

AETNA INC /PA/
Form 10-Q
October 29, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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.
Yes No

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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 Regulations 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).

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

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 No

There were 433.5 million shares of the registrant’s voting common stock with a par value of \$.01 per share outstanding at September 30, 2009.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2009

Unless the context otherwise requires, references to the terms “we,” “our” or “us” used throughout this Quarterly Report on Form 10-Q (except the Report of Independent Registered Public Accounting Firm on page 25), refer to Aetna Inc. (a Pennsylvania corporation) (“Aetna”) and its subsidiaries (collectively, the “Company”).

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Part I Financial Information

Item 1. Financial Statements

Consolidated Statements of Income
(Unaudited)

(Millions, except per common share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Health care premiums	\$ 7,092.8	\$ 6,450.8	\$ 21,115.5	\$ 18,993.2
Other premiums	471.4	466.7	1,432.4	1,415.2
Fees and other revenue (1)	876.8	834.1	2,662.2	2,488.7
Net investment income	263.4	229.8	771.4	731.7
Net realized capital gains (losses)	18.0	(356.8)	26.4	(437.4)
Total revenue	8,722.4	7,624.6	26,007.9	23,191.4
Benefits and expenses:				
Health care costs (2)	6,069.6	5,216.6	17,976.2	15,456.1
Current and future benefits	514.5	464.7	1,521.6	1,474.4
Operating expenses:				
Selling expenses	312.2	282.2	938.5	861.6
General and administrative expenses	1,263.3	1,152.5	3,653.3	3,372.0
Total operating expenses	1,575.5	1,434.7	4,591.8	4,233.6
Interest expense	60.6	60.5	182.8	171.5
Amortization of other acquired intangible assets	23.9	25.4	72.9	80.5
Reduction of reserve for anticipated future losses on discontinued products	-	-	-	(43.8)
Total benefits and expenses	8,244.1	7,201.9	24,345.3	21,372.3
Income before income taxes	478.3	422.7	1,662.6	1,819.1
Income taxes:				
Current	203.0	197.9	579.0	685.8
Deferred	(50.9)	(52.5)	(27.0)	(56.1)
Total income taxes	152.1	145.4	552.0	629.7
Net income	\$ 326.2	\$ 277.3	\$ 1,110.6	\$ 1,189.4
Earnings per common share:				
Basic	\$.75	\$.59	\$ 2.50	\$ 2.47
Diluted	\$.73	\$.58	\$ 2.46	\$ 2.40

(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 \$27.4 million and \$64.5 million (net of pharmaceutical and processing costs of \$401.8 million and \$1.2 billion) for the three and nine months ended September 30, 2009, respectively, and \$12.8 million and \$42.7 million (net of pharmaceutical and processing costs of \$403.4 million and \$1.2 billion) for the three and nine months ended September 30, 2008, respectively.

(2) Health care costs have been reduced by Insured member co-payment revenue related to our mail order and specialty pharmacy operations of \$31.0 million and \$91.0 million for the three and nine months ended September 30, 2009, respectively, and \$27.5 million and \$83.9 million for the three and nine months ended September 30,

2008, respectively.

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

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Consolidated Balance Sheets

(Millions)	(Unaudited) At September 30, 2009	At December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,830.1	\$ 1,179.5
Investments	2,125.7	706.0
Premiums receivable, net	687.9	616.4
Other receivables, net	679.2	554.3
Accrued investment income	202.8	193.6
Collateral received under securities loan agreements	468.2	749.6
Income taxes receivable	121.6	164.9
Deferred income taxes	439.4	301.5
Other current assets	545.5	452.6
Total current assets	7,100.4	4,918.4
Long-term investments	16,844.1	16,163.4
Reinsurance recoverables	991.3	1,010.3
Goodwill	5,089.4	5,085.6
Other acquired intangible assets, net	594.5	667.4
Property and equipment, net	532.6	467.5
Deferred income taxes	150.2	778.7
Other long-term assets	782.1	841.3
Separate Accounts assets	6,050.4	5,919.9
Total assets	\$ 38,135.0	\$ 35,852.5
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	\$ 2,890.7	\$ 2,393.2
Future policy benefits	728.8	759.7
Unpaid claims	573.8	559.8
Unearned premiums	292.6	238.6
Policyholders' funds	797.1	754.4
Collateral payable under securities loan agreements	468.2	749.6
Short-term debt	109.8	215.7
Accrued expenses and other current liabilities	2,564.2	1,883.8
Total current liabilities	8,425.2	7,554.8
Future policy benefits	6,554.2	6,765.4
Unpaid claims	1,348.3	1,271.2
Policyholders' funds	1,290.7	1,171.7
Long-term debt	3,639.2	3,638.3
Other long-term liabilities	1,287.0	1,344.8
Separate Accounts liabilities	6,050.4	5,919.9

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Total liabilities	28,595.0	27,666.1
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock (\$.01 par value; 2.7 billion shares authorized; 433.5 million and 456.3 million shares issued and outstanding in 2009 and 2008, respectively) and additional paid-in capital	456.8	351.2
Retained earnings	10,201.8	9,716.5
Accumulated other comprehensive loss	(1,118.6)	(1,881.3)
Total shareholders' equity	9,540.0	8,186.4
Total liabilities and shareholders' equity	\$ 38,135.0	\$ 35,852.5

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	Total Comprehensive Income
Nine Months Ended September 30, 2009						
Balance at January 1, 2009	456.3	\$ 351.2	\$ 9,716.5	\$ (1,881.3)	\$ 8,186.4	
Cumulative effect of adopting new accounting standard at April 1, 2009 (Note 2)	-	-	53.7	(53.7)	-	
Comprehensive income:						
Net income	-	-	1,110.6	-	1,110.6	\$ 1,110.6
Other comprehensive income (Note 7):						
Net unrealized gains on securities	-	-	-	692.0	692.0	
Net foreign currency and derivative gains	-	-	-	20.1	20.1	
Pension and OPEB plans	-	-	-	104.3	104.3	
Other comprehensive income	-	-	-	816.4	816.4	816.4
Total comprehensive income						\$ 1,927.0
Common shares issued for benefit plans, including tax benefits	2.4	105.9	-	-	105.9	
Repurchases of common shares	(25.2)	(.3)	(661.7)	-	(662.0)	
Dividends declared	-	-	(17.3)	-	(17.3)	
Balance at September 30, 2009	433.5	\$ 456.8	\$ 10,201.8	\$ (1,118.6)	\$ 9,540.0	
Nine Months Ended September 30, 2008						
Balance at January 1, 2008	496.3	\$ 188.8	\$ 10,138.0	\$ (288.4)	\$ 10,038.4	

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Comprehensive income:						
Net income	-	-	1,189.4	-	1,189.4	\$ 1,189.4
Other comprehensive loss (Note 7):						
Net unrealized losses on securities	-	-	-	(369.7)	(369.7)	
Net foreign currency and derivative losses	-	-	-	(9.3)	(9.3)	
Pension and OPEB plans	-	-	-	1.5	1.5	
Other comprehensive loss				(377.5)	(377.5)	(377.5)
Total comprehensive income						\$ 811.9
Common shares issued for benefit plans, including tax benefits	2.4	137.5	-	-	137.5	
Repurchases of common shares	(37.6)	(.4)	(1,672.4)	-	(1,672.8)	
Dividends declared	-	-	(18.4)	-	(18.4)	
Balance at September 30, 2008	461.1	\$ 325.9	\$ 9,636.6	\$ (665.9)	\$ 9,296.6	

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

Consolidated Statements of Cash Flows
(Unaudited)

(Millions)	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 1,110.6	\$ 1,189.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital (gains) losses	(26.4)	437.4
Depreciation and amortization	306.8	279.9
Equity in earnings of affiliates, net	7.0	65.4
Stock-based compensation expense	81.1	80.2
Accretion of net investment discount	(54.6)	(5.0)
Changes in assets and liabilities:		
Accrued investment income	(9.2)	(8.6)
Premiums due and other receivables	(157.4)	(219.2)
Income taxes	20.2	(95.5)
Other assets and other liabilities	246.4	(55.2)
Health care and insurance liabilities	335.0	82.7
Other, net	(3.7)	.9
Net cash provided by operating activities	1,855.8	1,752.4
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	7,714.8	9,143.2
Cost of investments	(7,934.3)	(10,195.3)
Increase in property, equipment and software	(259.4)	(304.6)
Cash used for acquisitions, net of cash acquired	(6.1)	-
Net cash used for investing activities	(485.0)	(1,356.7)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net of issuance costs	-	484.8
Net (repayment) issuance of short-term debt	(104.9)	352.0
Deposits and interest credited for investment contracts	4.9	5.9
Withdrawals of investment contracts	(8.1)	(8.0)
Common shares issued under benefit plans	10.4	28.8
Stock-based compensation tax benefits	9.6	23.8
Common shares repurchased	(657.2)	(1,672.8)
Collateral on interest rate swaps	25.1	-
Net cash used for financing activities	(720.2)	(785.5)
Net increase (decrease) in cash and cash equivalents	650.6	(389.8)
Cash and cash equivalents, beginning of period	1,179.5	1,254.0
Cash and cash equivalents, end of period	\$ 1,830.1	\$ 864.2
Supplemental cash flow information:		
Interest paid	\$ 158.0	\$ 137.1
Income taxes paid	522.2	701.8

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

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Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

We conduct our operations in three business segments:

- Health Care consists of medical, pharmacy benefits management, dental and vision plans offered on both an Insured basis (where we assume all or a majority of the risk for medical and dental care costs) and an employer-funded basis (where the plan sponsor under an administrative services contract (“ASC”) assumes all or a majority of this risk). Medical products include point-of-service (“POS”), preferred provider organization (“PPO”), health maintenance organization (“HMO”) and indemnity benefit plans. Medical products also include health savings accounts (“HSAs”) and Aetna HealthFund®, consumer-directed health plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account (which may be funded by the plan sponsor and/or the member in the case of HSAs). We also offer Medicare and Medicaid products and services and specialty products, such as medical management and data analytics services, behavioral health plans and stop loss insurance, as well as products that provide access to our provider network in select markets.
- Group Insurance primarily includes group life insurance products offered on an Insured basis, including basic and supplemental group term life, group universal life, supplemental or voluntary programs and accidental death and dismemberment coverage. Group Insurance also includes (i) group disability products offered to employers on both an Insured and an ASC basis which consist primarily of short-term and long-term disability insurance, (ii) absence management services offered to employers, which include short-term and long-term disability administration and leave management, and (iii) long-term care products that were offered primarily on an Insured basis, which provide benefits covering the cost of care in private home settings, adult day care, assisted living or nursing facilities. We no longer solicit or accept new long-term care customers, and we are working with our customers on an orderly transition of this product to other carriers.
- Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services. Large Case Pensions also includes certain discontinued products (refer to Note 15 beginning on page 23 for additional information).

2. Summary of Significant Accounting Policies

Interim Financial Statements

These interim financial statements necessarily rely on estimates, including assumptions as to annualized tax rates. In the opinion of management, all adjustments necessary for a fair statement of results for the interim periods have been made. All such adjustments are of a normal, recurring nature. The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes presented in our 2008 Annual Report on Form 10-K (our “2008 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 2008 Annual Report, unless the information contained in those disclosures materially changed or is required by GAAP. Subsequent events, if any, are evaluated through October 29, 2009, the date the financial statements are issued.

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

Non-controlling Interests

On January 1, 2009, we adopted new accounting guidance issued by the Financial Accounting Standards Board (the “FASB”) which establishes accounting and reporting standards for the non-controlling interest in a subsidiary (often otherwise referred to as minority interests) and for deconsolidation of the subsidiary. We do not have material non-controlling interests, and therefore, the adoption of this accounting guidance did not impact our financial position or results of operations. Refer to Note 6 beginning on page 7 for additional information.

Recognition and Presentation of Other-Than-Temporary Impairments

Effective April 1, 2009, we adopted new accounting guidance issued by the FASB for other-than-temporary impairments (“OTTI”) of debt securities. This guidance establishes new criteria for the recognition of OTTI on debt securities and also requires additional financial statement disclosure. The new criteria requires OTTI to be recognized if either a credit-related loss is deemed to have occurred or we have the intention to sell a security that is in an unrealized loss position. Refer to Notes 6 and 7 beginning on pages 7 and 13, respectively.

Upon adoption of this new guidance, we evaluated securities held at April 1, 2009 for which a previous OTTI was recognized, and identified those securities that we did not intend to sell. As a result of this analysis, we recorded a \$54 million (\$83 million pretax) cumulative effect adjustment that increased retained earnings and accumulated other comprehensive loss as of April 1, 2009.

Fair Value Measurements – Assessing Fair Value in Market Conditions That Are Not Orderly

In April 2009, the FASB released updates to the accounting rules for Fair Value Measurements. These updates provide clarification as to how to determine the fair value of assets and liabilities in distressed economic conditions and also require greater disaggregation of debt and equity securities within our fair value measurements disclosures (refer to Note 12 beginning on page 15). This accounting guidance was effective on June 30, 2009 and did not impact our financial position or results of operations.

Codification

In June 2009, the FASB released FASB Accounting Standards Codification™ (“Codification”). Beginning in September 2009, all existing accounting standard documents were superseded, and Codification became the single source of authoritative GAAP. Codification did not result in any change in our significant accounting policies.

Future Application of Accounting Standards

Variable Interest Entities

In June 2009, the FASB released revised accounting guidance for variable interest entities (“VIEs”). This accounting guidance removes the quantitative-based risks-and-rewards calculation previously used to assess whether a company must consolidate a VIE and, instead, requires a variable interest holder to qualitatively assess whether it has a controlling financial interest in the VIE. This accounting guidance will be effective on January 1, 2010. We are currently assessing the impact of this new rule to our financial position and results of operations.

3. Pending Acquisition

On July 31, 2009, we announced an agreement to acquire Horizon Behavioral Services, LLC, a leading provider of employee assistance programs, for approximately \$70 million, which we expect to finance with available resources. We expect to close this transaction after satisfaction of customary closing conditions, including receipt of regulatory approvals.

4. 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 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 stock options and stock appreciation rights (“SARs”), but only in the quarters in which such effect is dilutive.

The computations of basic and diluted EPS for the three and nine months ended September 30, 2009 and 2008 are as follows:

(Millions, except per common share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 326.2	\$ 277.3	\$ 1,110.6	\$ 1,189.4
Weighted average shares used to compute basic EPS	436.0	468.0	443.8	480.9
Dilutive effect of outstanding stock-based compensation awards (1)	8.6	12.3	8.4	14.1
Weighted average shares used to compute diluted EPS	444.6	480.3	452.2	495.0
Basic EPS	\$.75	\$.59	\$ 2.50	\$ 2.47
Diluted EPS	\$.73	\$.58	\$ 2.46	\$ 2.40

(1) Approximately 19.2 and 19.3 million SARs (with exercise prices ranging from \$25.94 to \$59.76) and 6.2 million stock options (with exercise prices ranging from \$33.38 to \$42.35) were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2009 and approximately 14.4 million and 8.2 million SARs (with exercise prices ranging from \$40.24 to \$59.76 for each period) were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2008, respectively, as their exercise prices were greater than the average market price of Aetna common shares during such periods.

5. Operating Expenses

For the three and nine months ended September 30, 2009 and 2008, 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,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Selling expenses	\$ 312.2	\$ 282.2	\$ 938.5	\$ 861.6
General and administrative expenses:				
Salaries and related benefits	755.8	660.1	2,209.3	1,934.6
Other general and administrative expenses (1)	507.5	492.4	1,444.0	1,437.4
Total general and administrative expenses	1,263.3	1,152.5	3,653.3	3,372.0
		\$	\$	\$
Total operating expenses	\$ 1,575.5	\$ 1,434.7	\$ 4,591.8	\$ 4,233.6

(1) Other general and administrative expenses for the nine months ended September 30, 2009 include \$38.2 million of insurance proceeds related to certain litigation we settled in 2003. For the three and nine months ended September 30, 2008, other general and administrative expenses include an allowance against our reinsurance recoverable of \$42.2 million from Lehman Re Ltd. ("Lehman Re"), a subsidiary of Lehman Brothers Holdings Inc.

6. Investments

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Total investments at September 30, 2009 and December 31, 2008 were as follows:

(Millions)	September 30, 2009			December 31, 2008		
	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	\$ 2,030.9	\$ 14,129.8	\$ 16,160.7	\$ 633.8	\$ 13,359.5	\$ 13,993.3
Mortgage loans	91.9	1,511.5	1,603.4	70.4	1,609.5	1,679.9
Other investments	2.9	1,202.8	1,205.7	1.8	1,194.4	1,196.2
Total investments	\$ 2,125.7	\$ 16,844.1	\$ 18,969.8	\$ 706.0	\$ 16,163.4	\$ 16,869.4

Debt and Equity Securities

Debt and equity securities available for sale at September 30, 2009 and December 31, 2008 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2009				
U.S. government securities States, municipalities and political subdivisions	\$ 1,358.0	\$ 70.1	\$.7	\$ 1,427.4
U.S. corporate securities	1,989.6	123.2	14.4	2,098.4
Foreign securities	6,332.8	569.3	68.4	6,833.7
Residential mortgage-backed securities	2,478.8	250.4	23.4	2,705.8
Commercial mortgage-backed securities	1,238.7	56.7	.3	(1) 1,295.1
Other asset-backed securities	1,104.2	39.9	125.7	(1) 1,018.4
Redeemable preferred securities	397.2	25.5	9.5	(1) 413.2
Total debt securities	357.0	21.9	46.8	332.1
Equity securities	15,256.3	1,157.0	289.2	16,124.1
Total debt and equity securities (2)	35.3	4.0	2.7	36.6
	\$ 15,291.6	\$ 1,161.0	\$ 291.9	\$ 16,160.7

December 31, 2008

Debt securities:

U.S. government securities States, municipalities and political subdivisions	\$ 890.7	\$ 115.3	\$.4	\$ 1,005.6
U.S. corporate securities	1,942.8	23.3	72.5	1,893.6
Foreign securities	6,343.8	228.2	416.5	6,155.5
Residential mortgage-backed securities	2,134.0	103.0	124.9	2,112.1
Commercial mortgage-backed securities	1,210.2	39.3	.4	1,249.1
Other asset-backed securities	1,086.4	15.3	239.3	862.4
Redeemable preferred securities	441.3	1.5	59.3	383.5
Total debt securities	400.4	6.6	107.0	300.0
Equity securities	14,449.6	532.5	1,020.3	13,961.8
Total debt and equity securities (2)	43.4	.2	12.1	31.5
	\$ 14,493.0	\$ 532.7	\$ 1,032.4	\$ 13,993.3

(1) When we record a credit-related OTTI on a security, we recognize a loss in earnings equal to the difference between the security's amortized cost and the present value of its cash flows. If we do not intend to sell the security, the difference between the fair value and the present value of cash flows of the security is considered the non-credit-related impairment, which is reflected in other comprehensive losses rather than earnings. At September 30, 2009, we held securities for which we recognized a credit-related impairment in the past. Effective April 1, 2009 and for periods through September 30, 2009, we recognized \$54.7 million of non-credit-related impairments in other comprehensive losses (as of September 30, 2009, these securities had a net unrealized capital loss of \$24.1 million).

(2) Includes investments with a fair value of \$3.9 billion, gross unrealized gains of \$343.4 million and gross unrealized losses of \$93.1 million at September 30, 2009 and investments with a fair value of \$3.7 billion, gross unrealized gains of \$211.3 million and gross unrealized losses of \$334.7 million at December 31, 2008 that support our experience-rated and discontinued products. Changes in net unrealized capital gains (losses) on these securities are not reflected in accumulated other comprehensive loss.

The fair value of debt securities at September 30, 2009 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	575.7
One year through five years	2,984.7
After five years through ten years	4,638.5
Greater than ten years	5,198.5
Residential mortgage-backed securities	1,295.1
Commercial mortgage-backed securities	1,018.4
Other asset-backed securities	413.2
	\$
Total	16,124.1

The maturity dates for debt securities in an unrealized loss position at September 30, 2009 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	\$ 2.6	\$ -	\$ 63.5	\$ 2.2	\$ 66.1	\$ 2.2
One year through five years	52.1	2.0	396.3	19.1	448.4	21.1
After five years through ten years	136.5	7.8	455.5	15.8	592.0	23.6
Greater than ten years	380.5	54.3	608.3	52.5	988.8	106.8
Residential mortgage-backed securities	-	-	8.5	.3	8.5	.3
Commercial mortgage-backed securities	171.6	25.3	353.1	100.4	524.7	125.7
Other asset-backed securities	21.5	1.1	20.9	8.4	42.4	9.5
Total	\$ 764.8	\$ 90.5	\$ 1,906.1	\$ 198.7	\$ 2,670.9	\$ 289.2

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. Effective April 1, 2009, we recognize an OTTI when we intend to sell a security that is in an unrealized loss position or if we determine a credit-related loss has occurred. Prior to April 1, 2009, we would recognize an OTTI if we did not have the intention and ability to hold the security until it recovered its value.

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Summarized below are the debt and equity securities we held at September 30, 2009, and December 31, 2008, that were in an unrealized capital loss position, aggregated by the length of time the investments have been in that position:

(Millions)	Less than 12 months		Greater than 12 months		Total (1)	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2009						
Debt securities:						
U.S. government securities	\$ 105.2	\$.3	\$ 23.5	\$.4	\$ 128.7	\$.7
States, municipalities and political subdivisions	91.8	2.3	184.0	12.1	275.8	14.4
U.S. corporate securities	291.7	13.1	852.3	55.3	1,144.0	68.4
Foreign securities	155.7	4.2	149.4	19.2	305.1	23.4
Residential mortgage-backed securities	-	-	8.5	.3	8.5	.3
Commercial mortgage-backed securities	95.8	6.5	428.9	119.2	524.7	125.7
Other asset-backed securities	11.8	8.0	30.6	1.5	42.4	9.5
Redeemable preferred securities	37.1	8.3	204.6	38.5	241.7	46.8
Total debt securities	789.1	42.7	1,881.8	246.5	2,670.9	289.2
Equity securities	9.5	1.5	14.0	1.2	23.5	2.7
Total debt and equity securities	\$ 798.6	\$ 44.2	\$ 1,895.8	\$ 247.7	\$ 2,694.4	\$ 291.9
December 31, 2008						
Debt securities:						
U.S. government securities	\$ 4.0	\$ -	\$ 24.4	\$.4	\$ 28.4	\$.4
States, municipalities and political subdivisions	786.9	42.9	175.6	29.6	962.5	72.5
U.S. corporate securities	2,010.4	167.9	1,238.6	248.6	3,249.0	416.5
Foreign securities	777.7	73.5	178.6	51.4	956.3	124.9
Residential mortgage-backed securities	9.0	-	24.3	.4	33.3	.4
Commercial mortgage-backed securities	336.3	59.9	403.6	179.4	739.9	239.3
Other asset-backed securities	271.3	34.8	76.2	24.5	347.5	59.3
Redeemable preferred securities	125.3	32.5	139.7	74.5	265.0	107.0
Total debt securities	4,320.9	411.5	2,261.0	608.8	6,581.9	1,020.3
Equity securities	24.5	9.5	.8	2.6	25.3	12.1
Total debt and equity securities	\$ 4,345.4	\$ 421.0	\$ 2,261.8	\$ 611.4	\$ 6,607.2	\$ 1,032.4

(1) Investment risks associated with our experience-rated and discontinued products generally do not impact our results of operations (refer to Note 15 beginning on page 23 for additional information on our accounting for discontinued products). At September 30, 2009 and December 31, 2008, debt and equity securities in an

unrealized loss position of \$93.1 million and \$334.7 million, respectively, and with related fair value of \$788.2 million and \$1.8 billion, respectively, related to experience-rated and discontinued products.

We reviewed the securities in the tables above and concluded that these are performing assets generating investment income to support the needs of our business. In performing this review, we considered factors such as the quality of the investment security based on research performed by external rating agencies and our internal credit analysts and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. Unrealized losses at December 31, 2008 were generally caused by the widening of credit spreads on these particular securities relative to the interest rates on U.S. Treasury securities. As of September 30, 2009, we did not have an intention to sell the securities that were in an unrealized loss position.

Net realized capital gains (losses) for the three and nine months ended September 30, 2009 and 2008, excluding amounts related to experience-rated contract holders and discontinued products, were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
OTTI losses on securities	\$(23.1)	\$(292.6)	\$(84.5)	\$(424.2)
Portion of OTTI losses recognized in other comprehensive income	16.6	-	19.5	-
Net OTTI losses on securities recognized in earnings	(6.5)	(292.6)	(65.0)	(424.2)
Net realized capital gains (losses), excluding OTTI losses on securities	24.5	(64.2)	91.4	(13.2)
Net realized capital gains (losses)	\$18.0	\$(356.8)	\$26.4	\$(437.4)

The decrease in net OTTI losses recognized in earnings was primarily driven by a significant change in the accounting guidance for the recognition of OTTI of debt securities and an overall general improvement in the economic environment in 2009 compared to 2008. Prior to the adoption of new accounting guidance for OTTI of debt securities on April 1, 2009, both yield and credit-related OTTI were recognized in earnings. In contrast, on and after April 1, 2009, only credit-related impairments are recognized in earnings unless we have the intention to sell the security in an unrealized loss position, in which case yield-related OTTI are recognized in earnings.

For the three and nine months ended September 30, 2008, yield-related OTTI losses were \$187 million and \$317 million, respectively. These yield-related impairments were generally caused by the widening of credit spreads relative to the interest rates on U.S. Treasury securities in 2008. During 2008, significant declines in the U.S. housing market resulted in the credit and other capital markets experiencing volatility and limitations on the ability of companies to issue debt or equity securities. The lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity resulted in credit spreads widening during 2008, particularly during the three months ended September 30, 2008.

For the three and nine months ended September 30, 2008, credit-related impairments were \$105 million and \$107 million, respectively, which includes credit-related OTTI losses of \$103 million pretax in the three and nine months ended September 30, 2008 related to investments in debt securities of Lehman Brothers Holdings Inc. and Washington Mutual, Inc.

Excluding amounts related to experience-rated and discontinued products, proceeds from the sale of debt securities and the related gross realized capital gains and losses for three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Proceeds on sales	\$ 2,402.4	\$ 2,794.8	\$ 7,212.9	\$ 8,887.8
Gross realized capital gains	62.8	13.4	152.8	47.7
Gross realized capital losses	(25.8)	(44.9)	(61.5)	(53.9)

Variable Interest Entities

We do not have any material relationships with VIEs which require consolidation, but we do have relationships with certain real estate and hedge fund partnerships that are considered VIEs. We record the amount of our investment in these partnerships as long-term investments on our balance sheets and recognize our share of partnership income or losses in earnings. Our maximum exposure to loss as a result of our investment in these partnerships is our investment balance at September 30, 2009 and December 31, 2008 of approximately \$124 million and \$103 million, respectively, and the risk of recapture of tax credits related to the real estate partnerships previously recognized, which we do not believe to be significant. We do not have a future obligation to fund losses or debt on behalf of these investments; however, we may voluntarily contribute funds. The real estate partnerships construct, own and manage low-income housing developments and had total assets of approximately \$4.7 billion and \$4.4 billion at September 30, 2009 and December 31, 2008, respectively. The hedge fund partnerships had total assets of approximately \$5.6 billion and \$7.2 billion at September 30, 2009 and December 31, 2008, respectively.

Non-controlling Interests

Certain of our investment holdings are partially-owned by third parties. At September 30, 2009 and December 31, 2008, \$71 million and \$86 million, respectively, of our investment holdings were partially owned by third parties. The non-controlling entities' share of these investments was included in accrued expenses and other current liabilities. Net investment gains (losses) related to these interests were \$2 million and \$3 million for the three and nine months ended September 30, 2009, respectively, and \$(2) million and \$(3) million for the three and nine months ended September 30, 2008, respectively. These non-controlling interests did not have a material impact on our financial position or results of operations.

Net Investment Income

Sources of net investment income for the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Debt securities	\$ 225.2	\$ 222.3	\$ 675.6	\$ 654.1
Mortgage loans	32.2	30.1	90.5	86.6
Other	13.5	(13.8)	26.9	17.2
Gross investment income	270.9	238.6	793.0	757.9
Less: investment expenses	(7.5)	(8.8)	(21.6)	(26.2)
Net investment income (1)	\$ 263.4	\$ 229.8	\$ 771.4	\$ 731.7

(1) Investment risks associated with our experience-rated and discontinued products generally do not impact our results of operations (refer to Note 15 beginning on page 23 for additional information on our accounting for discontinued products). Net investment income includes \$90.3 million and \$259.0 million for the three and nine months ended September 30, 2009, respectively, and \$71.2 million and \$248.3 million for the three and nine months ended September 30, 2008, respectively, related to investments supporting our experience-rated and discontinued products.

7. 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, 2009 and 2008:

(Millions)	Net Unrealized Gains (Losses) Securities			Pension and OPEB Plans			Total Accumulated Other Comprehensive Loss
	Previously Impaired (1)	All Other	Foreign Currency and Derivatives	Unrecognized Net Actuarial Losses	Unrecognized Prior Service Cost		
Nine Months Ended September 30, 2009							
Balance at January 1, 2009	\$ -	\$ (229.3)	\$ (8.7)	\$ (1,686.6)	\$ 43.3	\$ (1,881.3)	
Cumulative effect of adopting a new accounting standard at April 1, 2009 (\$83.0 pretax) (2)	(5.3)	(48.4)	-	-	-	(53.7)	
Unrealized net gains (losses) arising during the period (\$1,181.4 pretax)	128.2	622.7	17.0	-	-	767.9	
Reclassification to earnings (\$85.6 pretax)	(4.9)	(54.0)	3.1	107.1	(2.8)	48.5	
Other comprehensive income (loss)	118.0	520.3	20.1	107.1	(2.8)	762.7	
Balance at September 30, 2009	\$ 118.0	\$ 291.0	\$ 11.4	\$ (1,579.5)	\$ 40.5	\$ (1,118.6)	

(1) Represents the non-credit-related component of OTTI on debt securities that we do not intend to sell as well as subsequent changes in fair value related to previously impaired debt securities.

(2) Effective April 1, 2009, we adopted a new accounting guidance for other-than-temporary impairments of debt securities. Refer to Note 2 beginning on page 5 for additional information on the cumulative effect adjustment required.

(Millions)	Net Unrealized Gains (Losses)			Pension and OPEB Plans			Total Accumulated Other Comprehensive Loss
	Securities	Derivatives	Foreign Currency and Derivatives	Unrecognized Net Actuarial Losses	Unrecognized Prior Service Cost		
Nine months ended September 30, 2008							
Balance at January 1, 2008	\$ 53.3	\$ 7.0	\$ (395.8)	\$ 47.1	\$ (288.4)		
Unrealized net losses (\$1,164.2) pretax)	(645.5)	(15.0)	-	-	(660.5)		
Reclassification to earnings (\$435.4 pretax)	275.8	5.7	4.3	(2.8)	283.0		
Other comprehensive (loss) income	(369.7)	(9.3)	4.3	(2.8)	(377.5)		
Balance at September 30, 2008	\$ (316.4)	\$ (2.3)	\$ (391.5)	\$ 44.3	\$ (665.9)		

8. Defined Benefit Retirement Plans

Components of the net periodic benefit cost (income) of our noncontributory defined benefit pension plans and other postretirement benefit (“OPEB”) plans for the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions)	Pension Plans				OPEB Plans			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 2009	2008	September 30, 2009	2008	September 30, 2009	2008	September 30, 2009	2008
Service cost	\$ 12.0	\$ 10.8	\$ 36.0	\$ 32.4	\$ -	\$.1	\$.2	\$.3
Interest cost	79.1	78.0	237.3	234.0	5.4	5.0	16.2	15.0
Expected return on plan assets	(79.8)	(121.1)	(239.1)	(363.1)	(1.0)	(1.0)	(3.0)	(3.0)
Amortization of prior service cost	(.4)	(.5)	(1.5)	(1.7)	(.9)	(.9)	(2.7)	(2.7)
Recognized net actuarial loss	54.1	1.6	162.3	4.8	.8	.6	2.4	1.8
Net periodic benefit cost (income)	\$ 65.0	\$ (31.2)	\$ 195.0	\$ (93.6)	\$ 4.3	\$ 3.8	\$ 13.1	\$ 11.4

The increase in pension benefit cost between 2008 and 2009 is primarily attributable to the approximately \$1.9 billion decline in the plan assets' fair value during 2008. This decline was due to the deteriorating economic conditions experienced during the latter half of 2008.

9. Debt

The carrying value of our long-term debt at September 30, 2009 and December 31, 2008 was as follows:

(Millions)	September 30, 2009	December 31, 2008
Senior notes, 5.75%, due 2011	\$449.8	\$449.8
Senior notes, 7.875%, due 2011	449.5	449.2
Senior notes, 6.0%, due 2016	747.0	746.7
Senior notes, 6.5%, due 2018	498.7	498.6
Senior notes, 6.625%, due 2036	798.6	798.6
Senior notes, 6.75%, due 2037	695.6	695.4
Total long-term debt	\$3,639.2	\$3,638.3

At September 30, 2009 and December 31, 2008, we had approximately \$110 million and \$216 million, respectively, of commercial paper outstanding with a weighted average interest rate of .31% and 5.36%, respectively.

At September 30, 2009, we had an unsecured \$1.5 billion revolving credit agreement (the "Facility") with several financial institutions which terminates in March 2013. The Facility provides for the issuance of up to \$200 million of letters of credit at our request, which count as usage of the available commitments under the Facility. Upon our agreement with one or more financial institutions, we may expand the aggregate commitments under the Facility to a maximum of \$2.0 billion. Various interest rate options are available under the Facility. Any revolving borrowings mature on the termination date of the Facility. We pay facility fees on the Facility ranging from .045% to .175% per annum, depending upon our long-term senior unsecured debt rating. The facility fee was .06% at September 30, 2009. 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 and any net unrealized capital gains and losses, and total debt (as defined in the Facility). We met this requirement at September 30, 2009. There were no amounts outstanding under the Facility at September 30, 2009.

During the nine months ended September 30, 2009, we entered into four interest rate swaps with a notional value of \$100 million each. We entered into these swaps to hedge interest rate exposure in anticipation of future issuance of long-term debt. At September 30, 2009, the interest rate swaps had an aggregate fair value of \$23.4 million. We also recorded a \$23.4 million gain in other comprehensive income for the nine months ended September 30, 2009.

10. Capital Stock

On June 27, 2008 and February 27, 2009, our Board of Directors (the "Board") authorized two share repurchase programs each for the repurchase of up to \$750 million of our common stock. During the nine months ended September 30, 2009, we repurchased approximately 25 million shares of common stock at a cost of approximately \$662 million (approximately \$5 million of these repurchases were settled in early October). At September 30, 2009, we had remaining authorization to repurchase an aggregate of up to approximately \$702 million of common stock under the February 27, 2009 Board authorization.

On February 13, 2009, approximately 5.2 million SARs, .5 million restricted stock units (“RSUs”) and .7 million performance stock units (“PSUs”) were granted to certain employees. If exercised by the employee, the SARs will be settled in common stock, net of taxes, based on the appreciation of our common stock price over \$32.11 per share. The number of vested PSUs (which could range from zero to 200% of the original number of units granted) is dependent upon the degree to which we achieve performance goals during the performance period as determined by the Board’s Committee on Compensation and Organization. For each vested RSU and PSU, employees receive one share of common stock, net of taxes, at the end of the vesting period. The SARs and RSUs will become 100%
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vested three years from the grant date, with one-third of the SARs and RSUs vesting each year. The performance period for the PSUs ends on December 31, 2010.

On September 25, 2009, our Board declared an annual cash dividend of \$.04 per common share payable to shareholders of record at the close of business on November 13, 2009. The dividend will be paid on November 30, 2009.

11. Dividend Restrictions and Statutory Surplus

Under regulatory requirements at September 30, 2009, the amount of dividends that may be paid to Aetna through the end of 2009 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 \$6.3 billion and \$5.7 billion at September 30, 2009 and December 31, 2008, respectively.

12. 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 other bases, such as an adjusted historical cost basis. In this note, we provide details on the fair values of financial assets and liabilities and how we determine those fair values. We present this information for those instruments that are reported 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 the financial instruments we own are measured at fair value in our balance sheet. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information that qualifies a financial asset or liability for each level:

- o Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
- o 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.
- o Level 3 – Developed from unobservable data, reflecting our own assumptions.

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 values 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. In these instances, financial assets and liabilities will be classified based upon the lowest level of input that is significant to the valuation. 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. 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 obtained one price for each of our Level 2 debt securities and did not adjust any of these prices at September 30, 2009 and December 31, 2008.

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. 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, 2009 and December 31, 2008. The total fair value of our broker quoted securities was approximately \$406 million at September 30, 2009 and \$353 million at December 31, 2008. Examples of these Level 3 debt securities include certain U.S. and foreign corporate securities and certain of our residential and commercial mortgage-backed securities as well as other asset-backed securities. For some of our private placement securities, internal staff determine the value of these debt securities by analyzing spreads of corporate and sector indices as well as interest spreads of comparable public bonds. Examples of these Level 3 debt securities include certain U.S. and foreign securities and certain tax exempt municipal securities.

Equity Securities - We currently have two classifications of equity securities: those that are publicly traded and those that are privately held. Our publicly traded securities are classified as Level 1 because quoted prices are available for these securities in an active market. For privately held equity securities, there is no active market; therefore, we classify these securities as Level 3 because we 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 and liabilities with changes in fair value that are measured on a recurring basis in our balance sheets at September 30, 2009 and December 31, 2008 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
September 30, 2009				
Assets:				
Debt securities:				
U.S. government securities	\$ 1,114.7	\$ 312.7	\$ -	\$ 1,427.4
States, municipalities and political subdivisions	-	2,080.7	17.7	2,098.4
U.S. corporate securities	-	6,700.1	133.6	6,833.7
Foreign securities	-	2,453.8	252.0	2,705.8
Residential mortgage-backed securities	-	1,295.1	-	1,295.1
Commercial mortgage-backed securities	-	959.5	58.9	1,018.4
Other asset-backed securities	-	402.3	10.9	413.2
Redeemable preferred securities	-	314.9	17.2	332.1
Total debt securities	1,114.7	14,519.1	490.3	16,124.1
Equity securities	1.7	-	34.9	36.6
Derivatives	-	26.2	-	26.2
Total investments	\$ 1,116.4	\$ 14,545.3	\$ 525.2	\$ 16,186.9
Liabilities:				
Derivatives	\$ -	\$ 3.0	\$ -	\$ 3.0
December 31, 2008				
Assets:				
Total debt securities	\$ 669.9	\$ 12,836.2	\$ 455.7	\$ 13,961.8
Equity securities	2.2	-	29.3	31.5
Derivatives	-	1.8	-	1.8
Total investments	\$ 672.1	\$ 12,838.0	\$ 485.0	\$ 13,995.1

Liabilities:

Derivatives	\$ -	\$ 4.0	\$ -	\$ 4.0
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The changes in the balances of Level 3 financial assets for the three and nine months ended September 30, 2009 were as follows:

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

(1) 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.

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

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

(Millions)	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Debt Securities	Equity Securities	Total	Debt Securities	Equity Securities	Total
Beginning balance	\$ 609.6	\$ 42.3	\$ 651.9	\$ 642.5	\$ 38.9	\$ 681.4
Net realized and unrealized (losses) gains:						
Included in earnings	(16.4)	-	(16.4)	(25.9)	-	(25.9)
Included in other comprehensive income	(8.1)	-	(8.1)	(11.8)	-	(11.8)
Other (1)	(11.4)	4.3	(7.1)	(23.5)	14.3	(9.2)
	(19.6)	(7.3)	(26.9)	(32.8)	(29.6)	(62.4)

Purchases, issuances and settlements

Transfers in and/or (out of)

Level 3 (2)	(28.8)	-	(28.8)	(23.2)	15.7	(7.5)
Ending Balance	\$ 525.3	\$ 39.3	\$ 564.6	\$ 525.3	\$ 39.3	\$ 564.6

The amount of total losses included in net realized capital losses attributable to the change in unrealized gains or losses related to

Level 3 assets still held	\$ (14.3)	\$ -	\$ (14.3)	\$ (24.0)	\$ -	\$ (24.0)
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(1) 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.

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

Financial Instruments Not Measured at Fair Value in our Balance Sheets

The following is a description of the valuation methodologies used for estimating the fair value of our financial assets and liabilities that are measured at adjusted cost or contract value.

Mortgage loans - Fair values are estimated by discounting expected mortgage loan cash flows at market rates that reflect the rates at which similar loans would be made to similar borrowers. These rates reflect management's assessment of the credit quality and the remaining duration of the loans. Our 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, 2009 and December 31, 2008 were as follows:

(Millions)	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Mortgage loans	\$1,603.4	\$1,515.8	\$1,679.9	\$1,622.9
Liabilities:				
Investment contract liabilities:				
With a fixed maturity	33.3	34.5	39.1	38.0
Without a fixed maturity	521.5	484.6	525.6	428.8
Long-term debt	3,639.2	3,879.2	3,638.3	3,372.2

Separate Accounts Measured at Fair Value in our Balance Sheets

Separate Account assets in our Large Case Pensions business represent funds maintained to meet specific 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 15. 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 is not updated, fair value is based on available market information. The valuation of a real estate investment is adjusted only if there has been a significant change in economic circumstances related to the investment since acquisition or the most recent independent valuation and upon the appraiser's review and concurrence with the valuation. Further, these valuations have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. These valuations do not necessarily represent the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Therefore, these investment values are classified as Level 3.

Separate Account financial assets with changes in fair value measured on a recurring basis at September 30, 2009 and December 31, 2008 were as follows:

(Millions)	September 30, 2009				December 31, 2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt Securities	\$866.7	\$2,781.2	\$145.8	\$3,793.7	\$631.5	\$2,412.1	\$365.1	\$3,408.7
Equity Securities	1,572.5	1.0	-	1,573.5	1,629.2	2.1	-	1,631.3
Derivatives	-	1.2	-	1.2	-	(.1)	-	(.1)
Real Estate	-	-	71.3	71.3	-	-	86.7	86.7
Total (1)	\$2,439.2	\$2,783.4	\$217.1	\$5,439.7	\$2,260.7	\$2,414.1	\$451.8	\$5,126.6

(1) Excludes \$610.7 million and \$793.3 million of cash and cash equivalents and other receivables at September 30, 2009 and December 31, 2008, respectively.

The changes in the balances of Level 3 Separate Account financial assets for the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions)	Three Months Ended						
	September 30, 2009			September 30, 2008			Total
	Debt Securities	Real Estate	Total	Debt Securities	Real Estate	Total	
Beginning balance	\$172.3	\$71.3	\$243.6	\$267.7	\$837.5	\$1,105.2	
Total (losses) gains accrued to contract holders	(3.2)	-	(3.2)	.5	(33.1)	(32.6)	
Purchases, issuances and settlements	2.8	-	2.8	(.6)	(42.6)	(43.2)	
Transfers out of Level 3 (1)	(26.1)	-	(26.1)	(6.3)	-	(6.3)	
Transfers of Separate Account assets to UBS (2)	-	-	-	-	(666.4)	(666.4)	
Ending Balance	\$145.8	\$71.3	\$217.1	\$261.3	\$95.4	\$356.7	

(Millions)	Nine Months Ended						
	September 30, 2009			September 30, 2008			Total
	Debt Securities	Real Estate	Total	Debt Securities	Real Estate	Total	
Beginning balance	\$365.1	\$86.7	\$451.8	\$291.4	\$12,541.8	\$12,833.2	
Total losses accrued to contract holders	(109.9)	(15.2)	(125.1)	(5.4)	(36.8)	(42.2)	

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Purchases, issuances and settlements	(106.7)	(.2)	(106.9)	(12.4)	(88.8)	(101.2)
Transfers out of Level 3 (1)	(2.7)	-	(2.7)	(12.3)	-	(12.3)
Transfers of Separate Account assets to UBS (2)	-	-	-	-	(12,320.8)	(12,320.8)
Ending Balance	\$145.8	\$71.3	\$217.1	\$261.3	\$95.4	\$356.7

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

(2) On September 30, 2008 and February 28, 2008, approximately \$692 million and \$11.7 billion, respectively, of our Separate Account assets were transitioned out of our business.

13. Commitments and Contingencies

Litigation and Regulatory Proceedings

Out-of-Network Benefit Proceedings

We are named as a defendant in several purported class actions and individual lawsuits arising out of our practices related to the payment of claims for services rendered to our members by health care providers with whom we do not have a contract (“out-of-network providers”). Other major health insurers are also the subject of similar litigation. Among other things, these lawsuits charge that we paid too little to our health plan members and/or providers for these services, among other reasons because of our use of data provided by Ingenix, Inc., a subsidiary of one of our competitors (“Ingenix”).

Various plaintiffs who are health care providers or medical associations seek to represent nationwide classes of out-of-network providers who provided services to our members during the period from 2001 to the present. Various plaintiffs who are members in our health plans seek to represent nationwide classes of our members who received services from out-of-network providers during the period from 2001 to the present. Taken together, these lawsuits allege that we violated state law, the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), the Racketeer Influenced and Corrupt Organizations Act and federal antitrust laws, either acting alone or in concert with our competitors. The purported classes 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. Individual lawsuits that generally contain similar allegations and seek similar relief have been brought by a health plan member and an out-of-network provider.

The first class action case was commenced on July 30, 2007. The federal Judicial Panel on Multi-District Litigation (the “MDL Panel”) has consolidated these class action cases in federal district court in New Jersey under the caption In re: Aetna UCR Litigation, MDL No. 2020 (“MDL 2020”). In addition, the MDL Panel has transferred the individual lawsuits to MDL 2020. We intend to vigorously defend ourselves against the claims brought in these cases, which are in their preliminary stages.

On January 15, 2009, Aetna and the New York Attorney General announced an agreement relating to an industry-wide investigation into certain payment practices with respect to out-of-network providers. In October 2009, pursuant to the agreement, we contributed \$20 million towards the establishment of an independent database system to provide fee information regarding out-of-network reimbursement rates. When the new database is operational, we will cease using databases owned by Ingenix and will use the new database for a period of at least five years in connection with out-of-network reimbursements in those benefit plans that employ a reasonable and customary standard for out-of-network reimbursements. In February 2009, we agreed with the New York Attorney General and the Texas Attorney General to reimburse college student members for approximately \$5 million of claims relating to care rendered by out-of-network providers. In March 2009, we paid an administrative penalty of \$2.5 million to the New Jersey Department of Banking and Insurance in connection with our out-of-network benefit payment practices.

We also have received subpoenas and/or requests for documents and other information from attorneys general and other state and/or federal regulators, legislators and agencies relating to our out-of-network benefit payment practices.

It is reasonably possible that others could initiate additional litigation or additional regulatory action against us with respect to our out-of-network benefit payment practices.

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 our 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 our 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. On June 9, 2009, the Pennsylvania Federal Court granted Aetna’s motion to dismiss the consolidated complaint. On July 7, 2009, the plaintiffs filed a notice of appeal of the Pennsylvania Federal Court’s order dismissing the consolidated complaint. The Defendants intend to vigorously defend themselves against the claims brought in the Securities Class Action Litigation.

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 and/or group insurance claims (including post-payment audit and collection practices), rescission of insurance coverage, improper disclosure of personal information, 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 vigorously defend ourselves against the claims brought in these matters.

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, the Office of the Inspector General, and other state and federal authorities, including inquiries by, and testimony before, certain members, committees and subcommittees of the U.S. Congress regarding certain of our business practices, including our overall claims processing and payment practices, our business practices with respect to our small business customers (such as rating information, premium increases and medical benefit ratios), executive compensation matters and travel and entertainment expenses, in connection with their consideration of health care reform legislation, as well as the investigation by, and subpoenas and requests from, attorneys general and others described above under “Out-of-Network Benefit 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, rescission of insurance coverage, limited benefit health products, pharmacy benefit management practices and claim payment practices (including payments to out-of-network providers). As a leading national health care benefits company, 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.

14. Segment Information

Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions. Our Corporate Financing segment is not a business segment. It is added to our business segments in order to reconcile to our consolidated results. The Corporate Financing segment includes interest expense on our outstanding debt and, beginning on January 1, 2009, the financing components of our pension and other post-retirement benefit plan expense (the service cost components of this expense are allocated to our business segments). Prior periods have been reclassified to reflect this change.

Summarized financial information of our segments for the three and nine months ended September 30, 2009 and 2008 was as follows:

(Millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Financing	Total Company
Three months ended September 30, 2009					
Revenue from external customers	\$7,940.4	\$457.1	\$43.5	\$-	\$8,441.0
Operating earnings (loss) (1)	345.7	33.3	6.7	(77.5)	308.2
Three months ended September 30, 2008					
Revenue from external customers	\$7,257.7	\$448.5	\$45.4	\$-	\$7,751.6
Operating earnings (loss) (1)	496.8	46.4	8.8	(15.3)	536.7
Nine months ended September 30, 2009					
Revenue from external customers	\$23,687.3	\$1,386.5	\$136.3	\$-	\$25,210.1
Operating earnings (loss) (1)	1,151.1	117.9	23.6	(233.3)	1,059.3
Nine months ended September 30, 2008					
Revenue from external customers	\$21,399.5	\$1,335.3	\$162.3	\$-	\$22,897.1
Operating earnings (loss) (1)	1,366.3	119.1	26.8	(39.6)	1,472.6

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

A reconciliation of operating earnings to net income for the three and nine months ended September 30, 2009 and 2008 was as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Operating earnings	\$ 308.2	\$ 536.7	\$ 1,059.3	\$ 1,472.6
Net realized capital gains (losses)	18.0	(232.0)	26.4	(284.3)
Litigation-related insurance proceeds (1)	-	-	24.9	-
Allowance on reinsurance recoverable (1)	-	(27.4)	-	(27.4)
Reduction of reserve for anticipated future losses on discontinued products (1)	-	-	-	28.5
Net income	\$ 326.2	\$ 277.3	\$ 1,110.6	\$ 1,189.4

(1) The following other items are excluded from operating earnings because we believe they neither relate to the ordinary course of our business nor reflect our underlying business performance:

Following a Pennsylvania Supreme Court ruling in June 2009, we received \$24.9 million (\$38.2 million pretax) from one of our liability insurers related to certain litigation we settled in 2003. We are continuing to litigate similar claims against certain of our other

liability insurers.

As a result of the liquidation proceedings of Lehman Re, we recorded an allowance against our reinsurance recoverable from Lehman Re of \$27.4 million (\$42.2 million pretax) in the three and nine months ended September 30, 2008. This reinsurance is on a closed book of paid-up group whole life insurance business.

We reduced the reserve for anticipated future losses on discontinued products by \$28.5 million (\$43.8 million pretax) in the nine months ended September 30, 2008. Refer to Note 15 beginning on page 23 for additional information on the reduction of the reserve for anticipated future losses on discontinued products.

15. Discontinued Products

Prior to 1993, we sold single-premium annuities (“SPAs”) and guaranteed investment contracts (“GICs”), primarily to employer sponsored pension plans. In 1993, we discontinued selling these products, and now we refer to these products as discontinued products.

We discontinued selling these products because they were generating losses for us and we projected that they would continue to generate losses over their life (which is greater than 30 years); so we established a reserve for anticipated future losses at the time of discontinuance. This reserve represents the present value (at the risk-free rate of return at the time of discontinuance, consistent with the duration of the liabilities) of the difference between the expected cash flows from the assets supporting these products and the cash flows expected to be required to meet the obligations of the outstanding contracts. Because we projected anticipated cash shortfalls in our discontinued products, at the time of discontinuance we established a receivable from Large Case Pensions’ continuing products (which is eliminated in consolidation).

Key assumptions in setting this reserve include future investment results, payments to retirees, mortality and retirement rates and the cost of asset management and customer service. In 1997, we began the use of a bond default assumption to reflect historical default experience. In 1995, we modified the mortality tables used in order to reflect a more up-to-date 1994 Uninsured Pensioner’s Mortality table. Other than these changes, since 1993 there have been no significant changes to the assumptions underlying the reserve.

We review the adequacy of this reserve quarterly based on actual experience. As long as our expectation of future losses remains consistent with prior projections, the results of the discontinued products are applied to the reserve and do not affect net income. However, if actual or expected future losses are greater than we currently estimate, we may have to increase the reserve, which could adversely impact net income. If actual or expected future losses are less than we currently estimate, we may have to decrease the reserve, which could favorably impact net income. The reserve for anticipated future losses is included in future policy benefits on our balance sheet.

As a result of this review, the reserve at September 30, 2009 reflects management’s best estimate of anticipated future losses. In the nine months ended September 30, 2008, \$44 million (\$29 million after tax) of the reserve was released primarily due to favorable mortality and retirement experience compared to assumptions we previously made in estimating the reserve.

The activity in the reserve for anticipated future losses on discontinued products for the nine months ended September 30, 2009 and 2008 was as follows (pretax):

(Millions)	2009	2008
Reserve, beginning of period	\$790.4	\$1,052.3
Operating loss	(32.1)	(43.1)
Cumulative effect of new accounting standard as of April 1, 2009 (1)	42.1	-
Net realized capital losses	(12.1)	(100.7)
Reserve reduction	-	(43.8)
Reserve, end of period	\$788.3	\$864.7

(1) The adoption of new accounting guidance for other-than-temporary impairments of debt securities resulted in a cumulative effect adjustment at April 1, 2009. Refer to Note 2 beginning on page 5 for additional information. This amount is not reflected in accumulated other comprehensive loss and retained earnings in our shareholders’ equity since the results of discontinued products do not impact our results of operations.

During the nine months ended September 30, 2009, our discontinued products reflected an operating loss and net realized capital losses, both attributable to the unfavorable investment conditions that existed from the latter half of 2008 through the second quarter of 2009. We have evaluated the operating losses and net realized capital losses in 2009 against our expectations of future cash flows assumed in estimating the reserve and do not believe an adjustment to the reserve is required at September 30, 2009.

Assets and liabilities supporting discontinued products at September 30, 2009 and December 31, 2008 were as follows: (1)

(Millions)	September 30, 2009	December 31, 2008
Assets:		
Debt and equity securities available for sale	\$ 2,528.4	\$ 2,382.4
Mortgage loans	565.9	585.8
Other investments	624.6	666.9
Total investments	3,718.9	3,635.1
Other assets	155.5	133.4
Collateral received under securities loan agreements	68.1	150.7
Current and deferred income taxes	56.0	82.2
Receivable from continuing products (2)	456.4	436.0
Total assets	\$ 4,454.9	\$ 4,437.4
Liabilities:		
Future policy benefits	\$ 3,340.6	\$ 3,446.4
Policyholders' funds	12.1	16.7
Reserve for anticipated future losses on discontinued products	788.3	790.4
Collateral payable under securities loan agreements	68.1	150.7
Other liabilities (3)	245.8	33.2
Total liabilities	\$ 4,454.9	\$ 4,437.4

(1) Assets supporting the discontinued products are distinguished from assets supporting continuing products.

(2) The receivable from continuing products is eliminated in consolidation.

(3) Net unrealized capital gains and losses on debt securities available for sale are included in other liabilities at September 30, 2009 and December 31, 2008 and are not reflected in consolidated shareholders' equity.

Distributions on discontinued products for the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Scheduled contract maturities, settlements and benefit payments	\$ 113.1	\$ 113.3	\$ 338.6	\$ 343.6
Participant-directed withdrawals	-	-	.1	.1

Cash required to fund these distributions was provided by earnings and scheduled payments on, and sales of, invested assets.

16. Subsequent Event

In October 2009, we reached an agreement with Express Scripts, Inc. and one of its subsidiaries to settle certain litigation in which we were the plaintiff. Under the applicable settlement agreement, we received approximately \$30 million, net of fees and expenses, which will be reflected in our results of operations in the fourth quarter of 2009.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Aetna Inc.:

We have reviewed the consolidated balance sheet of Aetna Inc. and subsidiaries as of September 30, 2009, the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2009 and 2008 and the related consolidated statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2009 and 2008. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aetna Inc. and subsidiaries as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Hartford, Connecticut
October 29, 2009

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

OVERVIEW

We are one of the nation's leading diversified health care benefits companies, serving approximately 36.3 million people with information and resources to help them make better informed decisions about their health care. We offer a broad range of traditional and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, group life and disability plans, and medical management capabilities and health care management services for Medicaid plans. Our customers include employer groups, individuals, college students, part-time and hourly workers, health plans, governmental units, government-sponsored plans, labor groups and expatriates. Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions.

The following MD&A provides a review of our financial condition at September 30, 2009 and December 31, 2008 and results of operations for the three and nine months ended September 30, 2009 and 2008. This Overview should be read in conjunction with the entire MD&A, which contains detailed information that is important to understanding our results of operations and financial condition, the consolidated financial statements and other data presented in this Quarterly Report on Form 10-Q as well as the MD&A contained in our 2008 Annual Report on Form 10-K (the "2008 Annual Report"). This Overview is qualified in its entirety by the full MD&A.

Summarized Results for the Three and Nine Months Ended September 30, 2009 and 2008:

(Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue:				
Health Care	\$ 8,048.6	\$ 7,132.5	\$ 23,984.9	\$ 21,424.0
Group Insurance	541.1	393.6	1,617.5	1,372.3
Large Case Pensions	132.7	98.5	405.5	395.1
Total revenue	8,722.4	7,624.6	26,007.9	23,191.4
Net income	326.2	277.3	1,110.6	1,189.4
Operating earnings: (1)				
Health Care	345.7	496.8	1,151.1	1,366.3
Group Insurance	33.3	46.4	117.9	119.1
Large Case Pensions	6.7	8.8	23.6	26.8
Cash flows from operations			1,855.8	1,752.4

(1) Our discussion of operating results for our reportable business segments is based on operating earnings, which is a non-GAAP measure of net income (the term "GAAP" refers to U.S. generally accepted accounting principles). Refer to Segment Results and Use of Non-GAAP Measures in this MD&A on page 27 for a discussion of non-GAAP measures. Refer to pages 28, 32 and 33 for a reconciliation of operating earnings to net income for Health Care, Group Insurance and Large Case Pensions, respectively.

The operating earnings of our business segments for the three and nine months ended September 30, 2009 were lower than the corresponding periods in 2008, primarily due to lower Commercial underwriting margins in our Health Care segment. During the three and nine months ended September 30, 2009, our Commercial health care products experienced increased per member per month health care costs that outpaced the increase in per member premiums, which resulted in a higher Commercial medical benefit ratio and a lower Commercial underwriting margin in 2009.

Additionally, operating earnings reflect higher health care revenue for the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008, driven by growth in membership and premium rate increases

for renewing membership in 2009. We experienced membership growth in both our administrative services contract (“ASC”) (where the plan sponsor assumes all or a majority of the risk for medical and dental care costs) and Insured (where we assume all or a majority of the risk for medical and dental care costs) products. At September 30, 2009, we served approximately ---19.0 million medical members (consisting of approximately 34% Insured members and 66% ASC members), 14.2 million dental members and 11.2 million pharmacy members.

We continued to generate strong cash flows from operations in 2009, generating \$2.0 billion of cash flows from operations in our Health Care and Group Insurance businesses during the nine months ended September 30, 2009. These cash flows funded ordinary course operating activities and our share repurchase programs. During the nine months ended September 30, 2009, we repurchased approximately 25 million shares of our common stock at a cost of approximately \$662 million.

TRICARE Managed Care Support Contract

In July 2009, we were awarded the TRICARE managed care support contract for the North Region by the U.S. Department of Defense. Under this administrative services contract, which commences in 2010, we expect to support health care delivery to approximately 2.8 million eligible beneficiaries who are active duty service members, retirees and family members based in the 21 states of TRICARE's North Region. The contract consists of five one-year option periods. The contract award is subject to a pending appeal by the incumbent, and a decision on the appeal is expected in early November, 2009. We cannot predict the outcome of the appeal.

Pending Acquisition

On July 31, 2009, we announced an agreement to acquire Horizon Behavioral Services, LLC, a leading provider of employee assistance programs, for approximately \$70 million, which we expect to finance with available resources. We expect to close this transaction after satisfaction of customary closing conditions, including receipt of regulatory approvals.

Segment Results and Use of Non-GAAP Measures in this Document

The discussion of our results of operations that follows is presented based on our reportable segments in accordance with the accounting guidance for segment reporting and is consistent with our segment disclosure included in Note 14 of Condensed Notes to Consolidated Financial Statements on page 22. Each segment's discussion of results is based on operating earnings, which is the measure reported to our Chief Executive Officer for purposes of assessing the segment's financial performance and making operating decisions, such as allocating resources to the segment. Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions. Our Corporate Financing segment is not a business segment. It is added to our business segments to reconcile to our consolidated results. The Corporate Financing segment includes interest expense on our outstanding debt and, beginning in 2009, the financing components of our pension plan and OPEB plan expense (the service cost components of this expense are allocated to our business segments). Prior periods have been reclassified to reflect this change.

Our discussion of the results of operations of each business segment is based on operating earnings, which exclude realized capital gains and losses as well as other items, if any, from net income reported in accordance with GAAP. We believe excluding realized capital gains and losses from net income to arrive at operating earnings provides more useful information about our underlying business performance. Net realized capital gains and losses arise from various types of transactions, primarily in the course of managing a portfolio of assets that support the payment of liabilities; however, these transactions do not directly relate to the underwriting or servicing of products for our customers and are not directly related to the core performance of our business operations. We also may exclude other items that do not relate to the ordinary course of our business from net income to arrive at operating earnings. In each segment discussion in this MD&A, we present a table that reconciles operating earnings to net income reported in accordance with GAAP. Each table details the net realized capital gains and losses and any other items excluded from net income, and the footnotes to each table describe the nature of each other item and why we believe it is appropriate to exclude that item from net income.

HEALTH CARE

Health Care consists of medical, pharmacy benefits management, dental and vision plans offered on both an Insured basis and an ASC basis. Medical products include point-of-service ("POS"), preferred provider organization ("PPO"),

health maintenance organization 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. 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.

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Operating Summary for the Three and Nine Months Ended September 30, 2009 and 2008:

(Millions)	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
Premiums:				
Commerical	\$5,415.5	\$5,086.6	\$16,107.5	\$14,924.4
Medicare	1,434.2	1,209.9	4,313.2	3,631.7
Medicaid	243.1	154.3	694.8	437.1
Total premiums	7,092.8	6,450.8	21,115.5	18,993.2
Fees and other revenue	847.6	806.9	2,571.8	2,406.3
Net investment income	97.4	88.5	290.7	269.9
Net realized capital gains (losses)	10.8	(213.7)	6.9	(245.4)
Total revenue	8,048.6	7,132.5	23,984.9	21,424.0
Health care costs	6,069.6	5,216.6	17,976.2	15,456.1
Operating expenses:				
Selling expenses	289.7	259.0	869.1	789.6
General and administrative expenses	1,132.0	1,076.9	3,261.4	3,230.8
Total operating expenses	1,421.7	1,335.9	4,130.5	4,020.4
Amortization of other acquired intangible assets	22.2	23.7	67.8	75.3
Total benefits and expenses				