AETNA INC /PA/
Form 10-Q
August 04, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015
or

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

For the transition period from _________ to_________

Commission File Number: 1-16095

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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

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

There were 348.6 million shares of the registrant’s voting common stock with a par value of $.01 per share outstanding at June 30, 2015.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended June 30, 2015

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 39), refer to Aetna Inc. (a Pennsylvania corporation) ("Aetna") and its subsidiaries (collectively, the "Company").

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Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Income
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions, except per common share data)	2015	2014	2015	2014
Revenue:				
Health care premiums	$12,936.5	$12,416.1	$25,876.6	$24,327.8
Other premiums	546.0	551.7	1,084.0	1,113.3
Fees and other revenue [1]	1,509.0	1,289.5	2,884.0	2,538.3
Net investment income	247.4	228.3	480.3	472.5
Net realized capital gains	2.0	23.8	10.1	52.3
Total revenue	15,240.9	14,509.4	30,335.0	28,504.2
Benefits and expenses:				
Health care costs [2]	10,496.3	10,314.8	20,736.8	19,891.1
Current and future benefits	539.2	525.6	1,067.3	1,104.3
Operating expenses:				
Selling expenses	405.7	413.0	820.6	815.8
General and administrative expenses	2,396.1	2,188.2	4,797.9	4,235.8
Total operating expenses	2,801.8	2,601.2	5,618.5	5,051.6
Interest expense	78.3	81.3	157.3	166.9
Amortization of other acquired intangible assets	63.7	61.9	126.9	124.1
Loss on early extinguishment of long-term debt	—	—	—	91.9
Total benefits and expenses	13,979.3	13,584.8	27,706.8	26,429.9
Income before income taxes	1,261.6	924.6	2,628.2	2,074.3
Income taxes:				
Current	515.7	350.5	1,162.7	769.0
Deferred	11.3	26.9	(45.4)	88.7
Total income taxes	527.0	377.4	1,117.3	857.7
Net income including non-controlling interests	734.6	547.2	1,510.9	1,216.6
Less: Net income (loss) attributable to non-controlling interests	2.8	(1.6)	1.6	2.3
Net income attributable to Aetna	$731.8	$548.8	$1,509.3	$1,214.3
Earnings per common share:				
Basic	$2.10	$1.54	$4.32	$3.38
Diluted	$2.08	$1.52	$4.28	$3.35

(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 $28.5 million and $52.6 million (net of pharmaceutical and processing costs of $327.9 million and $627.2 million) for the three and six months ended June 30, 2015, respectively, and $26.4 million and $48.2 million (net of pharmaceutical and processing costs of $315.5 million and $590.9 million) for the three and six months ended June 30, 2014, respectively.

(2)

Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of $30.2 million and $63.6 million for the three and six months ended June 30, 2015, respectively, and $27.3 million and $57.9 million for the three and six months ended June 30, 2014, respectively.

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

Consolidated Statements of Comprehensive Income
(Unaudited)

(Millions)	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014
Net income including non-controlling interests	$734.6	$547.2	$1,510.9	$1,216.6
Other comprehensive income (loss), net of tax:				
Previously impaired debt securities: [1]				
Net unrealized (losses) gains ($(2.7), $3.4, $(6.1) and $5.1 pretax)	(1.8)	2.2	(4.0)	3.3
Less: reclassification of gains to earnings ($7.4, $2.5, $9.8 and $3.1 pretax)	4.8	1.6	6.4	2.0
Total previously impaired debt securities [1]	(6.6)	.6	(10.4)	1.3
All other securities:				
Net unrealized (losses) gains ($(430.7), $213.6, $(310.8) and $424.6 pretax)	(279.9)	138.8	(202.0)	276.0
Less: reclassification of (losses) gains to earnings ($(28.4), $6.9, $(39.4) and $1.9 pretax)	(18.4)	4.5	(25.6)	1.2
Total all other securities	(261.5)	134.3	(176.4)	274.8
Foreign currency and derivatives:				
Net unrealized gains (losses) ($26.8, $(19.3), $5.4 and $(38.5) pretax)	17.4	(12.5)	3.5	(25.0)
Less: reclassification of (losses) gains to earnings ($(1.4), $(1.4), $(2.9) and $14.2 pretax)	(.9)	(.9)	(1.9)	9.2
Total foreign currency and derivatives	18.3	(11.6)	5.4	(34.2)
Pension and other postretirement employee benefit ("OPEB") plans:				
Less: amortization of net actuarial losses ($(16.0), $(11.9), $(32.1) and $(23.8) pretax)	(10.4)	(7.7)	(20.9)	(15.4)
Less: amortization of prior service credit ($1.0, $1.0, $2.0 and $2.0 pretax)	.6	.7	1.3	1.3
Total pension and OPEB plans	9.8	7.0	19.6	14.1
Other comprehensive (loss) income	(240.0)	130.3	(161.8)	256.0
Comprehensive income including non-controlling interests	494.6	677.5	1,349.1	1,472.6
Less: Comprehensive income (loss) attributable to non-controlling interests	2.8	(1.6)	1.6	2.3
Comprehensive income attributable to Aetna	$491.8	$679.1	$1,347.5	$1,470.3

[1] Represents unrealized (losses) gains on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

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

Consolidated Balance Sheets

(Millions)	(Unaudited) At June 30, 2015	At December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents	$1,125.8	$1,420.4
Investments	2,545.8	2,595.2
Premiums receivable, net	2,513.6	1,623.0
Other receivables, net	2,745.2	2,065.9
Accrued investment income	226.5	223.9
Collateral received under securities loan agreements	543.7	826.9
Income taxes receivable	90.0	372.7
Deferred income taxes	458.4	443.0
Other current assets	2,733.1	2,193.0
Total current assets	12,982.1	11,764.0
Long-term investments	22,180.1	22,193.9
Reinsurance recoverables	840.3	751.4
Goodwill	10,641.3	10,613.2
Other acquired intangible assets, net	1,816.7	1,948.3
Property and equipment, net	653.2	669.8
Other long-term assets	1,236.1	1,130.0
Separate Accounts assets	4,291.3	4,331.5
Total assets	$54,641.1	$53,402.1
Liabilities and shareholders’ equity:		
Current liabilities:		
Health care costs payable	$5,978.6	$5,621.1
Future policy benefits	692.5	705.9
Unpaid claims	740.4	745.3
Unearned premiums	548.8	519.5
Policyholders’ funds	2,128.7	1,984.5
Collateral payable under securities loan and repurchase agreements	543.7	1,028.6
Short-term debt	—	500.0
Current portion of long-term debt	—	229.3
Accrued expenses and other current liabilities	5,168.8	4,022.3
Total current liabilities	15,801.5	15,356.5
Future policy benefits	6,387.7	6,427.4
Unpaid claims	1,657.8	1,650.6
Policyholders’ funds	1,114.4	1,163.2
Long-term debt, less current portion	7,840.1	7,852.0
Deferred income taxes	704.9	867.5
Other long-term liabilities	1,375.6	1,201.6
Separate Accounts liabilities	4,291.3	4,331.5
Total liabilities	39,173.3	38,850.3
Commitments and contingencies (Note 14)		
Shareholders’ equity:		

Common stock ($.01 par value; 2.5 billion shares authorized and 348.6 million shares issued and outstanding in 2015; 2.6 billion shares authorized and 349.8 million shares issued and outstanding in 2014) and additional paid-in capital	4,589.1	4,542.2
Retained earnings	12,090.6	11,051.7
Accumulated other comprehensive loss	(1,273.1)	(1,111.3)
Total Aetna shareholders’ equity	15,406.6	14,482.6
Non-controlling interests	61.2	69.2
Total equity	15,467.8	14,551.8
Total liabilities and equity	$54,641.1	$53,402.1

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

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Consolidated Statements of Shareholders' Equity
(Unaudited)

	Attributable to Aetna						
(Millions)	Number of Common Shares Outstanding	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Aetna Shareholders' Equity	Non-Controlling Interests	Total Equity
Six Months Ended June 30, 2015							
Balance at December 31, 2014	349.8	$4,542.2	$11,051.7	$ (1,111.3)	$14,482.6	$ 69.2	$14,551.8
Net income	—	—	1,509.3	—	1,509.3	1.6	1,510.9
Other decreases in non-controlling interest	—	—	—	—	—	(9.6)	(9.6)
Other comprehensive loss (Note 8)	—	—	—	(161.8)	(161.8)	—	(161.8)
Common shares issued for benefit plans, including tax benefits, net of employee tax withholdings	1.8	47.0	—	—	47.0	—	47.0
Repurchases of common shares	(3.0)	(.1)	(296.2)	—	(296.3)	—	(296.3)
Dividends declared	—	—	(174.2)	—	(174.2)	—	(174.2)
Balance at June 30, 2015	348.6	$4,589.1	$12,090.6	$ (1,273.1)	$15,406.6	$ 61.2	$15,467.8
Six Months Ended June 30, 2014							
Balance at December 31, 2013	362.2	$4,382.2	$10,555.4	$ (912.1)	$14,025.5	$ 52.7	$14,078.2
Net income	—	—	1,214.3	—	1,214.3	2.3	1,216.6
Other increases in non-controlling interest	—	—	—	—	—	2.0	2.0
Other comprehensive income (Note 8)	—	—	—	256.0	256.0	—	256.0
Common shares issued for benefit plans, including tax benefits, net of employee tax withholdings	2.2	80.4	—	—	80.4	—	80.4
Repurchases of common shares	(9.8)	(.1)	(720.0)	—	(720.1)	—	(720.1)
Dividends declared	—	—	(160.3)	—	(160.3)	—	(160.3)
Balance at June 30, 2014	354.6	$4,462.5	$10,889.4	$ (656.1)	$14,695.8	$ 57.0	$14,752.8

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

Consolidated Statements of Cash Flows
(Unaudited)

(Millions)	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income including non-controlling interests	$1,510.9	$1,216.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(10.1)	(52.3)
Depreciation and amortization	330.0	311.2
Debt fair value amortization	(15.3)	(30.3)
Equity in earnings of affiliates, net	(35.7)	(20.4)
Stock-based compensation expense	96.7	80.8
Amortization of net investment premium	42.8	35.8
Loss on early extinguishment of long-term debt	—	91.9
Changes in assets and liabilities:		
Accrued investment income	(2.6)	(6.3)
Premiums due and other receivables	(1,588.7)	(864.6)
Income taxes	230.0	254.7
Other assets and other liabilities	782.9	365.7
Health care and insurance liabilities	389.3	706.8
Other, net	(1.1)	1.7
Net cash provided by operating activities	1,729.1	2,091.3
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	5,872.0	3,865.6
Cost of investments	(6,193.8)	(4,330.6)
Additions to property, equipment and software	(187.8)	(189.3)
Cash used for acquisitions, net of cash acquired	(20.6)	(70.7)
Net cash used for investing activities	(530.2)	(725.0)
Cash flows from financing activities:		
Repayment of long-term debt	(228.8)	(839.7)
Issuance of long-term debt	—	741.9
Net repayment of short-term debt	(500.0)	—
Deposits and interest credited to investment contracts	2.7	2.3
Withdrawals from investment contracts	(38.2)	(1.9)
Common shares issued under benefit plans, net	(95.2)	(25.7)
Stock-based compensation tax benefits	38.5	20.2
(Settlements) proceeds from repurchase agreements	(201.7)	—
Common shares repurchased	(296.3)	(720.1)
Dividends paid to shareholders	(174.3)	(162.0)
Collateral on interest rate swaps	9.5	(36.1)
(Distributions) contributions, non-controlling interests	(9.7)	2.6
Net cash used for financing activities	(1,493.5)	(1,018.5)
Net (decrease) increase in cash and cash equivalents	(294.6)	347.8
Cash and cash equivalents, beginning of period	1,420.4	1,412.3
Cash and cash equivalents, end of period	$1,125.8	$1,760.1
Supplemental cash flow information:		
Interest paid	$173.2	$184.9
Income taxes paid	848.0	582.8

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

Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

We conduct our operations in three business segments:

- Health Care consists of medical, pharmacy benefit management services, dental, behavioral health 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) and products and services, such as Accountable Care Solutions, that complement and enhance our medical products. 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 other medical products, such as medical management and data analytics services, medical stop loss insurance, workers' compensation administrative services and products that provide access to our provider network in select geographies.

- Group Insurance primarily includes group life insurance and group disability products. Group life insurance products are offered on an Insured basis, and include basic and supplemental group term life, group universal life, supplemental or voluntary programs and accidental death and dismemberment coverage. Group disability products consist primarily of short-term and long-term disability products (and products which combine both), which are offered to employers on both an Insured and an ASC basis, and absence management services offered to employers, which include short-term and long-term disability administration and leave management. Group Insurance also includes long-term care products that were offered primarily on an Insured basis, which provide benefits covering the cost of care in private home settings, adult day care, assisted living or nursing facilities. We no longer solicit or accept new long-term care customers.

- Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax-qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services. Large Case Pensions also includes certain discontinued products (refer to Note 17 beginning on page 36 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 2014 Annual Report on Form 10-K (our "2014 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 2014 Annual Report, unless the information contained in those disclosures materially changed and is required by GAAP. We evaluated subsequent events that occurred after June 30, 2015 through the date the financial statements were issued and determined there were no other items to disclose other than as disclosed in Notes 3 and 11 beginning on pages 9 and 26, respectively.

Reclassifications
Certain reclassifications were made to 2014 financial information to conform with the 2015 presentation.

Principles of Consolidation
The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Aetna and the subsidiaries we control. All significant intercompany balances have been eliminated in consolidation.

New Accounting Standards
Accounting for Investments in Qualified Affordable Housing Projects
Effective January 1, 2015, we were permitted to make an accounting policy election to adopt new accounting guidance relating to the recognition of amortization of investments in qualified affordable housing projects. The guidance sets forth a new method of measurement, referred to as the proportional amortization method, under which income and expense items related to qualified affordable housing projects would be recorded in the income taxes line item. We did not make the accounting policy election to adopt this new accounting guidance.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity
Effective January 1, 2015, we adopted amended accounting guidance related to when an entity reports a discontinued operation in its financial position and operating results. The guidance clarifies that a discontinued operation is required to be reported if the disposal represents a significant shift that has (or will have) a major effect on an entity’s operations and financial results when a component of an entity or a group of components of an entity are either classified as held for sale or are disposed of by sale. The amendments also require additional disclosures about discontinued operations. We had no discontinued operations during the three or six months ended June 30, 2015.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures
Effective January 1, 2015, we adopted new accounting guidance related to the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. This guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with other typical repurchase agreements, resulting in these transactions generally being accounted for as secured borrowings. The adoption of this new guidance had no impact on our financial position or operating results. The guidance also required additional disclosures about repurchase agreements and other similar transactions accounted for as secured borrowings, which we adopted effective April 1, 2015. Refer to Note 9 beginning on page 18 for additional information on these disclosures.

Future Application of Accounting Standards
Revenue from Contracts with Customers
Effective January 1, 2017, we will adopt new accounting guidance related to revenue recognition from contracts with customers. This new guidance removes most industry-specific revenue recognition requirements (insurance contracts are not covered by this guidance) and requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. The new guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The new guidance allows an entity to adopt the standard either through a full retrospective approach or a modified retrospective approach with a cumulative effect adjustment to retained earnings. We are still assessing the impact of this standard on our financial position and operating results in addition to evaluating the transition method we will use when we adopt this standard.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period
Effective January 1, 2016, we will adopt new accounting guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This guidance clarifies that awards with these provisions should be treated as performance conditions that affect vesting, and do not impact the award's estimated grant-date fair value. Early adoption of this new guidance is permitted. The adoption of this new guidance will not have an impact on our financial position or operating results.

Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern
Effective December 31, 2016, we will adopt amended accounting guidance related to management's evaluation of whether there is substantial doubt about an entity's ability to continue as a going concern and the related disclosures. The adoption of this new guidance will not have a material impact on our financial position or operating results.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity
Effective January 1, 2016, we will adopt amended accounting guidance related to the approach used in determining whether the host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or equity. Early adoption of this new guidance is permitted. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items
Effective January 1, 2016, we will adopt amended accounting guidance related to the presentation of extraordinary items. The amendment eliminates the concept of extraordinary items which represent events that are both unusual and infrequent. Presentation and disclosure of items that are unusual or infrequent will be retained, and will be expanded to include items that are both unusual and infrequent. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Amendments to the Consolidation Analysis
Effective January 1, 2016, we will adopt amended accounting guidance related to the evaluation of consolidation for certain legal entities. The amendment changes how a reporting entity assesses consolidation, including whether an entity is considered a variable interest entity, determination of the primary beneficiary and how related parties are considered in the analysis. Early adoption of this new guidance is permitted. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Simplifying the Presentation of Debt Issuance Costs
Effective January 1, 2016, we will adopt amended accounting guidance related to the financial statement presentation of debt issuance costs. The amendment requires debt issuance costs to be presented as a direct deduction from the carrying amount of our debt liability, consistent with the approach used for debt discounts. Amortization of debt issuance costs will also be reported in the Statements of Income as interest expense, as opposed to general and administrative expenses. Early adoption of this new guidance is permitted. This new guidance must be applied on a full retrospective basis, with all prior periods restated for the new presentation. The adoption of this new guidance will require certain reclassifications in our financial statements and is not expected to have a material impact on our financial position or operating results.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement
Effective January 1, 2016, we will adopt amended accounting guidance related to the evaluation of fees paid by a customer in a cloud computing arrangement. The amendment provides additional guidance that aids in determining whether a cloud computing arrangement contains a software license. Arrangements that do not contain a software license must be accounted for as a service contract. If a software license is included in the cloud computing

arrangement, the license element must be accounted for consistent with the acquisition of a software license. Early adoption of this new guidance is permitted. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)
Effective January 1, 2016, we will adopt amended accounting guidance related to the presentation of investments in certain entities that calculate net asset value per share. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Early adoption of this new guidance is permitted. This new guidance is applicable to certain of our investments that reside in our separate accounts and employee benefit plans. The adoption of this new guidance will not have a material impact on our financial position or operating results.

Disclosures about Short-Duration Insurance Contracts
Effective December 31, 2016, we will adopt amended accounting guidance related to the disclosure of short-duration insurance contracts. The amendment requires insurance companies that issue short-duration contracts to include additional disclosures about those insurance liabilities, including disaggregation of certain disclosures, as appropriate. Early adoption of this new guidance is permitted. The adoption of this new guidance will not have a material impact on our financial position or operating results, however, the new guidance will require additional disclosure for our short-duration insurance liabilities that reside in our Health Care and Group Insurance segments.

3. Proposed Acquisition

On July 2, 2015, we entered into a definitive agreement (as it may be amended, the "Merger Agreement") to acquire Humana Inc. ("Humana") in a transaction valued at approximately $37 billion, based on the closing price of Aetna common shares on July 2, 2015, including the assumption of Humana debt and Humana cash and cash equivalents. Under the terms of the Merger Agreement, Humana stockholders will receive $125.00 in cash and 0.8375 Aetna common shares for each Humana share.

The transaction is subject to approval by our shareholders, Humana stockholders, and other customary closing conditions, including expiration of the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 waiting period and approvals of state departments of insurance and other regulators, and therefore has not been reflected in these financial statements.

4. Earnings Per Common Share

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

The computations of basic and diluted EPS for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per common share data)	2015	2014	2015	2014
Net income attributable to Aetna	$731.8	$548.8	$1,509.3	$1,214.3
Weighted average shares used to compute basic EPS	349.0	356.8	349.2	359.2
Dilutive effect of outstanding stock-based compensation awards	3.2	3.5	3.3	3.4
Weighted average shares used to compute diluted EPS	352.2	360.3	352.5	362.6
Basic EPS	$2.10	$1.54	$4.32	$3.38
Diluted EPS	$2.08	$1.52	$4.28	$3.35

The stock-based compensation awards excluded from the calculation of diluted EPS for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2015	2014	2015	2014
Stock appreciation rights (“SARs”) [1]	—	—	.9	.7
Other stock-based compensation awards [2]	.6	1.1	.9	1.3

(1) SARs are excluded from the calculation of diluted EPS if the exercise price is greater than the average market price of Aetna common shares during the period (i.e., the awards are anti-dilutive).

(2) Performance stock units ("PSUs"), certain market stock units ("MSUs") with performance conditions, and performance stock appreciation rights ("PSARs") are excluded from the calculation of diluted EPS if all necessary performance conditions have not been satisfied at the end of the reporting period.

All outstanding stock options were included in the calculation of diluted EPS for the three and six months ended June 30, 2014. We no longer have any stock options outstanding as of June 30, 2015.

5. Operating Expenses

For the three and six months ended June 30, 2015 and 2014, selling expenses (which include broker commissions, the variable component of our internal sales force compensation and premium taxes) and general and administrative expenses were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2015	2014	2015	2014
Selling expenses	$405.7	$413.0	$820.6	$815.8
General and administrative expenses:				
Salaries and related benefits	1,216.4	1,118.0	2,423.0	2,237.5
Other general and administrative expenses [1] [2]	1,179.7	1,070.2	2,374.9	1,998.3
Total general and administrative expenses [3]	2,396.1	2,188.2	4,797.9	4,235.8
Total operating expenses	$2,801.8	$2,601.2	$5,618.5	$5,051.6

(1) The three and six months ended June 30, 2015 include estimated fees mandated by the ACA comprised primarily of the health insurer fee of $213.8 million and $432.5 million, respectively, and our estimated contribution to the funding of the reinsurance program of $52.2 million and $105.8 million, respectively. The three and six months ended June 30, 2014 include estimated fees mandated by the ACA comprised primarily of the health insurer fee of $147.7 million and $302.5 million, respectively, and our estimated contribution to the funding of the reinsurance program of $86.2 million and $171.1 million, respectively.

(2) In the three months ended December 31, 2012, we recorded a charge of $120.0 million pretax related to the settlement of purported class action litigation regarding our payment practices related to out-of-network health care providers. That charge included the estimated cost of legal fees of plaintiffs’ counsel and the costs of administering the settlement. In the three months ended March 31, 2014, we exercised our right to terminate the settlement agreement. As a result, we released the reserve established in connection with the settlement agreement, net of amounts due to the settlement administrator, which reduced other general and administrative expenses by $103.0 million pretax in the three months ended March 31, 2014. Refer to Note 14 beginning on page 31 for additional information on the termination of the settlement agreement.

(3) The three and six months ended June 30, 2015 include $30.7 million and $76.3 million, respectively, of transaction and integration-related costs related to the acquisitions of Coventry Health Care, Inc. (“Coventry”), the InterGlobal group (“InterGlobal”) and bSwift LLC (“bswift”). The three and six months ended June 30, 2014 include $55.8 million

and $119.5 million, respectively, of transaction and integration-related costs related to the acquisitions of Coventry and InterGlobal.

Refer to the reconciliation of operating earnings to net income attributable to Aetna in Note 15 beginning on page 35 for additional information.

6. Investments

Total investments at June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015			December 31, 2014		
(Millions)	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	$2,412.1	$19,018.3	$21,430.4	$2,463.8	$18,977.9	$21,441.7
Mortgage loans	130.2	1,377.2	1,507.4	124.2	1,438.0	1,562.2
Other investments	3.5	1,784.6	1,788.1	7.2	1,778.0	1,785.2
Total investments	$2,545.8	$22,180.1	$24,725.9	$2,595.2	$22,193.9	$24,789.1

At June 30, 2015, we did not have any repurchase agreements outstanding. At December 31, 2014, approximately $202 million of investments were pledged as collateral under repurchase agreements. At June 30, 2015 and December 31, 2014, approximately $525 million and $798 million, respectively, of investments were pledged under securities loan agreements.

Debt and Equity Securities

Debt and equity securities available for sale at June 30, 2015 and December 31, 2014 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Debt securities:				
U.S. government securities	$1,669.4	$76.2	$(.6)	$1,745.0
States, municipalities and political subdivisions	4,625.3	197.1	(30.0)	4,792.4
U.S. corporate securities	8,040.2	429.2	(86.4)	8,383.0
Foreign securities	3,235.6	213.6	(32.1)	3,417.1
Residential mortgage-backed securities	840.0	21.9	(5.4)	856.5
Commercial mortgage-backed securities	1,302.6	37.9	(3.5) [1]	1,337.0
Other asset-backed securities	808.9	6.7	(3.7) [1]	811.9
Redeemable preferred securities	39.0	10.3	(.5)	48.8
Total debt securities	20,561.0	992.9	(162.2)	21,391.7
Equity securities	45.7	2.0	(9.0)	38.7
Total debt and equity securities [2]	$20,606.7	$994.9	$(171.2)	$21,430.4
December 31, 2014				
Debt securities:				
U.S. government securities	$1,301.2	$96.3	$(.6)	$1,396.9
States, municipalities and political subdivisions	4,540.0	277.2	(7.8)	4,809.4
U.S. corporate securities	8,033.2	606.8	(33.6)	8,606.4
Foreign securities	3,343.6	267.0	(18.3)	3,592.3
Residential mortgage-backed securities	902.7	28.9	(3.9)	927.7
Commercial mortgage-backed securities	1,324.6	52.8	(1.6) [1]	1,375.8
Other asset-backed securities	644.7	5.8	(6.5) [1]	644.0
Redeemable preferred securities	56.8	12.5	—	69.3
Total debt securities	20,146.8	1,347.3	(72.3)	21,421.8
Equity securities	23.3	.4	(3.8)	19.9
Total debt and equity securities [2]	$20,170.1	$1,347.7	$(76.1)	$21,441.7

(1) At June 30, 2015 and December 31, 2014, we held securities for which we previously recognized $15.6 million and $18.6 million, respectively, of non-credit related impairments in accumulated other comprehensive loss. These securities had a net unrealized capital gain at June 30, 2015 and December 31, 2014 of $2.8 million and $3.6 million, respectively.

(2) Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results (refer to Note 17 beginning on page 36 for additional information on our accounting for discontinued products). At June 30, 2015, debt and equity securities with a fair value of approximately $3.5 billion, gross unrealized capital gains of $273.3 million and gross unrealized capital losses of $52.5 million and, at December 31, 2014, debt and equity securities with a fair value of approximately $3.6 billion, gross unrealized capital gains of $391.3 million and gross unrealized capital losses of $16.7 million were included in total debt and equity securities, but support our experience-rated and discontinued products. Changes in net unrealized capital gains (losses) on these securities are not reflected in accumulated other comprehensive income.

The fair value of debt securities at June 30, 2015 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	$1,075.0
One year through five years	6,015.4
After five years through ten years	5,842.2
Greater than ten years	5,453.7
Residential mortgage-backed securities	856.5
Commercial mortgage-backed securities	1,337.0
Other asset-backed securities	811.9
Total	$21,391.7

Mortgage-Backed and Other Asset-Backed Securities

All of our residential mortgage-backed securities at June 30, 2015 were issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and carry agency guarantees and explicit or implicit guarantees by the U.S. Government. At June 30, 2015, our residential mortgage-backed securities had an average credit quality rating of AAA and a weighted average duration of 4.1 years.

Our commercial mortgage-backed securities have underlying loans that are dispersed throughout the United States. Significant market observable inputs used to value these securities include loss severity and probability of default. At June 30, 2015, these securities had an average credit quality rating of AA and a weighted average duration of 2.1 years.

Our other asset-backed securities have a variety of underlying collateral (e.g., automobile loans, credit card receivables, home equity loans and commercial loans). Significant market observable inputs used to value these securities include the unemployment rate, loss severity and probability of default. At June 30, 2015, these securities had an average credit quality rating of A+ and a weighted average duration of 1.2 years.

Unrealized Capital Losses and Net Realized Capital Gains (Losses)

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

Summarized below are the debt and equity securities we held at June 30, 2015 and December 31, 2014 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
June 30, 2015						
Debt securities:						
U.S. government securities	$379.8	$.2	$12.8	$.4	$392.6	$.6
States, municipalities and political subdivisions	1,551.8	26.1	107.1	3.9	1,658.9	30.0
U.S. corporate securities	2,501.9	76.4	140.7	10.0	2,642.6	86.4
Foreign securities	849.6	27.7	62.3	4.4	911.9	32.1
Residential mortgage-backed securities	121.7	1.8	101.2	3.6	222.9	5.4
Commercial mortgage-backed securities	232.6	3.2	28.5	.3	261.1	3.5
Other asset-backed securities	282.9	3.3	44.0	.4	326.9	3.7
Redeemable preferred securities	5.4	.5	—	—	5.4	.5
Total debt securities	5,925.7	139.2	496.6	23.0	6,422.3	162.2
Equity securities	21.3	5.4	1.6	3.6	22.9	9.0
Total debt and equity securities [1]	$5,947.0	$144.6	$498.2	$26.6	$6,445.2	$171.2
December 31, 2014						
Debt securities:						
U.S. government securities	$20.6	$.1	$19.8	$.5	$40.4	$.6
States, municipalities and political subdivisions	457.4	2.2	347.4	5.6	804.8	7.8
U.S. corporate securities	1,074.1	19.9	515.2	13.7	1,589.3	33.6
Foreign securities	540.0	12.8	148.0	5.5	688.0	18.3
Residential mortgage-backed securities	3.9	.1	166.9	3.8	170.8	3.9
Commercial mortgage-backed securities	181.5	.7	69.0	.9	250.5	1.6
Other asset-backed securities	373.1	6.1	21.3	.4	394.4	6.5
Redeemable preferred securities	3.0	—	—	—	3.0	—
Total debt securities	2,653.6	41.9	1,287.6	30.4	3,941.2	72.3
Equity securities	8.0	—	1.4	3.8	9.4	3.8
Total debt and equity securities [1]	$2,661.6	$41.9	$1,289.0	$34.2	$3,950.6	$76.1

[1] At June 30, 2015 and December 31, 2014, debt and equity securities in an unrealized capital loss position of $52.5 million and $16.7 million, respectively, and with related fair value of $1.0 billion and $402.7 million, respectively, related to experience-rated and discontinued products.

We reviewed the securities in the tables above and concluded that these are performing assets generating investment income to support the needs of our business. In performing this review, we considered factors such as the quality of the investment security based on research performed by our internal credit analysts and external rating agencies and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. At June 30, 2015, we did not intend to sell these securities, and we did not believe it was more likely than not that we would be required to sell these securities prior to anticipated recovery of their amortized cost basis.

The maturity dates for debt securities in an unrealized capital loss position at June 30, 2015 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	$—	$—	$69.1	$.2	$69.1	$.2
One year through five years	48.0	.5	1,304.9	8.8	1,352.9	9.3
After five years through ten years	434.1	10.3	1,965.1	39.1	2,399.2	49.4
Greater than ten years	485.1	33.7	1,305.1	57.0	1,790.2	90.7
Residential mortgage-backed securities	—	—	222.9	5.4	222.9	5.4
Commercial mortgage-backed securities	49.2	1.4	211.9	2.1	261.1	3.5
Other asset-backed securities	—	—	326.9	3.7	326.9	3.7
Total	$1,016.4	$45.9	$5,405.9	$116.3	$6,422.3	$162.2

Net realized capital gains (losses) for the three and six months ended June 30, 2015 and 2014, excluding amounts related to experience-rated contract holders and discontinued products, were as follows:

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
OTTI losses on debt securities recognized in earnings	$(7.6)	$(.1)	$(10.0)	$(.3)
Net realized capital gains, excluding OTTI losses on debt securities	9.6	23.9	20.1	52.6
Net realized capital gains	$2.0	$23.8	$10.1	$52.3

The net realized capital gains for the three and six months ended June 30, 2015 were primarily attributable to gains from the sale of debt securities partially offset by yield-related OTTI on debt securities. The net realized capital gains for the three and six months ended June 30, 2014 were primarily attributable to gains from the sales of debt and equity securities. The net realized capital gains for the six months ended June 30, 2014 were also attributable to the recognition of a gain on the termination of interest rate swaps during the first quarter of 2014.

We had no individually material realized capital losses on debt or equity securities that impacted our operating results during three or six months ended June 30, 2015 or 2014.

Excluding amounts related to experience-rated and discontinued products, proceeds from the sale of debt securities and the related gross realized capital gains and losses for the three and six months ended June 30, 2015 and 2014 were as follows:

(Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Proceeds on sales	$1,545.3	$930.9	$2,491.2	$2,023.7
Gross realized capital gains	20.7	19.9	45.6	44.5
Gross realized capital losses	13.6	9.0	22.4	22.0

Mortgage Loans

Our mortgage loans are collateralized by commercial real estate. During the three and six months ended June 30, 2015 and 2014 we had the following activity in our mortgage loan portfolio:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2015	2014	2015	2014
New mortgage loans	$24.4	$107.0	$37.1	$140.9
Mortgage loans fully repaid	19.5	36.8	59.0	56.6
Mortgage loans foreclosed	—	—	9.0	—

At June 30, 2015 and December 31, 2014, we had no material problem, restructured or potential problem mortgage loans. We also had no material impairment reserves on these loans at June 30, 2015 or December 31, 2014.

We assess our mortgage loans on a regular basis for credit impairments, and annually assign a credit quality indicator to each loan. Our credit quality indicator is internally developed and categorizes our portfolio on a scale from 1 to 7. Category 1 represents loans of superior quality, and Category 7 represents loans where collections are potentially at risk and may be reported as problem, restructured or potential problem loans. The vast majority of our mortgage loans fall into the Level 2 to 4 ratings. These ratings represent loans where credit risk is minimal to acceptable; however, these loans may display some susceptibility to economic changes. Categories 5 and 6 represent loans where credit risk is not substantial but these loans warrant management's close attention. These indicators are based upon several factors, including current loan to value ratios, property condition, market trends, creditworthiness of the borrower and deal structure. Based upon our most recent assessments at June 30, 2015 and December 31, 2014, our mortgage loans were given the following credit quality indicators:

(In Millions, except credit ratings indicator)	June 30, 2015	December 31, 2014
1	$57.6	$59.7
2 to 4	1,426.9	1,443.4
5 and 6	22.9	31.2
7	—	27.9
Total	$1,507.4	$1,562.2

Variable Interest Entities

In determining whether to consolidate a variable interest entity ("VIE"), we consider several factors, including whether we have the power to direct activities, the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We have relationships with certain real estate partnerships and one hedge fund partnership that are considered VIEs, but are not consolidated. We record the amount of our investment in these partnerships as long-term investments on our balance sheets and recognize our share of partnership income or losses in earnings. Our maximum exposure to loss as a result of our investment in these partnerships is our investment balance at June 30, 2015 and December 31, 2014 of approximately $211 million and $209 million, respectively, and the risk of recapture of tax credits related to the real estate partnerships previously recognized, which we do not consider significant. We do not have a future obligation to fund losses or debts on behalf of these investments; however, we may voluntarily contribute funds. The real estate partnerships construct, own and manage low-income housing developments and had total assets of approximately $6.1 billion and $5.7 billion at June 30, 2015 and December 31, 2014, respectively. The hedge fund partnership had total assets of approximately $7.0 billion and $7.1 billion at June 30, 2015 and December 31, 2014, respectively.

Non-controlling (Minority) Interests

At June 30, 2015 and December 31, 2014, continuing business non-controlling interests were approximately $61 million and $69 million, respectively, primarily related to third party interests in our investment holdings as well as third party interests in certain of our operating entities. The non-controlling entities' share was included in total equity. Net income attributable to non-controlling interests was $2.8 million and $1.6 million for the three and six months ended June 30, 2015, respectively. Net loss attributable to non-controlling interests was $1.6 million for the three months ended June 30, 2014, and net income attributable to non-controlling interests was $2.3 million for the six months ended June 30, 2014. These non-controlling interests did not have a material impact on our financial position or operating results.

Net Investment Income

Sources of net investment income for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2015	2014	2015	2014
Debt securities	$201.3	$198.2	$397.7	$396.3
Mortgage loans	21.7	34.1	43.6	58.0
Other investments	38.6	5.3	62.5	35.4
Gross investment income	261.6	237.6	503.8	489.7
Investment expenses	(14.2)	(9.3)	(23.5)	(17.2)
Net investment income [(1)]	$247.4	$228.3	$480.3	$472.5

(1) Net investment income includes $74.8 million and $141.4 million for the three and six months ended June 30, 2015, respectively, and $63.5 million and $143.9 million for the three and six months ended June 30, 2014, respectively, related to investments supporting our experience-rated and discontinued products.

7. Health Care Reform's Reinsurance, Risk Adjustment and Risk Corridor (the "3Rs")

We are participating in certain public health insurance exchanges established pursuant to Health Care Reform ("Public Exchanges"). Under regulations established by the U.S. Department of Health and Human Services ("HHS"), HHS pays us a portion of the premium ("Premium Subsidy") and a portion of the health care costs ("Cost Sharing Subsidy") for low-income individual Public Exchange members. In addition, HHS administers certain risk management programs.

The net receivable (payable) related to the 3Rs risk management programs at June 30, 2015 and December 31, 2014 were as follows:

	As of June 30, 2015			As of December 31, 2014		
(Millions)	Reinsurance	Risk Adjustment	Risk Corridor	Reinsurance	Risk Adjustment	Risk Corridor
Current	$359.2	$(335.6)	$(6.2)	$337.6	$(230.0)	$(9.6)
Long-term	98.1	(344.2)	—	—	—	—
Total net receivable (payable)	$457.3	$(679.8)	$(6.2)	$337.6	$(230.0)	$(9.6)

At June 30, 2015 and December 31, 2014, we did not record any Health Care Reform risk corridor receivables because payments from HHS under this program are uncertain.

We expect to perform an annual final reconciliation and settlement with HHS of the Cost Sharing Subsidy and 3Rs in each subsequent year.

8. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive loss for the six months ended June 30, 2015 and 2014:

(Millions)	Net Unrealized Gains (Losses) Securities: Previously Impaired [1]	Net Unrealized Gains (Losses) Securities: All Other	Foreign Currency and Derivatives	Pension and OPEB Plans: Unrecognized Net Actuarial Losses	Pension and OPEB Plans: Unrecognized Prior Service Credit	Total Accumulated Other Comprehensive (Loss) Income
Six months ended June 30, 2015						
Balance at December 31, 2014	$34.9	$568.0	$(60.9)	$(1,670.9)	$17.6	$(1,111.3)
Other comprehensive (loss) income before reclassifications	(4.0)	(202.0)	3.5	—	—	(202.5)
Amounts reclassified from accumulated other comprehensive income	(6.4) [2]	25.6 [2]	1.9 [3]	20.9 [4]	(1.3) [4]	40.7
Other comprehensive (loss) income	(10.4)	(176.4)	5.4	20.9	(1.3)	(161.8)
Balance at June 30, 2015	$24.5	$391.6	$(55.5)	$(1,650.0)	$16.3	$(1,273.1)
Six months ended June 30, 2014						
Balance at December 31, 2013	$34.2	$326.8	$.4	$(1,293.8)	$20.3	$(912.1)
Other comprehensive income (loss) before reclassifications	3.3	276.0	(25.0)	—	—	254.3
Amounts reclassified from accumulated other comprehensive income	(2.0) [2]	(1.2) [2]	(9.2) [3]	15.4 [4]	(1.3) [4]	1.7
Other comprehensive income (loss)	1.3	274.8	(34.2)	15.4	(1.3)	256.0
Balance at June 30, 2014	$35.5	$601.6	$(33.8)	$(1,278.4)	$19.0	$(656.1)

(1) Represents unrealized gains on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

(2) Reclassifications out of accumulated other comprehensive income for previously impaired debt securities and all other securities are reflected in net realized capital gains (losses) within the Consolidated Statements of Income.

(3) Reclassifications out of accumulated other comprehensive income for foreign currency gains (losses) and derivatives are reflected in net realized capital gains (losses) within the Consolidated Statements of Income, except for the effective portion of derivatives related to interest rate swaps which are reflected in interest expense and were not material during the six months ended June 30, 2015 or 2014. Refer to Note 11 of Condensed Notes to Consolidated Financial Statements beginning on page 26 for additional information.

(4) Reclassifications out of accumulated other comprehensive income for pension and OPEB plan expenses are reflected in general and administrative expenses within the Consolidated Statements of Income. Refer to Note 10 of Condensed Notes to Consolidated Financial Statements beginning on page 26 for additional information.

Refer to the Consolidated Statements of Comprehensive Income on page 2 for additional information regarding reclassifications out of accumulated other comprehensive income on a pretax basis.

9. Financial Instruments

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

Financial Instruments Measured at Fair Value in our Balance Sheets

Certain of our financial instruments are measured at fair value in our balance sheets. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information ("inputs") that qualifies a financial asset or liability for each level:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable markets.

Level 3 – Developed from unobservable data, reflecting our own assumptions.

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

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

Debt Securities – Where quoted prices are available in an active market, our debt securities are classified in Level 1 of the fair value hierarchy. Our Level 1 debt securities are comprised primarily of U.S. Treasury securities.

The fair values of our Level 2 debt securities are obtained using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. We review these prices to ensure they are based on observable market inputs that include, but are not limited to, quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets and inputs that are observable but not prices (for example, interest rates and credit risks). We also review the methodologies and the assumptions used to calculate prices from these observable inputs. On a quarterly basis, we select a sample of our Level 2 debt securities' prices and compare them to prices provided by a secondary source. Variances over a specified threshold are identified and reviewed to confirm the price provided by the primary source represents an appropriate estimate of fair value. In addition, our internal investment team consistently compares the prices obtained for select Level 2 debt securities to the team's own independent estimates of fair value for those securities. We obtained one price for each of our Level 2 debt securities and did not adjust any of these prices at June 30, 2015 or December 31, 2014.

We also value certain debt securities using Level 3 inputs. For Level 3 debt securities, fair values are determined by outside brokers or, in the case of certain private placement securities, are priced internally. Outside brokers determine the value of these debt securities through a combination of their knowledge of the current pricing environment and market flows. We obtained one non-binding broker quote for each of these Level 3 debt securities and did not adjust any of these quotes at June 30, 2015 or December 31, 2014. The total fair value of our broker quoted debt securities was approximately $105 million at June 30, 2015 and $126 million at December 31, 2014. Examples of these broker quoted Level 3 debt securities include certain U.S. and foreign corporate securities and certain of our commercial mortgage-backed securities as well as other asset-backed securities. For some of our private placement securities, our internal staff determines the value of these debt securities by analyzing spreads of corporate and sector indices as well as interest spreads of comparable public bonds. Examples of these private placement 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 in 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 in Level 3 because we price these securities through an internal analysis of each investment's financial statements and cash flow projections. Significant unobservable inputs consist of earnings and revenue multiples, discount for lack of marketability and comparability adjustments. An increase or decrease in any of these unobservable inputs would result in a change in the fair value measurement, which may be significant.

Derivatives – Where quoted prices are available in an active market, our derivatives are classified in Level 1. Certain of our derivative instruments are valued using models that primarily use market observable inputs and therefore are classified in Level 2 because they are traded in markets where quoted market prices are not readily available.

Financial assets and liabilities measured at fair value on a recurring basis in our balance sheets at June 30, 2015 and December 31, 2014 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
June 30, 2015				
Assets:				
Debt securities:				
U.S. government securities	$1,560.1	$184.9	$—	$1,745.0
States, municipalities and political subdivisions	—	4,791.3	1.1	4,792.4
U.S. corporate securities	—	8,319.4	63.6	8,383.0
Foreign securities	—	3,391.6	25.5	3,417.1
Residential mortgage-backed securities	—	856.5	—	856.5
Commercial mortgage-backed securities	—	1,324.3	12.7	1,337.0
Other asset-backed securities	—	787.6	24.3	811.9
Redeemable preferred securities	—	44.7	4.1	48.8
Total debt securities	1,560.1	19,700.3	131.3	21,391.7
Equity securities	22.4	—	16.3	38.7
Derivatives	—	.3	—	.3
Total	$1,582.5	$19,700.6	$147.6	$21,430.7
Liabilities:				
Derivatives	$—	$46.5	$—	$46.5
December 31, 2014				
Assets:				
Debt securities:				
U.S. government securities	$1,198.4	$198.5	$—	$1,396.9
States, municipalities and political subdivisions	—	4,808.2	1.2	4,809.4
U.S. corporate securities	—	8,548.2	58.2	8,606.4
Foreign securities	—	3,560.7	31.6	3,592.3
Residential mortgage-backed securities	—	927.7	—	927.7
Commercial mortgage-backed securities	—	1,368.3	7.5	1,375.8
Other asset-backed securities	—	602.5	41.5	644.0
Redeemable preferred securities	—	65.2	4.1	69.3
Total debt securities	1,198.4	20,079.3	144.1	21,421.8
Equity securities	1.8	—	18.1	19.9
Derivatives	—	.3	—	.3
Total	$1,200.2	$20,079.6	$162.2	$21,442.0
Liabilities:				
Derivatives	$—	$53.4	$—	$53.4

There were no transfers between Levels 1 and 2 during the three or six months ended June 30, 2015 or 2014. During both the three and six months ended June 30, 2015, we had gross transfers out of Level 3 of $33.2 million related to other asset-backed securities. During both the three and six months ended June 30, 2014, we had an immaterial amount of gross transfers out of Level 3. During both the three and six months ended June 30, 2015 and 2014, we had an immaterial amount of gross transfers into Level 3 financial assets.

Financial Instruments Not Measured at Fair Value in our Balance Sheets
The following is a description of the valuation methodologies used for estimating the fair value of our financial assets and liabilities that are carried on our balance sheets at adjusted cost or contract value.

Mortgage loans: Fair values are estimated by discounting expected mortgage loan cash flows at market rates that reflect the rates at which similar loans would be made to similar borrowers. These rates reflect our assessment of the credit worthiness of the borrower and the remaining duration of the loans. The fair value estimates of mortgage loans of lower credit quality, including problem and restructured loans, are based on the estimated fair value of the underlying collateral.

Bank loans: Where fair value is determined by quoted market prices of bank loans with similar characteristics, our bank loans are classified in Level 2. For bank loans classified in Level 3, fair value is determined by outside brokers using their internal analyses through a combination of their knowledge of the current pricing environment and market flows.

Equity securities: Certain of our equity securities are carried at cost. The fair values of our cost-method investments are not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

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 classified by level of fair value hierarchy for certain of our financial instruments at June 30, 2015 and December 31, 2014 were as follows:

	Carrying	Estimated Fair Value			
(Millions)	Value	Level 1	Level 2	Level 3	Total
June 30, 2015					
Assets:					
Mortgage loans	$1,507.4	$—	$—	$1,557.7	$1,557.7
Bank loans	230.0	—	220.0	8.7	228.7
Equity securities [(1)]	34.9	N/A	N/A	N/A	N/A
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	8.5	—	—	8.5	8.5
Without a fixed maturity	518.0	—	—	500.7	500.7
Long-term debt	7,840.1	—	8,137.3	—	8,137.3
December 31, 2014					
Assets:					
Mortgage loans	$1,562.2	$—	$—	$1,621.4	$1,621.4
Bank loans	231.2	—	217.6	9.4	227.0
Equity securities [(1)]	34.9	N/A	N/A	N/A	N/A
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	16.6	—	—	16.6	16.6
Without a fixed maturity	557.5	—	—	551.5	551.5
Long-term debt	8,081.3	—	8,764.8	—	8,764.8

(1) It was not practical to estimate the fair value of these cost-method investments as it represents shares of unlisted companies.

Separate Accounts Measured at Fair Value in our Balance Sheets

Separate Accounts 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 Accounts liability has been established equal to the assets. These assets and liabilities are carried at fair value. Net investment income and capital gains and losses accrue directly to such contract holders. The assets of each account are legally segregated and are not subject to claims arising from our other businesses. Deposits, withdrawals, net investment income and realized and unrealized capital gains and losses on Separate Accounts assets are not reflected in our statements of income, shareholders' equity or cash flows.

Separate Accounts 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 19. Separate Accounts assets also include investments in common/collective trusts that are carried at fair value. Common/collective trusts invest in other investment funds otherwise known as the underlying funds. The Separate Accounts' interests in the common/collective trust funds are based on the fair values of the investments of the underlying funds and therefore are classified in Level 2. The assets in the underlying funds primarily consist of equity securities. Investments in common/collective trust funds are valued at their respective net asset value per share/unit on the valuation date.

Separate Accounts financial assets at June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015				December 31, 2014			
(Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities	$680.1	$2,654.6	$5.6	$3,340.3	$876.0	$2,495.0	$2.9	$3,373.9
Equity securities	180.5	5.6	—	186.1	173.3	5.7	—	179.0
Derivatives	—	.3	—	.3	—	.2	—	.2
Common/collective trusts	—	563.8	—	563.8	—	574.0	—	574.0
Total [1]	$860.6	$3,224.3	$5.6	$4,090.5	$1,049.3	$3,074.9	$2.9	$4,127.1

(1) Excludes $200.8 million and $204.4 million of cash and cash equivalents and other receivables at June 30, 2015 and December 31, 2014, respectively.

During the three and six months ended June 30, 2015 and 2014, we had an immaterial amount of Level 3 Separate Accounts financial assets.

Offsetting Financial Assets and Liabilities

Certain financial assets and liabilities are offset in our balance sheets or are subject to master netting arrangements or similar agreements with the applicable counterparty. Financial assets, including derivative assets, subject to offsetting and enforceable master netting arrangements as of June 30, 2015 and December 31, 2014 were as follows:

		Gross Amounts Not Offset in the Balance Sheets		
(Millions)	Gross Amounts of Recognized Assets [1]	Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2015				
Derivatives	$.3	$11.2	$—	$11.5
Total	$.3	$11.2	$—	$11.5
December 31, 2014				
Derivatives	$.3	$10.2	$—	$10.5
Total	$.3	$10.2	$—	$10.5

(1) There were no amounts offset in our balance sheets at June 30, 2015 or December 31, 2014.

Financial liabilities, including derivative liabilities, subject to offsetting and enforceable master netting arrangements as of June 30, 2015 and December 31, 2014 were as follows:

	Gross Amounts of Recognized Liabilities (1)	Gross Amounts Not Offset in the Balance Sheets		
(Millions)		Financial Instruments	Cash Collateral Paid	Net Amount
June 30, 2015				
Derivatives	$46.5	$—	$(39.5)	$7.0
Securities lending	543.7	(543.7)	—	—
Total	$590.2	$(543.7)	$(39.5)	$7.0
December 31, 2014				
Derivatives	$53.4	$.9	$(49.0)	$5.3
Securities lending	826.9	(826.9)	—	—
Repurchase agreements	201.7	—	—	201.7
Total	$1,082.0	$(826.0)	$(49.0	