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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

for the transition period from _____ to _____

Commission file number 1-08323

Cigna Corporation

(Exact name of registrant as specified in its charter)

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

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

(860) 226-6000

Registrant s telephone number, including area code

(860) 226-6741

Registrant s facsimile number, including area code

Not Applicable

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

Indicate by check mark		**YES**		**NO**
• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.		R		o
• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).		R		o
• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.				
Large accelerated filer R	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o	Emerging growth company o
• If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o				
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).		o		R

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

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Cigna Corporation

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

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Part I. *FINANCIAL INFORMATION*

Item 1. *FINANCIAL STATEMENTS*

Cigna Corporation

Consolidated Statements of Income

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

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

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

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Cigna Corporation

Consolidated Statements of Comprehensive Income

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

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

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Cigna Corporation

Consolidated Balance Sheets

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

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

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

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

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

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

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

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

For the six months ended June 30, 2016 *(In millions)*	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Treasury Stock	Shareholders Equity	Other non-controlling Interests	Total Equity	Redeemable Non-controlling Interests
Balance at January 1, 2016	$ 74	$ 2,859	$ (1,250)	$ 12,121	$ (1,769)	$ 12,035	$ 9	$ 12,044	$ 69
Effect of issuing stock for employee benefit plans		31		(94)	80	17		17	
Other comprehensive income			406			406		406	2
Net income (loss)				1,029		1,029	(9)	1,020	(3)
Common dividends declared (per share: $0.04)				(10)		(10)		(10)	
Repurchase of common stock					(110)	(110)		(110)	
Other transactions impacting noncontrolling interests		(11)				(11)	8	(3)	3
BALANCE AT JUNE 30, 2016	**$ 74**	**$ 2,879**	**$ (844)**	**$ 13,046**	**$ (1,799)**	**$ 13,356**	**$ 8**	**$ 13,364**	**$ 71**

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

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Cigna Corporation

Consolidated Statements of Cash Flows

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

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

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

CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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Note 1 Description of Business

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

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

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

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

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

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

Other Operations consist of:

- corporate-owned life insurance (COLI);

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

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

- run-off settlement annuity business.

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

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Note 2 Significant Accounting Policies

Basis of Presentation

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

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

Recent Accounting Pronouncements

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

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

Recently Adopted Accounting Guidance

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

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Recently Issued Accounting Guidance Not Yet Adopted

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

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

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Note 3 Mergers and Acquisitions

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

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

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

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

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

Acquisitions

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

Note 4 Earnings Per Share

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

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

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

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

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

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

Note 5 Debt

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

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

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

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

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

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

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

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

Note 6 Global Health Care Medical Costs Payable

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

Activity in medical costs payable was as follows:

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

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

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

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

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

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

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

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

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

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

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

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

Note 7 Liabilities for Unpaid Claims and Claim Expenses

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

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

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

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

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