

CIGNA CORP
Form 10-Q
October 30, 2014
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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 September 30, 2014

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

*(State or other jurisdiction of incorporation or
organization)*

900 Cottage Grove Road Bloomfield, Connecticut

06-1059331

(I.R.S. Employer Identification No.)

06002

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(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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. 			
Large accelerated filer R	Accelerated filer O	Non-accelerated filer O	Smaller Reporting Company O
<ul style="list-style-type: none"> whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 		O	R

As of October 15, 2014, 261,578,645 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 September 30,		Unaudited Nine Months Ended September 30,	
	2014	2013	2014	2013
<i>(In millions, except per share amounts)</i>				
Revenues				
Premiums and fees	\$ 7,793	\$ 7,206	\$ 23,167	\$ 21,692
Net investment income	292	297	863	873
Mail order pharmacy revenues	583	471	1,625	1,333
Other revenues	66	65	201	139
Realized investment gains (losses):				
Other-than-temporary impairments on fixed maturities	(9)	(3)	(10)	(11)
Other realized investment gains, net	32	30	140	203
Total realized investment gains, net	23	27	130	192
Total revenues	8,757	8,066	25,986	24,229
Benefits and Expenses				
Global Health Care medical claims expense	4,153	3,913	12,403	11,864
Other benefit expenses	1,207	1,031	3,473	3,890
Mail order pharmacy costs	499	390	1,382	1,096
Other operating expenses	2,080	1,933	6,156	5,739
Total benefits and expenses	7,939	7,267	23,414	22,589
Income before Income Taxes	818	799	2,572	1,640

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Income taxes (benefits):				
Current	289	205	928	285
Deferred	(2)	41	12	237
Total income taxes	287	246	940	522
Net Income	531	553	1,632	1,118
Less: Net Income (Loss) Attributable to Noncontrolling Interests	(3)	-	(3)	3
Shareholders' Net Income	\$ 534	\$ 553	\$ 1,635	\$ 1,115
Shareholders' Net Income Per Share:				
Basic	\$ 2.04	\$ 1.99	\$ 6.16	\$ 3.96
Diluted	\$ 2.01	\$ 1.95	\$ 6.05	\$ 3.89
Dividends Declared Per Share	\$ -	\$ -	\$ 0.04	\$ 0.04

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

[Table of Contents](#)**Cigna Corporation****Consolidated Statements of Comprehensive Income**

(In millions)	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2014	2013	2014	2013
Shareholders' net income	\$ 534	\$ 553	\$ 1,635	\$ 1,115
Shareholders' other comprehensive income (loss):				
Net unrealized appreciation (depreciation) on securities:				
Fixed maturities	(49)	(7)	141	(348)
Equity securities	-	(7)	(1)	(5)
Net unrealized appreciation (depreciation), on securities	(49)	(14)	140	(353)
Net unrealized appreciation (depreciation), derivatives	6	(2)	6	7
Net translation of foreign currencies	(113)	59	(78)	(15)
Postretirement benefits liability adjustment	10	12	33	73
Shareholders' other comprehensive income (loss)	(146)	55	101	(288)
Shareholders' comprehensive income	388	608	1,736	827
Comprehensive income attributable to noncontrolling interests:				
Net income (loss) attributable to redeemable noncontrolling interests	(2)	-	3	3
Net (loss) attributable to other noncontrolling interest	(1)	-	(6)	-
Other comprehensive (loss) attributable to redeemable noncontrolling interests	(6)	(6)	(6)	(15)
Other comprehensive income attributable to other noncontrolling interest	-	-	1	-
Total comprehensive income	\$ 379	\$ 602	\$ 1,728	\$ 815

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

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Cigna Corporation

Consolidated Balance Sheets

	Unaudited	
	As of September 30, 2014	As of December 31, 2013
<i>(In millions, except per share amounts)</i>		
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost, \$17,171; \$15,273)	\$ 18,797	\$ 16,486
Equity securities, at fair value (cost, \$196; \$146)	190	141
Commercial mortgage loans	2,058	2,252
Policy loans	1,436	1,485
Real estate	62	97
Other long-term investments	1,365	1,273
Short-term investments	153	631
Total investments	24,061	22,365
Cash and cash equivalents	1,621	2,795
Accrued investment income	272	247
Premiums, accounts and notes receivable, net	2,574	1,991
Reinsurance recoverables	7,086	7,299
Deferred policy acquisition costs	1,501	1,395
Property and equipment	1,494	1,464
Deferred tax assets, net	19	92
Goodwill	6,003	6,029
Other assets, including other intangibles	2,440	2,407
Separate account assets	8,582	8,252
Total assets	\$ 55,653	\$ 54,336
Liabilities		
Contractholder deposit funds	\$ 8,438	\$ 8,470
Future policy benefits	9,573	9,306
Unpaid claims and claim expenses	4,400	4,298
Global Health Care medical claims payable	2,230	2,050
Unearned premiums and fees	602	580
Total insurance and contractholder liabilities	25,243	24,704
Accounts payable, accrued expenses and other liabilities	5,415	5,456
Short-term debt	121	233
Long-term debt	5,024	5,014
Separate account liabilities	8,582	8,252
Total liabilities	44,385	43,659
Contingencies Note 16		
Redeemable noncontrolling interests	93	96
Shareholders' Equity		
Common stock (par value per share, \$0.25; shares issued, 366; authorized, 600)	92	92
Additional paid-in capital	3,409	3,356
Net unrealized appreciation, fixed maturities	\$ 614	\$ 473
Net unrealized appreciation, equity securities	3	4
Net unrealized depreciation, derivatives	(13)	(19)
Net translation of foreign currencies	4	82
Postretirement benefits liability adjustment	(1,027)	(1,060)
Accumulated other comprehensive loss	(419)	(520)
Retained earnings	15,196	13,676

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Less treasury stock, at cost	(7,121)	(6,037)
Total shareholders' equity	11,157	10,567
Noncontrolling interest	18	14
Total equity	11,175	10,581
Total liabilities and equity	\$ 55,653	\$ 54,336
Shareholders' Equity Per Share	\$ 42.45	\$ 38.35

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

Table of Contents**Cigna Corporation****Consolidated Statements of Changes in Total Equity**

Unaudited For the three months ended September 30, 2014 (In millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Non- controlling Interest	Total Equity	Redeemable Non- controlling Interests
Balance at July 1, 2014	\$ 92	\$ 3,405	\$ (273)	\$ 14,677	\$ (6,964)	\$ 10,937	\$ 15	\$ 10,952	\$ 99
Effect of issuing stock for employee benefit plans		8		(15)	42	35		35	
Other comprehensive (loss)			(146)			(146)		(146)	(6)
Net income (loss)				534		534	(1)	533	(2)
Repurchase of common stock					(199)	(199)		(199)	
Capital contribution by noncontrolling interest		(4)				(4)	4	-	2
Balance at September 30, 2014	\$ 92	\$ 3,409	\$ (419)	\$ 15,196	\$ (7,121)	\$ 11,157	\$ 18	\$ 11,175	\$ 93

For the three months ended September 30, 2013 (In millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Non- controlling Interest	Total Equity	Redeemable Non- controlling Interest
Balance at July 1, 2013	\$ 92	\$ 3,326	\$ (1,014)	\$ 12,806	\$ (5,435)	\$ 9,775	\$ -	\$ 9,775	\$ 101
Effect of issuing stock for employee benefit plans		18		(32)	64	50		50	
Other comprehensive income (loss)			55			55		55	(6)
Net income				553		553		553	-
Repurchase of common stock					(559)	(559)		(559)	
Balance at September 30, 2013	\$ 92	\$ 3,344	\$ (959)	\$ 13,327	\$ (5,930)	\$ 9,874	\$ -	\$ 9,874	\$ 95

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 nine months ended September 30, 2014 (In millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Non- controlling Interest	Total Equity	Redeemable Non- controlling Interests
Balance at January 1, 2014	\$ 92	\$ 3,356	\$ (520)	\$ 13,676	\$ (6,037)	\$ 10,567	\$ 14	\$ 10,581	\$ 96
Effect of issuing stock for employee benefit plans		57		(104)	172	125		125	
Other comprehensive income (loss)			101			101	1	102	(6)
Net income (loss)				1,635		1,635	(6)	1,629	3
Common dividends declared (per share: \$0.04)				(11)		(11)		(11)	
Repurchase of common stock					(1,256)	(1,256)		(1,256)	
Capital contribution by noncontrolling interest		(4)				(4)	9	5	4
Distribution to redeemable noncontrolling interest									(4)
Balance at September 30, 2014	\$ 92	\$ 3,409	\$ (419)	\$ 15,196	\$ (7,121)	\$ 11,157	\$ 18	\$ 11,175	\$ 93

For the nine months ended September 30, 2013 (In millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Non- controlling Interest	Total Equity	Redeemable Non- controlling Interest
Balance at January 1, 2013	\$ 92	\$ 3,295	\$ (671)	\$ 12,330	\$ (5,277)	\$ 9,769	\$ -	\$ 9,769	\$ 114
Effect of issuing stock for employee benefit plans		49		(107)	210	152		152	
Other comprehensive loss			(288)			(288)		(288)	(15)
Net income				1,115		1,115		1,115	3
Common dividends declared (per share: \$0.04)				(11)		(11)		(11)	
Repurchase of common stock					(863)	(863)		(863)	
Distribution to redeemable noncontrolling interest									(7)
Balance at September 30, 2013	\$ 92	\$ 3,344	\$ (959)	\$ 13,327	\$ (5,930)	\$ 9,874	\$ -	\$ 9,874	\$ 95

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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

<i>(In millions)</i>	Unaudited Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 1,632	\$ 1,118
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	435	445
Realized investment gains	(130)	(192)
Deferred income taxes	12	237
Gains on sale of businesses	(11)	(11)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(574)	(64)
Reinsurance recoverables	49	348
Deferred policy acquisition costs	(138)	(183)
Other assets	(186)	368
Insurance liabilities	433	870
Accounts payable, accrued expenses and other liabilities	(39)	(524)
Current income taxes	53	(33)
Cash used to effectively exit run-off reinsurance business	-	(2,196)
Other, net	(64)	(76)
Net cash provided by operating activities	1,472	107
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	818	1,671
Equity securities	36	3
Investment maturities and repayments:		
Fixed maturities	1,285	1,192
Equity securities	-	27
Commercial mortgage loans	375	468
Other sales, maturities and repayments (primarily short-term and other long-term investments)	1,889	766
Investments purchased or originated:		
Fixed maturities	(3,953)	(1,580)
Equity securities	(74)	(56)
Commercial mortgage loans	(186)	(26)
Other (primarily short-term and other long-term investments)	(1,221)	(1,227)
Property and equipment purchases	(350)	(414)
Other, net	(24)	(84)
Net cash (used in) / provided by investing activities	(1,405)	740
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	1,154	1,078
Withdrawals and benefit payments from contractholder deposit funds	(1,129)	(1,029)
Change in cash overdraft position	20	9
Net change in short-term debt	(104)	(100)
Repayment of long-term debt	-	(7)
Repurchase of common stock	(1,256)	(836)
Issuance of common stock	93	132
Common dividends paid	(11)	(11)
Other, net	9	(7)
Net cash used in financing activities	(1,224)	(771)
Effect of foreign currency rate changes on cash and cash equivalents	(17)	1

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Net (decrease) / increase in cash and cash equivalents	(1,174)	77
Cash and cash equivalents, January 1,	2,795	2,978
Cash and cash equivalents, September 30,	\$ 1,621	\$ 3,055
Supplemental Disclosure of Cash Information:		
Income taxes paid, net of refunds	\$ 846	\$ 289
Interest paid	\$ 203	\$ 203

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

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CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

Cigna Corporation and its subsidiaries (either individually or collectively referred to as "Cigna", the Company, we, or our) is a global health services organization with a mission to help its customers improve their health, well-being and sense of security. Its insurance subsidiaries are major providers of medical, dental, disability, life and accident insurance and related products and services, the majority of which are offered through employers and other groups (e.g. governmental and non-governmental organizations, unions and associations). Cigna also offers Medicare and Medicaid products and health, life and accident insurance coverages primarily 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 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 have been 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 2013 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.

Beginning in the first quarter of 2014, the Company combined the results of its run-off reinsurance business with Other Operations for segment reporting purposes. Prior year information has been conformed to the current year presentation. See Note 15 for additional information.

Note 2 Recent Accounting Changes

Accounting for Health Care Reform's Risk Mitigation Programs. Beginning in 2014, as prescribed by the Patient Protection and Affordable Care Act (referred to as "Health Care Reform"), three programs went into effect to reduce the risk for participating health insurance companies selling coverage on the public exchanges.

- *A three-year (2014-2016) reinsurance program* is designed to provide reimbursement to insurers for high cost individual business sold on or off the public exchanges. The reinsurance entity established by the U.S. Department of Health and Human Services ("HHS") is funded by a per-customer reinsurance fee assessed on all commercial medical plans, including self-insured group health plans. Only non-grandfathered individual plans are eligible for recoveries if claims exceed a specified threshold, up to a reinsurance cap. Reinsurance contributions associated with non-grandfathered individual plans are reported as a reduction in premium revenue, and estimated reinsurance recoveries are established with an offsetting reduction in Global Health Care medical claims expense. Reinsurance fee contributions for other insured business are reported in other operating expenses.
- *A permanent risk adjustment program* reallocates funds from insurers with lower risk populations to insurers with higher risk populations based on the relative risk scores of participants in non-grandfathered plans in the individual and small group markets, both on and off the exchanges. Based on the risk of our members compared to the risk of other members in the same state and market, considering data obtained from industry studies, we estimate our year-to-date risk adjustment. The Company records a risk adjustment receivable or payable, with an offsetting adjustment to premium revenue when the amounts are reasonably estimable and collection is reasonably assured.
- *A three year (2014-2016) risk corridor program* is designed to limit insurer gains and losses by comparing allowable medical costs to a target amount as defined by HHS. This program applies to individual and small group qualified health plans, operating on and off the exchanges. Variances from the target amount exceeding certain thresholds may result in amounts due to or due from HHS. The Company records a risk corridor receivable or payable as an adjustment to premium revenue based on our year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured.

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Revenue from Contracts with Customers (Accounting Standards Update (ASU) 2014-09). In May 2014, the Financial Accounting Standards Board (FASB) issued new revenue recognition guidance that will apply to various contracts with customers to provide goods or services, including the Company's non-insurance, administrative services contracts. It will not apply to certain contracts within the scope of other GAAP, such as insurance contracts. This new guidance introduces a model that requires companies to estimate and allocate the expected contract revenue among distinct goods or services in the contract based on relative standalone selling prices. Revenue is recognized as goods or services are delivered. This new method replaces the current GAAP approach of recognizing revenue that is fixed and determinable primarily based on contract terms. In addition, extensive new disclosures will be required including the presentation of additional categories of revenues and information about related contract assets and liabilities. This new guidance must be implemented on January 1, 2017; early adoption is not permitted. The Company may choose to adopt these changes through retrospective restatement with or without using certain practical expedients or with a cumulative effect adjustment on adoption. The Company continues to monitor developing implementation guidance and evaluate these new requirements for its noninsurance customer contracts to determine the method of implementation and any resulting estimated effects on the financial statements.

Fees Paid to the Federal Government by Health Insurers (ASU 2011-06). Effective January 1, 2014, the Company adopted the FASB's accounting guidance for the health insurance industry assessment (the tax) mandated by Health Care Reform. This non-deductible tax is being levied based on a ratio of an insurer's net health insurance premiums written for the previous calendar year compared to the U.S. health insurance industry total. As required by the guidance, the Company reported a liability as of June 30, 2014 of \$245 million in accounts payable, accrued expenses and other liabilities based on a preliminary assessment of the full year 2014 tax. A corresponding deferred cost was reported in other assets, including other intangibles. In September 2014, the Company paid \$243 million for its 2014 tax and adjusted the corresponding deferred cost. Through September 30, 2014, \$182 million of the deferred cost was recognized in other operating expenses; the remainder will be recorded in the fourth quarter of 2014.

Investment Company Accounting (ASU 2013-08). Effective January 1, 2014, the Company adopted the FASB's amended accounting guidance to change the criteria for reporting as an investment company, clarify the fair value measurement used by an investment company and require additional disclosures. This guidance also confirms that parent company accounting for an investment company should reflect fair value accounting. While this guidance applies to certain of the Company's security and real estate partnership investments, its adoption did not have a material impact on the Company's financial statements.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI) (ASU 2013-02). Effective January 1, 2013, the Company adopted new requirements to disclose the effect of items reclassified out of AOCI into net income for each individual line item impacted in the statement of income. See Note 13 for the Company's disclosures.

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). The FASB's new requirements to disclose information related to certain investments on both a gross and net basis became effective January 1, 2013. The Company had no transactions or arrangements subject to these new disclosure requirements.

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Note 3 Earnings Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

<i>(Dollars in millions, except per share amounts)</i>	Basic	Effect of Dilution	Diluted
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