AETNA INC /PA/
Form 10-Q
October 27, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011
or

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

For the transition period from _________ to_________

Commission File Number: 1-16095

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter)
during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes o No

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

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

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

There were 362.3 million shares of the registrant's voting common stock with a par value of $.01 per share outstanding at September 30, 2011.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2011

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 32), 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)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions, except per common share data)	2011	2010	2011	2010
Revenue:				
Health care premiums	$6,776.7	$6,908.9	$20,260.7	$20,719.2
Other premiums	439.8	448.9	1,336.9	1,384.1
Fees and other revenue [1]	946.6	853.2	2,742.7	2,626.0
Net investment income	233.6	248.2	727.5	777.1
Net realized capital gains	78.6	79.6	139.7	199.7
Total revenue	8,475.3	8,538.8	25,207.5	25,706.1
Benefits and expenses:				
Health care costs [2]	5,345.5	5,649.3	16,060.3	16,998.9
Current and future benefits	470.7	480.9	1,433.9	1,488.6
Operating expenses:				
Selling expenses	269.1	304.8	827.0	928.8
General and administrative expenses	1,547.2	1,249.3	4,144.5	3,700.6
Total operating expenses	1,816.3	1,554.1	4,971.5	4,629.4
Interest expense	59.7	63.9	187.3	185.5
Amortization of other acquired intangible assets	31.7	23.4	83.6	72.0
Total benefits and expenses	7,723.9	7,771.6	22,736.6	23,374.4
Income before income taxes	751.4	767.2	2,470.9	2,331.7
Income taxes:				
Current	324.6	103.4	888.6	558.3
Deferred	(63.6)	166.2	(30.8)	222.2
Total income taxes	261.0	269.6	857.8	780.5
Net income	$490.4	$497.6	$1,613.1	$1,551.2
Earnings per common share:				
Basic	$1.33	$1.21	$4.28	$3.67
Diluted	$1.30	$1.19	$4.19	$3.61

(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 $16.4 million and $46.4 million (net of pharmaceutical and processing costs of $317.1 million and $938.0 million) for the three and nine months ended September 30, 2011, respectively, and $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.

(2) Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of $31.4 million and $101.0 million for the three and nine months ended September 30, 2011, respectively, and $36.2 million and $113.7 million for the three and nine months ended September 30, 2010, respectively.

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

Consolidated Balance Sheets

(Millions)	(Unaudited) At September 30, 2011	At December 31, 2010
Assets:		
Current assets:		
Cash and cash equivalents	$1,957.8	$1,867.6
Investments	2,042.7	2,169.7
Premiums receivable, net	807.8	661.9
Other receivables, net	766.6	692.6
Accrued investment income	196.4	203.4
Collateral received under securities loan agreements	—	210.6
Income taxes receivable	24.1	210.1
Deferred income taxes	403.9	327.0
Other current assets	686.6	651.3
Total current assets	6,885.9	6,994.2
Long-term investments	17,663.8	17,546.3
Reinsurance recoverables	926.8	960.1
Goodwill	6,010.3	5,146.4
Other acquired intangible assets, net	779.8	495.5
Property and equipment, net	533.0	529.3
Deferred income taxes	—	29.9
Other long-term assets	735.5	742.4
Separate Accounts assets	5,159.1	5,295.3
Total assets	$38,694.2	$37,739.4
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	$2,509.1	$2,630.9
Future policy benefits	704.4	728.4
Unpaid claims	578.6	593.3
Unearned premiums	794.2	318.7
Policyholders' funds	1,132.1	918.1
Collateral payable under securities loan agreements	—	210.8
Short-term debt	449.9	—
Current portion of long-term debt	—	899.9
Accrued expenses and other current liabilities	2,486.8	2,436.8
Total current liabilities	8,655.1	8,736.9
Future policy benefits	6,099.3	6,276.4
Unpaid claims	1,506.5	1,514.3
Policyholders' funds	1,357.4	1,316.6
Long-term debt, less current portion	3,977.1	3,482.6
Deferred income taxes	224.3	—
Other long-term liabilities	1,186.7	1,226.5
Separate Accounts liabilities	5,159.1	5,295.3
Total liabilities	28,165.5	27,848.6
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock ($.01 par value; 2.6 billion shares authorized and 362.3 million shares issued		

and outstanding in 2011; 2.7 billion shares authorized and 384.4 million shares issued and outstanding in 2010) and additional paid-in capital	909.6	651.5
Retained earnings	10,620.5	10,401.9
Accumulated other comprehensive loss	(1,001.4)	(1,162.6)
Total shareholders' equity	10,528.7	9,890.8
Total liabilities and shareholders' equity	$38,694.2	$37,739.4

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, 2011						
Balance at December 31, 2010	384.4	$651.5	$10,401.9	$ (1,162.6)	$9,890.8	
Comprehensive income:						
Net income	—	—	1,613.1	—	1,613.1	$ 1,613.1
Other comprehensive income (Note 8):						
Net unrealized gains on securities	—	—	—	138.1	138.1	
Net foreign currency and derivative losses	—	—	—	(5.7)	(5.7)	
Pension and OPEB plans	—	—	—	28.8	28.8	
Other comprehensive income	—	—	—	161.2	161.2	161.2
Total comprehensive income						$ 1,774.3
Common shares issued for benefit plans, including tax benefits	8.6	258.4	—	—	258.4	
Repurchases of common shares	(30.7)	(.3)	(1,227.3)	—	(1,227.6)	
Dividends declared	—	—	(167.2)	—	(167.2)	
Balance at September 30, 2011	362.3	$909.6	$10,620.5	$ (1,001.4)	$10,528.7	
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 8):						
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	

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

Consolidated Statements of Cash Flows
(Unaudited)

(Millions)	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$1,613.1	$1,551.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(139.7)	(199.7)
Depreciation and amortization	326.4	313.3
Equity in earnings of affiliates, net	(26.8)	(9.6)
Stock-based compensation expense	107.7	85.9
Accretion of net investment discount	(1.1)	(20.0)
Changes in assets and liabilities:		
Accrued investment income	7.0	1.8
Premiums due and other receivables	(158.4)	(98.0)
Income taxes	157.8	206.0
Other assets and other liabilities	(116.5)	(588.7)
Health care and insurance liabilities	236.2	(398.5)
Other, net	8.1	2.9
Net cash provided by operating activities	2,013.8	846.6
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	7,704.0	8,796.4
Cost of investments	(7,100.8)	(8,324.9)
Additions to property, equipment and software	(227.2)	(217.1)
Cash used for acquisition, net of cash acquired	(1,130.2)	(.1)
Net cash (used for) provided by investing activities	(754.2)	254.3
Cash flows from financing activities:		
Net repayment of long-term debt	(900.0)	—
Net issuance of long-term debt	480.1	697.8
Net issuance (repayment) of short-term debt	449.9	(245.4)
Deposits and interest credited for investment contracts	3.8	4.5
Withdrawals of investment contracts	(6.6)	(8.1)
Common shares issued under benefit plans	117.9	12.1
Stock-based compensation tax benefits	31.7	4.2
Common shares repurchased	(1,227.6)	(932.4)
Dividends paid to shareholders	(112.9)	—
Collateral on interest rate swaps	(5.7)	(41.7)
Net cash used for financing activities	(1,169.4)	(509.0)
Net increase in cash and cash equivalents	90.2	591.9
Cash and cash equivalents, beginning of period	1,867.6	1,203.6
Cash and cash equivalents, end of period	$1,957.8	$1,795.5
Supplemental cash flow information:		
Interest paid	$169.0	$156.4
Income taxes paid	665.0	569.3

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 health information exchange technology services, 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 geographies.

- 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.

- Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services. Large Case Pensions also includes certain discontinued products (refer to Note 17 beginning on page 30 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 2010 Annual Report on Form 10-K (our "2010 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 2010 Annual Report, unless the information contained in those disclosures materially changed or is required by GAAP. We evaluated subsequent events that occurred after September 30, 2011 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.

New Accounting Standards
Troubled Debt Restructurings
In April 2011, the Financial Accounting Standards Board (the "FASB") released new accounting guidance and additional disclosure requirements relating to a creditor's restructuring of receivables including mortgage loans. The new guidance became effective beginning July 1, 2011. Since we have no material problem, restructured or potential problem mortgage loans, the adoption of this accounting guidance did not have a material impact on our financial position or operating results.

Future Application of Accounting Standards
Testing Goodwill for Impairment
In September 2011, the FASB released new accounting guidance amending the current guidance for testing goodwill for impairment. Under the amendments, an entity has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If management determines that a reporting unit's fair value is likely greater than its carrying amount, then no additional analysis is necessary, and the goodwill is not impaired. The new guidance is effective beginning January 1, 2012, and early adoption is permitted. We do not expect the new guidance to have a material impact on our financial position or operating results.

Fees Paid to the Federal Government by Health Insurers
In July 2011, the FASB released new accounting guidance relating to the recognition and income statement reporting of any mandated fees to be paid to the federal government by health insurers which will be effective January 1, 2014. This guidance will apply primarily to new fees enacted in the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, "Health Care Reform"). We are evaluating the impact this guidance will have on our financial position or operating results.

Presentations of Comprehensive Income
In June 2011, the FASB released new requirements for the presentation of other comprehensive income in financial statements. The new requirements eliminate the option that previously existed to present changes in other comprehensive income within the statement of shareholders' equity and require its presentation in either a single continuous statement of comprehensive income or in a separate statement immediately following the statement of income. The new requirements are effective beginning January 1, 2012 and will affect the presentation of our financial statements, but will not have a material impact on our financial position or operating results.

Fair Value Measurements
In May 2011, the FASB released new guidance relating to fair value measurements. This new guidance amends and clarifies certain existing fair value measurement principles and requires additional disclosures for all Level 3 assets, including a qualitative discussion about the sensitivity of Level 3 fair value measurements. The new requirements are effective beginning January 1, 2012 and are not expected to have a material impact on our financial position or operating results.

Reconsideration of Effective Control for Repurchase Agreements
In April 2011, the FASB released new accounting guidance relating to repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before maturity. The guidance prescribes when an entity may recognize a sale upon the transfer of financial assets subject to repurchase agreements. The new guidance is effective beginning January 1, 2012. Since we treat these transactions as collateralized borrowings rather

than sales, we do not expect the adoption of this accounting guidance to have a material impact on our financial position or operating results.

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. We do not expect the adoption of this accounting guidance to have a material impact on our financial position or operating results.

3. Acquisitions

During the nine months ended September 30, 2011, we completed the acquisitions of Medicity Inc. ("Medicity") and Prodigy Health Group ("Prodigy"). In October 2011, we completed the acquisitions of Genworth Financial, Inc.'s ("Genworth's") Medicare Supplement business and related blocks of in-force business and PayFlex Holdings, Inc. ("PayFlex"). Each of these acquisitions was funded using available resources. Refer to Note 6 on page 9 for additional information.

• Medicity Inc.
In January 2011, we acquired Medicity, a health information exchange company, for approximately $490 million. We recorded goodwill related to this transaction of approximately $394 million, a majority of which will not be tax deductible. All of the goodwill related to this acquisition was assigned to our Health Care segment.

• Prodigy Health Group
In June 2011, we acquired Prodigy, a third party administrator of self-funded health care plans, for approximately $600 million. We preliminarily recorded goodwill related to this transaction of approximately $445 million, of which approximately $52 million will be tax deductible. All of the goodwill related to this acquisition was assigned to our Health Care segment.

• Genworth Financial, Inc.'s Medicare Supplement Business and Related Blocks of In-Force Business
In October 2011, we acquired Genworth's Medicare Supplement business and related blocks of in-force business for approximately $260 million. The majority of the goodwill related to this acquisition will be assigned to our Health Care segment. The transaction closed after September 30, 2011, and therefore has not been reflected in these financial statements.

• PayFlex Holdings, Inc.
In October 2011, we acquired PayFlex, one of the nation’s largest independent account-based health plan administrators, for approximately $190 million. All of the goodwill related to this acquisition will be assigned to our Health Care segment. The transaction closed after September 30, 2011, and therefore has not been reflected in these financial statements.

4. Earnings Per Common Share

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

The computations of basic and diluted EPS for the three and nine months ended September 30, 2011 and 2010 are as follows:

(Millions, except per common share data)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Net income	$490.4	$497.6	$1,613.1	$1,551.2
Weighted average shares used to compute basic EPS	369.2	412.7	377.2	422.3
Dilutive effect of outstanding stock-based compensation awards (1)	7.6	6.1	7.8	7.2
Weighted average shares used to compute diluted EPS	376.8	418.8	385.0	429.5
Basic EPS	$1.33	$1.21	$4.28	$3.67
Diluted EPS	$1.30	$1.19	$4.19	$3.61

(1) Stock based compensation awards are not included in the calculation of diluted EPS if the exercise price is greater than the average market price of Aetna common shares during the period (i.e., the awards are anti-dilutive). Approximately 12.6 million and 12.7 million stock appreciation rights were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2011, respectively. Approximately 18.6 million and 18.7 million stock appreciation rights and 5.7 million and 5.8 million stock options were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2010, respectively. These stock based compensation awards were excluded from the calculation of diluted EPS because their effect was anti-dilutive.

5. Operating Expenses

For the three and nine months ended September 30, 2011 and 2010, 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:

(Millions)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Selling expenses	$269.1	$304.8	$827.0	$928.8
General and administrative expenses:				
Salaries and related benefits (1)	918.0	761.6	2,468.6	2,292.3
Other general and administrative expenses (2)	629.2	487.7	1,675.9	1,408.3
Total general and administrative expenses	1,547.2	1,249.3	4,144.5	3,700.6
Total operating expenses	$1,816.3	$1,554.1	$4,971.5	$4,629.4

(1) Includes a one-time pretax charge of $137.0 million in the three and nine months ended September 30, 2011 related to the voluntary early retirement program that we announced in July 2011. Refer to the reconciliation of operating earnings to net income in Note 15 beginning on page 29 for additional information.

(2) Includes litigation-related insurance proceeds of $41.0 million and $131.0 million for the three and nine months ended September 30, 2010, respectively. Refer to the reconciliation of operating earnings to net income in Note 15 beginning on page 29 for additional information.

6. Goodwill and Other Acquired Intangible Assets

The increase in goodwill for the nine months ended September 30, 2011 and 2010 is as follows:

(Millions)	2011	2010
Balance, beginning of the period	$5,146.4	$5,146.2
Goodwill acquired:		
Prodigy [(1)]	445.0	—
Medicity	393.5	—
Other [(1)]	25.4	(.5)
Balance, end of the period	$6,010.3	$5,145.7

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

Other acquired intangible assets at September 30, 2011 and December 31, 2010 were comprised of the following:

(Millions)	Cost	Accumulated Amortization	Net Balance	Amortization Period (Years)	
September 30, 2011					
Provider networks	$703.2	$421.3	$281.9	12-25	(1)
Customer lists	661.4	313.9	347.5	4-10	(1)
Technology	120.9	32.6	88.3	3-10	
Other	21.8	16.9	4.9	2-15	
Definite-lived trademarks	47.6	12.7	34.9	2-15	
Indefinite-lived trademarks	22.3	—	22.3		
Total other acquired intangible assets	$1,577.2	$797.4	$779.8		
December 31, 2010					
Provider networks	$703.2	$398.9	$304.3	12-25	(1)
Customer lists	420.4	262.6	157.8	4-10	(1)
Technology	25.3	25.0	.3	3-5	
Other	17.1	16.8	.3	2-15	
Definite-lived trademarks	21.0	10.5	10.5	2-15	
Indefinite-lived trademarks	22.3	—	22.3		
Total other acquired intangible assets	$1,209.3	$713.8	$495.5		

(1) The amortization period for our provider networks and customer lists includes an assumption of renewal or extension of these arrangements. At September 30, 2011 and December 31, 2010, the periods prior to next renewal or extension for our provider networks primarily ranged from 1 to 3 years. At September 30, 2011 and December 31, 2010, the period prior to the next renewal or extension for our customer lists was approximately one year. Any costs related to the renewal or extension of these contracts is expensed as incurred.

The value assigned to other acquired intangible assets for acquisitions completed during the nine months ended September 30, 2011, primarily for customer lists and technology intangibles, totaled $367.9 million, of which $227.0 million is preliminary pending the finalization of purchase price allocations.

We estimate annual pretax amortization for other acquired intangible assets for 2011 and over the next five years to be as follows:

(Millions)	
2011	$114.5
2012	115.7
2013	106.5
2014	87.4
2015	72.1
2016	68.2

7. Investments

Total investments at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011			December 31, 2010		
(Millions)	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	$1,986.2	$14,785.5	$16,771.7	$2,111.9	$14,849.7	$16,961.6
Mortgage loans	49.0	1,556.8	1,605.8	55.2	1,454.6	1,509.8
Other investments	7.5	1,321.5	1,329.0	2.6	1,242.0	1,244.6
Total investments	$2,042.7	$17,663.8	$19,706.5	$2,169.7	$17,546.3	$19,716.0

Debt and Equity Securities

Debt and equity securities available for sale at September 30, 2011 and December 31, 2010 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Debt securities:				
U.S. government securities	$1,358.0	$171.1	$(.4)	$1,528.7
States, municipalities and political subdivisions	2,470.5	184.6	(4.9)	2,650.2
U.S. corporate securities	6,268.4	671.5	(43.6)	6,896.3
Foreign securities	2,664.0	259.7	(43.1)	2,880.6
Residential mortgage-backed securities	811.3	51.8	(.1) [1]	863.0
Commercial mortgage-backed securities	1,269.4	80.1	(14.3) [1]	1,335.2
Other asset-backed securities	397.9	21.4	(4.1) [1]	415.2
Redeemable preferred securities	168.9	11.2	(14.8)	165.3
Total debt securities	15,408.4	1,451.4	(125.3)	16,734.5
Equity securities	40.2	5.0	(8.0)	37.2
Total debt and equity securities [2]	$15,448.6	$1,456.4	$(133.3)	$16,771.7
December 31, 2010				
Debt securities:				
U.S. government securities	$1,293.5	$80.8	$(.6)	$1,373.7
States, municipalities and political subdivisions	2,288.8	54.4	(46.9)	2,296.3
U.S. corporate securities	6,731.5	553.0	(21.9)	7,262.6
Foreign securities	2,667.4	231.1	(21.2)	2,877.3
Residential mortgage-backed securities	1,089.2	53.6	(2.8) [1]	1,140.0
Commercial mortgage-backed securities	1,226.4	99.5	(13.7) [1]	1,312.2
Other asset-backed securities	447.6	21.1	(4.8) [1]	463.9
Redeemable preferred securities	196.7	12.3	(12.7)	196.3
Total debt securities	15,941.1	1,105.8	(124.6)	16,922.3
Equity securities	35.3	5.6	(1.6)	39.3
Total debt and equity securities [2]	$15,976.4	$1,111.4	$(126.2)	$16,961.6

(1) At September 30, 2011 and December 31, 2010, we held securities for which we recognized $28.0 million and $38.3 million, respectively, of non-credit-related impairments in other comprehensive income in the past. These securities had a net unrealized capital gain at September 30, 2011 and December 31, 2010 of $8.2 million and $3.9 million, respectively.

(2) Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results (refer to Note 17 beginning on page 30 for additional information on our accounting for discontinued products). At September 30, 2011, debt and equity securities with a fair value of $4.1 billion, gross unrealized capital gains of $483.4 million and gross unrealized capital losses of $55.7 million and, at December 31, 2010, debt and equity securities with a fair value of $4.1 billion, gross unrealized capital gains of $339.5 million and gross unrealized capital losses of $38.1 million were included in total debt and equity securities, but support our experience-rated and discontinued products. Changes in net unrealized capital gains (losses) on these securities are not reflected in accumulated other comprehensive income.

The fair value of debt securities at September 30, 2011 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	$694.5
One year through five years	3,018.1
After five years through ten years	5,213.8
Greater than ten years	5,194.7
Residential mortgage-backed securities	863.0
Commercial mortgage-backed securities	1,335.2
Other asset-backed securities	415.2
Total	$16,734.5

Mortgage-Backed and Other Asset-Backed Securities

All of our residential mortgage-backed securities at September 30, 2011 were issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and carry agency guarantees and explicit or implicit guarantees by the U.S. Government. At September 30, 2011, our residential mortgage-backed securities had an average quality rating of AAA and a weighted average duration of 1.9 years.

Our commercial mortgage-backed securities have underlying loans that are dispersed throughout the U.S. Significant market observable inputs used to value these securities include probability of default and loss severity. At September 30, 2011, these securities had an average quality rating of AA+ and a weighted average duration of 3.7 years.

Our other asset-backed securities have a variety of underlying collateral (e.g., automobile loans, credit card receivables and home equity loans). Significant market observable inputs used to value these securities include the unemployment rate, loss severity and probability of default. At September 30, 2011, these securities had an average quality rating of AA and a weighted average duration of 3.4 years.

Unrealized Capital Losses and Net Realized Capital Gains (Losses)

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

Summarized below are the debt and equity securities we held at September 30, 2011 and December 31, 2010 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, 2011						
Debt securities:						
U.S. government securities	$50.9	$.1	$15.1	$.3	$66.0	$.4
States, municipalities and political subdivisions	90.8	1.0	93.4	3.9	184.2	4.9
U.S. corporate securities	947.2	40.7	74.1	2.9	1,021.3	43.6
Foreign securities	659.0	34.8	34.4	8.3	693.4	43.1
Residential mortgage-backed securities	—	—	3.1	.1	3.1	.1
Commercial mortgage-backed securities	263.9	9.0	43.2	5.3	307.1	14.3
Other asset-backed securities	5.7	.3	3.9	3.8	9.6	4.1
Redeemable preferred securities	38.5	1.7	35.5	13.1	74.0	14.8
Total debt securities	2,056.0	87.6	302.7	37.7	2,358.7	125.3
Equity securities	15.9	7.6	10.7	.4	26.6	8.0
Total debt and equity securities [1]	$2,071.9	$95.2	$313.4	$38.1	$2,385.3	$133.3
December 31, 2010						
Debt securities:						
U.S. government securities	$8.4	$.2	$19.8	$.4	$28.2	$.6
States, municipalities and political subdivisions	964.9	37.6	82.7	9.3	1,047.6	46.9
U.S. corporate securities	665.8	17.0	210.2	4.9	876.0	21.9
Foreign securities	375.9	14.6	34.6	6.6	410.5	21.2
Residential mortgage-backed securities	103.7	2.6	6.6	.2	110.3	2.8
Commercial mortgage-backed securities	103.7	2.4	78.5	11.3	182.2	13.7
Other asset-backed securities	85.9	2.0	4.9	2.8	90.8	4.8
Redeemable preferred securities	4.5	—	94.3	12.7	98.8	12.7
Total debt securities	2,312.8	76.4	531.6	48.2	2,844.4	124.6
Equity securities	.5	—	9.5	1.6	10.0	1.6
Total debt and equity securities [1]	$2,313.3	$76.4	$541.1	$49.8	$2,854.4	$126.2

(1) At September 30, 2011 and December 31, 2010, debt and equity securities in an unrealized capital loss position of $55.7 million and $38.1 million, respectively, and with related fair value of $612.0 million and $650.5 million, respectively, related to experience-rated and discontinued products.

We reviewed the securities in the tables above and concluded that these are performing assets generating investment income to support the needs of our business. In performing this review, we considered factors such as the quality of the investment security based on research performed by our internal credit analysts and external rating agencies and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. At September 30, 2011, we did not have the intention to sell the debt securities that were in an unrealized capital loss position.

The maturity dates for debt securities in an unrealized capital loss position at September 30, 2011 were as follows:

(Millions)	Supporting discontinued and experience-rated products		Supporting remaining products		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Due to mature:						
Less than one year	$1.0	$—	$139.8	$2.4	$140.8	$2.4
One year through five years	54.7	1.6	331.5	9.6	386.2	11.2
After five years through ten years	258.4	12.6	672.5	28.1	930.9	40.7
Greater than ten years	215.5	30.8	365.5	21.7	581.0	52.5
Residential mortgage-backed securities	—	—	3.1	.1	3.1	.1
Commercial mortgage-backed securities	51.2	2.4	255.9	11.9	307.1	14.3
Other asset-backed securities	5.0	.3	4.6	3.8	9.6	4.1
Total	$585.8	$47.7	$1,772.9	$77.6	$2,358.7	$125.3

Net realized capital gains for the three and nine months ended September 30, 2011 and 2010, 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)	2011	2010	2011	2010
OTTI losses on debt securities	$(3.7)	$(9.0)	$(8.2)	$(32.7)
Portion of OTTI losses on debt securities recognized in other comprehensive income	—	6.0	—	12.7
Net OTTI losses on debt securities recognized in earnings	(3.7)	(3.0)	(8.2)	(20.0)
Net realized capital gains, excluding OTTI losses on debt securities	82.3	82.6	147.9	219.7
Net realized capital gains	$78.6	$79.6	$139.7	$199.7

The net realized capital gains for the three and nine months ended September 30, 2011 and 2010 were primarily attributable to the sale of debt securities, partially offset by losses from derivative transactions.

Excluding amounts related to experience-rated and discontinued products, proceeds from the sale of debt securities and the related gross realized capital gains and losses for the three and nine months ended September 30, 2011 and 2010 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions)	2011	2010	2011	2010
Proceeds on sales	$1,927.1	$2,373.3	$5,019.0	$5,938.3
Gross realized capital gains	107.5	108.8	216.7	304.2
Gross realized capital losses	(5.0)	(6.4)	(30.1)	(26.4)

Mortgage loans
Our mortgage loans are collateralized by commercial real estate. During the three and nine months ended September 30, 2011 and 2010 we had the following activity in our mortgage loan portfolio:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions)	2011	2010	2011	2010
New mortgage loans	$56.1	$37.9	$184.6	$53.2
Mortgage loans fully repaid	15.4	21.2	54.6	74.3
Mortgage loans foreclosed	—	8.5	—	20.0

At September 30, 2011 and December 31, 2010, we had no material problem, restructured or potential problem mortgage loans. We also had no material impairment reserves on these loans at September 30, 2011 or December 31, 2010.

We assess our mortgage loans on a regular basis for credit impairments, and annually we assign a credit quality indicator to each loan. Our credit quality indicator is internally developed and categorizes our portfolio on a scale from 1 to 7. Category 1 represents loans of superior quality, and Categories 6 and 7 represent loans where collections are at risk. Most of our mortgage loans fall into the Level 2 to 4 ratings. These ratings represent loans where credit risk is minimal to acceptable; however, these loans may display some susceptibility to economic changes. Category 5 represents loans where credit risk is not substantial but these loans warrant management’s close attention. These indicators are based upon several factors, including current loan to value ratios, property condition, market trends, borrower quality and deal structure. Based upon our most recent assessment at September 30, 2011 and December 31, 2010, our mortgage loans were given the following credit quality indicators:

(In Millions)	September 30, 2011	December 31, 2010
1	$104.5	$99.4
2 to 4	1,374.7	1,301.5
5	91.3	86.1
6 and 7	35.3	22.8
Total	$1,605.8	$1,509.8

Variable Interest Entities
In determining whether to consolidate a variable interest entity ("VIE"), we consider several factors including whether we have the power to direct activities, the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We have relationships with certain real estate and hedge fund partnerships that are considered VIEs, but are not consolidated. We record the amount of our investment in these partnerships as long-term investments on our balance sheets and recognize our share of partnership income or losses in earnings. Our maximum exposure to loss as a result of our investment in these partnerships is our investment balance at September 30, 2011 and December 31, 2010 of approximately $171 million and $153 million, respectively, and the risk of recapture of tax credits related to the real estate partnerships previously recognized, which we do not consider significant. We do not have a future obligation to fund losses or debts on behalf of these investments; however, we may voluntarily contribute funds. The real estate partnerships construct, own and manage low-income housing developments and had total assets of approximately $5.2 billion and $5.1 billion at September 30, 2011 and December 31, 2010, respectively. The hedge fund partnerships had total assets of approximately $6.1 billion at both September 30, 2011 and December 31, 2010.

Non-controlling Interests
Certain of our investment holdings are partially-owned by third parties. At September 30, 2011 and December 31, 2010, approximately $71 million and $74 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 (loss) income attributable to these interests was $(1) million and $2 million for the three and nine months ended September 30, 2011, respectively, and $1 million and $2 million for the three and nine months ended

September 30, 2010, respectively. These non-controlling interests did not have a material impact on our financial position or operating results.

Net Investment Income

Sources of net investment income for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2011	2010	2011	2010
Debt securities	$205.1	$225.8	$628.5	$694.3
Mortgage loans	26.5	25.4	75.8	78.4
Other investments	9.5	4.4	45.4	25.5
Gross investment income	241.1	255.6	749.7	798.2
Less: investment expenses	(7.5)	(7.4)	(22.2)	(21.1)
Net investment income [1]	$233.6	$248.2	$727.5	$777.1

(1) Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results (refer to Note 17 beginning on page 30 for additional information on our accounting for discontinued products). Net investment income includes $85.8 million and $252.8 million for the three and nine months ended September 30, 2011, respectively, and $78.3 million and $246.7 million for the three and nine months ended September 30, 2010, respectively, related to investments supporting our experience-rated and discontinued products.

The decrease in net investment income during the three and nine months ended September 30, 2011 was primarily a result of lower average yields and lower average asset levels partially offset by higher returns on our alternative investments.

8. 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, 2011 and 2010:

	Net Unrealized Gains (Losses)			Pension and OPEB Plans		Total
(Millions)	Securities Previously Impaired [1]	All Other	Foreign Currency and Derivatives	Unrecognized Net Actuarial Losses	Unrecognized Prior Service Cost	Accumulated Other Comprehensive (Loss) Income
Nine months ended September 30, 2011						
Balance at December 31, 2010	$75.1	$375.2	$(27.3)	$ (1,614.0)	$ 28.4	$ (1,162.6)
Net unrealized gains (losses) ($376.6 pretax)	.7	251.9	(7.8)	—	—	244.8
Reclassification to earnings ($128.6 pretax)	(16.8)	(97.7)	2.1	30.8	(2.0)	(83.6)
Other comprehensive (loss) income	(16.1)	154.2	(5.7)	30.8	(2.0)	161.2
Balance at September 30, 2011	$59.0	$529.4	$(33.0)	$ (1,583.2)	$ 26.4	$ (1,001.4)
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)
	51.2	549.9	(53.8)	(543.6)	—	3.7

Net unrealized gains (losses) ($5.7 pretax)						
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)

(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.

9. Financial Instruments

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

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

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

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

Debt Securities – Where quoted prices are available in an active market, our debt securities are classified in Level 1 of the fair value hierarchy. Our Level 1 debt securities are comprised primarily of U.S. Treasury securities. If Level 1 valuations are not available, the fair value is determined using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. We obtained one price for each of our Level 2 debt securities and did not adjust any of these prices at September 30, 2011 or December 31, 2010.

We also value certain debt securities using Level 3 inputs. For Level 3 debt securities, fair values are determined by outside brokers or, in the case of certain private placement securities, are priced internally. Outside brokers determine the value of these debt securities through a combination of their knowledge of the current pricing environment and market flows. We obtained one non-binding broker quote for each of these Level 3 debt securities and did not adjust any of these quotes at September 30, 2011 or December 31, 2010. The total fair value of our broker quoted securities was approximately $132 million at September 30, 2011 and $153 million at December 31, 2010. Examples of these Level 3 debt securities include certain U.S. and foreign corporate securities and certain of our commercial mortgage-backed securities as well as other asset-backed securities. For some of our private placement securities, our internal staff determines the value of these debt securities by analyzing spreads of corporate and sector indices as well as interest spreads of comparable public bonds. Examples of these Level 3 debt securities include certain U.S. 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 measured at fair value on a recurring basis in our balance sheets at September 30, 2011 and December 31, 2010 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
September 30, 2011				
Assets:				
Debt securities:				
U.S. government securities	$1,277.6	$251.1	$—	$1,528.7
States, municipalities and political subdivisions	—	2,648.5	1.7	2,650.2
U.S. corporate securities	—	6,834.6	61.7	6,896.3
Foreign securities	—	2,825.8	54.8	2,880.6
Residential mortgage-backed securities	—	863.0	—	863.0
Commercial mortgage-backed securities	—	1,306.5	28.7	1,335.2
Other asset-backed securities	—	367.6	47.6	415.2
Redeemable preferred securities	—	138.5	26.8	165.3
Total debt securities	1,277.6	15,235.6	221.3	16,734.5
Equity securities	.8	—	36.4	37.2
Derivatives	—	7.5	—	7.5
Total	$1,278.4	$15,243.1	$257.7	$16,779.2
Liabilities:				
Derivatives	$—	$4.2	$—	$4.2
December 31, 2010				
Assets:				
Debt securities:				
U.S. government securities	$1,081.0	$292.7	$—	$1,373.7
States, municipalities and political subdivisions	—	2,292.7	3.6	2,296.3
U.S. corporate securities	—	7,201.9	60.7	7,262.6
Foreign securities	—	2,822.4	54.9	2,877.3
Residential mortgage-backed securities	—	1,140.0	—	1,140.0
Commercial mortgage-backed securities	—	1,275.3	36.9	1,312.2
Other asset-backed securities	—	407.4	56.5	463.9
Redeemable preferred securities	—	178.5	17.8	196.3
Total debt securities	1,081.0	15,610.9	230.4	16,922.3
Equity securities	1.4	—	37.9	39.3
Derivatives	—	2.6	—	2.6
Total	$1,082.4	$15,613.5	$268.3	$16,964.2
Liabilities:				
Derivatives	$—	$6.5	$—	$6.5

The change in the balance of Level 3 financial assets for the three and nine months ended September 30, 2011 is as follows:

(Millions)	Foreign Securities	Commercial Mortgage-backed Securities	Equity Securities	Other	Total
Three Months Ended September 30, 2011					
Beginning balance	$50.1	$ 39.8	$33.2	$130.0	$253.1
Net realized and unrealized capital gains (losses):					
Included in earnings	.1	1.1	—	(.6)	.6
Included in other comprehensive income	(1.5)	(2.2)	—	1.0	(2.7)
Other [1]	(1.1)	—	(1.8)	(3.8)	(6.7)
Purchases	7.2	—	5.3	12.1	24.6
Sales	—	—	(.3)	(6.3)	(6.6)
Settlements	—	(10.0)	—	(5.7)	(15.7)
Transfers into Level 3	—	—	—	11.1 [2]	11.1
Ending balance	$54.8	$ 28.7	$36.4	$137.8	$257.7
Amount of Level 3 net unrealized losses included in net income	$—	$ —	$—	$—	$—

(Millions)	Foreign Securities	Commercial Mortgage-backed Securities	Equity Securities	Other	Total
Nine Months Ended September 30, 2011					
Beginning balance	$54.9	$ 36.9	$37.9	$138.6	$268.3
Net realized and unrealized capital gains (losses):					
Included in earnings	1.1	2.6	—	(2.2)	1.5
Included in other comprehensive income	(2.0)	.8	—	1.2	—
Other [1]	(.4)	—	(6.7)	(3.8)	(10.9)
Purchases	27.4	—	5.5	22.7	55.6
Sales	(16.4)	—	(.3)	(10.0)	(26.7)
Settlements	(.8)	(11.6)	—	(19.8)	(32.2)
Transfers (out of) into Level 3	(9.0) [2]	—	—	11.1 [2]	2.1
Ending balance	$54.8	$ 28.7	$36.4	$137.8	$257.7
Amount of Level 3 net unrealized losses included in net income	$—	$ —	$—	$(.2)	$(.2)

(1) Reflects realized and unrealized capital gains and losses on investments supporting our experience-rated and discontinued products, which do not impact our operating results.

(2) Amounts represent gross transfers (out of) into Level 3.

The change in the balance of Level 3 financial assets for the three and nine months ended September 30, 2010 was as follows:

(Millions)	Three Months Ended September 30, 2010 U.S. Corporate Securities	Foreign Securities	Other	Total	Nine Months Ended September 30, 2010 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	(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)

(1) Reflects realized and unrealized capital gains and losses on investments supporting our experience-rated and discontinued products, which do not impact our operating results.

There were no material transfers into Level 3 during the three and nine months ended September 30, 2010. 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 carried on our balance sheets at adjusted cost or contract value.

Mortgage loans: Fair values are estimated by discounting expected mortgage loan cash flows at market rates that reflect the rates at which similar loans would be made to similar borrowers. These rates reflect our assessment of the credit 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, 2011 and December 31, 2010 were as follows:

	September 30, 2011		December 31, 2010	
(Millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Mortgage loans	$1,605.8	$1,650.5	$1,509.8	$1,526.1
Liabilities:				
Investment contract liabilities:				
With a fixed maturity	37.4	37.7	41.7	