AETNA INC /PA/
Form 10-Q
November 03, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010
or

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

For the transition period from _________ to_________

Commission File Number: 1-16095

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 ¨ 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 ¨ 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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

There were 400.1 million shares of the registrant's voting common stock with a par value of $.01 per share outstanding at September 30, 2010.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2010

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 25), refer to Aetna Inc. (a Pennsylvania corporation) (“Aetna”) and its subsidiaries (collectively, the “Company”).

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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, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Revenue:				
Health care premiums	$ 6,908.9	$ 7,092.8	$ 20,719.2	$ 21,115.5
Other premiums	448.9	471.4	1,384.1	1,432.4
Fees and other revenue (1)	853.2	876.8	2,626.0	2,662.2
Net investment income	248.2	263.4	777.1	771.4
Net realized capital gains	79.6	18.0	199.7	26.4
Total revenue	8,538.8	8,722.4	25,706.1	26,007.9
Benefits and expenses:				
Health care costs (2)	5,649.3	6,069.6	16,998.9	17,976.2
Current and future benefits	480.9	514.5	1,488.6	1,521.6
Operating expenses:				
Selling expenses	304.8	312.2	928.8	938.5
General and administrative expenses	1,249.3	1,263.3	3,700.6	3,653.3
Total operating expenses	1,554.1	1,575.5	4,629.4	4,591.8
Interest expense	63.9	60.6	185.5	182.8
Amortization of other acquired intangible assets	23.4	23.9	72.0	72.9
Total benefits and expenses	7,771.6	8,244.1	23,374.4	24,345.3
Income before income taxes	767.2	478.3	2,331.7	1,662.6
Income taxes:				
Current	103.4	203.0	558.3	579.0
Deferred	166.2	(50.9)	222.2	(27.0)
Total income taxes	269.6	152.1	780.5	552.0
Net income	$ 497.6	$ 326.2	$ 1,551.2	$ 1,110.6
Earnings per common share:				
Basic	$ 1.21	$ .75	$ 3.67	$ 2.50
Diluted	$ 1.19	$ .73	$ 3.61	$ 2.46

(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 $22.3 million and $60.5 million (net of pharmaceutical and processing costs of $360.3 million and $1.1 billion) for the three and nine months ended September 30, 2010, respectively, and $27.4 million and $64.5 million (net of pharmaceutical and processing costs of $401.8 million and $1.2 billion) for the three and nine months ended September 30, 2009, respectively.

(2) Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of $36.2 million and $113.7 million for the three and nine months ended September 30, 2010, respectively, and $31.0 million and $91.0 million for the three and nine months ended September 30, 2009, respectively.

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

Consolidated Balance Sheets

(Millions)	(Unaudited) At September 30, 2010	At December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,795.5	$ 1,203.6
Investments	2,179.6	2,922.7
Premiums receivable, net	669.4	630.4
Other receivables, net	902.7	626.7
Accrued investment income	207.4	209.2
Collateral received under securities loan agreements	308.4	210.0
Income taxes receivable	108.7	89.5
Deferred income taxes	247.4	439.5
Other current assets	655.3	551.4
Total current assets	7,074.4	6,883.0
Long-term investments	18,429.5	17,051.1
Reinsurance recoverables	965.2	986.9
Goodwill	5,145.7	5,146.2
Other acquired intangible assets, net	518.7	590.7
Property and equipment, net	539.8	551.0
Deferred income taxes	251.2	277.3
Other long-term assets	772.1	781.1
Separate Accounts assets	5,454.0	6,283.1
Total assets	$ 39,150.6	$ 38,550.4
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	$ 2,653.6	$ 2,895.3
Future policy benefits	722.5	739.6
Unpaid claims	565.4	559.5
Unearned premiums	326.4	306.4
Policyholders' funds	871.9	788.3
Collateral payable under securities loan agreements	308.5	210.0
Short-term debt	235.4	480.8
Current portion of long-term debt	899.7	-
Accrued expenses and other current liabilities	2,422.9	2,380.0
Total current liabilities	9,006.3	8,359.9
Future policy benefits	6,344.4	6,470.1
Unpaid claims	1,483.8	1,453.0
Policyholders' funds	1,394.0	1,294.1
Long-term debt	3,482.3	3,639.5
Other long-term liabilities	1,989.2	1,546.9
Separate Accounts liabilities	5,454.0	6,283.1
Total liabilities	29,154.0	29,046.6

Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock ($.01 par value; 2.7 billion shares authorized; 400.1 million and 430.8 million shares issued and outstanding in 2010 and 2009, respectively) and additional paid-in capital	573.5	470.1
Retained earnings	10,784.7	10,256.7
Accumulated other comprehensive loss	(1,361.6)	(1,223.0)
Total shareholders' equity	9,996.6	9,503.8
Total liabilities and shareholders' equity	$39,150.6	$38,550.4

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

Consolidated Statements of Shareholders' Equity
(Unaudited)

(Millions)	Number of Common Shares Outstanding	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Comprehensive Income
Nine Months Ended September 30, 2010						
Balance at December 31, 2009	430.8	$ 470.1	$ 10,256.7	$ (1,223.0)	$ 9,503.8	
Comprehensive income:						
Net income	-	-	1,551.2	-	1,551.2	$ 1,551.2
Other comprehensive loss (Note 6):						
Net unrealized gains on securities	-	-	-	374.5	374.5	
Net foreign currency and derivative losses	-	-	-	(53.3)	(53.3)	
Pension and OPEB plans	-	-	-	(459.8)	(459.8)	
Other comprehensive loss	-	-	-	(138.6)	(138.6)	(138.6)
Total comprehensive income						$ 1,412.6
Common shares issued for benefit plans, including tax benefits	2.2	103.7	-	-	103.7	
Repurchases of common shares	(32.9)	(.3)	(1,007.1)	-	(1,007.4)	
Dividends declared	-	-	(16.1)	-	(16.1)	
Balance at September 30, 2010	400.1	$ 573.5	$ 10,784.7	$ (1,361.6)	$ 9,996.6	
Nine Months Ended September 30, 2009						
Balance at December 31, 2008	456.3	$ 351.2	$ 9,716.5	$ (1,881.3)	$ 8,186.4	
Cumulative effect of adopting new accounting standard at April 1, 2009 (Note 2)	-	-	53.7	(53.7)	-	
Comprehensive income:						

Net income	-	-	1,110.6	-	1,110.6	$ 1,110.6
Other comprehensive income (Note 6):						
Net unrealized gains on securities	-	-	-	692.0	692.0	
Net foreign currency and derivative gains	-	-	-	20.1	20.1	
Pension and OPEB plans	-	-	-	104.3	104.3	
Other comprehensive income	-	-	-	816.4	816.4	816.4
Total comprehensive income						$ 1,927.0
Common shares issued for benefit plans, including tax benefits	2.4	105.9	-	-	105.9	
Repurchases of common shares	(25.2)	(.3)	(661.7)	-	(662.0)	
Dividends declared	-	-	(17.3)	-	(17.3)	
Balance at September 30, 2009	433.5	$ 456.8	$ 10,201.8	$ (1,118.6)	$ 9,540.0	

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

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
(Millions)	2010	2009
Cash flows from operating activities:		
Net income	$ 1,551.2	$ 1,110.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(199.7)	(26.4)
Depreciation and amortization	313.3	306.8
Equity in earnings of affiliates, net	(9.6)	7.0
Stock-based compensation expense	85.9	81.1
Accretion of net investment discount	(20.0)	(54.6)
Changes in assets and liabilities:		
Accrued investment income	1.8	(9.2)
Premiums due and other receivables	(98.0)	(157.4)
Income taxes	206.0	20.2
Other assets and other liabilities	(588.7)	246.4
Health care and insurance liabilities	(398.5)	335.0
Other, net	2.9	(3.7)
Net cash provided by operating activities	846.6	1,855.8
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	8,796.4	7,714.8
Cost of investments	(8,324.9)	(7,934.3)
Additions to property, equipment and software	(217.1)	(259.4)
Cash used for acquisition, net of cash acquired	(.1)	(6.1)
Net cash provided by (used for) investing activities	254.3	(485.0)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net of issuance costs	697.8	-
Net repayment of short-term debt	(245.4)	(104.9)
Deposits and interest credited for investment contracts	4.5	4.9
Withdrawals of investment contracts	(8.1)	(8.1)
Common shares issued under benefit plans	12.1	10.4
Stock-based compensation tax benefits	4.2	9.6
Common shares repurchased	(932.4)	(657.2)
Collateral on interest rate swaps	(41.7)	25.1
Net cash used for financing activities	(509.0)	(720.2)
Net increase in cash and cash equivalents	591.9	650.6
Cash and cash equivalents, beginning of period	1,203.6	1,179.5
Cash and cash equivalents, end of period	$ 1,795.5	$ 1,830.1
Supplemental cash flow information:		
Interest paid	$ 156.4	$ 158.0
Income taxes paid	569.3	522.2

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 benefits management, dental 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). 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 specialty products, such as medical management and data analytics services, behavioral health plans and stop loss insurance, as well as products that provide access to our provider network in select markets.

- Group Insurance primarily includes group life insurance products offered on an Insured basis, including basic and supplemental group term life, group universal life, supplemental or voluntary programs and accidental death and dismemberment coverage. Group Insurance also includes (i) group disability products offered to employers on both an Insured and an ASC basis which consist primarily of short-term and long-term disability insurance, (ii) absence management services offered to employers, which include short-term and long-term disability administration and leave management, and (iii) 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, and we are working with our customers on an orderly transition of this product to other carriers.

- 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 14 beginning on page 23 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 2009 Annual Report on Form 10-K (our "2009 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 2009 Annual Report, unless the information contained in those disclosures materially changed or is required by GAAP. We have evaluated subsequent events from the balance sheet date 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 that we control. All significant intercompany balances have been eliminated in consolidation. Certain reclassifications have been made to the 2009 financial information to conform with the 2010 presentation.

New Accounting Standards
Variable Interest Entities
In June 2009, the Financial Accounting Standards Board ("FASB") released revised accounting guidance for variable interest entities ("VIEs"). This accounting guidance removes the quantitative-based risks-and-rewards calculation previously used to assess whether a company must consolidate a VIE and, instead, requires a variable interest holder to qualitatively assess whether it has a controlling financial interest in the VIE. This accounting guidance was effective on January 1, 2010. The adoption of this new accounting guidance did not impact our financial position or results of operations. Refer to Note 5 beginning on page 7 for additional information.

Recognition and Presentation of Other-Than-Temporary Impairments
Effective April 1, 2009, we adopted new accounting guidance issued by the FASB for other-than-temporary impairments ("OTTI") of debt securities. This guidance establishes new criteria for the recognition of OTTI on debt securities and also requires additional financial statement disclosure. The new criteria require OTTI on debt securities to be recognized if either we determine a credit-related loss has occurred or we have the intention to sell a security that is in an unrealized capital loss position. Refer to Note 5 beginning on page 7 for additional information.

Future Application of Accounting Standards
Deferred Acquisition Costs
In October 2010, the FASB released new accounting guidance for costs associated with acquiring or renewing insurance contracts. This guidance clarifies that such costs qualify for capitalization when affiliated with the successful acquisition of new and renewed insurance contracts. The new guidance is effective beginning January 1, 2012. Since acquisition costs related to our Health Care and Group Insurance products are expensed as incurred, this accounting guidance will not impact our financial position or results of operations.

3. 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 awards, but only if the effect is dilutive.

The computations of basic and diluted EPS for the three and nine months ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per common share data)	2010	2009	2010	2009
Net income	$497.6	$326.2	$1,551.2	$1,110.6
Weighted average shares used to compute basic EPS	412.7	436.0	422.3	443.8
Dilutive effect of outstanding stock-based compensation awards (1)	6.1	8.6	7.2	8.4
Weighted average shares used to compute diluted EPS	418.8	444.6	429.5	452.2

Basic EPS	$1.21	$.75	$3.67	$2.50
Diluted EPS	$1.19	$.73	$3.61	$2.46

(1) Approximately 18.6 million and 18.7 million stock appreciation rights (“SARs”) (with exercise prices ranging from $29.20 to $59.76), respectively, and approximately 5.7 million and 5.8 million stock options (with exercise prices ranging from $33.38 to $42.35) were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2010, respectively, and approximately 19.2 million and 19.3 million SARs (with exercise prices ranging from $25.94 to $59.76) and 6.2 million stock options (with exercise prices ranging from $33.38 to $42.35) were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2009, respectively, as their exercise prices were greater than the average market price of Aetna common shares during such periods.

4. Operating Expenses

For the three and nine months ended September 30, 2010 and 2009, 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)	2010	2009	2010	2009
Selling expenses	$ 304.8	$ 312.2	$ 928.8	$ 938.5
General and administrative expenses:				
Salaries and related benefits	761.6	755.8	2,292.3	2,209.3
Other general and administrative expenses (1)	487.7	507.5	1,408.3	1,444.0
Total general and administrative expenses	1,249.3	1,263.3	3,700.6	3,653.3
Total operating expenses	$ 1,554.1	$ 1,575.5	$ 4,629.4	$ 4,591.8

(1) Includes litigation-related insurance proceeds of $41.0 million and $131.0 million for the three and nine months ended September 30, 2010, respectively, and $38.2 million for the nine months ended September 30, 2009. Refer to the reconciliation of operating earnings to net income in Note 13 beginning on page 22 for additional information.

5. Investments

Total investments at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010			December 31, 2009		
(Millions)	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	$2,077.0	$15,787.0	$17,864.0	$2,834.8	$14,324.9	$17,159.7
Mortgage loans	95.4	1,423.4	1,518.8	86.1	1,507.9	1,594.0
Other investments	7.2	1,219.1	1,226.3	1.8	1,218.3	1,220.1
Total investments	$2,179.6	$18,429.5	$20,609.1	$2,922.7	$17,051.1	$19,973.8

Debt and Equity Securities

Debt and equity securities available for sale at September 30, 2010 and December 31, 2009 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
September 30, 2010					
Debt securities:					
U.S. government securities	$ 1,301.1	$ 132.1	$ (.4)		$ 1,432.8
States, municipalities and political subdivisions	2,302.2	139.2	(7.0)		2,434.4
U.S. corporate securities	6,775.4	802.4	(5.4)		7,572.4
Foreign securities	2,749.5	347.3	(6.7)		3,090.1
Residential mortgage-backed securities	1,200.7	63.4	(.3)	(1)	1,263.8
Commercial mortgage-backed securities	1,217.3	109.9	(24.7)	(1)	1,302.5
Other asset-backed securities	476.5	29.2	(4.1)	(1)	501.6
Redeemable preferred securities	225.9	12.4	(12.7)		225.6
Total debt securities	16,248.6	1,635.9	(61.3)		17,823.2
Equity securities	35.3	9.5	(4.0)		40.8
Total debt and equity securities (2)	$ 16,283.9	$ 1,645.4	$ (65.3)		$ 17,864.0
December 31, 2009					
Debt securities:					
U.S. government securities	$ 1,801.3	$ 50.7	$ (5.2)		$ 1,846.8
States, municipalities and political subdivisions	2,022.2	80.7	(27.5)		2,075.4
U.S. corporate securities	6,741.9	497.1	(54.4)		7,184.6
Foreign securities	2,554.5	210.9	(20.9)		2,744.5
Residential mortgage-backed securities	1,375.8	49.4	(5.0)	(1)	1,420.2
Commercial mortgage-backed securities	1,109.8	37.6	(104.0)	(1)	1,043.4
Other asset-backed securities	419.6	25.0	(8.2)	(1)	436.4
Redeemable preferred securities	381.9	27.8	(41.0	)	368.7
Total debt securities	16,407.0	979.2	(266.2)		17,120.0
Equity securities	35.3	7.9	(3.5	)	39.7
Total debt and equity securities (2)	$ 16,442.3	$ 987.1	$ (269.7)		$ 17,159.7

(1) At September 30, 2010 and December 31, 2009, we held securities for which we had recognized a credit-related impairment in the past. For the nine months ended September 30, 2010 and 2009, we recognized $9.5 million and $54.7 million, respectively, of non-credit-related impairments in other comprehensive loss related to these securities (as of September 30, 2010 and December 31, 2009, these securities had a net unrealized capital gain (loss) of $1.6 million and $(17.2) million, respectively).

(2) Investment risks associated with our experience-rated and discontinued products generally do not impact our results of operations (refer to Note 14 beginning on page 23 for additional information on our accounting for discontinued products). At September 30, 2010, debt and equity securities with a fair value of $4.3 billion, gross unrealized capital gains of $516.0 million and gross unrealized capital losses of $23.9 million and, at December 31, 2009, debt and equity securities with a fair value of $4.0 billion, gross unrealized capital gains of $285.6 million and gross unrealized capital losses of $78.2 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 loss.

The fair value of debt securities at September 30, 2010 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	$ 676.3
One year through five years	3,623.0
After five years through ten years	5,361.8
Greater than ten years	5,094.2
Residential mortgage-backed securities	1,263.8
Commercial mortgage-backed securities	1,302.5
Other asset-backed securities	501.6
Total	$ 17,823.2

The maturity dates for debt securities in an unrealized capital loss position at September 30, 2010 were as follows:

(Millions)	Supporting discontinued and experience-rated products Fair Value	Unrealized Losses	Supporting remaining products Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Due to mature:						
Less than one year	$ .8	$ -	$ 29.8	$ .3	$ 30.6	$ .3
One year through five years	1.0	-	201.2	2.8	202.2	2.8
After five years through ten years	17.2	.3	126.8	1.7	144.0	2.0
Greater than ten years	127.2	15.1	317.0	12.0	444.2	27.1
Residential mortgage-backed securities	-	-	69.3	.3	69.3	.3
Commercial mortgage-backed securities	28.6	4.6	93.1	20.1	121.7	24.7
Other asset-backed securities	8.0	-	19.4	4.1	27.4	4.1
Total	$ 182.8	$ 20.0	$ 856.6	$ 41.3	$ 1,039.4	$ 61.3

Mortgage-Backed and Other Asset-Backed Securities

All of our residential mortgage-backed securities at September 30, 2010 were agency issued (e.g., Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation) and carry agency guarantees and explicit or implicit guarantees by the U.S. Government. At September 30, 2010, our residential mortgage-backed securities had an average quality rating of AAA and a weighted average duration of 2.0 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, 2010, these securities had an average quality rating of AA+ and a weighted average duration of 3.6 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, 2010, these securities had an average quality rating of AA- and a weighted average duration of 3.4 years.

Unrealized 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. As described in Note 2 beginning on page 5 effective April 1, 2009, we recognize an OTTI on debt securities when we intend to sell a security that is in an unrealized capital loss position or if we determine a credit-related loss has occurred. Prior to April 1, 2009, we recognized an OTTI on a security in an unrealized capital loss position if we could not assert our intention and ability to hold the security until it recovered its value.

Summarized below are the debt and equity securities we held at September 30, 2010 and December 31, 2009 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, 2010						
Debt securities:						
U.S. government securities	$ 6.2	$ -	$ 20.5	$ .4	$ 26.7	$ .4
States, municipalities and political subdivisions	142.2	1.0	108.3	6.0	250.5	7.0
U.S. corporate securities	70.4	.6	235.1	4.8	305.5	5.4
Foreign securities	76.8	1.4	38.4	5.3	115.2	6.7
Residential mortgage-backed securities	62.1	-	7.2	.3	69.3	.3
Commercial mortgage-backed securities	19.1	.2	102.6	24.5	121.7	24.7
Other asset-backed securities	19.0	.2	8.4	3.9	27.4	4.1
Redeemable preferred securities	-	-	123.1	12.7	123.1	12.7
Total debt securities	395.8	3.4	643.6	57.9	1,039.4	61.3
Equity securities	.8	.1	22.3	3.9	23.1	4.0
Total debt and equity securities (1)	$ 396.6	$ 3.5	$ 665.9	$ 61.8	$ 1,062.5	$ 65.3
December 31, 2009						
Debt securities:						
U.S. government securities	$ 1,062.5	$ 4.8	$ 19.3	$ .4	$ 1,081.8	$ 5.2
States, municipalities and political subdivisions	292.2	10.6	216.7	16.9	508.9	27.5
U.S. corporate securities	730.2	16.8	681.4	37.6	1,411.6	54.4
Foreign securities	418.1	9.0	110.4	11.9	528.5	20.9
Residential mortgage-backed securites	383.0	4.7	8.2	.3	391.2	5.0
Commercial mortgage-backed securities	129.7	3.1	401.6	100.9	531.3	104.0
Other asset-backed securities	46.6	7.5	16.7	.7	63.3	8.2

Redeemable preferred securities	49.1	8.8	198.5	32.2	247.6	41.0
Total debt securities	3,111.4	65.3	1,652.8	200.9	4,764.2	266.2
Equity securities	3.9	1.6	18.8	1.9	22.7	3.5
Total debt and equity securities (1)	$ 3,115.3	$ 66.9	$ 1,671.6	$ 202.8	$ 4,786.9	$ 269.7

(1) At September 30, 2010 and December 31, 2009, debt and equity securities in an unrealized capital loss position of $23.9 million and $78.2 million, respectively, and with related fair value of $205.3 million and $1.0 billion, 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 external rating agencies and our internal credit analysts and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. Unrealized capital losses at September 30, 2010 and December 31, 2009 were generally caused by the widening of credit spreads on these particular securities relative to the interest rates on U.S. Treasury securities. At September 30, 2010, we did not have an intention to sell the securities that were in an unrealized capital loss position.

Net realized capital gains for the three and nine months ended September 30, 2010 and 2009, 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)	2010	2009	2010	2009
OTTI losses on securities	$ (7.3)	$ (23.1)	$ (29.5)	$ (84.5)
Portion of OTTI losses recognized in other comprehensive income	4.3	16.6	9.5	19.5
Net OTTI losses on securities recognized in earnings	(3.0)	(6.5)	(20.0)	(65.0)
Net realized capital gains, excluding OTTI losses on securities	82.6	24.5	219.7	91.4
Net realized capital gains	$ 79.6	$ 18.0	$ 199.7	$ 26.4

Net realized capital gains, excluding OTTI losses on securities for the three and nine months ended September 30, 2010 were primarily attributable to gains from the sale of debt securities of $102 million and $278 million, respectively, partially offset by losses from derivative transactions of $19 million and $54 million, respectively.

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 three and nine months ended September 30, 2010 and 2009 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions)	2010	2009	2010	2009
Proceeds on sales	$ 3,232.3	$ 2,402.4	$ 8,423.6	$ 7,212.9
Gross realized capital gains	108.8	62.8	304.2	152.8
Gross realized capital losses	(6.4)	(25.8)	(26.4)	(61.5)

Variable Interest Entities
We have relationships with certain real estate and hedge fund partnerships that are considered VIEs. 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, 2010 and December 31, 2009 of approximately $152 million and $125 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 debt 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 $4.9 billion and $5.1 billion at September 30, 2010 and December 31, 2009, respectively. The hedge fund partnerships had total assets of approximately $6.2 billion and $5.7 billion at September 30, 2010 and December 31, 2009, respectively.

Non-controlling Interests
Certain of our investment holdings are partially-owned by third parties. At September 30, 2010 and December 31, 2009, $80 million and $77 million, respectively, of our investment holdings were owned by third parties. The non-controlling entities' share of these investments was included in accrued expenses and other current liabilities. Net income attributable to these interests was $1 million and $2 million for the three and nine months ended September 30, 2010 and 2009, respectively. These non-controlling interests did not have a material impact on our financial position or results of operations.

Net Investment Income
Sources of net investment income for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2010	2009	2010	2009
Debt securities	$ 225.8	$ 225.2	$ 694.3	$ 675.6
Mortgage loans	25.4	32.2	78.4	90.5
Other	4.4	13.5	25.5	26.9
Gross investment income	255.6	270.9	798.2	793.0
Less: investment expenses	(7.4)	(7.5)	(21.1)	(21.6)
Net investment income (1)	$ 248.2	$ 263.4	$ 777.1	$ 771.4

(1) Investment risks associated with our experience-rated and discontinued products generally do not impact our results of operations (refer to Note 14 beginning on page 23 for additional information on our accounting for discontinued products). Net investment income includes \$78.3 million and \$246.7 million for the three and nine months ended September 30, 2010, respectively, and \$90.3 million and \$259.0 million for the three and nine months ended September 30, 2009, respectively, related to investments supporting our experience-rated and discontinued products.

6. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive loss (excluding amounts related to experience-rated contract holders and discontinued products) for the nine months ended September 30, 2010 and 2009:

	Net Unrealized Gains (Losses)			Pension and OPEB Plans		Total
	Securities		Foreign Currency and	Unrecognized Net Actuarial	Unrecognized Prior Service	Accumulated Other Comprehensive
(Millions)	Previously Impaired (1)	All Other	Derivatives	Losses	Cost	(Loss) Income
Nine months ended September 30, 2010						
Balance at December 31, 2009	$ 100.3	$ 235.7	$ 25.3	$ (1,623.8)	$ 39.5	$ (1,223.0)
Net unrealized gains (losses) ($5.7 pretax)	51.2	549.9	(53.8)	(543.6)	-	3.7
Reclassification to earnings ($149.1 pretax)	(67.5)	(159.1)	.5	94.3	(10.5)	(142.3)
Other comprehensive (loss) income	(16.3)	390.8	(53.3)	(449.3)	(10.5)	(138.6)
Balance at September 30, 2010	$ 84.0	$ 626.5	$ (28.0)	$ (2,073.1)	$ 29.0	$ (1,361.6)
Nine months ended September 30, 2009						
Balance at December 31, 2008	$ -	$ (229.3)	$ (8.7)	$ (1,686.6)	$ 43.3	$ (1,881.3)
Cumulative effect of adopting a new accounting standard at April 1, 2009 ($83.0 pretax) (2)	(5.3)	(48.4)	-	-	-	(53.7)
Net unrealized gains ($1,181.4 pretax)	128.2	622.7	17.0	-	-	767.9
Reclassification to earnings ($85.6 pretax)	(4.9)	(54.0)	3.1	107.1	(2.8)	48.5
Other comprehensive income (loss)	118.0	520.3	20.1	107.1	(2.8)	762.7
Balance at September 30, 2009	$ 118.0	$ 291.0	$ 11.4	$ (1,579.5)	$ 40.5	$ (1,118.6)

(1) Represents unrealized losses on the non-credit-related component of impaired debt securities that we do not intend to sell and subsequent appreciation in the fair value of those securities as well as those that we intend to sell.

(2)

Effective April 1, 2009, we adopted new accounting guidance relating to the recognition and presentation of other-than-temporary impairments of debt securities. Refer to Note 2 beginning on page 5 for additional information.

7. 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 adjusted historical cost. In this note, we provide details on the fair values 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 sheet. 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 uses 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, 2010 or December 31, 2009.

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 by our internal staff. 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, 2010 or December 31, 2009. The total fair value of our broker quoted securities was approximately $168 million at September 30, 2010 and $364 million at December 31, 2009. Examples of these Level 3 debt securities include certain U.S. and foreign corporate securities and certain of our residential and commercial mortgage-backed securities as well as other asset-backed securities. For some of our private placement securities, our internal staff determine 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 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.

Derivatives – 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 with changes in fair value that are measured on a recurring basis in our balance sheets at September 30, 2010 and December 31, 2009 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
September 30, 2010				
Assets:				
Debt securities:				
U.S. government securities	$ 1,117.4	$ 315.4	$ -	$ 1,432.8
States, municipalities and political subdivisions	-	2,427.8	6.6	2,434.4
U.S. corporate securities	-	7,512.1	60.3	7,572.4
Foreign securities	-	3,048.3	41.8	3,090.1
Residential mortgage-backed securities	-	1,263.8	-	1,263.8
Commercial mortgage-backed securities	-	1,255.2	47.3	1,302.5
Other asset-backed securities	-	442.3	59.3	501.6
Redeemable preferred securities	-	207.2	18.4	225.6
Total debt securities	1,117.4	16,472.1	233.7	17,823.2
Equity securities	1.3	-	39.5	40.8
Derivatives	-	7.2	-	7.2
Total investments	$ 1,118.7	$ 16,479.3	$ 273.2	$ 17,871.2
Liabilities:				
Derivatives	$ -	$ .4	$ -	$ .4
December 31, 2009				
Assets:				
Debt securities:				
U.S. government securities	$ 1,529.4	$ 317.4	$ -	$ 1,846.8
States, municipalities and political subdivisions	-	2,062.7	12.7	2,075.4
U.S. corporate securities	-	7,056.5	128.1	7,184.6
Foreign securities	-	2,545.5	199.0	2,744.5
Residential mortgage-backed securities	-	1,420.2	-	1,420.2
Commercial mortgage-backed securities	-	971.6	71.8	1,043.4
Other asset-backed securities	-	425.4	11.0	436.4
Redeemable preferred securities	-	345.8	22.9	368.7
Total debt securities	1,529.4	15,145.1	445.5	17,120.0
Equity securities	1.7	-	38.0	39.7
Derivatives	-	44.0	-	44.0
Total investments	$ 1,531.1	$ 15,189.1	$ 483.5	$ 17,203.7

The changes in the balances of Level 3 financial assets for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30, 2010				Nine Months Ended September 30, 2010			
(Millions)	U.S. Corporate Securities	Foreign Securities	Other	Total	U.S. Corporate Securities	Foreign Securities	Other	Total
Beginning balance	$ 85.1	$ 50.9	$ 169.1	$ 305.1	$ 75.3	$ 199.0	$ 209.2	$ 483.5
Net realized and unrealized gains (losses):								
Included in earnings	(.1)	1.5	.3	1.7	(.4)	8.2	4.7	12.5
Included in other comprehensive income	(.9)	.4	13.8	13.3	(1.7)	(3.2)	25.2	20.3
Other (1)	-	.8	1.8	2.6	(.2)	1.8	(3.7)	(2.1)
Purchases, sales and maturities	3.3	(7.0)	(1.8)	(5.5)	(11.3)	(92.0)	(56.1)	(159.4)
Transfers out of Level 3 (2)	(27.1)	(4.8)	(12.1)	(44.0)	(1.4)	(72.0)	(8.2)	(81.6)
Ending Balance	$ 60.3	$ 41.8	$ 171.1	$ 273.2	$ 60.3	$ 41.8	$ 171.1	$ 273.2
Amount of Level 3 net unrealized losses included in net income	$ -	$ -	$ (.4)	$ (.4)	$ -	$ -	$ (.4)	$ (.4)

	Three Months Ended September 30, 2009				Nine Months Ended September 30, 2009			
(Millions)	U.S. Corporate Securities	Foreign Securities	Other	Total	U.S. Corporate Securities	Foreign Securities	Other	Total
Beginning balance	$ 151.3	$ 212.0	$ 141.1	$ 504.4	$ 144.6	$ 180.4	$ 160.0	$ 485.0
Net realized and unrealized gains (losses):								
Included in earnings	(.1)	6.0	3.2	9.1	3.7	11.1	10.0	24.8
Included in other comprehensive income	2.3	10.8	8.9	22.0	(.4)	25.3	6.7	31.6
Other (1)	2.1	6.0	9.8	17.9	7.3	3.4	12.8	23.5
Purchases, sales and maturities	(2.4)	24.1	(9.3)	12.4	(18.1)	35.5	(43.9)	(26.5)
Transfers out of Level 3 (2)	(19.6)	(6.9)	(14.1)	(40.6)	(3.5)	(3.7)	(6.0)	(13.2)
Ending Balance	$ 133.6	$ 252.0	$ 139.6	$ 525.2	$ 133.6	$ 252.0	$ 139.6	$ 525.2
	$ -	$ -	$ (.4)	$ (.4)	$ -	$ (.1)	$ (.7)	$ (.8)

Amount of Level 3
net unrealized
losses included in
net income

(1) Reflects realized and unrealized capital gains and losses on investments supporting our experience-rated and discontinued products, which do not impact our results of operations.
(2) At January 1, 2010, we changed our practice for reporting transfers into (out of) Level 3. Effective January 1, 2010, we use the fair value of these assets at the end of the reporting period for all financial asset transfers. Prior to January 1, 2010, for financial assets that were transferred into (out of) Level 3, we used the fair value of the assets at the end (beginning) of the reporting period.

There were no transfers into Level 3 during the three and nine months ended September 30, 2010. Additionally, during 2010, certain investments previously classified as Level 3 were reclassified to Level 2 because we were able to obtain observable market data.

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 measured 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 quality 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.

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 of certain of our financial instruments at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010		December 31, 2009	
(Millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Mortgage loans	$ 1,518.8	$ 1,551.0	$ 1,594.0	$ 1,506.5
Liabilities:				
Investment contract liabilities:				
With a fixed maturity	29.6	30.6	32.4	33.5
Without a fixed maturity	527.4	533.1	530.6	503.7
Long-term debt	4,382.0	4,909.4	3,639.5	3,865.9

Separate Accounts Measured at Fair Value in our Balance Sheets

Separate Account assets in our Large Case Pensions business represent funds maintained to meet specific investment objectives of contract holders. Since contract holders bear the investment risk of these assets, a corresponding Separate Account 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 Account assets are not reflected in our statements of income, shareholders' equity or cash flows.

Separate Account 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 13. Separate Account assets also include investments in common/collective trusts and real estate that are carried at fair value. The following are descriptions of the valuation methodologies used to price these investments, including the general classification pursuant to the valuation hierarchy.

Common/Collective Trusts – Common trusts invest in other collective investment funds otherwise known as the underlying funds. The Separate Accounts' interests in the common trust funds are based on the fair values of the investments of the underlying funds and therefore are classified as Level 2. The underlying assets primarily consist of foreign equity securities. Investments in common trust funds are valued at their respective net asset value per share/unit on the valuation date.

Real Estate – The values of the underlying real estate investments are estimated using generally-accepted valuation techniques and give consideration to the investment structure. An appraisal of the underlying real estate for each of these investments is performed annually. In the quarters in which an investment is not appraised or its valuation is not updated, fair value is based on available market information. The valuation of a real estate investment is adjusted only if there has been a significant change in economic circumstances related to the investment since acquisition or the most recent independent valuation and upon the appraiser's review and concurrence with the valuation. Further, these valuations have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. These valuations do not necessarily represent the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Therefore, these investment values are classified as Level 3.

Separate Account financial assets at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010				December 31, 2009			
(Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities	$ 1,093.8	$ 2,411.0	$ 73.9	$ 3,578.7	$ 752.3	$ 2,508.0	$ 97.3	$ 3,357.6
Equity securities	1,211.6	-	-	1,211.6	1,215.1	.9	-	1,216.0
Derivatives	-	(.8)	-	(.8)	-	1.2	-	1.2
Common/Collective trusts	-	-	-	-	-	1,152.6	-	1,152.6
Real estate	-	-	-	-	-	-	71.4	71.4
Total (1)	$ 2,305.4	$ 2,410.2	$ 73.9	$ 4,789.5	$ 1,967.4	$ 3,662.7	$ 168.7	$ 5,798.8

(1) Excludes $664.5 million and $484.3 million of cash and cash equivalents and other receivables at September 30, 2010 and December 31, 2009, respectively.

The changes in the balances of Level 3 Separate Account financial assets for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010		
(Millions)	Debt Securites	Debt Securities	Real Estate	Total
Beginning balance	$ 87.7	$ 97.3	$ 71.4	$ 168.7
Total (losses) gains accrued to contract holders	(13.2)	(43.8)	5.2	(38.6)
Purchases, sales and maturities	3.1	21.1	.2	21.3
Transfers out of Level 3 (1) (2)	(3.7)	(.7)	(76.8)	(77.5)
Ending Balance	$ 73.9	$ 73.9	$ -	