AETNA INC /PA/
Form 10-Q/A
August 01, 2008

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

FORM 10-Q/A
Amendment No. 1 to 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 June 30, 2008

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 (State or other jurisdiction of incorporation or organization)	23-2229683 (I.R.S. Employer Identification No.)
151 Farmington Avenue, Hartford, CT (Address of principal executive offices)	06156 (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 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). ¨ Yes þ No

There were 471.6 million shares of the registrant’s voting common stock with a par value of $.01 per share outstanding at June 30, 2008.

Aetna Inc.
Form 10-Q/A
For the Quarterly Period Ended June 30, 2008

Due to a computer error during the EDGAR filing process, Aetna Inc.'s Quarterly Report on From 10-Q for the period ended June 30, 2008 filed on July 31, 2008 was incomplete. This amendment to that Form 10-Q ("10-Q/A") is being filed to provide the information inadvertently omitted due to that computer error from the prior filing.

Aetna Inc.
Form 10-Q/A
For the Quarterly Period Ended June 30, 2008

Unless the context otherwise requires, references to the terms "we," "our" or "us" used throughout this Quarterly Report on Form 10-Q/A (except the Report of Independent Registered Public Accounting Firm on page 20), 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 June 30, 2008	2007	For the Six Months Ended June 30, 2008	2007
Revenue:				
Health care premiums	$ 6,288.9	$ 5,292.8	$ 12,542.4	$ 10,471.3
Other premiums	473.3	503.2	948.5	998.6
Fees and other revenue *	829.3	736.2	1,654.6	1,469.0
Net investment income	258.7	308.3	501.9	602.8
Net realized capital losses	(22.1)	(46.6)	(80.6)	(47.8)
Total revenue	7,828.1	6,793.9	15,566.8	13,493.9
Benefits and expenses:				
Health care costs **	5,153.3	4,313.9	10,239.5	8,491.0
Current and future benefits	500.8	576.7	1,009.7	1,167.1
Operating expenses:				
Selling expenses	275.6	256.8	579.4	526.6
General and administrative expenses	1,122.4	957.6	2,219.5	1,892.3
Total operating expenses	1,398.0	1,214.4	2,798.9	2,418.9
Interest expense	56.6	42.8	111.0	85.1
Amortization of other acquired intangible assets	27.3	21.8	55.1	43.6
Reduction of reserve for anticipated future losses on discontinued products	(43.8)	(64.3)	(43.8)	(64.3)
Total benefits and expenses	7,092.2	6,105.3	14,170.4	12,141.4
Income before income taxes	735.9	688.6	1,396.4	1,352.5
Income taxes (benefits):				
Current	247.3	244.3	487.9	476.8
Deferred	8.1	(7.0)	(3.6)	(10.2)
Total income taxes	255.4	237.3	484.3	466.6
Net income	$ 480.5	$ 451.3	$ 912.1	$ 885.9
Earnings per common share:				
Basic	$ 1.00	$ .88	$ 1.87	$ 1.72
Diluted	$ .97	$ .85	$ 1.82	$ 1.66

* 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 $16.3 million and $29.9 million (net of pharmaceutical and processing costs of $398.8 million and $777.4 million) for the three and six months ended June 30, 2008, respectively, and $17.2 million and $28.3 million (net of pharmaceutical and processing costs of $362.9 million and $713.6 million) for the three and six months ended June 30, 2007, respectively.

** Health care costs have been reduced by Insured member co-payment revenue related to our mail order and specialty pharmacy operations of $28.3 million and $56.4 million for the three and six months ended June 30, 2008,

respectively, and $25.0 million and $50.4 million for the three and six months ended June 30, 2007, respectively.

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

Consolidated Balance Sheets

(Millions)	(Unaudited) At June 30, 2008	At December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 830.8	$ 1,254.0
Investments	493.6	851.5
Premiums receivable, net	692.7	479.8
Other receivables, net	620.0	589.1
Accrued investment income	195.5	189.2
Collateral received under securities loan agreements	1,001.9	1,142.4
Income taxes receivable	13.2	-
Deferred income taxes	281.7	321.7
Other current assets	441.0	438.7
Total current assets	4,570.4	5,266.4
Long-term investments	17,823.9	17,040.1
Reinsurance recoverables	1,070.1	1,093.2
Goodwill	5,081.3	5,081.0
Other acquired intangible assets, net	725.3	780.4
Property and equipment, net	393.4	364.0
Deferred income taxes	13.8	-
Other long-term assets	1,959.6	1,850.2
Separate Accounts assets (Note 15)	7,054.4	19,249.4
Total assets	$ 38,692.2	$ 50,724.7
Liabilities and shareholders' equity		
Current liabilities:		
Health care costs payable	$ 2,488.8	$ 2,177.4
Future policy benefits	753.0	763.8
Unpaid claims	529.3	625.9
Unearned premiums	248.3	198.4
Policyholders' funds	782.3	668.2
Collateral payable under securities loan agreements	1,001.9	1,142.4
Short-term debt	635.6	130.7
Income taxes payable	-	5.9
Accrued expenses and other current liabilities	2,045.7	1,962.0
Total current liabilities	8,484.9	7,674.7
Future policy benefits	7,097.6	7,253.2
Unpaid claims	1,254.8	1,234.1
Policyholders' funds	1,192.5	1,225.7
Long-term debt	3,139.1	3,138.5
Income taxes payable	8.7	13.0
Deferred income taxes	-	146.4
Other long-term liabilities	754.3	751.3
Separate Accounts liabilities (Note 15)	7,054.4	19,249.4
Total liabilities	28,986.3	40,686.3
Commitments and contingencies (Note 12)		
Shareholders' equity:		

Common stock ($.01 par value; 2.8 billion shares authorized; 471.6 million and 496.3 million shares issued and outstanding in 2008 and 2007, respectively) and additional paid-in capital		288.1		188.8
Retained earnings		9,850.4		10,138.0
Accumulated other comprehensive loss		(432.6)		(288.4)
Total shareholders' equity		9,705.9		10,038.4
Total liabilities and shareholders' equity	$	38,692.2	$	50,724.7

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
Six Months Ended June 30, 2008											
Balance at January 1, 2008	496.3	$	188.8	$	10,138.0	$	(288.4)	$	10,038.4		
Comprehensive income:											
Net income	-		-		912.1		-		912.1	$	912.1
Other comprehensive loss (Note 6):											
Net unrealized losses on securities	-		-		-		(144.7)		(144.7)		
Net foreign currency gains	-		-		-		.9		.9		
Net derivative losses	-		-		-		(1.4)		(1.4)		
Pension and OPEB plans	-		-		-		1.0		1.0		
Other comprehensive loss	-		-		-		(144.2)		(144.2)		(144.2)
Total comprehensive income										$	767.9
Common shares issued for benefit plans, including tax benefits	1.8		99.6		-		-		99.6		
Repurchases of common shares	(26.5)		(.3)		(1,199.7)		-		(1,200.0)		
Balance at June 30, 2008	471.6	$	288.1	$	9,850.4	$	(432.6)	$	9,705.9		
Six Months Ended June 30, 2007											
Balance at January 1, 2007	516.0	$	366.2	$	9,403.6	$	(511.8)	$	9,258.0		
Comprehensive income:											
Net income	-		-		885.9		-		885.9	$	885.9
Other comprehensive loss (Note 6):											
Net unrealized losses on securities	-		-		-		(109.6)		(109.6)		
Net foreign currency gains	-		-		-		2.5		2.5		
Net derivative gains	-		-		-		.3		.3		
Pension and OPEB plans	-		-		-		11.0		11.0		
	-		-		-		(95.8)		(95.8)		(95.8)

Other comprehensive loss						
Total comprehensive income						$ 790.1
Common shares issued for benefit plans, including tax benefits	8.2	237.6	-	-	237.6	
Repurchases of common shares	(12.8)	(592.3)	(12.9)	-	(605.2)	
Balance at June 30, 2007	511.4	$ 11.5	$ 10,276.6	$ (607.6)	$ 9,680.5	

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

Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
(Millions)	2008	2007
Cash flows from operating activities:		
Net income	$ 912.1	$ 885.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	185.9	148.3
Equity in earnings of affiliates, net	34.1	(74.0)
Stock-based compensation expense	55.5	45.7
Net realized capital losses	80.6	47.8
Amortization of net investment premium	.2	8.4
Changes in assets and liabilities:		
Accrued investment income	(6.3)	1.7
Premiums due and other receivables	(272.7)	(157.6)
Income taxes	(26.9)	(57.0)
Other assets and other liabilities	(78.5)	(106.8)
Health care and insurance liabilities	201.0	408.2
Other, net	(.9)	(1.6)
Net cash provided by operating activities	1,084.1	1,149.0
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,326.4	5,238.4
Cost of investments	(7,025.9)	(5,203.9)
Increase in property, equipment and software	(192.9)	(173.8)
Net cash used for investing activities	(892.4)	(139.3)
Cash flows from financing activities:		
Net issuance (repayment) of short-term debt	505.8	(44.7)
Deposits and interest credited for investment contracts	4.1	4.6
Withdrawals of investment contracts	(5.9)	(4.4)
Common shares issued under benefit plans	17.9	100.0
Stock-based compensation tax benefits	20.4	88.5
Common shares repurchased	(1,157.2)	(626.3)
Net cash used for financing activities	(614.9)	(482.3)
Net (decrease) increase in cash and cash equivalents	(423.2)	527.4
Cash and cash equivalents, beginning of period	1,254.0	880.0
Cash and cash equivalents, end of period	$ 830.8	$ 1,407.4
Supplemental cash flow information:		
Interest paid	$ 112.7	$ 85.9
Income taxes paid	491.0	435.1

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 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 (and products which combine both), (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 16 for additional information).

2. Summary of Significant Accounting Policies

Interim Financial Statements
These interim financial statements necessarily rely heavily 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 2007 Annual Report on Form 10-K (the "2007 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 2007 Annual Report, unless the information contained in those disclosures materially changed.

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

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards ("FAS") No. 157, "Fair Value Measurements." FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 does not require new fair value measurements. In February 2008, the Financial Accounting Standards Board ("FASB") released FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delays the effective date of FAS 157 for nonfinancial assets and liabilities until January 2009. Refer to Note 11 beginning on page 10 for additional information on our fair value measurements.

Future Application of Accounting Standards

Business Combinations and Noncontrolling Interests

In December 2007, the FASB released FAS 141R, "Business Combinations" and FAS 160, "Noncontrolling Interests in Consolidated Financial Statements." Both standards will be effective for transactions that occur after January 1, 2009.

FAS 141R applies to all business combinations and will require the acquiring entity to recognize the assets and liabilities acquired at their respective fair values. This standard changes the accounting for business combinations in several areas. If we complete an acquisition after the effective date of FAS 141R, some of these changes could result in increased volatility in our results of operations and financial position. For example, transaction costs, which are currently capitalized in a business combination, will be expensed as incurred. Additionally, pre-acquisition contingencies (such as in-process lawsuits acquired) and contingent consideration (such as additional consideration that would be payable upon the occurrence of specified events in the future) will be recorded at fair value at the acquisition date, with subsequent changes in fair value reflected in our results of operations. Under current accounting guidance, adjustments to these contingencies are reflected in the allocation of purchase price if they occur within a certain period of time after the acquisition date.

FAS 160 amends previous guidance and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (often otherwise referred to as the minority interest) and for deconsolidation of the subsidiary.

Enhanced Derivative Disclosures

In March 2008, the FASB issued FAS 161, "Disclosures about Derivative Instruments and Hedging Activities," which will require enhanced disclosures concerning our use of derivative instruments and any related hedging activity. Since this standard affects only disclosures, it will not impact our financial position or results of operations when it becomes effective on January 1, 2009.

3. Earnings Per Common Share

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders (i.e., the numerator) by the weighted average number of common shares outstanding (i.e., the denominator) during the quarter. 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 stock options, stock appreciation rights and other dilutive financial instruments, but only in the quarters in which such effect is dilutive.

The computations of basic and diluted EPS for the three and six months ended June 30, 2008 and 2007 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per common share data)	2008	2007	2008	2007
Net Income	$ 480.5	$ 451.3	$ 912.1	$ 885.9
	480.6	513.3	487.4	514.7

Weighted average shares used to compute basic EPS								
Dilutive effect of outstanding stock-based compensation awards (1)		15.2		18.5		15.0		19.4
Weighted average shares used to compute diluted EPS		495.8		531.8		502.4		534.1
Basic EPS	$	1.00	$	.88	$	1.87	$	1.72
Diluted EPS	$	.97	$	.85	$	1.82	$	1.66

(1) Approximately 10.4 million and 5.4 million stock appreciation rights ("SARs") (with exercise prices ranging from $43.45 to $59.76) were not included in the calculation of diluted EPS for the three and six months ended June 30, 2008, respectively, and approximately 5.0 million and 5.2 million SARs (with exercise prices ranging from $49.71 to $52.29 and from $44.22 to $52.29, respectively) were not included in the calculation of diluted EPS for the three and six months ended June 30, 2007, respectively, as their exercise prices were greater than the average market price of common shares during such periods.

4. Operating Expenses

For the three and six months ended June 30, 2008 and 2007, 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 June 30,		Six Months Ended June 30,	
(Millions)	2008	2007	2008	2007
Selling expenses	$ 275.6	$ 256.8	$ 579.4	$ 526.6
General and administrative expenses:				
Salaries and related benefits	631.6	567.5	1,274.5	1,125.4
Other general and administrative expenses	490.8	390.1	945.0	766.9
Total general and administrative expenses	1,122.4	957.6	2,219.5	1,892.3
Total operating expenses	$ 1,398.0	$ 1,214.4	$ 2,798.9	$ 2,418.9

5. Investments

Total investments at June 30, 2008 and December 31, 2007 were as follows:

	June 30, 2008			December 31, 2007		
(Millions)	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	$ 433.7	$ 14,871.1	$ 15,304.8	$ 822.9	$ 14,309.0	$ 15,131.9
Mortgage loans	59.1	1,590.9	1,650.0	27.3	1,485.3	1,512.6
Other investments	.8	1,361.9	1,362.7	1.3	1,245.8	1,247.1
Total investments	$ 493.6	$ 17,823.9	$ 18,317.5	$ 851.5	$ 17,040.1	$ 17,891.6

Summarized below are our debt and equity securities with gross unrealized losses at June 30, 2008 and December 31, 2007, along with the related fair value, aggregated by the length of time the investments have been in an unrealized loss position:

	Less than 12 months		Greater than 12 months		Total (1)	
(Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2008						
Debt securities:						
U.S. government securities	$ 95.9	$ .2	$ 24.4	$ .4	$ 120.3	$ .6
State, municipalities and political subdivisions	922.6	21.8	102.4	5.3	1,025.0	27.1
U.S. corporate securities	2,810.4	87.6	1,268.3	131.7	4,078.7	219.3
Foreign securities	846.3	18.1	155.8	22.0	1,002.1	40.1
Mortgage-backed and other asset-backed securities	1,045.3	31.4	647.2	48.2	1,692.5	79.6
Redeemable preferred securities	85.2	8.3	181.2	41.3	266.4	49.6
Total debt securities	5,805.7	167.4	2,379.3	248.9	8,185.0	416.3
Equity securities	16.5	2.2	.1	-	16.6	2.2
Total debt and equity securities	$ 5,822.2	$ 169.6	$ 2,379.4	$ 248.9	$ 8,201.6	$ 418.5

December 31, 2007						
Debt securities:						
U.S. government securities	$ 41.7	$ .4	$ 5.3	$ .1	$ 47.0	$ .5
State, municipalities and political subdivisions	246.4	3.1	130.5	2.2	376.9	5.3
U.S. corporate securities	1,699.8	60.5	787.6	37.9	2,487.4	98.4
Foreign securities	278.2	4.7	262.5	13.8	540.7	18.5
Mortgage-backed and other asset-backed securities	330.0	10.1	977.4	18.3	1,307.4	28.4
Redeemable preferred securities	116.4	11.9	100.3	15.3	216.7	27.2
Total debt securities	2,712.5	90.7	2,263.6	87.6	4,976.1	178.3
Equity securities	.3	.4	-	-	.3	.4
Total debt and equity securities	$ 2,712.8	$ 91.1	$ 2,263.6	$ 87.6	$ 4,976.4	$ 178.7

(1) At June 30, 2008 and December 31, 2007, debt and equity securities in an unrealized loss position of $137.5 million and $60.9 million, respectively, and related fair value of $2.1 billion and $1.4 billion, respectively, related to discontinued and experience-rated products.

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Unrealized losses at June 30, 2008 and December 31, 2007 were generally caused by recent increases in U.S. Treasury rates and increases in market spreads to the U.S. Treasury rate. In accordance with our accounting policy, we record an other-than-temporary impairment unless we determine that sufficient market recovery can occur within a reasonable period of time and that we have the intent and ability to hold the investment until market recovery, which may be until maturity. In determining our ability to hold a security until full recovery of value, we consider the forecasted recovery period, expected investment returns relative to other funding sources, the credit quality of the investment, our projected cash flow and capital requirements and other factors. We have the ability and intent to hold the securities in the table above until their cost can be recovered, which we expect will occur at maturity, if not sooner. Therefore, no other-than-temporary impairment was determined to have occurred on these investments.

Sources of net investment income for the three and six months ended June 30, 2008 and 2007 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2008	2007	2008	2007
Debt securities	$ 222.3	$ 215.0	$ 431.8	$ 437.1
Mortgage loans	28.8	27.5	56.5	56.5
Cash equivalents and other short-term investments	14.2	21.2	35.0	37.7
Other	2.3	53.9	(4.0)	89.8
Gross investment income	267.6	317.6	519.3	621.1
Less: investment expenses	(8.9)	(9.3)	(17.4)	(18.3)
Net investment income (1)	$ 258.7	$ 308.3	$ 501.9	$ 602.8

(1) Includes amounts related to experience-rated contract holders of $27.8 million and $54.4 million during the three and six months ended June 30, 2008, respectively, and $30.2 million and $61.5 million during the three and six months ended June 30, 2007, respectively. Interest credited to experience-rated contract holders is included in current and future benefits in our statements of income.

Net realized capital losses were $22 million and $81 million for the three and six months ended June 30, 2008, respectively, and $47 million and $48 million for the three and six months ended June 30, 2007, respectively. Included in net realized capital losses were $50 million and $132 million for the three and six months ended June 30, 2008, respectively, and $54 million and $71 million for the three and six months ended June 30, 2007, respectively, of other-than-temporary impairment charges for securities that were in an unrealized loss position primarily due to market value declines related to increases in debt security yields in 2008 and 2007 rather than unfavorable changes in the credit quality of such securities. The increases in debt security yields were driven primarily by increases in U.S. Treasury rates in the three months ended June 30, 2008 and the three and six months ended June 30, 2007 and increases in market spreads to U.S. Treasury rates in the six months ended June 30, 2008. The market spreads to U.S. Treasury rates tightened in the three months ended June 30, 2008, partially offsetting the increase in U.S. Treasury rates. Since we could not positively assert our intention to hold such securities until recovery in value, these securities were written down to fair value in accordance with our accounting policy. Refer to Critical Accounting Estimates - Other-Than-Temporary Impairments of Investment Securities in our 2007 Annual Report for additional information.

6. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive (loss) income (excluding amounts related to experience-rated contract holders and discontinued products) for the six months ended June 30, 2008 and 2007.

	Net Unrealized Gains (Losses)			Pension and OPEB Plans		
(Millions)	Securities	Foreign Currency	Derivatives	Unrecognized Net Actuarial Losses	Unrecognized Prior Service Cost	Total Accumulated Other Comprehensive Loss
Six Months Ended June 30, 2008						
Balance at January 1, 2008	$ 53.3	$ 15.2	$ (8.2)	$ (395.8)	$ 47.1	$ (288.4)
Unrealized net (losses) gains arising during the period ($(309.2) pretax)	(205.0)	.9	3.1	-	-	(201.0)
Reclassification to earnings ($87.4 pretax)	60.3	-	(4.5)	2.8	(1.8)	56.8
Other comprehensive (loss) income during the period	(144.7)	.9	(1.4)	2.8	(1.8)	(144.2)
Balance at June 30, 2008	$ (91.4)	$ 16.1	$ (9.6)	$ (393.0)	$ 45.3	$ (432.6)
Six Months Ended June 30, 2007						
Balance at January 1, 2007	$ 66.5	$ 11.6	$ 7.6	$ (620.0)	$ 22.5	$ (511.8)
Unrealized net (losses) gains arising during the period ($(218.6) pretax)	(143.0)	2.5	(1.6)	-	-	(142.1)
Reclassification to earnings ($71.2 pretax)	33.4	-	1.9	10.6	.4	46.3
Other comprehensive (loss) income during the period	(109.6)	2.5	.3	10.6	.4	(95.8)
Balance at June 30, 2007	$ (43.1)	$ 14.1	$ 7.9	$ (609.4)	$ 22.9	$ (607.6)

7. Employee Benefit Plans

Defined Benefit Retirement Plans

Components of the net periodic benefit (income) cost of our noncontributory defined benefit pension plans and other postretirement benefit ("OPEB") plans for the three and six months ended June 30, 2008 and 2007 were as follows:

	Pension Plans				OPEB Plans			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2008	2007	2008	2007	2008	2007	2008	2007

Service cost	$ 10.8	$ 10.8	$ 21.6	$ 21.6	$ .1	$ .1	$ .2	$ .2
Interest cost	78.0	74.8	156.0	149.6	5.0	5.4	10.0	10.8
Expected return on plan assets	(121.1)	(116.4)	(242.2)	(232.8)	(1.0)	(1.0)	(2.0)	(2.0)
Amortization of prior service cost	(.5)	1.2	(1.0)	2.4	(.9)	(.9)	(1.8)	(1.8)
Recognized net actuarial loss	1.6	6.9	3.2	13.8	.6	1.4	1.2	2.8
Net periodic benefit (income) cost	$ (31.2)	$ (22.7)	$ (62.4)	$ (45.4)	$ 3.8	$ 5.0	$ 7.6	$ 10.0

8. Debt

The carrying value of our long-term debt at June 30, 2008 and December 31, 2007 was as follows:

(Millions)	June 30, 2008	December 31, 2007
Senior Notes, 5.75%, due 2011	$ 449.7	$ 449.7
Senior Notes, 7.875%, due 2011	449.0	448.8
Senior Notes, 6.0%, due 2016	746.5	746.2
Senior Notes, 6.625%, due 2036	798.6	798.5
Senior Notes, 6.75%, due 2037	695.3	695.3
Total long-term debt	$ 3,139.1	$ 3,138.5

At June 30, 2008 and December 31, 2007, we had approximately $630 million and $100 million, respectively, of commercial paper outstanding with a weighted average interest rate of 2.91% and 5.44%, respectively. At June 30, 2008 and December 31, 2007, there was approximately $6 million and $31 million, respectively, outstanding under a short-term credit program that is secured by assets of certain of our subsidiaries.

At June 30, 2008, we had an unsecured $1.5 billion, five-year revolving credit agreement (the "Facility") with several financial institutions which terminates in March 2013, and may be expanded to a maximum of $2.0 billion upon our agreement with one or more financial institutions. The Facility contains a financial covenant that requires us to maintain a ratio of total debt to consolidated capitalization as of the end of each fiscal quarter ending on or after December 31, 2007 at or below .5 to 1.0. For this purpose, consolidated capitalization equals the sum of shareholders' equity (excluding any overfunded or underfunded status of our pension and OPEB plans in accordance with FAS 158 and any net unrealized capital gains and losses) and total debt (as defined in the Facility). We met this requirement at June 30, 2008. There were no amounts outstanding under the Facility at June 30, 2008.

9. Capital Stock

On September 28, 2007, February 29, 2008 and June 27, 2008, our Board of Directors (the "Board") authorized share repurchase programs for the repurchase of up to $1.25 billion, $750 million and $750 million, respectively, of our common stock. During the six month period ended June 30, 2008, we repurchased approximately 27 million shares of common stock at a cost of approximately $1.2 billion (approximately $43 million of these repurchases were settled in early July), completing the September 28, 2007 authorization and utilizing a portion of the February 29, 2008 authorization. At June 30, 2008, we had remaining authorization to repurchase an aggregate of up to $1.2 billion of common stock under the Board authorizations.

On February 8, 2008, approximately 4.4 million SARs, .2 million restricted stock units ("RSUs") and .4 million performance stock units ("PSUs") were granted to certain employees. If exercised by the employee, the SARs will be settled in stock, net of taxes, based on the appreciation of our stock price over $50.70 per share. For each RSU granted, employees receive one share of common stock, net of taxes, at the end of the vesting period. The SARs and RSUs will become 100% vested three years from the grant date, with one-third of the SARs and RSUs vesting each year. The PSUs vest on December 31, 2009. The number of vested PSUs (which could be as high as 200% of the original number of units granted) is dependent upon the degree to which we achieve performance goals as determined by the Board's Committee on Compensation and Organization. The value of each vested PSU is equal to one share of common stock, net of taxes.

10. Dividend Restrictions and Statutory Surplus

Under regulatory requirements at June 30, 2008, the amount of dividends that may be paid to Aetna through the end of 2008 by our insurance and HMO subsidiaries without prior approval by regulatory authorities is approximately $1.3 billion in the aggregate. There are no such restrictions on distributions from Aetna to its shareholders.

The combined statutory capital and surplus of our insurance and HMO subsidiaries was $5.6 billion and $5.3 billion at June 30, 2008 and December 31, 2007, respectively.

11. Fair Value Measurements

Effective January 1, 2008, we adopted FAS 157 for our financial assets. FAS 157 defines fair value, expands disclosure requirements and specifies a hierarchy of valuation techniques. The following are the levels of the hierarchy and a brief description of the type of valuation information ("inputs") that qualifies a financial asset 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, credit risks, etc.) and inputs that are derived from or corroborated by observable markets.
- Level 3 – Developed from unobservable data, reflecting our own assumptions.

When quoted prices in active markets for identical assets are available, we use these quoted market prices to determine the fair value of financial assets and classify these assets as Level 1. In other cases where a quoted market price for identical assets in an active market is either not available or not observable, we estimate fair values using valuation methodologies based on available and observable market information or by using a matrix pricing model. These financial assets 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 statements and cash flow projections. In these instances, financial assets will be classified based upon the lowest level of input that is significant to the valuation. Thus, financial assets may be classified in Level 3 even though there may be some significant inputs that may be readily available.

The following is a description of the valuation methodologies used for financial assets measured at fair value, including the general classification of such assets 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. government 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 value our U.S. corporate securities, mortgage-backed and other asset-backed obligations, tax exempt municipal securities and foreign securities based on these Level 2 inputs. We also value a certain amount of 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 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. For certain private placement securities, internal staff determine the value of these debt securities by analyzing spreads of corporate and sector indices as well as 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 must 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.

Our financial assets with changes in fair value that are measured on a recurring basis at June 30, 2008 were as follows (there were no liabilities measured at fair value at June 30, 2008):

(Millions)	Level 1	Level 2	Level 3	Total
Debt Securities	$ 946.3	$ 13,702.4	$ 609.6	$ 15,258.3
Equity Securities	4.2	-	42.3	46.5
Derivatives	-	.8	-	.8
Total	$ 950.5	$ 13,703.2	$ 651.9	$ 15,305.6

The changes in the balances of Level 3 financial assets for the three and six months ended June 30, 2008 were as follows:

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
(Millions)	Debt Securities	Equity Securities	Total	Debt Securities	Equity Securities	Total
Beginning balance	$ 647.9	$ 33.1	$ 681.0	$ 642.5	$ 38.9	$ 681.4
Net realized and unrealized (losses) gains:						
Included in earnings (1)	(4.6)	-	(4.6)	(11.0)	-	(11.0)
Included in other comprehensive income	(1.7)	-	(1.7)	(4.7)	-	(4.7)
Other (2)	(3.4)	(.2)	(3.6)	(13.5)	10.1	(3.4)
Purchases, issuance, and settlements	(21.8)	-	(21.8)	(28.2)	(22.4)	(50.6)
Transfers in and/or out of Level 3 (3)	(6.8)	9.4	2.6	24.5	15.7	40.2
Ending Balance	$ 609.6	$ 42.3	$ 651.9	$ 609.6	$ 42.3	$ 651.9
The amount of total gains and losses included in net realized capital losses attributable to the change in unrealized gains or losses relating to Level 3 assets still held	$ (4.8)	$ -	$ (4.8)	$ (11.7)	$ -	$ (11.7)

(1) For the three and six months ended June 30, 2008, $(5.0) million and $(11.7) million, respectively, were included in net realized capital losses and $.4 million and $.7 million, respectively, were included in net investment income.

(2) Reflects realized and unrealized capital gains and losses on investments supporting our experience-rated and discontinued products, which do not affect our results of operations.

(3) For financial assets that are transferred into Level 3, we use the fair value of the assets at the end of the reporting period. For financial assets that are transferred out of Level 3, we use the fair value of the assets at the beginning of the reporting period.

Separate Accounts

Separate Account assets in Large Case Pensions represent funds maintained to meet specific 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. 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 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 11. Separate Account assets also include investments in real estate that are carried at fair value. The following is a description of the valuation methodology used to price these real estate investments, including the general classification pursuant to the valuation

hierarchy.

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 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 investments are classified as Level 3.

Separate Account financial assets with changes in fair value measured on a recurring basis at June 30, 2008 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
Debt Securities	$ 621.3	$ 2,496.9	$ 267.6	$ 3,385.8
Equity Securities	1,976.4	6.8	-	1,983.2
Derivatives	-	1.6	-	1.6
Real Estate	-	-	837.5	837.5
Total (1)	$ 2,597.7	$ 2,505.3	$ 1,105.1	$ 6,208.1

(1) Excludes $846.3 million of cash and cash equivalents and other receivables.

The changes in the balances of Level 3 Separate Account financial assets for the three and six months ended June 30, 2008 were as follows:

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
(Millions)	Debt Securities	Real Estate	Total	Debt Securities	Real Estate	Total
Beginning balance	$ 277.7	$ 914.1	$ 1,191.8	$ 291.4	$ 12,541.8	$ 12,833.2
Total losses accrued to contract holders	(5.5)	(22.6)	(28.1)	(6.3)	(3.7)	(10.0)
Purchases, issuance and settlements	11.5	(54.0)	(42.5)	(6.4)	(46.3)	(52.7)
Transfers in and/or (out) of Level 3	(16.1)	-	(16.1)	(11.1)	-	(11.1)
Transfers of Separate Account assets to UBS (1)	-	-	-	-	(11,654.3)	(11,654.3)
Ending Balance	$ 267.6	$ 837.5	$ 1,105.1	$ 267.6	$ 837.5	$ 1,105.1

(1) On February 29, 2008, approximately $11.7 billion of our Separate Account assets were transitioned to entities sponsored by UBS. Refer to Note 15 on page 19 for additional information concerning this transfer.

12. Commitments and Contingencies

Litigation and Regulatory Proceedings

Out-of-Network Provider Proceedings

Michele Cooper, et al. v. Aetna Life Insurance Company, et al. is a purported nationwide class action lawsuit that was filed in the United States District Court for the District of New Jersey (the “New Jersey Federal Court”) on July 30, 2007 and subsequently amended. The plaintiffs allege that we violated state law, the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Racketeer Influenced and Corrupt Organizations Act (“RICO”) in connection with various practices related to the payment of claims for services rendered to our members by providers with whom we do not have a contract (“out-of-network providers”), resulting in increased out-of-pocket payments by our members. The purported classes together consist of all members in substantially all of our health benefit plans who received services from out-of-network providers from 2001 to date for which we allowed less than the full amount billed by the provider. The plaintiffs seek reimbursement of all unpaid benefits, recalculation and repayment of deductible and coinsurance amounts, unspecified damages and treble damages, statutory penalties, injunctive and declaratory relief, plus interest, costs and attorneys’ fees, and seek to disqualify us from acting as a fiduciary of any benefit plan that is subject to ERISA. This case is similar to other actions pending in the New Jersey Federal Court

and elsewhere against us and certain of our competitors. We intend to defend this case vigorously.

Weintraub, et al. v. Ingenix, et al. is a purported nationwide class action lawsuit that was filed in the United States District Court for the District of Connecticut on April 29, 2008. The plaintiff alleges that we and the other defendants violated state consumer protection laws, RICO and federal antitrust laws in connection with various practices related to the payment of claims for services rendered to our members by out-of-network providers, resulting in increased out-of-pocket payments by our members. The purported classes together consist of all members in substantially all of our health benefit plans who received services from out-of-network providers from January 1, 2004 to date for which we determined amounts payable by us based on information provided by Ingenix, Inc. The plaintiff seeks actual damages, unspecified damages, treble damages, statutory penalties, and injunctive relief, plus interest, costs and attorneys' fees. This case is similar to other actions pending in the New Jersey Federal Court and elsewhere against us and certain of our competitors. We intend to defend this case vigorously.

In addition, we have received subpoenas from the New York Attorney General (the "NYAG") with respect to an industry-wide investigation into certain payment practices with respect to out-of-network providers. The NYAG has stated that he intends to initiate litigation against one of our competitors in connection with this investigation. We also have received requests for documents and other information from other attorneys general.

It is reasonably possible that the NYAG or others could initiate additional litigation or additional regulatory action against us and/or one or more of our competitors with respect to provider payment practices.

Healthcare Payor Industry Class Action Litigation
From 1999 through early 2003, we were involved in purported class action lawsuits as part of a wave of similar actions targeting the health care payor industry and, in particular, the conduct of business by managed care companies. These cases, brought on behalf of health care providers (the "Provider Cases"), alleged generally that we and other defendant managed care organizations engaged in coercive behavior or a variety of improper business practices in dealing with health care providers and conspired with one another regarding this purported wrongful conduct.

Effective May 21, 2003, we and representatives of over 900,000 physicians, state and other medical societies entered into an agreement (the "Physician Settlement Agreement") settling the lead physician Provider Case, which was pending in the United States District Court for the Southern District of Florida (the "Florida Federal Court"). We believe that the Physician Settlement Agreement, which received final court approval, resolved all then pending Provider Cases filed on behalf of physicians that did not opt out of the settlement. We continue to work with plaintiffs' representatives to address the issues covered by the Physician Settlement Agreement.

In 2003, we recorded a charge of $75 million ($115 million pretax) in connection with the Physician Settlement Agreement, net of an estimated insurance receivable of $72 million pretax. We believe our insurance policies with third party insurers apply to this matter and have been vigorously pursuing recovery from those insurers in Pennsylvania state court (the "Coverage Litigation"). In May 2006, the Philadelphia, Pennsylvania state trial court issued a summary judgment ruling dismissing all of our claims in the Coverage Litigation. As a result of the state trial court's ruling, we concluded in 2006 that the estimated insurance receivable of $72 million pretax that was recorded in connection with the Physician Settlement Agreement was no longer probable of collection for accounting purposes, and therefore, in 2006, we wrote-off that recoverable while continuing to vigorously pursue our claims. On April 11, 2008, the state intermediate appellate court reversed the state trial court's 2006 ruling and granted us summary judgment on substantially all of our claims in the Coverage Litigation. Our third party insurers have requested further review of that ruling, but that review is at the discretion of the state's highest court. Further proceedings also may occur in the state trial court, including proceedings concerning our bad faith claims against certain of our insurers and claims by certain of our insurers to rescind the underlying policies. We intend to continue to vigorously pursue recovery from our third party insurers in the Coverage Litigation.

Several Provider Cases filed in 2003 on behalf of purported classes of chiropractors and/or all non-physician health care providers also made factual and legal allegations similar to those contained in the other Provider Cases, including allegations of violations of RICO. These Provider Cases sought various forms of relief, including unspecified damages, treble damages, punitive damages and injunctive relief. These Provider Cases were transferred to the Florida Federal Court for consolidated pretrial proceedings. All of these Provider Cases have been either voluntarily withdrawn or dismissed by the Florida Federal Court.

Securities Class Action Litigation
Two purported class action lawsuits were pending in the United States District Court for the Eastern District of Pennsylvania (the "Pennsylvania Federal Court") against Aetna and certain of its current or former officers and/or directors. On October 24, 2007, the Southeastern Pennsylvania Transportation Authority filed suit on behalf of all

purchasers of Aetna common stock between October 27, 2005 and April 27, 2006. The second lawsuit was filed on November 27, 2007, by the Plumbers and Pipefitters Local 51 Pension Fund on behalf of all purchasers of Aetna common stock between July 28, 2005 and July 27, 2006. On June 3, 2008, plaintiffs in these two lawsuits filed a consolidated complaint in the Pennsylvania Federal Court on behalf of all purchasers of Aetna common stock between October 27, 2005 and July 27, 2006. The consolidated complaint (the "Securities Class Action Litigation") supersedes and replaces the two previous complaints. The plaintiffs allege that Aetna and four of its current or former officers and/or directors, John W. Rowe, M.D., Ronald A. Williams, Alan M. Bennett and Craig R. Callen (collectively, the "Defendants"), violated federal securities laws. The plaintiffs allege misrepresentations and omissions regarding, among other things, our medical benefit ratios and health plan pricing practices, as well as insider trading by Dr. Rowe and Messrs. Bennett and Callen. The plaintiffs seek compensatory damages plus interest and attorneys' fees, among other remedies. The Defendants intend to vigorously defend the Securities Class Action Litigation, which is in its preliminary stages.

Other Litigation and Regulatory Proceedings
We are involved in numerous other lawsuits arising, for the most part, in the ordinary course of our business operations, including employment litigation and claims of bad faith, medical malpractice, non-compliance with state and federal regulatory regimes, marketing misconduct, failure to timely or appropriately pay medical claims, investment activities, patent infringement and other intellectual property litigation and other litigation in our Health Care and Group Insurance businesses. Some of these other lawsuits are or are purported to be class actions. We intend to defend these matters vigorously.

In addition, our current and past business practices are subject to review by, and from time to time we receive subpoenas and other requests for information from, various state insurance and health care regulatory authorities and attorneys general and other state and federal authorities, including the NYAG's investigation described above under "Out-of-Network Provider Proceedings." There also continues to be heightened review by regulatory authorities of and increased litigation regarding the health care benefits industry's business and reporting practices, including utilization management, complaint and grievance processing, information privacy, provider network structure (including the use of performance-based networks), delegated arrangements and claim payment practices (including payments to out-of-network providers). As a leading national health care benefits organization, we regularly are the subject of such reviews. These reviews may result, and have resulted, in changes to or clarifications of our business practices, as well as fines, penalties or other sanctions.

We are unable to predict at this time the ultimate outcome of the matters described above, and it is reasonably possible that their outcome could be material to us.

13. Segment Information

Summarized financial information of our segments for the three and six months ended June 30, 2008 and 2007 was as follows:

(Millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Interest	Total Company
Three months ended June 30, 2008					
Revenue from external customers	$ 7,091.3	$ 438.3	$ 61.9	$ -	$ 7,591.5
Operating earnings (loss) (1)	453.9	39.3	9.9	(36.8)	466.3
Three months ended June 30, 2007					
Revenue from external customers	$ 6,002.4	$ 471.2	$ 58.6	$ -	$ 6,532.2
Operating earnings (loss) (1)	420.0	39.2	8.4	(27.8)	439.8
Six months ended June 30, 2008					
Revenue from external customers	$ 14,141.8	$ 886.8	$ 116.9	$ -	$ 15,145.5
Operating earnings (loss) (1)	915.5	74.2	18.4	(72.2)	935.9
Six months ended June 30, 2007					
Revenue from external customers	$ 11,884.4	$ 936.9	$ 117.6	$ -	$ 12,938.9
Operating earnings (loss) (1)	842.7	70.3	17.5	(55.3)	875.2

(1) Operating earnings (loss) excludes net realized capital gains or losses and the other item described in the reconciliation below.

The following table reconciles operating earnings to net income for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2008	2007	2008	2007
Operating earnings	$ 466.3	$ 439.8	$ 935.9	$ 875.2
Net realized capital losses	(14.3)	(30.3)	(52.3)	(31.1)
Reduction of reserve for anticipated future losses on discontinued products (1)	28.5	41.8	28.5	41.8
Net income	$ 480.5	$ 451.3	$ 912.1	$ 885.9

(1) We reduced the reserve for anticipated future losses on discontinued products by $28.5 million ($43.8 million pretax) and $41.8 million ($64.3 million pretax) in the three and six months ended June 30, 2008 and 2007, respectively. We believe excluding any changes to the reserve for anticipated future losses on discontinued products provides more useful information as to our continuing products and is consistent with the treatment of the results of operations of these discontinued products, which are credited or charged to the reserve and do not affect our results of operations. Refer to Note 14 below for additional information on the reduction of the reserve for anticipated future losses on discontinued products.

14. Discontinued Products

We discontinued the sale of our fully guaranteed large case pension products (single-premium annuities ("SPAs") and guaranteed investment contracts) in 1993. Under our accounting for these discontinued products, we established a reserve for anticipated future losses from these products, and we review it quarterly. As long as the reserve continues to represent our then best estimate of expected future losses, results of operations of the discontinued products, including net realized capital gains and losses, are credited/charged to the reserve and do not affect our results of operations. Our results of operations would be adversely affected to the extent that future losses on these products are greater than anticipated and favorably affected to the extent that future losses are less than anticipated. The current reserve reflects our best estimate of anticipated future losses.

The factors contributing to changes in the reserve for anticipated future losses are: operating income or loss (including investment income and mortality and retirement gains or losses) and realized capital gains or losses. Operating income or loss is equal to revenue less expenses. Mortality and retirement gains or losses reflect our experience related to SPAs. A mortality gain (loss) occurs when an annuitant or a beneficiary dies sooner (later) than expected. A retirement gain (loss) occurs when an annuitant retires later (earlier) than expected.

At the time of discontinuance, a receivable from Large Case Pensions' continuing products equivalent to the net present value of the anticipated cash flow shortfalls was established for the discontinued products. Interest on the receivable is accrued at the discount rate that was used to calculate the reserve. The offsetting payable, on which interest is similarly accrued, is reflected in continuing products. Interest on the payable generally offsets the investment income on the assets available to fund the shortfall. The receivable from continuing products was $423 million and $438 million at June 30, 2008 and December 31, 2007, respectively. These amounts were eliminated in consolidation.

Results of discontinued products for the three and six months ended June 30, 2008 and 2007 were as follows (pretax):

(Millions)	Results	Charged (Credited) to Reserve for Future Losses	Net (1)
Three months ended June 30, 2008			
Net investment income	$ 56.1	$ -	$ 56.1
Net realized capital losses	(12.7)	12.7	-
Interest earned on receivable from continuing products	6.8	-	6.8
Other revenue	5.8	-	5.8
Total revenue	56.0	12.7	68.7
Current and future benefits	76.6	(10.2)	66.4
Operating expenses	2.3	-	2.3
Total benefits and expenses	78.9	(10.2)	68.7
Results of discontinued products	$ (22.9)	$ 22.9	$ -
Three months ended June 30, 2007			
Net investment income	$ 83.3	$ -	$ 83.3
Net realized capital gains	22.8	(22.8)	-
Interest earned on receivable from continuing products	7.0	-	7.0
Other revenue	6.8	-	6.8
Total revenue	119.9	(22.8)	97.1
Current and future benefits	79.9	14.6	94.5
Operating expenses	2.6	-	2.6
Total benefits and expenses	82.5	14.6	97.1
Results of discontinued products	$ 37.4	$ (37.4)	$ -
Six months ended June 30, 2008			
Net investment income	$ 109.2	$ -	$ 109.2
Net realized capital losses	(10.7)	10.7	-
Interest earned on receivable from continuing products	13.5	-	13.5
Other revenue	14.4	-	14.4
Total revenue	126.4	10.7	137.1
Current and future benefits	154.2	(21.9)	132.3
Operating expenses	4.8	-	4.8
Total benefits and expenses	159.0	(21.9)	137.1
Results of discontinued products	$ (32.6)	$ 32.6	$ -
Six months ended June 30, 2007			
Net investment income	$ 168.3	$ -	$ 168.3
Net realized capital gains	27.7	(27.7)	-
Interest earned on receivable from continuing products	13.9	-	13.9
Other revenue	13.6	-	13.6
Total revenue	223.5	(27.7)	195.8
Current and future benefits	160.7	29.9	190.6
Operating expenses	5.2	-	5.2

Total benefits and expenses	165.9	29.9	195.8
Results of discontinued products	$ 57.6	$ (57.6)	$ -

(1) Amounts are reflected in the statements of income, except for interest earned on the receivable from continuing products, which was eliminated in consolidation.

Assets and liabilities supporting discontinued products at June 30, 2008 and December 31, 2007 were as follows: (1)

(Millions)	June 30, 2008	December 31, 2007
Assets:		
Debt and equity securities available for sale	$ 2,790.5	$ 3,049.3
Mortgage loans	607.2	554.0
Other investments		