6.3% senior notes due 2014, $229 million of 6.125% senior notes due 2015, $383 million of 5.95% senior notes due 2017 and $600 million of 5.45% senior notes due 2021.

We issued approximately $700 million of commercial paper in 2013 to finance a portion of the cash purchase price for the acquisition of Coventry. At both September 30, 2013 and December 31, 2012, we did not have any commercial paper outstanding.

Interest Rate Swaps

During June and July of 2012, we entered into two interest rate swaps with an aggregate notional value of $375 million. We designated these swaps as cash flow hedges against interest rate exposure related to the forecasted future issuance of fixed-rate debt to refinance long-term debt maturing in June 2016. At September 30, 2013, these interest rate swaps had a pretax fair value gain of $39.9 million, which was reflected net of tax in accumulated other comprehensive loss within shareholders' equity.

Revolving Credit Facility

On March 27, 2012, we entered into an unsecured $1.5 billion five-year revolving credit agreement (the “Credit Agreement”) with several financial institutions. On September 24, 2012, and in connection with the acquisition of Coventry, we entered into a First Amendment (the “First Amendment”) to the Credit Agreement and also entered into an Incremental Commitment Agreement (the “Incremental Commitment”, and together with the First Amendment and the

Credit Agreement, resulting in the “Facility”). The Facility is an unsecured $2.0 billion revolving credit agreement. Upon our agreement with one or more financial institutions, we may expand the aggregate commitments under the Facility to a maximum of $2.5 billion. The Facility also provides for the issuance of up to $200 million of letters of credit at our request, which count as usage of the available commitments under the Facility. On March 27, 2013, the maturity date of the Facility was extended by one year to March 27, 2018.

Various interest rate options are available under the Facility. Any revolving borrowings mature on the termination date of the Facility. We pay facility fees on the Facility ranging from .070% to .150% per annum, depending upon our long-term senior unsecured debt rating. The facility fee was .100% at September 30, 2013. The Facility contains a financial covenant that requires us to maintain a ratio of total debt to consolidated capitalization as of the end of each fiscal quarter at or below 50%. For this purpose, consolidated capitalization equals the sum of total shareholders' equity, excluding any overfunded or underfunded status of our pension and OPEB plans and any net unrealized capital gains and losses, and total debt (as defined in the Facility). We met this requirement at September 30, 2013. There were no amounts outstanding under the Facility at any time during the nine months ended September 30, 2013.

12. Capital Stock

On September 27, 2013, February 19, 2013 and July 27, 2012, our Board of Directors (our "Board") authorized three separate share repurchase programs. Each repurchase program authorized us to repurchase up to $750 million of our common stock. During the nine months ended September 30, 2013, we repurchased approximately 16 million shares of common stock at a cost of approximately $958 million. At September 30, 2013, we had remaining authorization to repurchase an aggregate of up to approximately $1 billion of common stock under the September 27, 2013 and February 19, 2013 programs.

During the nine months ended September 30, 2013 our Board declared the following cash dividends:

Date Declared	Dividend Amount Per Share	Stockholders of Record Date	Date Paid/ To be Paid	Total Dividends (Millions)
February 19, 2013	$.20	April 11, 2013	April 26, 2013	$65.2
May 17, 2013	.20	July 11, 2013	July 26, 2013	74.4
September 27, 2013	.20	October 10, 2013	October 25, 2013	73.6

Declaration and payment of future dividends is at the discretion of our Board and may be adjusted as business needs or market conditions change.

On the Effective Date, we issued approximately 52.2 million Aetna common shares, with a fair value of approximately $3.1 billion and paid approximately $3.8 billion in cash in exchange for all the outstanding shares of Coventry common stock and outstanding awards.

On May 24, 2013, approximately .5 million restricted stock units ("RSUs") were granted to certain employees.

On February 1, 2013, approximately .5 million performance stock units ("PSUs"), 1.1 million market stock units ("MSUs") and 1.1 million RSUs were granted to certain employees. The number of vested PSUs (which could range from zero to 200% of the original number of units granted) is dependent upon the degree to which we achieve performance goals during the performance periods as determined by our Board's Committee on Compensation and Organization. The PSUs have two separate performance periods which relate to the Company's operating performance during the years ending December 31, 2013 and December 31, 2014. The vesting period for the PSUs ends on February 1, 2015. The number of vested MSUs (which could range from zero to 150% of the original number of units granted) is based on the percentage change between the closing price of our common stock on the grant date and the weighted average closing price of our common stock for the thirty trading days prior to and including the vesting dates. Certain MSUs contain a performance condition that relates to the Company's cumulative performance during the years ending December 31, 2013 and December 31, 2014. The vesting period for the MSUs ends February 1, 2016. Each vested PSU, MSU and RSU represents one share of common stock and will be paid in shares of common stock, net of taxes, at the end of the applicable vesting period. The RSUs will become 100% vested approximately three years from the grant date, with one-third vesting each December.

13. Dividend Restrictions and Statutory Surplus

Under regulatory requirements at September 30, 2013, the amount of dividends that may be paid through the end of 2013 by our insurance and HMO subsidiaries without prior approval by regulatory authorities is approximately $900 million in the aggregate. There are no such regulatory restrictions on distributions from Aetna to its shareholders. In the third quarter of 2013, our insurance and HMO subsidiaries paid approximately $637 million of dividends to the Company.

The combined statutory capital and surplus of our insurance and HMO subsidiaries was $8.8 billion and $6.4 billion at September 30, 2013 and December 31, 2012, respectively.

14. Commitments and Contingencies

Guaranty Fund Assessments, Market Stabilization and Other Non-Voluntary Risk Sharing Pools
Under guaranty fund laws existing in all states, insurers doing business in those states can be assessed (up to prescribed limits) for certain obligations of insolvent insurance companies to policyholders and claimants. The health insurance guaranty associations in which we participate that operate under these laws respond to insolvencies of long-term care insurers as well as health insurers. Our assessments generally are based on a formula relating to our premiums in the state compared to the premiums of other insurers. Certain states allow assessments to be recovered as offsets to premium taxes. Some states have similar laws relating to HMOs. The Pennsylvania Insurance Commissioner (the “Commissioner”) has placed long-term care insurer Penn Treaty Network America Insurance Company and one of its subsidiaries (collectively, “Penn Treaty”) in rehabilitation, an intermediate action before insolvency, and subsequently petitioned a state court to convert the rehabilitation into a liquidation. In May 2012, the state court denied the request and ordered the Commissioner to propose a rehabilitation plan. In September 2012, the state court finalized its opinion that Penn Treaty is not insolvent and remains in rehabilitation. The Commissioner has appealed the state court's decision and has filed a proposed rehabilitation plan with the state court. If the rehabilitation is not successful and Penn Treaty ultimately is placed in liquidation, we and other insurers likely would be assessed over a period of years by guaranty associations for the payments the guaranty associations are required to make to Penn Treaty policyholders. We are currently unable to predict the ultimate outcome of, or reasonably estimate the loss or range of losses resulting from, this potential insolvency because we cannot predict whether rehabilitation efforts will succeed, the amount of the insolvency, if any, the amount and timing of associated guaranty association assessments or the amount or availability of potential offsets, such as premium tax offsets. It is reasonably possible that in future reporting periods we may record a liability and expense relating to Penn Treaty or other insolvencies which could have a material adverse effect on our operating results, financial position and cash flows. While we have historically recovered more than half of guaranty fund assessments through statutorily permitted premium tax offsets, significant increases in assessments could lead to legislative and/or regulatory actions that may limit future offsets.

HMOs in certain states in which we do business are subject to assessments, including market stabilization and other risk-sharing pools, for which we are assessed charges based on incurred claims, demographic membership mix and other factors. We establish liabilities for these assessments based on applicable laws and regulations. In certain states, the ultimate assessments we pay are dependent upon our experience relative to other entities subject to the assessment and the ultimate liability is not known at the balance sheet date. While the ultimate amount of the assessment is dependent upon the experience of all pool participants, we believe we have adequate reserves to cover such assessments.

Litigation and Regulatory Proceedings

Out-of-Network Benefit Proceedings

We are named as a defendant in several purported class actions and individual lawsuits arising out of our practices related to the payment of claims for services rendered to our members by health care providers with whom we do not have a contract ("out-of-network providers"). Among other things, these lawsuits allege that we paid too little to our health plan members and/or providers for these services, among other reasons, because of our use of data provided by Ingenix, Inc., a subsidiary of one of our competitors ("Ingenix"). Other major health insurers are the subject of similar litigation or have settled similar litigation.

Various plaintiffs who are health care providers or medical associations seek to represent nationwide classes of out-of-network providers who provided services to our members during the period from 2001 to the present. Various plaintiffs who are members in our health plans seek to represent nationwide classes of our members who received services from out-of-network providers during the period from 2001 to the present. Taken together, these lawsuits allege that we violated state law, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Racketeer Influenced and Corrupt Organizations Act and federal antitrust laws, either acting alone or in concert with our competitors. The purported classes seek reimbursement of all unpaid benefits, recalculation and repayment of deductible and coinsurance amounts, unspecified damages and treble damages, statutory penalties, injunctive and declaratory relief, plus interest, costs and attorneys' fees, and seek to disqualify us from acting as a fiduciary of any benefit plan that is subject to ERISA. Individual lawsuits that generally contain similar allegations and seek similar relief have been brought by health plan members and out-of-network providers.

The first class action case was commenced on July 30, 2007. The federal Judicial Panel on Multi-District Litigation (the "MDL Panel") has consolidated these class action cases in the U.S. District Court for the District of New Jersey (the "New Jersey District Court") under the caption In re: Aetna UCR Litigation, MDL No. 2020 ("MDL 2020"). In addition, the MDL Panel has transferred the individual lawsuits to MDL 2020. On May 9, 2011, the New Jersey District Court dismissed the physician plaintiffs from MDL 2020 without prejudice. The New Jersey District Court's action followed a ruling by the United States District Court for the Southern District of Florida (the "Florida District Court") that the physician plaintiffs were enjoined from participating in MDL 2020 due to a prior settlement and release. The United States Court of Appeals for the Eleventh Circuit has dismissed the physician plaintiffs' appeal of the Florida District Court's ruling.

On December 6, 2012, we entered into an agreement to settle MDL No. 2020. Under the terms of the proposed nationwide settlement, we will be released from claims relating to our out-of-network reimbursement practices from the beginning of the applicable settlement class period through August 30, 2013. The settlement class period for health plan members begins on March 1, 2001, and the settlement class period for health care providers begins on June 3, 2003. The agreement contains no admission of wrongdoing. The medical associations are not parties to the settlement agreement.

Under the settlement agreement, we will pay $60 million, the substantial majority of which will be payable upon final court approval of the settlement, and pay up to an additional $60 million at the end of a claim submission and validation period that commences upon final court approval of the settlement. These payments will fund claims submitted by health plan members who are members of the plaintiff class and health care providers who are members of the plaintiff class. These payments also will fund the legal fees of plaintiffs' counsel and the costs of administering the settlement, in each case in amounts to be determined by the New Jersey District Court.

The New Jersey District Court preliminarily approved the settlement on August 30, 2013. The proposed settlement remains subject to final court approval, and a final approval hearing is scheduled for March 2014. Final court approval of the settlement could be delayed by appeals or other proceedings. In addition, the Company has the right to terminate the settlement agreement if more than certain percentages of class members, or class members collectively holding specified dollar amounts of claims, elect to opt-out of the settlement. In connection with the proposed settlement, the Company recorded an after-tax charge to net income of approximately $78 million in the fourth quarter of 2012. The Company will pay for the settlement with available resources and expects the settlement payments to occur over the next twelve to twenty-four months. We intend to continue to vigorously defend ourselves against the claims brought in these cases by non-settling plaintiffs.

We also have received subpoenas and/or requests for documents and other information from, and been investigated by, attorneys general and other state and/or federal regulators, legislators and agencies relating to our out-of-network benefit payment practices. It is reasonably possible that others could initiate additional litigation or additional regulatory action against us with respect to our out-of-network benefit payment practices.

CMS Actions

In June 2011, the Centers for Medicare & Medicaid Services ("CMS") lifted the intermediate sanctions it had previously imposed on us in April 2010 that required us to suspend the enrollment of and marketing to new members of all Aetna Medicare Advantage and Standalone Prescription Drug Plan ("PDP") contracts. The sanctions related to our compliance with certain Medicare Part D requirements. On September 27, 2012, CMS notified us that we were again eligible to receive assignments of low-income subsidy PDP members from CMS.

CMS regularly audits our performance to determine our compliance with CMS's regulations and our contracts with CMS and to assess the quality of services we provide to Medicare beneficiaries. CMS uses various payment mechanisms to allocate and adjust premium payments to our and other companies' Medicare plans by considering the applicable health status of Medicare members as supported by information maintained and provided by health care providers. We collect claim and encounter data from providers and generally rely on providers to appropriately code their submissions and document their medical records. CMS pays increased premiums to Medicare Advantage plans and PDPs for members who have certain medical conditions identified with specific diagnosis codes. Federal regulators review and audit the providers' medical records and related diagnosis codes that determine the members' health status and the resulting risk-adjusted premium payments to us. In that regard, CMS has instituted risk adjustment data validation ("RADV") audits of various Medicare Advantage plans, including certain of the Company's plans. The Office of Inspector General (the "OIG") also is auditing risk adjustment data of other companies, and we expect CMS and the OIG to continue auditing risk adjustment data.

In February 2012, CMS published a Notice of Final Payment Error Calculation Methodology for Part C Medicare Advantage Risk Adjustment Data Validation Contract-Level Audits (the "Notice"). The Notice outlines the methodology that CMS will use to determine RADV audit premium refunds payable by Medicare Advantage plans for contract years 2011 and forward. Under that methodology, the RADV audit premium refund calculation will include an adjustment for the differences in documentation standards between the RADV audits and the risk adjustment model; however, the Notice provides limited information about that adjustment. In addition, CMS will project the error rate identified in the audit sample to all risk adjusted premium payments made under the contract being audited. Historically, CMS did not make an adjustment for differences in documentation standards or project sample error rates to the entire contract. During 2013, CMS is expected to select Medicare Advantage contracts for contract year 2011 for audit. We are currently unable to predict which of our Medicare Advantage contracts will be selected for future audit, the financial impact of the documentation standard adjustment, the amounts of any retroactive refunds of, or prospective adjustments to, Medicare Advantage premium payments made to us, the effect of any such refunds or adjustments on the actuarial soundness of our Medicare Advantage bids, or whether any RADV audit findings would cause a change to our method of estimating future premium revenue in bid submissions to CMS for the current or future contract years or compromise premium assumptions made in our bids for prior contract years or the current contract year. Any premium refunds or adjustments resulting from regulatory audits, whether as a result of RADV or other audits by CMS, the OIG or otherwise, could be material and could adversely affect our operating results, financial position and cash flows.

Other Litigation and Regulatory Proceedings

We are involved in numerous other lawsuits arising, for the most part, in the ordinary course of our business operations, including employment litigation and claims of bad faith, medical malpractice, non-compliance with state and federal regulatory regimes, marketing misconduct, failure to timely or appropriately pay medical and/or group insurance claims (including post-payment audit and collection practices), rescission of insurance coverage, improper disclosure of personal information, patent infringement and other intellectual property litigation and other litigation in our Health Care and Group Insurance businesses. Some of these other lawsuits are or are purported to be class actions. We intend to vigorously defend ourselves against the claims brought in these matters.

In addition, our operations, current and past business practices, current and past contracts, and accounts and other books and records are subject to routine, regular and special investigations, audits, examinations and reviews by, and from time to time we receive subpoenas and other requests for information from, CMS, the U.S. Department of Health and Human Services, various state insurance and health care regulatory authorities, state attorneys general and offices of inspector general, the Center for Consumer Information and Insurance Oversight, OIG, the Office of Personnel Management, the U.S. Department of Labor, committees, subcommittees and members of the U.S. Congress, the U.S. Department of Justice, the Federal Trade Commission, U.S. attorneys and other state, federal and international governmental authorities. These government actions include inquiries by, and testimony before, certain members, committees and subcommittees of the U.S. Congress regarding certain of our current and past business practices, including our overall claims processing and payment practices, our business practices with respect to our small group products, student health products or individual customers (such as market withdrawals, rating information, premium increases and medical benefit ratios), executive compensation matters and travel and entertainment expenses, as well as the investigations by, and subpoenas and requests from, attorneys general and others described above under “Out-of-Network Benefit Proceedings.”

Over 35 states are investigating life insurers' claims payment and related escheat practices, and these investigations have resulted in significant charges to earnings by other life insurers in connection with related settlements. We have received requests for information from a number of states, and certain of our subsidiaries are being audited, with respect to our life insurance claim payment and related escheat practices. We may incur a liability as a result of these investigations and/or audits, whether as a result of changes in our business practices, litigation, government actions or otherwise, which could adversely affect our operating results and cash flows.

There also continues to be heightened review by regulatory authorities of and increased litigation regarding the health care and related benefits industry’s business and reporting practices, including premium rate increases, utilization management, development and application of medical policies, complaint, grievance and appeal processing, information privacy, provider network structure (including the use of performance-based networks and termination of provider contracts), delegated arrangements, rescission of insurance coverage, limited benefit health products, student health products, pharmacy benefit management practices, sales practices, and claim payment practices (including payments to out-of-network providers and payments on life insurance policies).

As a leading national health and related benefits company, we regularly are the subject of government actions of the types described above. These government actions may prevent or delay us from implementing planned premium rate increases and may result, and have resulted, in restrictions on our business, changes to or clarifications of our business practices, retroactive adjustments to premiums, refunds or other payments to members, beneficiaries, states or the federal government, assessments of damages, civil or criminal fines or penalties, or other sanctions, including the possible loss of licensure or suspension or exclusion from participation in government programs, such as the intermediate sanctions previously imposed on us by CMS that are described above under “CMS Actions.”

Estimating the probable losses or a range of probable losses resulting from litigation, government actions and other legal proceedings is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, may involve fines, penalties or punitive damages that are discretionary in amount, involve a large number of claimants or regulatory authorities, represent a change in regulatory policy, present novel legal theories, are in the early stages of the proceedings, are subject to appeal or could result in a change in business practices. In addition, because most legal proceedings are resolved over long periods of time, potential losses are subject to change due to, among other things, new developments, changes in litigation strategy, the outcome of intermediate procedural and substantive rulings and other parties’ settlement posture and their evaluation of the strength or weakness of their case against us. Except as specifically noted above under “Out-of-Network Benefit Proceedings,” we are currently unable to predict the ultimate outcome of, or reasonably estimate the losses or a range of losses resulting from, the matters described above, and it is reasonably possible that their outcome could be material to us.

15. Segment Information

Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions. The acquired Coventry operations are reflected in our Health Care segment for the three and nine months ended September 30, 2013. Our Corporate Financing segment is not a business segment; it is added to our business segments to reconcile to our consolidated results. The Corporate Financing segment includes interest expense on our outstanding debt and the financing components of our pension and OPEB plan expense (the service cost and prior service cost components of this expense are allocated to our business segments).

Summarized financial information of our segments for the three and nine months ended September 30, 2013 and 2012 was as follows:

(Millions)	Health Care	Group Insurance	Large Case Pensions (2)	Corporate Financing	Total Company
Three Months Ended September 30, 2013					
Revenue from external customers	$12,228.7	$510.7	$98.9	$—	$12,838.3
Operating earnings (loss) (1)	585.8	19.7	6.2	(49.9)	561.8
Three Months Ended September 30, 2012					
Revenue from external customers	$8,172.7	$465.8	$45.3	$—	$8,683.8
Operating earnings (loss) (1)	531.8	29.3	3.7	(41.6)	523.2
Nine Months Ended September 30, 2013					
Revenue from external customers	$31,743.0	$1,536.8	$174.2	$—	$33,454.0
Operating earnings (loss) (1)	1,637.8	80.8	16.2	(128.6)	1,606.2
Nine Months Ended September 30, 2012					
Revenue from external customers	$24,398.4	$1,378.1	$134.5	$—	$25,911.0
Operating earnings (loss) (1)	1,444.2	116.2	13.4	(121.2)	1,452.6

(1) Operating earnings (loss) excludes net realized capital gains or losses and the other items described in the reconciliation below.

(2) In the third quarter of 2013, an existing group annuity contract converted from a participating to a non-participating contract. Upon conversion, we recorded $54.1 million of non-cash group annuity conversion premium for this contract and a corresponding $54.1 million non-cash benefit expense on group annuity conversion for this contract.

A reconciliation of operating earnings [1] to net income attributable to Aetna for the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Operating earnings [1]	$561.8	$523.2	$1,606.2	$1,452.6
Transaction and integration-related costs, net of tax	(34.6)	(12.5)	(140.6)	(12.5)
Reduction of reserve for anticipated future losses on discontinued products, net of tax	—	—	55.9	—
Reversal of allowance and gain on sale of reinsurance recoverable, net of tax	—	—	32.1	—
Loss on early extinguishment of long-term debt, net of tax	—	(23.0)	—	(23.0)
Net realized capital (losses) gains, net of tax	(8.6)	11.5	(8.9)	50.7
Net income attributable to Aetna	$518.6	$499.2	$1,544.7	$1,467.8

(1) In addition to net realized capital gains (losses), the following items are excluded from operating earnings because we believe they neither relate to the ordinary course of our business nor reflect our underlying business performance:

- We incurred transaction and integration-related costs related to the acquisition of Coventry of $34.6 million ($51.2 million pretax) and $140.6 million ($189.6 million pretax) during the three and nine months ended September 30, 2013, respectively, and $12.5 million ($13.8 million pretax) during the three and nine months ended September 30, 2012. Transaction costs include advisory, legal and other professional fees which are not deductible for tax purposes and are reflected in our GAAP Consolidated Statements of Income in general and administrative expenses, as well as the cost of the bridge credit agreement that was in effect prior to the Coventry acquisition, which is reflected in the GAAP Consolidated Statements of Income in interest expense. Transaction costs also include transaction-related payments as well as expenses related to the negative cost of carry associated with the permanent financing that we obtained in November 2012 for the Coventry acquisition. Prior to the Effective Date, the negative cost of carry was excluded from operating earnings. The components of the negative cost of carry are reflected in our GAAP Consolidated Statements of Income in interest expense, net investment income, and general and administrative expenses. On and after the Effective Date, the interest expense and general and administrative expenses associated with the permanent financing are no longer excluded from operating earnings.
- We reduced the reserve for anticipated future losses on discontinued products by $55.9 million ($86.0 million pretax) in the second quarter of 2013. We believe excluding any changes in the reserve for anticipated future losses on discontinued products from operating earnings provides more useful information as to our continuing products and is consistent with the treatment of the operating results of these discontinued products, which are credited or charged to the reserve and do not affect our operating results. Refer to Note 17 beginning on page 36 for additional information on the reduction of the reserve for anticipated future losses on discontinued products.
- In 2008, as a result of the liquidation proceedings of Lehman Re, a subsidiary of Lehman Brothers Holdings Inc., we recorded an allowance against our reinsurance recoverable from Lehman Re of $27.4 million ($42.2 million pretax). This reinsurance was placed in 1999 and was on a closed book of paid-up group whole life insurance business. In the second quarter of 2013, we sold our claim against Lehman Re to an unrelated third party including the reinsurance recoverable and terminated the reinsurance arrangement. Upon the sale of the claim and termination of the arrangement, we released the related allowance thereby reducing other general and administrative expenses by $27.4 million ($42.2 million pretax) and recognized a $4.7 million ($7.2 million pretax) gain on the sale in fees and other revenue.
- In the third quarter of 2012, we incurred a loss on the early extinguishment of long-term debt of $23.0 million ($35.4 million pretax) related to repurchases of certain of our outstanding senior notes.

16. Reinsurance

In January 2013, we entered into four-year reinsurance agreements with Vitality Re IV Limited, an unrelated insurer. The agreements allow us to reduce our required capital and provide $150 million of collateralized excess of loss reinsurance coverage on a portion of Aetna's group Commercial Insured Health Care business.

In May 2013, we entered into two agreements with unrelated reinsurers to reinsure a portion of our Medicare Advantage business and a portion of our group Commercial Insured Health Care business, respectively. These contracts did not qualify for reinsurance accounting under GAAP, and consequently are accounted for using deposit accounting.

In 2008, as a result of the liquidation proceedings of Lehman Re, a subsidiary of Lehman Brothers Holdings Inc., we recorded an allowance against our reinsurance recoverable from Lehman Re of $27.4 million ($42.2 million pretax). This reinsurance was placed in 1999 and was on a closed book of paid-up group whole life insurance business. In September 2008, we took possession of assets supporting the reinsurance recoverable, which previously were held as collateral in a trust. In the second quarter of 2013, we sold our claim against Lehman Re to an unrelated third party including the reinsurance recoverable and terminated the reinsurance arrangement. Upon the sale of the claim and termination of the arrangement, we released the related allowance thereby reducing other general and administrative expenses by $27.4 million ($42.2 million pretax) and recognized a $4.7 million ($7.2 million pretax) gain on the sale in fees and other revenue.

17. Discontinued Products

Prior to 1993, we sold single-premium annuities (“SPAs”) and guaranteed investment contracts (“GICs”), primarily to employer sponsored pension plans. In 1993, we discontinued selling these products to Large Case Pensions customers, and now we refer to these products as discontinued products.

We discontinued selling these products because they were generating losses for us, and we projected that they would continue to generate losses over their life (which is currently greater than 30 years for SPAs); so we established a reserve for anticipated future losses at the time of discontinuance. This reserve represents the present value (at the risk-free rate of return at the time of discontinuance, consistent with the duration of the liabilities) of the difference between the expected cash flows from the assets supporting these products and the cash flows expected to be required to meet the obligations of the outstanding contracts. As of September 30, 2013, our remaining GIC liability was not material.

Key assumptions in setting the reserve for anticipated losses include future investment results, payments to retirees, mortality and retirement rates and the cost of asset management and customer service. In 2012, we modified the mortality tables used in order to reflect a more up-to-date 2000 Retired Pensioner’s Mortality table. The mortality tables were previously modified in 1995, in order to reflect a more up-to-date 1994 Uninsured Pensioner's Mortality table. In 1997, we began the use of a bond default assumption to reflect historical default experience. Other than these changes, since 1993 there have been no significant changes to the assumptions underlying the reserve.

We review the adequacy of this reserve quarterly based on actual experience. As long as our expected future losses remain consistent with prior projections, the results of the discontinued products are applied against the reserve and do not impact net income. If actual or expected future losses are greater than we currently estimate, we may increase the reserve, which could adversely impact net income. If actual or expected future losses are less than we currently estimate, we may decrease the reserve, which could favorably impact net income. As a result of this review, $55.9 million ($86.0 million pretax) of the reserve was released in the nine months ended September 30, 2013. This reserve release was primarily due to favorable investment performance as well as favorable retirement experience compared to assumptions we previously made in estimating the reserve. The reserve at each of September 30, 2013 and December 31, 2012 reflects management's best estimate of anticipated future losses, and is included in future policy benefits on our balance sheet.

The activity in the reserve for anticipated future losses on discontinued products for the nine months ended September 30, 2013 and 2012 (pretax) was as follows:

(Millions)	2013	2012
Reserve, beginning of period	$978.5	$896.3
Operating loss	(8.5)	(5.1)
Net realized capital gains	73.7	55.2
Reserve reduction	(86.0)	—

Reserve, end of period	$957.7	$946.4

During the nine months ended September 30, 2013, our discontinued products reflected net realized capital gains, primarily attributable to gains from other invested assets and from the sale of debt securities. We evaluated these results against expectations of future cash flows assumed in estimating the reserve and do not believe that an adjustment to the reserve was required at September 30, 2013.

Assets and liabilities supporting discontinued products at September 30, 2013 and December 31, 2012 were as follows: (1)

(Millions)	2013	2012
Assets:		
Debt and equity securities available for sale	$2,326.9	$2,515.3
Mortgage loans	407.2	448.6
Other investments	690.9	711.6
Total investments	3,425.0	3,675.5
Other assets	101.0	79.2
Collateral received under securities loan agreements	151.0	3.8
Current and deferred income taxes	25.2	19.3
Receivable from continuing products (2)	525.1	556.0
Total assets	$4,227.3	$4,333.8
Liabilities:		
Future policy benefits	$2,795.3	$2,857.6
Policyholders' funds	—	6.6
Reserve for anticipated future losses on discontinued products	957.7	978.5
Collateral payable under securities loan agreements	151.1	3.8
Other liabilities (3)	323.2	487.3
Total liabilities	$4,227.3	$4,333.8

(1) Assets supporting the discontinued products are distinguished from assets supporting continuing products.

(2) At the time of discontinuance, a receivable from Large Case Pensions' continuing products was established on the discontinued products balance sheet. This receivable represented the net present value of anticipated cash shortfalls in the discontinued products, which will be funded from continuing products. Interest on the receivable is accrued at the discount rate that was used to calculate the reserve. The offsetting payable, on which interest is similarly accrued, is reflected in continuing products. Interest on the payable generally offsets investment income on the assets available to fund the shortfall. These amounts are eliminated in consolidation.

(3) Net unrealized capital gains on the available-for-sale debt securities are included in other liabilities and are not reflected in consolidated shareholders’ equity.

The distributions on our discontinued products consisted of scheduled contract maturities, settlements and benefit payments of $98 million and $296 million for the three and nine months ended September 30, 2013, respectively, and $99 million and $300 million for the three and nine months ended September 30, 2012, respectively. Participant-directed withdrawals from our discontinued products were not significant during the three or nine months ended September 30, 2013 or 2012. Cash required to fund these distributions was provided by earnings and scheduled payments on, and sales of, invested assets.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Aetna Inc.:

We have reviewed the accompanying consolidated balance sheet of Aetna Inc. and subsidiaries as of September 30, 2013, the related consolidated statements of income and comprehensive income for the three and nine month periods ended September 30, 2013 and 2012, and the related consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aetna Inc. and subsidiaries as of December 31, 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 19, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Hartford, Connecticut
October 29, 2013

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

OVERVIEW

We are one of the nation's leading diversified health care benefits companies, serving an estimated 44 million people with information and resources to help them in consultation with their health care professionals make better informed decisions about their health care. We offer a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, group life and disability plans and medical management capabilities, Medicaid health care management services, workers' compensation administrative services and health information technology products and services, including emerging businesses products and services, such as Accountable Care Solutions. On May 7, 2013 (the "Effective Date"), we completed the acquisition of Coventry Health Care, Inc. ("Coventry"). The acquisition enhances the scope and geographic breadth of our Health Care products. Our customers include employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers ("providers"), governmental units, government-sponsored plans, labor groups and expatriates. Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions.

The following MD&A provides a review of our financial condition at September 30, 2013 and December 31, 2012 and operating results for the three and nine months ended September 30, 2013 and 2012. We completed our acquisition of Coventry on May 7, 2013. As a result, Coventry's results after that date are reflected in our results for the three and nine months ended September 30, 2013, which significantly affects the comparability of those results to the three and nine months ended September 30, 2012. This Overview should be read in conjunction with the entire MD&A, which contains detailed information that is important to understanding our operating results and financial condition, the consolidated financial statements and other data presented in this Quarterly Report on Form 10-Q as well as the MD&A contained in our 2012 Annual Report on Form 10-K (the "2012 Annual Report"). This Overview is qualified in its entirety by the full MD&A.

Summarized Results for the Three and Nine Months Ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Revenue:				
Health Care	$12,299.8	$8,260.4	$31,970.2	$24,692.2
Group Insurance	573.7	537.1	1,747.6	1,605.7
Large Case Pensions	162.1	119.8	394.1	372.3
Total revenue	13,035.6	8,917.3	34,111.9	26,670.2
Net income attributable to Aetna	518.6	499.2	1,544.7	1,467.8
Operating earnings: (1)				
Health Care	585.8	531.8	1,637.8	1,444.2
Group Insurance	19.7	29.3	80.8	116.2
Large Case Pensions	6.2	3.7	16.2	13.4
Cash flows from operations			1,654.6	1,279.9

(1) Our discussion of operating results for our reportable business segments is based on operating earnings, which is a non-GAAP measure of net income attributable to Aetna (the term "GAAP" refers to U.S. generally accepted accounting principles). Refer to "Segment Results and Use of Non-GAAP Measures in this Document" beginning on page 42 for a discussion of non-GAAP measures. Refer to pages 44, 48 and 49 for a reconciliation of operating earnings to net income attributable to Aetna for Health Care, Group Insurance and Large Case Pensions, respectively.

Our business segment operating earnings in aggregate increased for the three and nine months ended September 30, 2013 compared to the corresponding periods in 2012. The increase in our business segment operating earnings for the three months ended September 30, 2013 is due to the acquisition of Coventry in May 2013 partially offset by lower underwriting margins primarily in our underlying Medicare and Group Life businesses. The increase in our business segment operating earnings for the nine months ended September 30, 2013 is primarily due to the acquisition of Coventry in May 2013, as well as higher underwriting margins in our underlying Commercial Health Care business.

Total revenue increased during the three and nine months ended September 30, 2013 compared to the corresponding periods in 2012 primarily due to higher Commercial, Medicare and Medicaid Health Care premiums from the acquisition of Coventry as well as growth in our underlying Medicare membership and higher premium rates in our underlying Commercial business.

As a result of the acquisition of Coventry, we acquired approximately 3.8 million medical members. At September 30, 2013, we served approximately 22.2 million medical members (consisting of approximately 39% Insured members and 61% administrative services contract (“ASC”) members), 14.2 million dental members and 14.1 million pharmacy benefit management services members. At September 30, 2012, we served approximately 18.2 million medical members (consisting of approximately 32% Insured members and 68% ASC members), 13.6 million dental members and 8.8 million pharmacy benefit management services members.

We continued to generate strong cash flows from operations in 2013 and 2012, generating \$1.9 billion and \$1.5 billion of cash flows from operations in our Health Care and Group Insurance businesses during the nine months ended September 30, 2013 and 2012, respectively. During 2013, these cash flows contributed to funding the acquisition of Coventry, our ordinary course operating activities, the repayment of \$700 million of commercial paper, the payment of cash dividends to shareholders and repurchases of shares of our common stock. We paid dividends to our shareholders of \$205 million and \$181 million during the nine months ended September 30, 2013 and 2012, respectively. In addition, we repurchased 16 million and 21 million shares of common stock under our share repurchase programs at a cost of approximately \$958 million and \$925 million during the nine months ended September 30, 2013 and 2012, respectively. On the Effective Date, we issued an aggregate of approximately 52.2 million shares of common stock to holders of Coventry common stock in connection with our acquisition of Coventry. Refer to “Liquidity and Capital Resources” beginning on page 53 and Note 12 of Condensed Notes to Consolidated Financial Statements on page 29 for additional information.

Acquisition of Coventry Health Care, Inc.

On August 19, 2012, we entered into a definitive agreement (as amended, the “Merger Agreement”) to acquire Coventry. On the Effective Date, we completed the acquisition of Coventry in a transaction valued at approximately \$8.7 billion, including \$1.8 billion fair value of Coventry's outstanding long-term debt. Coventry is a diversified managed health care company that offers a full portfolio of risk and fee-based products, including Medicare Advantage and Medicare Part D programs, Medicaid managed care plans, group and individual health insurance, coverage for specialty services such as workers' compensation administrative services, and network rental services.

Pursuant to the terms of the Merger Agreement, by and among Aetna, Jaguar Merger Subsidiary, Inc., a wholly-owned subsidiary of Aetna (“Merger Sub”), and Coventry, Merger Sub merged with and into Coventry (the “Merger”), with Coventry continuing as the surviving corporation and a wholly-owned subsidiary of Aetna.

Under the terms of the Merger Agreement, Coventry stockholders received \$27.30 in cash and 0.3885 of an Aetna common share for each share of Coventry common stock (including restricted shares but excluding shares held by Coventry as treasury stock) outstanding at the effective time of the Merger. As a result, on the Effective Date, we issued approximately 52.2 million common shares with a fair value of approximately \$3.1 billion and paid approximately \$3.8 billion in cash in exchange for all of the outstanding shares of Coventry common stock and outstanding awards. Substantially all of Coventry's outstanding equity awards vested and were paid out in cash and canceled in connection with the Merger. We funded the cash portion of the purchase price with a combination of \$2.0 billion of long-term debt issued in November 2012, approximately \$700 million of commercial paper issued in 2013 and approximately $1.1 billion of available cash on hand.

The Coventry acquisition adds medical membership, which we expect will continue to enhance our diversified portfolio, increases our presence in government programs, which is an important element of our growth strategy, and improves our positioning and reach in health insurance exchange-based businesses.

In connection with the acquisition of Coventry, on March 31, 2013, we completed the sale of our Missouri Medicaid business, Missouri Care, Incorporated ("Missouri Care"), to WellCare Health Plans, Inc. The sale price was not material and did not have a material impact on our financial position or operating results.

Management Updates

On June 14, 2013, we announced that Francis S. Soistman would succeed Kristi Ann Matus as Executive Vice President, Government Services, and Ms. Matus would be leaving the Company effective July 5, 2013. On July 25, 2013, in connection with her departure, Ms. Matus and the Company entered into a separation agreement, the principal terms of which are described in Part II, Item 5 of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013.

Health Care Reform

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, "Health Care Reform") has changed and will continue to make broad-based changes to the U.S. health care system which could significantly affect the U.S. economy and we expect will continue to significantly impact our business operations and financial results, including our pricing and medical benefit ratios. Health Care Reform presents us with new business opportunities, but also with new financial and regulatory challenges. It is reasonably possible that Health Care Reform, in the aggregate, could have a material adverse effect on our business operations and financial results.

Key components of the legislation will continue to be phased in over the next several years, with the most significant changes during that time due to occur in 2014, including health insurance exchanges (also known as health insurance marketplaces) ("Insurance Exchanges"), Medicare minimum medical loss ratios ("MLRs"), the individual coverage mandate, guaranteed issue, rating limits in the individual and small group markets, and new industry-wide fees, assessments and taxes. We are dedicating and will continue to be required to dedicate material resources and incur material expenses during that time to implement and comply with Health Care Reform as well as state level health care reform. While the federal government has issued a number of regulations implementing Health Care Reform, many significant parts of the legislation, including aspects of Medicaid expansion, employer penalties, fees and taxes, reinsurance, risk transfer, risk adjustment and the implementation of Medicare Advantage and Part D minimum MLRs have not yet been fully implemented and may require further guidance and clarification at the federal level and/or in the form of regulations and actions by state legislatures to implement the law. As a result, many of the impacts of Health Care Reform will not be known for several years, and given the inherent difficulty of foreseeing how individuals and businesses will respond to the choices afforded them by Health Care Reform, we cannot predict the full effect Health Care Reform will have on us.

On October 1, 2013, Insurance Exchanges became available for consumers to access and begin the enrollment process for coverage beginning January 1, 2014. Aetna currently has chosen to participate in ten individual exchanges on a statewide basis and on individual exchanges in an additional seven states on a limited basis.

In addition, because we partially priced certain Health Care Reform fees into our 2013 renewals with member months in 2014, we experienced a temporary operating earnings benefit in 2013. We expect this benefit to be lower in 2014.

On June 28, 2012, the U.S. Supreme Court issued a decision that generally upheld the constitutionality of Health Care Reform. However, federal budget negotiations, pending efforts in the U.S. Congress to amend or restrict funding for various aspects of Health Care Reform and the possibility of additional litigation challenging aspects of the law continue to create additional uncertainty about the ultimate impact of Health Care Reform.

The Supreme Court decision also permits states to opt out of the elements of Health Care Reform requiring expansion of Medicaid coverage in January 2014 without losing their current federal Medicaid funding, and governors in over a dozen states have indicated that they oppose Medicaid expansion in their states. The ruling also creates uncertainty regarding the effectiveness of Health Care Reform's “maintenance of effort” (“MOE”) provision. If states are not subject to the MOE provision and allow certain programs to expire or choose to opt out of Medicaid expansion, we could experience reduced Medicaid enrollment or reduced Medicaid enrollment growth. We cannot predict whether pending or future federal or state legislation or court proceedings will change various aspects of Health Care Reform or state level health care reform, nor can we predict the impact those changes will have on our business operations or financial results, but the effects could be materially adverse.

For additional information on Health Care Reform refer to “MD&A-Overview-Health Care Reform Legislation,” “Regulatory Environment” and “Forward-Looking Information/Risk Factors” in our 2012 Annual Report.

Segment Results and Use of Non-GAAP Measures in this Document

The following discussion of operating results is presented based on our reportable segments in accordance with the accounting guidance for segment reporting and consistent with our segment disclosure included in Note 15 of Condensed Notes to Consolidated Financial Statements beginning on page 34. Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions. The acquired Coventry operations after the Effective Date are reflected in our Health Care segment for the three and nine months ended September 30, 2013. Our Corporate Financing segment is not a business segment; it is added to our business segments to reconcile to our consolidated results. The Corporate Financing segment includes interest expense on our outstanding debt and the financing components of our pension and other postretirement benefit plans (“OPEB”) expense (the service cost and prior service cost components of this expense are allocated to our business segments).

Our discussion of our operating results is based on operating earnings, which is the measure reported to our Chief Executive Officer for purposes of assessing financial performance and making operating decisions, such as allocating resources among our businesses. Operating earnings exclude from net income attributable to Aetna reported in accordance with GAAP, net realized capital gains or losses as well as other items, if any, that neither relate to the ordinary course of our business nor reflect our underlying business performance. Although the excluded items may recur, we believe excluding them from net income to arrive at operating earnings provides more meaningful information about our underlying business performance. Net realized capital gains and losses arise from various types of transactions, primarily in the course of managing a portfolio of assets that support the payment of liabilities; however, these transactions do not directly relate to the underwriting or servicing of products for our customers and are not directly related to the core performance of our business operations. In each business segment discussion in this MD&A, we provide a table that reconciles operating earnings to net income attributable to Aetna. Each table details the net realized capital gains or losses and any other items excluded from net income, and the footnotes to each table describe the nature of each other item and why we believe it is appropriate to exclude that item from net income.

HEALTH CARE

Health Care consists of medical, pharmacy benefit management services, dental, behavioral health and vision plans offered on both an Insured basis and an ASC basis and emerging businesses products and services, such as ACS, that complement and enhance our medical products. Medical products include point-of-service ("POS"), preferred provider organization ("PPO"), health maintenance organization ("HMO") and indemnity benefit plans. Medical products also include health savings accounts ("HSAs") and Aetna HealthFund®, consumer-directed health plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account (which may be funded by the plan sponsor and/or the member in the case of HSAs). We also offer Medicare and Medicaid products and services, and other medical products, such as medical management and data analytics services, medical stop loss insurance, workers' compensation administrative services and products that provide access to our provider networks in select markets. We separately track premiums and health care costs for Medicare and Medicaid products; all other medical, dental and other Health Care products are referred to as Commercial. We refer to insurance products (where we assume all or a majority of the risk for medical and dental care costs) as "Insured" and administrative services contract products (where the plan sponsor assumes all or a majority of the risk for medical and dental care costs) as "ASC."

Operating Summary for the Three and Nine Months Ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Premiums:				
Commercial	$6,553.6	$5,266.2	$17,835.6	$15,645.9
Medicare	3,220.4	1,525.4	8,114.9	4,731.3
Medicaid	1,251.2	455.2	2,561.8	1,224.9
Total premiums	11,025.2	7,246.8	28,512.3	21,602.1
Fees and other revenue	1,203.5	925.9	3,230.7	2,796.3
Net investment income	74.1	71.8	227.7	230.6
Net realized capital (losses) gains	(3.0)	15.9	(.5)	63.2
Total revenue	12,299.8	8,260.4	31,970.2	24,692.2
Health care costs	9,161.9	5,847.7	23,548.3	17,613.5
Operating expenses:				
Selling expenses	327.9	249.5	903.8	755.5
General and administrative expenses	1,881.1	1,296.8	4,990.7	3,916.9
Total operating expenses	2,209.0	1,546.3	5,894.5	4,672.4
Amortization of other acquired intangible assets	64.2	33.0	146.2	105.6
Total benefits and expenses	11,435.1	7,427.0	29,589.0	22,391.5
Income before income taxes	864.7	833.4	2,381.2	2,300.7
Income taxes	314.9	301.1	873.8	824.9
Net income including non-controlling interests	549.8	532.3	1,507.4	1,475.8
Less: Net income (loss) attributable to non-controlling interests	.7	—	(2.7)	.3
Net income attributable to Aetna	$549.1	$532.3	$1,510.1	$1,475.5

The table presented below reconciles net income attributable to Aetna to operating earnings for the three and nine months ended September 30, 2013 and 2012:

(Millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Net income attributable to Aetna	$549.1	$532.3	$1,510.1	$1,475.5
Transaction and integration-related costs, net of tax [1]	34.4	10.0	126.4	10.0
Net realized capital losses (gains), net of tax	2.3	(10.5)	1.3	(41.3)
Operating earnings	$585.8	$531.8	$1,637.8	$1,444.2

(1) During the three and nine months ended September 30, 2013, we incurred transaction and integration-related costs related to the acquisition of Coventry of $34.6 million ($51.2 million pretax) and $140.6 million ($189.6 million pretax), respectively, of which $34.4 million ($50.8 million pretax) and $126.4 million ($167.7 million pretax), respectively, were recorded in the Health Care segment. In the third quarter of 2012, we incurred transaction-related costs of $12.5 million ($13.8 million pretax) related to the acquisition of Coventry, of which $10.0 million were not tax deductible and were recorded in the Health Care segment. Transaction costs include advisory, legal and other professional fees which are not deductible for tax purposes and are reflected in our GAAP Consolidated Statements of Income in general and administrative expenses. Transaction costs also include transaction-related payments as well as expenses related to the negative cost of carry associated with the permanent financing that we obtained in November 2012 for the Coventry acquisition. Prior to the Effective Date, the negative cost of carry associated with the permanent financing was excluded from operating earnings. The components of the negative cost of carry are reflected in our GAAP Consolidated Statements of Income in interest expense, net investment income, and general and administrative expenses. On and after the Effective Date, the interest expense and general and administrative expenses associated with the permanent financing are no longer excluded from operating earnings. These are other items because they neither relate to the ordinary course of our business nor reflect our underlying business performance.

Operating earnings increased for the three and nine months ended September 30, 2013 compared to the corresponding periods in 2012. The increase in operating earnings for the three months ended September 30, 2013 is due to the acquisition of Coventry in May 2013 partially offset by lower underwriting margins primarily in our underlying Medicare business. The increase in operating earnings for the nine months ended September 30, 2013 is primarily due to the acquisition of Coventry in May 2013, as well as higher underwriting margins in our underlying Commercial business.

We calculate our medical benefit ratio (“MBR”) by dividing health care costs by health care premiums. For the three and nine months ended September 30, 2013 and 2012, our MBRs by product were as follows:

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Commercial	80.5%	79.6%	79.5%	80.4%
Medicare	87.8%	82.5%	88.2%	83.3%
Medicaid	84.9%	87.6%	86.0%	89.6%
Total	83.1%	80.7%	82.6%	81.5%

Refer to our discussion of Commercial and Medicare results below for an explanation of the changes in our MBRs.

Commercial operating results for the three and nine months ended September 30, 2013 reflect an increase in membership from the Coventry acquisition.

Commercial premiums increased approximately $1.3 billion and $2.2 billion for the three and nine months ended September 30, 2013, respectively, compared to the corresponding periods in 2012, as a result of the acquisition of Coventry. Commercial premiums also increased during the nine months ended September 30, 2013 as a result of higher premium rates in our underlying business.

Our Commercial MBR was 80.5% and 79.5% for the three and nine months ended September 30, 2013, compared to 79.6% and 80.4% for the corresponding periods in 2012, relatively flat year over year for the three and nine months ended September 30, 2013 and 2012. Our Commercial MBR for the three months ended September 30, 2013 includes the impact of lower than projected medical cost trends driven primarily by lower than projected utilization of medical services, which resulted in favorable development of prior periods' health care cost estimates, primarily attributable to 2013 performance. The improvement in our Commercial MBR for the nine months ended September 30, 2013 is due to the impact of increased favorable development of prior-years' health care cost estimates in 2013. Refer to "Critical Accounting Estimates – Health Care Costs Payable" in our 2012 Annual Report for a discussion of Health Care Costs Payable at December 31, 2012.

Medicare operating results for the three and nine months ended September 30, 2013 reflect an increase in membership, primarily from the Coventry acquisition, offset by lower underwriting margins in our underlying business compared to the corresponding periods in 2012.
Medicare premiums increased approximately $1.7 billion and $3.4 billion for the three and nine months ended September 30, 2013, respectively, compared to the corresponding periods in 2012. For the three and nine months ended September 30, 2013, the increase is primarily due to the addition of Coventry membership and higher premium from underlying membership growth.

Our Medicare MBR was 87.8% and 88.2% for the three and nine months ended September 30, 2013, respectively, compared to 82.5% and 83.3% for the corresponding periods in 2012. The increase in our Medicare MBR for both the three and nine month periods is primarily due to favorable 2012 experience being reflected in establishing customer premiums upon renewal in 2013 as well as underperformance in two specific Medicare product offerings and the impacts of sequestration on Medicare reimbursement rates.

Medicaid operating results for the three and nine months ended September 30, 2013 primarily reflect an increase in membership from the Coventry acquisition compared to the corresponding periods in 2012.
Medicaid premiums increased approximately $796 million and $1.3 billion for the three and nine months ended September 30, 2013, respectively, compared to the corresponding periods in 2012, as a result of the addition of Coventry membership as well as, in the nine months ended September 30, 2013, the favorable impact of in-state expansions and growth in high acuity populations in our underlying business.

Our Medicaid MBR was 84.9% and 86.0% for the three and nine months ended September 30, 2013, respectively, compared to 87.6% and 89.6% for the corresponding periods in 2012. The improvement in our Medicaid MBR for the three and nine months ended September 30, 2013 is primarily due to the inclusion of Coventry, which added geographies carrying relatively lower MBRs. The improvement in our Medicaid MBR for the nine months ended September 30, 2013 also reflects an increase in favorable development of prior years' health care cost estimates.

Fees and Other Revenue
Health Care fees and other revenue increased approximately $278 million and $434 million for the three and nine months ended September 30, 2013, respectively compared to the corresponding periods in 2012. The increase in both the three and nine month periods is primarily due to the acquisition of Coventry's service businesses.

General and Administrative Expenses
General and administrative expenses increased $584 million and $1.1 billion for the three and nine months ended September 30, 2013, respectively, compared with the corresponding periods of 2012, due primarily to the inclusion of general and administrative costs relating to Coventry as well as transaction and integration-related costs incurred for the Coventry acquisition which were partially offset by continued execution of our expense initiatives, including execution on our Coventry-related cost synergies.

Membership

Health Care's membership at September 30, 2013 and 2012 was as follows:

	2013			2012		
(Thousands)	Insured	ASC	Total	Insured	ASC	Total
Medical:						
Commercial	5,985	12,779	18,764	4,703	11,578	16,281
Medicare Advantage	961	—	961	443	—	443
Medicare Supplement	363	—	363	201	—	201
Medicaid	1,226	838	2,064	397	856	1,253
Total Medical Membership	8,535	13,617	22,152	5,744	12,434	18,178
Consumer-Directed Health Plans (1)			3,307			2,562
Dental:						
Total Dental Membership	5,488	8,727	14,215	4,932	8,676	13,608
Pharmacy:						
Commercial			10,124			8,028
Medicare PDP (stand-alone)			2,139			479
Medicare Advantage PDP			582			201
Medicaid			1,244			107
Total Pharmacy Benefit Management Services			14,089			8,815

(1) Represents members in consumer-directed health plans who also are included in Commercial medical membership above.

Total medical membership at September 30, 2013 increased compared to September 30, 2012, reflecting an increase of approximately 3.8 million medical members from the acquisition of Coventry as well as growth in our underlying Medicare businesses.

Total dental membership at September 30, 2013 increased compared to September 30, 2012 primarily reflecting an increase of 902 thousand members from the acquisition of Coventry which was partially offset by lapsed customers that exceeded new sales in our underlying Commercial Insured and ASC businesses.

Total pharmacy benefit management services membership increased at September 30, 2013 compared to September 30, 2012 primarily reflecting an increase of 4.1 million members from the acquisition of Coventry as well as growth across all lines of our underlying business, primarily our Commercial ASC and Medicaid businesses.

Health Care Costs Payable

The following table shows the components of the change in health care costs payable during the nine months ended September 30, 2013, 2012 and 2011:

(Millions)	2013	2012	2011
Health care costs payable, beginning of period	$2,992.5	$2,675.5	$2,630.9
Less: reinsurance recoverables	3.8	3.3	1.7
Health care costs payable, beginning of period, net	2,988.7	2,672.2	2,629.2
Acquisition of businesses	1,440.1	—	—
Add: Components of incurred health care costs:			
Current year	23,944.7	17,758.5	16,465.3
Prior years [(1)]	(396.4)	(145.0)	(405.0)
Total incurred health care costs	23,548.3	17,613.5	16,060.3
Less: Claims paid			
Current year	20,840.9	15,035.2	14,151.0
Prior years	2,567.7	2,308.4	2,031.1
Total claims paid	23,408.6	17,343.6	16,182.1
Disposition of business	(42.3)	—	—
Health care costs payable, end of period, net	4,526.2	2,942.1	2,507.4
Add: reinsurance recoverables	4.9	3.2	1.7
Health care costs payable, end of period	$4,531.1	$2,945.3	$2,509.1

(1) Negative amounts reported for incurred health care costs related to prior years result from claims being settled for less than originally estimated.

The acquisition of Coventry resulted in a $1.4 billion increase in health care costs payable at the Effective Date (refer to Note 3 of Condensed Notes to Consolidated Financial Statements beginning on page 7 for additional information).

Favorable development of prior years' health care costs payable estimates was approximately $396 million and $145 million during the nine months ended September 30, 2013 and 2012, respectively, and in 2013 includes Coventry favorable prior years' development since the Effective Date. The favorable development in estimated prior years' health care costs payable in each period primarily resulted from lower health care cost trends than we assumed in establishing our health care costs payable in the prior years. This development does not directly correspond to an increase in our current year operating results.

GROUP INSURANCE

Group Insurance primarily includes group life insurance and group disability products. Group life products are offered on an Insured basis and include basic and supplemental group term life, group universal life, supplemental or voluntary programs and accidental death and dismemberment coverage. Group disability products primarily consist of short-term and long-term disability insurance (and products which combine both), which are offered to employers on both an Insured and an ASC basis, and absence management services offered to employers, which include short-term and long-term disability administration and leave management. Group Insurance also includes long-term care products that were offered primarily on an Insured basis, which provide benefits covering the cost of care in private home settings, adult day care, assisted living or nursing facilities. We no longer solicit or accept new long-term care customers.

Operating Summary for the Three and Nine Months Ended September 30, 2013 and 2012:

(Millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Premiums:				
Life	$284.1	$270.3	$861.1	$799.0
Disability	188.2	157.8	553.6	467.3
Long-term care	11.1	11.3	33.7	34.5
Total premiums	483.4	439.4	1,448.4	1,300.8
Fees and other revenue	27.3	26.4	88.4	77.3
Net investment income	67.0	65.4	211.8	211.5
Net realized capital (losses) gains	(4.0)	5.9	(1.0)	16.1
Total revenue	573.7	537.1	1,747.6	1,605.7
Current and future benefits	450.8	397.9	1,327.1	1,156.9
Operating expenses:				
Selling expenses	26.0	23.3	79.5	65.0
General and administrative expenses	75.5	67.6	224.6	207.2
Reversal of allowance on reinsurance recoverable	—	—	(42.2)	—
Total operating expenses	101.5	90.9	261.9	272.2
Amortization of other acquired intangible assets	1.1	1.1	3.3	3.3
Total benefits and expenses	553.4	489.9	1,592.3	1,432.4
Income before income taxes	20.3	47.2	155.3	173.3
Income taxes	3.4	13.6	41.9	45.5
Net income including non-controlling interests	16.9	33.6	113.4	127.8
Less: Net (loss) income attributable to non-controlling interests	(.3)	.4	1.1	1.1
Net income attributable to Aetna	$17.2	$33.2	$112.3	$126.7

The table presented below reconciles net income attributable to Aetna to operating earnings for the three and nine months ended September 30, 2013 and 2012:

(Millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income attributable to Aetna	$17.2	$33.2	$112.3	$126.7
Reversal of allowance and gain on sale of reinsurance recoverable, net of tax [(1)]	—	—	(32.1)	—
Net realized capital losses (gains), net of tax	2.5	(3.9)	.6	(10.5)
Operating earnings	$19.7	$29.3	$80.8	$116.2

(1) In 2008, as a result of the liquidation proceedings of Lehman Re Ltd. (“Lehman Re”), a subsidiary of Lehman Brothers Holdings Inc., we recorded an allowance against our reinsurance recoverable from Lehman Re of $27.4 million ($42.2 million pretax). This reinsurance was placed in 1999 and was on a closed book of paid-up group whole life insurance business. In the second quarter of 2013, we sold our claim against Lehman Re to an unrelated third party including the reinsurance recoverable and terminated the reinsurance arrangement. Upon the sale of the claim and termination of the arrangement, we released the related allowance thereby reducing other general and administrative expenses by $27.4 million ($42.2 million pretax) and recognized a $4.7 million ($7.2 million pretax) gain on the sale in fees and other revenue. These are other items in the second quarter of 2013 because they neither relate to the ordinary course of our business nor reflect underlying 2013 business performance.

Operating earnings for the three and nine months ended September 30, 2013 declined when compared to the corresponding periods in 2012, primarily reflecting lower underwriting margins in our Group Life products due to higher claim incidence, partially offset by higher underwriting margins in our Disability products.

The group benefit ratio, which represents current and future benefits divided by premiums, was 93.3% and 91.6% for the three and nine months ended September 30, 2013, respectively, and 90.6% and 88.9%, respectively for the three and nine months ended September 30, 2012. The increase in our group benefit ratio in each period is primarily due to higher claims in our Group Life products.

LARGE CASE PENSIONS

Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax-qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services. The Large Case Pensions segment includes certain discontinued products.

Operating Summary for the Three and Nine Months Ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Premiums	$42.5	$42.7	$113.1	$126.4
Group annuity contract conversion premium [1]	54.1	—	54.1	—
Net investment income	68.9	79.0	230.6	239.5
Other revenue	2.3	2.6	7.0	8.1
Net realized capital losses	(5.7)	(4.5)	(10.7)	(1.7)
Total revenue	162.1	119.8	394.1	372.3
Current and future benefits	106.2	119.4	328.3	355.6
Benefit expense on group annuity contract conversion [1]	54.1	—	54.1	—
General and administrative expenses	3.0	3.0	9.4	9.3
Reduction of reserve for anticipated future losses on discontinued products	—	—	(86.0)	—
Total benefits and expenses	163.3	122.4	305.8	364.9
(Loss) income before income (benefits) taxes	(1.2)	(2.6)	88.3	7.4
Income taxes (benefits) expenses	(3.6)	(3.4)	23.2	(4.9)
Net income attributable to Aetna	$2.4	$.8	$65.1	$12.3

(1) In the third quarter of 2013, an existing group annuity contract converted from a participating to a non-participating contract. Upon conversion, we recorded $54.1 million of non-cash group annuity conversion premium for this contract and a corresponding $54.1 million non-cash benefit expense on group annuity conversion for this contract.

The table presented below reconciles net income attributable to Aetna to operating earnings for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Net income attributable to Aetna	$2.4	$.8	$65.1	$12.3
Reduction of reserve for anticipated future losses on discontinued products, net of tax [1]	—	—	(55.9)	—
Net realized capital losses, net of tax	3.8	2.9	7.0	1.1
Operating earnings	$6.2	$3.7	$16.2	$13.4

(1) In 1993, we discontinued the sale of our fully guaranteed large case pension products and established a reserve for anticipated future losses on these products, which we review quarterly. Changes in this reserve are recognized when deemed appropriate. In the second quarter of 2013, we reduced the reserve for anticipated future losses on

discontinued products by $55.9 million ($86.0 million pretax). We believe excluding any changes in the reserve for anticipated future losses on discontinued products from operating earnings provides more useful information as to our continuing products and is consistent with the treatment of the operating results of these discontinued products, which are credited or charged to the reserve and do not affect our operating results.

Discontinued Products

Prior to 1993, we sold single-premium annuities (“SPAs”) and guaranteed investment contracts (“GICs”), primarily to employer sponsored pension plans. In 1993, we discontinued selling these products to Large Case Pensions customers, and now we refer to these products as discontinued products.

We discontinued selling these products because they were generating losses for us, and we projected that they would continue to generate losses over their life (which is currently greater than 30 years for SPAs); so we established a reserve for anticipated future losses at the time of discontinuance. As of September 30, 2013, our remaining GIC liability was not material. We provide additional information on this reserve, including key assumptions and other important information, in Note 17 of Condensed Notes to Consolidated Financial Statements beginning on page 36.

The operating summary for Large Case Pensions above includes revenues and expenses related to our discontinued products, with the exception of net realized capital gains and losses which are recorded as part of current and future benefits. Since we established a reserve for future losses on discontinued products, as long as our expected future losses remain consistent with prior projections, the results of our discontinued products are applied against the reserve and do not impact net income for Large Case Pensions. If actual or expected future losses are greater than we currently estimate, we may increase the reserve, which could adversely impact net income. If actual or expected future losses are less than we currently estimate, we may decrease the reserve, which could favorably impact net income. In those cases, we disclose such adjustment separately in the operating summary. Management reviews the adequacy of the discontinued products reserve quarterly. As a result of this review $55.9 million ($86.0 million pretax) of the reserve was released in the nine months ended September 30, 2013. This reserve release was primarily due to favorable investment performance as well as favorable retirement experience compared to assumptions we previously made in estimating the reserve. The current reserve reflects management's best estimate of anticipated future losses, and is included in future policy benefits on our balance sheet.

The activity in the reserve for anticipated future losses on discontinued products for the nine months ended September 30, 2013 and 2012 (pretax) was as follows:

(Millions)	2013	2012
Reserve, beginning of period	$978.5	$896.3
Operating loss	(8.5)	(5.1)
Net realized capital gains	73.7	55.2
Reserve reduction	(86.0)	—
Reserve, end of period	$957.7	$946.4

During the nine months ended September 30, 2013, our discontinued products reflected net realized capital gains, primarily attributable to gains from other invested assets and from the sale of debt securities. We evaluated these results against expectations of future cash flows assumed in estimating the reserve and do not believe that an adjustment to the reserve was required at September 30, 2013.

INVESTMENTS

At September 30, 2013 and December 31, 2012 our investment portfolio consisted of the following:

(Millions)	September 30, 2013	December 31, 2012
Debt and equity securities available for sale	$19,258.9	$18,827.8
Mortgage loans	1,556.2	1,643.6
Other investments	1,719.9	1,448.7
Total investments	$22,535.0	$21,920.1

The risks associated with investments supporting experience-rated pension and annuity products in our Large Case Pensions business are assumed by the contract holders and not by us (subject to, among other things, certain minimum guarantees).

Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results. Our investment portfolio supported the following products at September 30, 2013 and December 31, 2012:

(Millions)	September 30, 2013	December 31, 2012
Experience-rated products	$1,572.8	$1,660.3
Discontinued products	3,425.0	3,675.5
Remaining products	17,537.2	16,584.3
Total investments	$22,535.0	$21,920.1

Assets supporting experience-rated products may be subject to contract holder or participant withdrawals. Experience-rated contract holder and participant-directed withdrawals for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2013	2012	2013	2012
Scheduled contract maturities and benefit payments [1]	$60.0	$59.0	$178.5	$176.9
Contract holder withdrawals other than scheduled contract maturities and benefit payments	2.0	.2	5.9	3.3
Participant-directed withdrawals	1.3	.6	2.8	1.7

(1) Includes payments made upon contract maturity and other amounts distributed in accordance with contract schedules.

Debt and Equity Securities

The debt securities in our investment portfolio had an average credit quality rating of A at both September 30, 2013 and December 31, 2012, with approximately $4.5 billion and $4.6 billion rated AAA at September 30, 2013 and December 31, 2012, respectively. The debt securities that were rated below investment grade (that is, having a credit quality rating below BBB-/Baa3) were $1.2 billion and $1.1 billion at September 30, 2013 and December 31, 2012, respectively, (of which 18% and 19% at September 30, 2013 and December 31, 2012, respectively, supported our experience-rated and discontinued products).

At September 30, 2013 and December 31, 2012, we held approximately $742 million and $694 million, respectively, of municipal debt securities that were guaranteed by third parties, representing approximately 3% of our total investments at each date. These securities had an average credit quality rating of A+ at both September 30, 2013 and December 31, 2012 with and without the guarantee. We do not have any significant concentration of investments with third party guarantors (either direct or indirect).

At September 30, 2013 and December 31, 2012, approximately 2% and 1%, respectively, of our investment portfolio was comprised of investments that were either European sovereign, agency, or local government debt or European corporate issuers of countries which, in our judgment based on an analysis of market-yields, are experiencing economic, fiscal or political strains such that the likelihood of default may be higher than if those factors did not exist.

We classify our debt and equity securities as available for sale, and carry them at fair value on our balance sheet. Approximately 1% of our debt and equity securities at both September 30, 2013 and December 31, 2012 were valued using inputs that reflect our own assumptions (categorized as Level 3 inputs in accordance with GAAP). Refer to Note 9 of Condensed Notes to Consolidated Financial Statements beginning on page 21 for additional information on the methodologies and key assumptions we use to determine the fair value of investments.

At September 30, 2013 and December 31, 2012, our debt and equity securities had net unrealized capital gains of $840 million and $1.9 billion, respectively, of which $257 million and $540 million, respectively, related to our experience-rated and discontinued products.

Refer to Note 7 of Condensed Notes to Consolidated Financial Statements beginning on page 14 for details of net unrealized capital gains and losses by major security type, as well as details on our debt securities with unrealized capital losses at September 30, 2013 and December 31, 2012. We regularly review our debt securities to determine if a decline in fair value below the carrying value is other-than-temporary. If we determine a decline in fair value is other-than-temporary, we will write down the carrying value of the security. The amount of the credit-related impairment is included in our operating results, and the non-credit component is included in other comprehensive income if we do not intend to sell the security. Accounting for other-than-temporary impairment of our debt securities is considered a critical accounting estimate. Refer to "Critical Accounting Estimates - Other-Than-Temporary Impairment of Debt Securities" in our 2012 Annual Report for additional information.

Net Realized Capital Gains and Losses

Net realized capital losses were $9 million ($13 million pretax) and $9 million ($12 million pretax) for the three and nine months ended September 30, 2013, respectively. Net realized capital gains were $12 million ($17 million pretax) and $51 million ($78 million pretax) for the three and nine months ended September 30, 2012, respectively. We had no individually material realized capital losses on debt or equity securities that impacted our operating results during the three or nine months ended September 30, 2013 or 2012.

Mortgage Loans

Our mortgage loan portfolio (which is collateralized by commercial real estate) represented approximately 7% of our total invested assets at both September 30, 2013 and December 31, 2012. There were no material impairment reserves on these loans at September 30, 2013 or December 31, 2012. Refer to Note 7 of Condensed Notes to Consolidated Financial Statements on page 14 for additional information on our mortgage loan portfolio.

Risk Management and Market-Sensitive Instruments

We manage interest rate risk by seeking to maintain a tight match between the durations of our assets and liabilities when appropriate. We manage credit risk by seeking to maintain high average credit quality ratings and diversified sector exposure within our debt securities portfolio. In connection with our investment and risk management objectives, we also use derivative financial instruments whose market value is at least partially determined by, among other things, levels of or changes in interest rates (short-term or long-term), duration, prepayment rates, equity markets or credit ratings/spreads. Our use of these derivatives is generally limited to hedging risk and has principally consisted of using interest rate swaps, forward contracts, futures contracts, warrants, put options and credit default swaps. These instruments, viewed separately, subject us to varying degrees of interest rate, equity price and credit risk. However, when used for hedging, we expect these instruments to reduce overall risk.

We regularly evaluate our risk from market-sensitive instruments by examining, among other things, levels of or changes in interest rates (short-term or long-term), duration, prepayment rates, equity markets or credit ratings/spreads. We also regularly evaluate the appropriateness of investments relative to our management-approved investment guidelines (and operate within those guidelines) and the business objectives of our portfolios.

On a quarterly basis, we review the impact of hypothetical net losses in our investment portfolio on our consolidated near-term financial position, operating results and cash flows assuming the occurrence of certain reasonably possible changes in near-term market rates and prices. Interest rate changes (whether resulting from changes in treasury yields or credit spreads) represent the most material risk exposure category for us. During 2013, we acquired Coventry which held approximately $2.2 billion of interest-sensitive investments and had issued $1.8 billion of long-term debt. Although the acquisition has increased our total exposure to changes in interest rates, we do not believe there has been a material change to the composition of these market risks since December 31, 2012. We have estimated the impact on fair value based on the net present value of cash flows using a representative set of likely future interest rate scenarios. The assumptions used were as follows: an immediate increase of 100 basis points in interest rates (which we believe represents a moderately adverse scenario and is approximately equal to the historical annual volatility of interest rate movements for our intermediate-term available-for-sale debt securities) and an immediate decrease of 15% in prices for domestic equity securities.

Assuming an immediate 100 basis point increase in interest rates and immediate decrease of 15% in the prices for domestic equity securities, the theoretical decline in the fair values of our market sensitive instruments was $631 million ($971 million pretax) at September 30, 2013.

- Approximately $411 million ($633 million pretax) was the result of the theoretical reduction of the fair value of our long-term debt. Changes in the fair value of our long-term debt do not impact our financial position or operating results.

- The remaining $220 million ($338 million pretax) was from the theoretical reduction in the fair value of our investment securities partially offset by the theoretical reduction in the value of interest rate sensitive liabilities. Reductions in the fair value of our investment securities would be reflected as an unrealized loss in equity, as we classify these securities as available for sale. We do not record our liabilities at fair value.

Based on our overall exposure to interest rate risk and equity price risk, we believe that these changes in market rates and prices would not materially affect our consolidated near-term financial position, operating results or cash flows as of September 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We meet our operating cash requirements by maintaining liquidity in our investment portfolio, using overall cash flows from premiums, fees and other revenue, deposits and income received on investments, and issuing commercial paper from time to time. We monitor the duration of our investment portfolio of highly marketable debt securities and mortgage loans, and execute purchases and sales of these investments with the objective of having adequate funds available to satisfy our maturing liabilities. Overall cash flows are used primarily for claim and benefit payments, contract withdrawals, operating expenses, share and debt repurchases, shareholder dividends and to fund acquisitions. We have committed short-term borrowing capacity of $2.0 billion through a revolving credit facility agreement that expires in March 2018.

Presented below is a condensed statement of cash flows for the nine months ended September 30, 2013 and 2012. On May 7, 2013, we completed the acquisition of Coventry, which is reflected in our cash flows for the nine months ended September 30, 2013. We present net cash flows used for operating activities and net cash flows provided by investing activities separately for our Large Case Pensions segment because changes in the insurance reserves for the Large Case Pensions segment (which are reported as cash used for operating activities) are funded from the sale of investments (which are reported as cash provided by investing activities). Refer to the Consolidated Statements of Cash Flows on page 5 for additional information.

(Millions)	2013	2012
Cash flows from operating activities		
Health Care and Group Insurance	$1,906.9	$1,454.1
Large Case Pensions	(252.3)	(174.2)
Net cash provided by operating activities	1,654.6	1,279.9
Cash flows from investing activities		
Health Care and Group Insurance	(1,354.7)	(569.1)
Large Case Pensions	208.5	100.5
Net cash used for investing activities	(1,146.2)	(468.6)
Net cash used for financing activities	(1,005.2)	(852.8)
Net decrease in cash and cash equivalents	$(496.8)	$(41.5)

Cash Flow Analysis

Cash flows provided by operating activities for Health Care and Group Insurance were approximately $1.9 billion and $1.5 billion for the nine months ended September 30, 2013 and September 30, 2012, respectively. The increase during the nine months ended September 30, 2013 compared with the corresponding period in 2012 is primarily attributable to the termination of a reinsurance arrangement with Lehman Re and sale of the related claim, the timing of certain payments, as well as the inclusion of results from the acquisition of Coventry, offset somewhat by transaction and integration-related costs associated with the Coventry acquisition (Refer to Note 16 of the Condensed Notes to Consolidated Financial Statements on page 35 for more information on this reinsurance agreement).

Cash flows used for investing activities were approximately $1.1 billion and $469 million for the nine months ended September 30, 2013 and 2012, respectively. The increase in cash used for the nine months ended September 30, 2013 compared with the corresponding period in 2012 is primarily attributable to cash used to fund the acquisition of Coventry, net of the cash acquired in connection with the acquisition, partially offset by an increase in net proceeds from sales and maturities of investments.

During the nine months ended September 30, 2013 and 2012, our cash flows used for financing activities reflect the repurchase of approximately 16 million and 21 million shares of common stock at a cost of approximately $958 million and $925 million, respectively. At September 30, 2013, the capacity remaining under our share repurchase authorizations was approximately $1 billion. Refer to Note 12 of the Condensed Notes to Consolidated Financial Statements on page 29 for more information on our share repurchases. In May 2012, we issued $250 million of 1.75% senior notes due in 2017 and $500 million of 4.5% senior notes due in 2042, which provided us with cash proceeds of $720.4 million after underwriting fees and other offering expenses, and being issued at a discount.

During the nine months ended September 30, 2013 our Board of Directors (our “Board”) declared the following cash dividends:

Date Declared	Dividend Amount Per Share	Stockholders of Record Date	Date Paid/ To be Paid	Total Dividends (Millions)
February 19, 2013	$.20	April 11, 2013	April 26, 2013	$65.2
May 17, 2013	.20	July 11, 2013	July 26, 2013	74.4

September 27, 2013	.20	October 10, 2013	October 25, 2013	73.6

Page 54

Declaration and payment of future dividends is at the discretion of our Board and may be adjusted as business needs or market conditions change.

Revolving Credit Facility

On March 27, 2012, we entered into an unsecured $1.5 billion five-year revolving credit agreement (the “Credit Agreement”) with several financial institutions. On September 24, 2012, and in connection with the acquisition of Coventry, we entered into a First Amendment (the “First Amendment”) to the Credit Agreement and also entered into an Incremental Commitment Agreement (the “Incremental Commitment”, and together with the First Amendment and the Credit Agreement, resulting in the “Facility”). The Facility is an unsecured $2.0 billion revolving credit agreement. Upon our agreement with one or more financial institutions, we may expand the aggregate commitments under the Facility to a maximum of $2.5 billion. The Facility also provides for the issuance of up to $200 million of letters of credit at our request, which count as usage of the available commitments under the Facility. On March 27, 2013, the maturity date of the Facility was extended by one year to March 27, 2018.

Various interest rate options are available under the Facility. Any revolving borrowings mature on the termination date of the Facility. We pay facility fees on the Facility ranging from .070% to .150% per annum, depending upon our long-term senior unsecured debt rating. The facility fee was .100% at September 30, 2013. The Facility contains a financial covenant that requires us to maintain a ratio of total debt to consolidated capitalization as of the end of each fiscal quarter at or below 50%. For this purpose, consolidated capitalization equals the sum of total shareholders’ equity, excluding any overfunded or underfunded status of our pension and OPEB plans and any net unrealized capital gains and losses, and total debt (as defined in the Facility). We met this requirement at September 30, 2013. There were no amounts outstanding under the Facility at any time during the nine months ended September 30, 2013.

Other Liquidity Information

From time to time, we use short-term commercial paper borrowings to address timing differences between cash receipts and disbursements. At both September 30, 2013 and December 31, 2012, we did not have any commercial paper outstanding. The maximum amount of commercial paper borrowings outstanding during the nine months ended September 30, 2013 was $700 million, issued to finance a portion of the cash purchase price for the acquisition of Coventry.

Our total long-term debt increased by approximately $1.8 billion as a result of the acquisition of Coventry, which includes $216.6 million to adjust the Coventry long-term debt to its estimated fair value.

Our debt to capital ratio (calculated as the sum of all short- and long-term debt outstanding (“total debt”) divided by the sum of total Aetna shareholders’ equity plus total debt) was approximately 38% at September 30, 2013. Following the announcement of our agreement to acquire Coventry in August 2012, each of A.M. Best, Fitch and Moody’s placed certain of our debt, financial strength and other credit ratings under review for possible downgrade and S&P affirmed certain of our ratings and revised its outlook to stable from positive. Following the closing of the Coventry acquisition, and consistent with our expectations, Moody's downgraded our long-term debt and financial strength ratings. Also following the close of the Coventry acquisition, Fitch affirmed certain of our ratings and revised its outlook to negative from stable and A.M. Best affirmed certain of our ratings and maintained a stable outlook. Separately, after a review of Aetna under its new ratings criteria, S&P revised the outlook on certain of Aetna's ratings to positive from stable. These rating and outlook actions included the consideration of our intention to lower our debt to capital ratio to approximately 35% over the two years following the closing of the Coventry acquisition. We continually monitor existing and alternative financing sources to support our capital and liquidity needs, including, but not limited to, debt issuance, preferred or common stock issuance, reinsurance and pledging or selling of assets.

Interest expense was $86 million and $247 million for the three and nine months ended September 30, 2013, respectively, and $69 million and $192 million for the three and nine months ended September 30, 2012, respectively.

Refer to Note 11 of Condensed Notes to Consolidated Financial Statements beginning on page 28 for additional information on our short-term and long-term debt.

Other Common Stock Transactions
On May 24, 2013, approximately .5 million restricted stock units ("RSUs") were granted to certain employees.

On February 1, 2013, we granted approximately .5 million performance stock units, 1.1 million market stock units and 1.1 million RSUs to certain employees. Refer to Note 12 of Condensed Notes to Consolidated Financial Statements on page 29 for additional information.

Contractual Obligations
The following table summarizes certain estimated future obligations by period under our various contractual obligations at September 30, 2013. The table below does not include all future obligations by period, and only represents those future obligations that have changed materially from those presented in our 2012 Annual Report as a result of the acquisition of Coventry. We believe that funds from future operating cash flows, together with cash, investments and other funds available under the Facility or from public or private financing sources, will be sufficient to meet our existing commitments as well as our liquidity needs associated with future operations, including our strategic growth initiatives.

(Millions)	2013	2014 - 2015	2016 - 2017	Thereafter	Total
Long-term debt obligations, including interest	$134.0	$1,341.4	$2,497.2	$8,802.7	$12,775.3
Operating lease obligations	42.0	258.1	141.8	103.8	545.7
Purchase obligations	49.0	269.1	108.9	2.4	429.4
Total	$225.0	$1,868.6	$2,747.9	$8,908.9	$13,750.4

CRITICAL ACCOUNTING ESTIMATES

Refer to "Critical Accounting Estimates" in our 2012 Annual Report for information on accounting policies that we consider critical in preparing our Consolidated Financial Statements. These policies include significant estimates we make using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used, and these estimates may not ultimately reflect the actual amounts of the final transactions that occur.

REGULATORY ENVIRONMENT

Except as set forth below, there were no material changes in the regulation of our business since December 31, 2012. Refer to the "Regulatory Environment" section in our 2012 Annual Report for information on the regulation of our business.

Medicare
Since 2005, we have generally expanded the Medicare markets we serve and Medicare products we offer. During 2013 we further expanded our Medicare business as a result of the completion of the Coventry acquisition and are seeking to substantially grow our Medicare business over the next several years. The expansion of the Medicare markets we serve and Medicare products we offer and the Medicare-related provisions of Health Care Reform increase our exposure to changes in government policy with respect to and/or regulation of the various Medicare programs in which we participate, including changes in the amounts payable to us under those programs and/or new reforms or surcharges on existing programs. For example, on April 1, 2013, CMS published final Medicare Advantage and prescription drug program ("PDP") premium rates for 2014. These rates reflect a material reduction in 2014 premiums compared to 2013 for Medicare Advantage and PDP plans which is in addition to the challenge we

face from the impact of the industry-wide health insurer fee that will become effective January 1, 2014. The final 2014 rates represent a meaningful revenue and operating results challenge for us and other Medicare Advantage and PDP plans. We cannot predict future Medicare funding levels or ensure that changes in Medicare funding will not have an adverse effect on our Medicare operating results.

In addition, under the Budget Control Act of 2011 (the "BCA") and the American Taxpayer Relief Act of 2012 (the "ATRA"), automatic across-the-board budget cuts (also known as "sequestration"), including Medicare spending cuts of not more than 2% of total program costs per year for nine years, started in March 2013. The ATRA also contained additional reductions to Medicare reimbursements to health plans that commenced in April 2013. Subject to the terms of our contracts with providers and CMS guidance, we are exploring strategies to mitigate the adverse impact of these cuts and/or any related Congressional action. Sequestration or entitlement program reform could have a material adverse effect on our business, operations or operating results, particularly on our Medicare revenues, medical benefit ratio and operating results.

FORWARD-LOOKING INFORMATION/RISK FACTORS

Certain information in this MD&A is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that are outside our control and could cause actual future results to differ materially from those statements. You should not place undue reliance on forward-looking statements, and we disclaim any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

The following information supplements the Forward Looking Information/Risk Factors portion of our 2012 Annual Report. You should read that section of our 2012 Annual Report and the information below carefully because each of them contains a discussion of important risk factors that could adversely affect our business as well as the market price for our common stock.

Certain Risks of Aetna's Business

We are subject to funding and other risks with respect to revenue received from our participation in Medicare programs.
The federal government from time to time alters the level of funding for government health care programs, including Medicare. For example, on April 1, 2013, CMS published final Medicare Advantage and PDP premium rates for 2014. These rates reflect a material reduction in 2014 premiums compared to 2013 for Medicare Advantage and PDP plans which is in addition to the challenge we face from the impact of the industry-wide health insurer fee that will become effective January 1, 2014. The final 2014 rates represent a meaningful revenue and operating results challenge for us and other Medicare Advantage and PDP plans. We cannot predict future Medicare funding levels or ensure that changes in Medicare funding will not have an adverse effect on our Medicare operating results.

In addition, under the BCA and the ATRA, sequestration, including Medicare spending cuts of not more than 2% of total program costs per year for nine years, started in March 2013. The ATRA also contained additional reductions to Medicare reimbursements to health plans that commenced in April 2013. Sequestration or entitlement program reform could have a material adverse effect on our business, operations or operating results, particularly on our Medicare revenues, medical benefit ratio and operating results.

Our ability to anticipate medical cost trends and achieve appropriate pricing on Insurance Exchanges could affect our operating results. There can be no assurance that the future health care benefit costs and membership of our Insurance Exchange products will not deviate from our projections.
Unanticipated increases in our Insurance Exchange product health care benefit costs could adversely affect our operating results. Coverage under Insurance Exchange products is expected to commence on January 1, 2014, and initial enrollment in these products is ongoing. Neither we nor other companies have prior experience with pricing Insurance Exchange products or utilization of medical and/or other covered services by Insurance Exchange product members. We have set premium rates for our Insurance Exchange products based on our projections, including as to

the health status and quantity of Insurance Exchange membership, utilization of medical and/or other covered services by Insurance Exchange product members and the Insurance Exchange open enrollment period ending on March 31, 2014. The premium rates for our Insurance Exchange products are set in advance and fixed for one-year periods. As a result, health care benefit costs in excess of the health care benefit cost projections reflected in our Insurance Exchange product pricing cannot be recovered in the fixed premium period through higher premiums; however, in certain circumstances, Federal risk adjustment mechanisms, including risk adjustment payments, risk corridors and reinsurance, could help offset health care benefit costs in excess of our projections. Even with these protections, the profitability of our Insurance Exchange products is particularly sensitive to the accuracy of our forecasts of increases in health care benefit costs we expect to occur during the fixed premium period. Those forecasts were made several months before the fixed premium period will begin, required a significant degree of judgment and are dependent on our ability to detect medical cost trends as well as the accuracy of our projections used in setting our Insurance Exchange product premium rates. There can be no assurance regarding the accuracy of the health care benefit cost, membership or other projections reflected in our Insurance Exchange product pricing. This risk is magnified by the technical difficulties applicants encounter in utilizing Insurance Exchanges and the potential for legislation or regulations that cause Insurance Exchanges to operate in a manner different than what we projected in setting our Insurance Exchange product premium rates. For additional information on certain of the medical cost trend, pricing and economic conditions risks associated with our Insurance Exchange and other Health Care products, see "Our ability to anticipate and detect medical cost trends and achieve appropriate pricing affects our operating results, and our business and operating results may continue to be adversely affected by prevailing economic conditions. There can be no assurance that the future health care and other benefit costs will not deviate from our projections." in the "Forward-Looking Information/Risk Factors" portion of our 2012 Annual Report.

Programs funded by the United States federal government account for a substantial portion of our revenue and earnings. A delay by Congress in raising the federal government's debt ceiling could lead to a delay, reduction, suspension or cancellation of federal government spending and a significant increase in interest rates that could, in turn, have a material adverse effect on our businesses, operating results and cash flows.

The federal government's "debt ceiling", or the amount of debt the federal government is permitted to borrow to meet its legal obligations (including, among other things, interest on the national debt, Medicare and Medicaid premiums, Social Security benefits and contributions to the Federal Employees Health Benefits Program), is limited by statute and can only be raised by an act of Congress.

After several weeks of contentious negotiations leading up to the date the federal government's current obligations were expected to exceed its cash on hand and incoming receipts, Congress recently extended the federal government's borrowing capacity until February 7, 2014. It is reasonably possible that Congress will not act to raise the debt ceiling on or before February 7, 2014.

If Congress does not raise the debt ceiling on or before February 7, 2014, or if the federal government's current obligations approach or exceed its cash on hand and incoming receipts, federal government spending may be subject to delay, reduction, suspension or cancellation. A significant portion of our revenues are derived from health care coverage programs that are funded in whole or in part by the federal government, including the Medicare, Medicaid, and dual eligible programs, the Children's Health Insurance Program and the Federal Employees Health Benefits Program and subsidies for qualified individuals and families purchasing health insurance through public exchanges. If federal spending is delayed, suspended or curtailed, we would continue to receive claims from providers providing services to beneficiaries of these programs, and we could be liable for, and be required to fund, such claims. Furthermore, the terms of our disability products often provide that the benefits due to beneficiaries are reduced by the amount of certain federal benefits they receive, most notably Social Security Disability Insurance payments. If such payments are suspended due to a failure to timely raise the debt ceiling, our disability payment obligations would be increased accordingly. If beneficiaries subsequently receive such payments from the federal government, we would seek reimbursement or attempt to offset a portion of such payments against future disability benefit payments. We may not be successful in recovering the amount sought. Accordingly, a failure to timely raise the debt ceiling could have a material adverse effect on our businesses, operating results, cash flows and reputation and, in the case of a prolonged failure to raise the debt ceiling, our financial condition.

If the United States defaults on its obligations due to a failure to timely raise the debt ceiling or otherwise, or its credit rating is downgraded by any of the credit rating agencies, interest rates could rise, financial markets could become volatile and/or the availability of credit (and short-term credit in particular) could be adversely affected,

thereby increasing our borrowing costs and/or negatively impacting the value of our investment portfolio, which could have a material adverse effect on our operating results, financial condition and cash flows and could adversely affect our liquidity.

Certain Risks relating to Coventry.

As a result of the completion of our acquisition of Coventry, we are subject to the risks described in Part I, Item 1A in Coventry's Annual Report on Form 10-K for the year ended December 31, 2012 and filed with the SEC on February 27, 2013, and the risks described in Part II, Item 1A in Coventry's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 and filed with the SEC on May 1, 2013, each incorporated by reference into this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Although the acquisition of Coventry has increased our total exposure to changes in interest rates, we do not believe there has been a material change to the composition of our exposures to market risk since December 31, 2012. Refer to the information contained in the “Risk Management and Market-Sensitive Instruments” section of the MD&A beginning on page 52 for a discussion of our exposures to market risk.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information that we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2013 was conducted under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of September 30, 2013 were effective and designed to ensure that material information relating to Aetna Inc. and its consolidated subsidiaries would be made known to the Chief Executive Officer and Chief Financial Officer by others within those entities, particularly during the periods when periodic reports under the Exchange Act are being prepared. Refer to the Certifications by our Chief Executive Officer and Chief Financial Officer filed as Exhibits 31.1 and 31.2 to this report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation of such control that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The information contained in Note 14 of Condensed Notes to Consolidated Financial Statements, beginning on page 30 is incorporated herein by reference.

Item 1A. Risk Factors

The information contained under the heading "Forward-Looking Information/Risk Factors" in the MD&A, beginning on page 57 is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about our monthly share repurchases, all of which were purchased as part of a publicly-announced program, for the three months ended September 30, 2013:

Issuer Purchases of Equity Securities

(Millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2013 - July 31, 2013	—	$—	—	$630.0
August 1, 2013 - August 31, 2013	2.8	63.49	2.8	454.0
September 1, 2013 - September 30, 2013	2.4	65.63	2.4	1,047.0
Total	5.2	$64.48	5.2	N/A

Our Board authorized three separate share repurchase programs on September 27, 2013, February 19, 2013 and July 27, 2012. Each repurchase program authorized us to repurchase up to $750 million of our common stock. During the three months ended September 30, 2013, we repurchased approximately 5 million shares of common stock at a cost of approximately $333 million. At September 30, 2013, we had remaining authorization to repurchase an aggregate of up to approximately $1 billion of common stock under the September 27, 2013 and February 19, 2013 programs.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 6. Exhibits

Exhibits to this Form 10-Q are as follows:

10	Material Contracts
10.1	Amendment No. 1, dated as of August 4, 2013, to Amended and Restated Employment Agreement dated October 19, 2010 between Aetna Inc. and Mark T. Bertolini, incorporated herein by reference to Exhibit 10.1 to Aetna Inc.'s Current Report on Form 8-K filed on August 5, 2013. *
11	Statements re: computation of per share earnings
11.1	Computation of per share earnings is incorporated herein by reference to Note 4 of Condensed Notes to Consolidated Financial Statements, beginning on page 11 in this Form 10-Q.
12	Statements re: computation of ratios
12.1	Computation of ratio of earnings to fixed charges.
15	Letter re: unaudited interim financial information
15.1	Letter from KPMG LLP acknowledging awareness of the use of a report dated October 29, 2013 related to their review of interim financial information.
31	Rule 13a-14(a)/15d-14(a) Certifications
31.1	Certification.
31.2	Certification.
32	Section 1350 Certifications
32.1	Certification.
32.2	Certification.
99	Other Exhibits
99.1	Risk Factors of Coventry Health Care, Inc., incorporated by reference to Exhibit 99.2 to Aetna's Quarterly Report on Form 10-Q filed July 30, 2013.
101	XBRL Documents
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.

101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

* Management contract or compensatory plan or arrangement.

SIGNATURES

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.

Aetna Inc.
Registrant

Date: October 29, 2013	By		/s/ Rajan Parmeswar Rajan Parmeswar Vice President, Controller and Chief Accounting Officer

INDEX TO EXHIBITS

Exhibit Number	Description	Filing Method
12	Statements re: computation of ratios	
12.1	Computation of ratio of earnings to fixed charges.	Electronic
15	Letter re: unaudited interim financial information	
15.1	Letter from KPMG LLP acknowledging awareness of the use of a report dated October 29, 2013 related to their review of interim financial information.	Electronic
31	Rule 13a-14(a)/15d-14(a) Certifications	
31.1	Certification.	Electronic
31.2	Certification.	Electronic
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