CIGNA CORP
Form 10-Q
May 03, 2006

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2006**

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 1-8323

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.)

Two Liberty Place, 1601 Chestnut Street
Philadelphia, Pennsylvania 19192
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(215) 761-1000**

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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. Yes x No _

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No _

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

As of March 31, 2006 119,758,787 shares of the issuer's common stock were outstanding.

CIGNA CORPORATION

INDEX

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

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Three Months Ended March 31,	
	2006	**2005**
REVENUES		
Premiums and fees	$ 3,268	$ 3,362
Net investment income	329	330
Other revenues	366	636
Realized investment gains	144	17
Total revenues	4,107	4,345
BENEFITS AND EXPENSES		
Health Care medical claims expense	1,448	1,456
Other benefit expenses	788	868
Other operating expenses	1,343	1,356
Total benefits and expenses	3,579	3,680
INCOME BEFORE INCOME TAXES	528	665
Income taxes (benefits):		
Current	254	59
Deferred	(78)	170
Total taxes	176	229
NET INCOME	$ 352	$ 436
EARNINGS PER SHARE - BASIC	$ 2.93	$ 3.34
EARNINGS PER SHARE - DILUTED	$ 2.87	$ 3.28
DIVIDENDS DECLARED PER SHARE	$ 0.025	$ 0.025

The accompanying Notes to the Financial Statements are an integral part of these statements.

CIGNA CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	As of March 31, 2006	As of December 31, 2005
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, $13,612; $13,873)	$ 14,328	$ 14,947
Equity securities, at fair value (cost, $146; $113)	163	135
Mortgage loans	4,206	3,934
Policy loans	1,341	1,337
Real estate	95	80
Other long-term investments	449	504
Short-term investments	105	439
Total investments	20,687	21,376
Cash and cash equivalents	1,904	1,709
Accrued investment income	289	282
Premiums, accounts and notes receivable	1,482	1,598
Reinsurance recoverables	6,719	7,018
Deferred policy acquisition costs	644	618
Property and equipment	626	638
Deferred income taxes	1,215	1,087
Goodwill	1,622	1,622
Other assets, including other intangibles	285	306
Separate account assets	8,555	8,609
Total assets	$ 44,028	$ 44,863
LIABILITIES		
Contractholder deposit funds	$ 9,423	$ 9,676
Future policy benefits	8,405	8,626
Unpaid claims and claim expenses	4,272	4,281
Health Care medical claims payable	1,065	1,165
Unearned premiums and fees	523	515
Total insurance and contractholder liabilities	23,688	24,263
Accounts payable, accrued expenses and other liabilities	5,029	5,127
Short-term debt	85	100
Long-term debt	1,253	1,338
Nonrecourse obligations	66	66
Separate account liabilities	8,555	8,609
Total liabilities	38,676	39,503

CONTINGENCIES - NOTE 12

SHAREHOLDERS' EQUITY				
Common stock (par value per share, $0.25; shares issued, 160; 160)		40		40
Additional paid-in capital		2,419		2,385
Net unrealized appreciation, fixed maturities	$ 100		$ 195	
Net unrealized appreciation, equity securities	20		24	
Net unrealized depreciation, derivatives	(15)		(14)	
Net translation of foreign currencies	9		2	
Minimum pension liability adjustment	(716)		(716)	
Accumulated other comprehensive loss		(602)		(509)
Retained earnings		5,425		5,162
Less treasury stock, at cost		(1,930)		(1,718)
Total shareholders' equity		5,352		5,360
Total liabilities and shareholders' equity		$ 44,028		$ 44,863
SHAREHOLDERS' EQUITY PER SHARE		$ 44.69		$ 44.23

The accompanying Notes to the Financial Statements are an integral part of these statements.

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY
(In millions)

Three Months Ended March 31,		2006		2005
Common stock		$ 40		$ 40
Additional paid-in capital, January 1		2,385		2,360
Effect of issuance of stock for employee benefits plans		34		(21)
Additional paid-in capital, March 31		2,419		2,339
Accumulated other comprehensive loss, January 1		(509)		(336)
Net unrealized depreciation, fixed maturities	$ (95)	(95)	$ (146)	(146)
Net unrealized depreciation, equity securities	(4)	(4)	(2)	(2)
Net unrealized depreciation on securities	(99)		(148)	
Net unrealized depreciation, derivatives	(1)	(1)	(2)	(2)
Net translation of foreign currencies	7	7	3	3
Other comprehensive loss	(93)		(147)	
Accumulated other comprehensive loss, March 31		(602)		(483)
Retained earnings, January 1		5,162		3,679
Net income	352	352	436	436
Effects of issuance of stock for employee benefits plans		(86)		(42)
Common dividends declared		(3)		(3)
Retained earnings, March 31		5,425		4,070
Treasury stock, January 1		(1,718)		(540)
Repurchase of common stock		(419)		(240)
Other, primarily issuance of treasury stock for employee benefit plans		207		123
Treasury stock, March 31		(1,930)		(657)
TOTAL COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY	$ 259	$ 5,352	$ 289	$ 5,309

The accompanying Notes to the Financial Statements are an integral part of these statements.

3

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Three Months Ended March 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 352	$ 436
Adjustments to reconcile net income to net cash provided by operating activities:		
Insurance liabilities	(132)	(216)
Reinsurance recoverables	31	(52)
Deferred policy acquisition costs	(21)	(17)
Premiums, accounts and notes receivable	68	146
Accounts payable, accrued expenses and other liabilities	(165)	113
Current income taxes	222	(42)
Deferred income taxes	(78)	170
Realized investment (gains)	(144)	(17)
Depreciation and amortization	54	62
Gains on sales of businesses	(17)	(286)
Mortgage loans originated and held for sale	(240)	-
Other, net	(17)	(26)
Net cash provided by (used in) operating activities	(87)	271
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments sold:		
Fixed maturities	535	594
Equity securities	5	4
Mortgage loans	136	151
Other (primarily short-term investments)	611	25
Investment maturities and repayments:		
Fixed maturities	518	194
Mortgage loans	69	76
Investments purchased:		
Fixed maturities	(755)	(904)
Equity securities	(30)	(5)
Mortgage loans	(252)	(53)
Other (primarily short-term investments)	(150)	(113)
Property and equipment, net	(30)	(23)
Net cash provided by (used in) investing activities	657	(54)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits and interest credited to contractholder deposit funds	141	176

Withdrawals and benefit payments from contractholder deposit funds		(179)		(168)
Change in cash overdraft position		4		(193)
Repayment of long-term debt		(100)		-
Repurchase common stock		(400)		(242)
Issuance of common stock		162		94
Common dividends paid		(3)		(3)
Net cash used in financing activities		(375)		(336)
Net increase (decrease) in cash and cash equivalents		195		(119)
Cash and cash equivalents, beginning of period		1,709		2,519
Cash and cash equivalents, end of period	$	1,904	$	2,400
Supplemental Disclosure of Cash Information:				
Income taxes paid (received), net	$	8	$	91
Interest paid	$	22	$	22

The accompanying Notes to the Financial Statements are an integral part of these statements.

CIGNA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of CIGNA Corporation, its significant subsidiaries, and variable interest entities of which CIGNA is the primary beneficiary, which are referred to collectively as “CIGNA.” 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.

The interim 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 period reported. The interim consolidated financial statements and notes should be read in conjunction with the Consolidated Financial Statements and Notes in CIGNA’s Annual Report to Shareholders and Form 10-K for the year ended December 31, 2005.

The preparation of interim financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the insurance business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations.

Certain reclassifications have been made to prior period amounts to conform to the 2006 presentation, including the elimination of certain intercompany purchases and sales of short-term investments in the investing activities section of the statement of cash flows. This reclassification had no net impact on the prior year net purchases and sales of short-term investments or the total cash flows from investing activities.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Other-than-temporary impairment. Effective January 1, 2006, CIGNA implemented guidance provided by the staff of the Financial Accounting Standards Board (FASB) on evaluating fixed maturities and equity securities for other-than-temporary impairment. Because this guidance is largely a summary of existing accounting principles generally accepted in the United States of America, there was no material effect in accounting for fixed maturities and equity securities with other-than-temporary impairments at implementation on January 1, 2006. See Note 9 for a review of declines in fair value of fixed maturities and equity securities.

Deferred acquisition costs. In 2005, the American Institute of Certified Public Accountants issued a Statement of Position (SOP), "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts," for implementation in the first quarter of 2007. The SOP requires that deferred acquisition costs be expensed in full when the original contract is substantially changed by election or amendment of an existing contract feature or by replacement with a new contract. CIGNA expects to implement the SOP for contract changes beginning in the first quarter of 2007 with no material effects to the financial statements at implementation. Although substantial contract changes are not expected to occur, the effect of this SOP in future periods may vary based on the nature and volume of any such contract changes.

Certain financial instruments. In 2006, the FASB issued an amendment related to Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivatives and Hedging Activities," for implementation in the first quarter of 2007. The amendment clarifies when certain financial instruments and features of financial instruments must be treated as derivatives and reported on the balance sheet at fair value with changes in fair value reported in net income. CIGNA will implement the amendment beginning with financial instruments acquired in the first quarter of

2007, with no material effects to the financial statements expected at adoption. However, this amendment may affect future income recognition for certain financial instruments if additional derivatives are identified because any changes in their fair values will be recognized in net income each period.

Stock compensation. SFAS No. 123 (as revised in 2004 and referred to as SFAS 123R,) "Share-Based Payment" was effective January 1, 2006. This standard, which CIGNA early adopted effective October 1, 2004, requires companies to recognize in net income an estimate of expense for stock awards and options over their vesting periods typically determined as of the date of grant. CIGNA records compensation expense for stock options over their vesting periods based on the estimated fair value of the stock options, which is calculated using an option-pricing model. Compensation expense is recorded for restricted stock grants and deferred stock units over their vesting periods based on fair value, which is equal to the market price of CIGNA common stock on the date of grant. Compensation expense for stock options, restricted stock grants and deferred stock units are recorded in Corporate.

Compensation cost and related tax benefits for stock options, restricted stock and deferred stock units were as follows:

	Three Months Ended March 31,	
(In millions)	2006	2005
Compensation cost	$ 12	$ 6
Tax benefits	$ 4	$ 2

CIGNA calculated the average fair value using the Black-Scholes option pricing model. The following assumptions were used for the periods indicated:

	Three Months Ended March 31,	
(Options in thousands)	2006	2005
Dividend yield	0.1%	0.1%
Expected volatility	35.0%	35.0%
Risk-free interest rate	4.6%	3.9%
Expected option life	4.5 years	5.25 years
Options granted	524	781
Weighted average fair value of options granted	$43.97	$33.88

The expected volatility reflects CIGNA's past daily stock price volatility. Volatility implied in the market prices of traded options was not considered a good indicator of future volatility because remaining maturities of traded options are less than one year. CIGNA developed the expected option life by considering certain factors, including assumptions used by other companies with comparable stock option plan features and CIGNA's cancellation of a replacement option feature in June 2004.

Restricted stock granted and the average fair value at the date of grant were as follows:

	Three Months Ended March 31,	
(Grants in thousands)	2006	2005

Restricted stock granted	193	282
Weighted average fair value	$122.50	$ 91.36

NOTE 3 - ACQUISITIONS AND DISPOSITIONS

CIGNA may from time to time acquire or dispose of assets, subsidiaries or lines of business. Significant transactions are described below.

Sale of Retirement Benefits Business. On April 1, 2004, CIGNA sold its retirement benefits business, excluding the corporate life insurance business, for cash proceeds of $2.1 billion. The sale resulted in an after-tax gain of $804 million, of which $267 million after-tax was recognized immediately.

As this transaction was primarily in the form of a reinsurance arrangement under which CIGNA retains the contractual obligation to pay these liabilities, $537 million of the after-tax gain was deferred. Subsequent to the original reinsurance transaction, the buyer of the retirement benefits business has entered into agreements with most of the insured parties relieving CIGNA of any remaining contractual obligation to those parties (novation). Additional such agreements are expected.

The deferred gain is amortized at the rate at which earnings from the sold business would have been expected to emerge (primarily 15 years on a declining basis) until CIGNA is relieved of any remaining contractual obligation. At the time of novation, CIGNA accelerates amortization of a portion of the deferred gain and also reduces the associated contractholder deposit funds, future policy benefits, reinsurance recoverables and separate account balances. See Note 6 to the Financial Statements for additional information on reinsurance recoverables associated with the sale of the retirement benefits business.

CIGNA recognized deferred gain amortization in other revenues in the Run-off Retirement segment as follows:

(In millions)	Pre-Tax	After-Tax
Three Months Ended March 31,		
2006		
Accelerated deferred gain amortization	$ 4	$ 1
Normal deferred gain amortization	$ 2	$ 1
2005		
Accelerated deferred gain amortization	$ 260	$ 169
Normal deferred gain amortization	$ 14	$ 9

The remaining pre-tax deferred gain as of March 31, 2006 was $60 million.

In 2005, in connection with a modified coinsurance arrangement, CIGNA received units of the buyer's separate accounts and continues to carry those units as separate account assets on its balance sheet for the business not yet directly assumed by the buyer. At March 31, 2006, there were approximately $3.5 billion of separate account assets and liabilities associated with this business not yet directly assumed by the buyer.

At March 31, 2006, CIGNA had approximately $1.7 billion of invested assets, primarily fixed maturities and mortgage loans, supporting a modified coinsurance arrangement relating to the single premium annuity business sold to the buyer. These invested assets were held in a business trust established by CIGNA. CIGNA pays or receives cash quarterly to settle the results of the reinsured business, including the investment results of the assets underlying the modified coinsurance arrangement.

Effective April 1, 2006, the buyer converted this modified coinsurance arrangement to an indemnity reinsurance structure and took ownership of the trust assets. As a result, CIGNA will decrease invested assets and will increase reinsurance recoverables in the second quarter of 2006.

NOTE 4 - EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

(Dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
Three Months Ended March 31,			
2006			
Net Income	$ 352	—	$ 352
Shares *(in thousands):*			
Weighted average	119,946	—	119,946
Options and restricted stock grants		2,567	2,567
Total shares	119,946	2,567	122,513
EPS	$ 2.93	$ (0.06)	$ 2.87
2005			
Net Income	$ 436	—	$ 436
Shares *(in thousands):*			

Weighted average		130,722		—		130,722
Options and restricted stock grants				2,004		2,004
Total shares		130,722		2,004		132,726
EPS	$	3.34	$	(0.06)	$	3.28

The following outstanding employee stock options were not included in the computation of diluted earnings per share because their effect would have increased diluted earnings per share (antidilutive) as the estimated proceeds from their exercise was greater than the average share price of CIGNA's common shares for the period.

	Three Months Ended March 31,	
(In millions)	2006	2005
Antidilutive options	0.7	6.3

CIGNA held 40,269,674 shares of common stock in Treasury as of March 31, 2006, and 29,141,097 shares as of March 31, 2005.

NOTE 5 - GUARANTEED MINIMUM DEATH BENEFIT AND INCOME BENEFIT CONTRACTS

CIGNA's reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured a guaranteed minimum death benefit under certain variable annuities issued by other insurance companies.

These variable annuities are essentially investments in mutual funds combined with a death benefit. CIGNA has equity and other market exposures as a result of this product.

The determination of liabilities for guaranteed minimum death benefits requires CIGNA to make critical accounting estimates. CIGNA describes the assumptions used to develop the reserves for these death benefits, and provides the effects of hypothetical changes in those assumptions on page 26 of CIGNA's 2005 Annual Report to Shareholders. CIGNA regularly evaluates the assumptions used in establishing reserves and changes its estimates if actual experience or other evidence suggests that earlier assumptions should be revised. If actual experience differs from the assumptions (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating these reserves, the resulting change could have a material adverse effect on CIGNA's consolidated results of operations, and in certain situations, could have a material adverse effect on CIGNA's financial condition.

During the first quarter of 2005, CIGNA completed its normal review of assumptions and recorded an after-tax charge of $11 million ($17 million pre-tax). This charge primarily resulted from an update to lapse assumptions based on emerging experience. The charge also reflected updates to partial surrender assumptions, reflecting the impact of stock market declines, as well as other assumptions. CIGNA had future policy benefit reserves for guaranteed minimum death benefit contracts of $915 million as of March 31, 2006, and $951 million as of December 31, 2005.

The following provides information about CIGNA's reserving methodology and assumptions for guaranteed minimum death benefits as of March 31, 2006:

- The reserves represent estimates of the present value of net amounts expected to be paid, less the present value of net future premiums. Included in net amounts expected to be paid is the excess of the guaranteed death benefits over the values of the contractholders' accounts (based on underlying equity and bond mutual fund investments).
- The reserves include an estimate for partial surrenders that essentially lock in the death benefit for a particular policy based on annual election rates that vary from 0-24% depending on the net amount at risk for each policy and whether surrender charges apply.
- The mean investment performance assumption is 5% considering CIGNA's program to reduce equity market exposures using futures contracts. In addition, the results of futures contracts are reflected in the liability calculation as a component of investment returns.
- The volatility assumption is 15-30%, varying by equity fund type; 3-8%, varying by bond fund type; and 1% for money market funds.
- The discount rate is 5.75%.
- The mortality assumption is 70-75% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.
- The lapse rate assumption is 0-15%, depending on contract type, policy duration and the ratio of the net amount at risk to account value.

As of March 31, 2006, the aggregate fair value of the underlying mutual fund investments was $39.8 billion. The death benefit coverage in force as of that date (representing the amount that CIGNA would have to pay if all 1.0 million contractholders had died on that date) was $6.0 billion. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the fair value of the underlying mutual fund investments.

The notional amount of futures contract positions held by CIGNA at March 31, 2006, was $1.0 billion. CIGNA recorded in other revenues a pre-tax loss of $40 million for the first three months of 2006 and a pre-tax gain of $38 million for the first three months of 2005 primarily from futures contracts. Expense offsets reflecting corresponding changes in liabilities for these guaranteed minimum death benefit contracts were included in benefits and expenses.

For further information and details on these contracts and the program adopted to reduce related equity market risk, refer to Note 6 of CIGNA's 2005 Annual Report to Shareholders.

CIGNA has also written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits. See Note 12 for further information.

NOTE 6 - REINSURANCE

In the normal course of business, CIGNA’s insurance subsidiaries enter into agreements with other insurance companies to assume and cede reinsurance. Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct losses. Reinsurance does not relieve the originating insurer of liability. CIGNA evaluates the financial condition of its reinsurers and monitors their concentrations of credit risk.

Retirement benefits business. CIGNA had a reinsurance recoverable of $1.0 billion as of March 31, 2006, and $1.2 billion as of December 31, 2005 from Prudential Retirement Insurance and Annuity Company resulting from the sale of the retirement benefits business, which was primarily in the form of a reinsurance arrangement. The reinsurance recoverable is secured primarily by fixed maturities and mortgage loans held in a business trust established by the reinsurer. This recoverable is reduced as CIGNA's reinsured liabilities are paid or directly assumed by the reinsurer.

Individual life and annuity reinsurance. CIGNA had a reinsurance recoverable of $4.9 billion at March 31, 2006, and $5.0 billion at December 31, 2005, from Lincoln National Corporation that arose from the 1998 sale of CIGNA’s individual life insurance and annuity business through an indemnity reinsurance arrangement.

Unicover and other run-off reinsurance. The Run-off Reinsurance operations participate in a workers’ compensation reinsurance pool, which ceased accepting new risks in early 1999. This pool was formerly managed by Unicover Managers, Inc. The pool purchased significant reinsurance (retrocessional) protection for its assumed risks. Disputes concerning these retrocessional contracts have resulted in a number of arbitrations, most of which have been resolved or settled. The remaining disputes are expected to be substantially resolved in 2006.

Run-off Reinsurance also includes other (non-Unicover) workers’ compensation reinsurance contracts and personal accident reinsurance contracts, including contracts assumed in the London market. CIGNA is in dispute and arbitration with some ceding companies over the validity or amount of liabilities assumed under their contracts and expects that these disputes and arbitrations will be substantially resolved by 2008.

In addition, CIGNA obtained retrocessional reinsurance coverage for a significant portion of its liabilities under these contracts, and some of these retrocessionaires have disputed the validity or amount of liabilities assumed under their contracts with CIGNA. Many of these disputes with retrocessionaires have been resolved or settled. Most of the remaining significant disputes relating to the retrocessional reinsurance coverage are expected to be resolved by 2008. CIGNA bears the risk of loss if the retrocessionaires are unable to meet their reinsurance obligations to CIGNA.

Unfavorable claims experience related to workers’ compensation and personal accident exposures is possible and could result in future losses, including losses attributable to the inability to recover amounts from retrocessionaires (due to disputes with the retrocessionaires or their financial condition).

CIGNA’s reserves for amounts recoverable from retrocessionaires, as well as for underlying reinsurance exposures assumed by CIGNA, are considered appropriate as of March 31, 2006, based on current information. However, it is possible that future developments could have a material adverse effect on CIGNA’s consolidated results of operations and, in certain situations, could have a material adverse effect on CIGNA’s financial condition.

Other reinsurance. CIGNA could have losses if reinsurers fail to indemnify CIGNA on other reinsurance arrangements, either because of reinsurer insolvencies or contract disputes. However, management does not expect charges for other unrecoverable reinsurance to have a material adverse effect on CIGNA’s consolidated results of operations, liquidity or financial condition.

9

Effects of reinsurance. In CIGNA's consolidated income statements, premiums and fees were net of ceded premiums, and benefits and expenses were net of reinsurance recoveries, in the following amounts:

	Three Months Ended March 31,			
(In millions)	2006		2005	
Premiums and fees				
Individual life insurance and annuity business sold	$	64	$	67
Other		45		41
Total	$	109	$	108
Reinsurance recoveries				
Individual life insurance and annuity business sold	$	75	$	63
Other		35		43
Total	$	110	$	106

NOTE 7 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Pension benefits. CIGNA funds its qualified pension plans by at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Components of net pension cost were as follows:

	Three Months Ended March 31,			
(In millions)	2006		2005	
Service cost	$	19	$	17
Interest cost		55		55
Expected return on plan assets		(52)		(46)
Amortization of:				
Net loss from past experience		41		36
Prior service cost		—		(1)
Net pension cost	$	63	$	61

During 2005, CIGNA made pension contributions to the domestic pension plan totaling $544 million which included an acceleration of expected contributions to meet funding requirements in 2006 and 2007. Therefore, CIGNA does not expect to make domestic plan contributions in 2006, unless federal legislation currently being discussed changes the minimum funding requirements and increases CIGNA's required funding.

Other postretirement benefits. Components of net other postretirement benefit cost was as follows:

	Three Months Ended March 31,			
(In millions)	2006		2005	
Service cost	$	1	$	1
Interest cost		6		9
Expected return on plan assets		—		(1)
Amortization of:				
Net gain from past experience		(1)		—

Prior service cost		(4)		(5)
Net other postretirement benefit cost	$	2	$	4

NOTE 8 - COST REDUCTION PROGRAMS

First quarter 2005 program. In the first quarter of 2005, CIGNA implemented a plan to further streamline operations in the health care business and in supporting areas. As a result, CIGNA recognized in other operating expenses a total pre-tax charge of $51 million ($33 million after-tax) for severance costs during the first quarter of 2005. The table below quantifies CIGNA's cost reduction activity (pre-tax) for severance under this program:

(In millions)	Health Care	Corporate	Total
Balance as of December 31, 2005	$ 6	$ 13	$ 19
First quarter 2006 activity	(5)	(3)	(8)
Balance as of March 31, 2006	$ 1	$ 10	$ 11

First quarter 2006 activity includes a $2 million pre-tax ($1 million after-tax) reduction in the remaining liability.

NOTE 9 - INVESTMENTS

Realized Investment Gains and Losses

The following realized gains and losses on investments exclude amounts required to adjust future policy benefits for certain annuities:

	Three Months Ended March 31,	
(In millions)	2006	2005
Fixed maturities	$ 2	$ 13
Equity securities		