AETNA INC /PA/
Form 10-Q
August 02, 2016

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, 2016
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 350.8 million shares of the registrant's voting common stock with a par value of $.01 per share outstanding at June 30, 2016.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended June 30, 2016

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

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Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Income
(Unaudited)

(Millions, except per common share data)	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Revenue:				
Health care premiums	$13,629.5	$12,936.5	$27,098.5	$25,876.6
Other premiums	547.2	546.0	1,087.3	1,084.0
Fees and other revenue [1]	1,473.5	1,509.0	2,940.5	2,884.0
Net investment income	251.0	247.4	468.7	480.3
Net realized capital gains	51.1	2.0	50.7	10.1
Total revenue	15,952.3	15,240.9	31,645.7	30,335.0
Benefits and expenses:				
Health care costs [2]	11,232.1	10,496.3	22,079.8	20,736.8
Current and future benefits	525.5	539.2	1,054.4	1,067.3
Operating expenses:				
Selling expenses	415.7	405.7	836.8	820.6
General and administrative expenses	2,367.4	2,394.8	4,809.9	4,795.4
Total operating expenses	2,783.1	2,800.5	5,646.7	5,616.0
Interest expense	123.7	79.6	225.5	159.8
Amortization of other acquired intangible assets	62.8	63.7	125.6	126.9
Reduction of reserve for anticipated future losses on discontinued products	(128.5)	—	(128.5)	—
Total benefits and expenses	14,598.7	13,979.3	29,003.5	27,706.8
Income before income taxes	1,353.6	1,261.6	2,642.2	2,628.2
Income taxes:				
Current	554.2	515.7	1,117.0	1,162.7
Deferred	6.7	11.3	(5.7)	(45.4)
Total income taxes	560.9	527.0	1,111.3	1,117.3
Net income including non-controlling interests	792.7	734.6	1,530.9	1,510.9
Less: Net income attributable to non-controlling interests	1.9	2.8	3.2	1.6
Net income attributable to Aetna	$790.8	$731.8	$1,527.7	$1,509.3
Earnings per common share:				
Basic	$2.25	$2.10	$4.35	$4.32
Diluted	$2.23	$2.08	$4.32	$4.28

(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 $35.0 million and $59.4 million (net of pharmaceutical and processing costs of $332.7 million and $641.1 million) for the three and six months ended June 30, 2016, respectively, and $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.

(2) Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of $28.1 million and $62.1 million for the three and six months ended June 30, 2016, respectively, and $30.2 million and $63.6 million for the three and six months ended June 30, 2015,

respectively.

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

Consolidated Statements of Comprehensive Income
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions)	2016	2015	2016	2015
Net income including non-controlling interests	$792.7	$734.6	$1,530.9	$1,510.9
Other comprehensive income (loss), net of tax:				
Previously impaired debt securities: [1]				
Net unrealized gains (losses) ($.2, $(2.7), ($4.0) and $(6.1) pretax)	.1	(1.8)	(2.6)	(4.0)
Less: reclassification of (losses) gains to earnings ($(.6), $7.4, $(5.9) and $9.8 pretax)	(.4)	4.8	(3.8)	6.4
Total previously impaired debt securities [1]	.5	(6.6)	1.2	(10.4)
All other securities:				
Net unrealized gains (losses) ($298.8, $(430.7), $616.2 and $(310.8) pretax)	194.2	(279.9)	400.5	(202.0)
Less: reclassification of gains (losses) to earnings ($45.2, $(28.4), $21.8 and $(39.4) pretax)	29.4	(18.4)	14.2	(25.6)
Total all other securities	164.8	(261.5)	386.3	(176.4)
Foreign currency and derivatives:				
Net unrealized (losses) gains ($(23.7), $26.8, $(270.0) and $5.4 pretax)	(15.4)	17.4	(175.5)	3.5
Less: reclassification of losses to earnings ($(4.4), $(1.4), $(9.9) and $(2.9) pretax)	(2.9)	(.9)	(6.5)	(1.9)
Total foreign currency and derivatives	(12.5)	18.3	(169.0)	5.4
Pension and other postretirement employee benefit (“OPEB”) plans:				
Less: amortization of net actuarial losses ($(15.9), $(16.0), $(31.9) and $(32.1) pretax)	(10.4)	(10.4)	(20.8)	(20.9)
Less: amortization of prior service credit ($1.1, $1.0, $2.1 and $2.0 pretax)	.7	.6	1.4	1.3
Total pension and OPEB plans	9.7	9.8	19.4	19.6
Other comprehensive income (loss)	162.5	(240.0)	237.9	(161.8)
Comprehensive income including non-controlling interests	955.2	494.6	1,768.8	1,349.1
Less: Comprehensive income attributable to non-controlling interests	1.9	2.8	3.2	1.6
Comprehensive income attributable to Aetna	$953.3	$491.8	$1,765.6	$1,347.5

(1) Represents unrealized gains (losses) 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, 2016	At December 31, 2015
Assets:		
Current assets:		
Cash and cash equivalents	$17,119.4	$2,524.3
Investments	2,981.8	3,014.8
Premiums receivable, net	3,090.4	1,753.1
Other receivables, net	2,799.2	2,443.2
Accrued investment income	229.3	227.7
Income taxes receivable	—	260.4
Other current assets	2,905.2	2,509.5
Total current assets	29,125.3	12,733.0
Long-term investments	22,423.0	21,664.8
Reinsurance recoverables	767.5	723.9
Goodwill	10,636.8	10,636.8
Other acquired intangible assets, net	1,563.7	1,688.3
Property and equipment, net	605.0	629.7
Other long-term assets	1,300.3	1,269.9
Separate Accounts assets	4,180.4	4,035.1
Total assets	$70,602.0	$53,381.5
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	$6,942.7	$6,305.7
Future policy benefits	660.4	671.8
Unpaid claims	766.3	772.3
Unearned premiums	582.4	549.2
Policyholders' funds	2,575.5	2,262.5
Current portion of long-term debt	643.9	—
Income taxes payable	163.2	—
Accrued expenses and other current liabilities	5,939.5	4,920.0
Total current liabilities	18,273.9	15,481.5
Future policy benefits	6,039.8	6,268.2
Unpaid claims	1,686.3	1,655.6
Policyholders' funds	930.4	885.6
Long-term debt, less current portion	20,019.1	7,785.4
Deferred income taxes	341.3	177.4
Other long-term liabilities	1,353.1	914.1
Separate Accounts liabilities	4,180.4	4,035.1
Total liabilities	52,824.3	37,202.9
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Common stock ($.01 par value; 2.5 billion shares authorized and 350.8 million shares issued		

and outstanding in 2016; 2.5 billion shares authorized and 349.5 million shares issued and outstanding in 2015) and additional paid-in capital	4,653.2	4,647.2
Retained earnings	14,149.8	12,797.4
Accumulated other comprehensive loss	(1,092.4)	(1,330.3)
Total Aetna shareholders' equity	17,710.6	16,114.3
Non-controlling interests	67.1	64.3
Total equity	17,777.7	16,178.6
Total liabilities and equity	$70,602.0	$53,381.5

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, 2016							
Balance at December 31, 2015	349.5	$4,647.2	$12,797.4	$(1,330.3)	$16,114.3	$ 64.3	$16,178.6
Net income	—	—	1,527.7	—	1,527.7	3.2	1,530.9
Other decreases in non-controlling interest	—	—	—	—	—	(.4)	(.4)
Other comprehensive income (Note 9)	—	—	—	237.9	237.9	—	237.9
Common shares issued for benefit plans, net of employee tax withholdings	1.3	6.0	—	—	6.0	—	6.0
Dividends declared	—	—	(175.3)	—	(175.3)	—	(175.3)
Balance at June 30, 2016	350.8	$4,653.2	$14,149.8	$(1,092.4)	$17,710.6	$ 67.1	$17,777.7
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 9)	—	—	—	(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

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

Consolidated Statements of Cash Flows
(Unaudited)

(Millions)	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income including non-controlling interests	$1,530.9	$1,510.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(50.7)	(10.1)
Depreciation and amortization	342.9	330.0
Debt fair value amortization	(14.8)	(15.3)
Equity in earnings of affiliates, net	(2.4)	(35.7)
Stock-based compensation expense	100.7	96.7
Reduction of reserve for anticipated future losses on discontinued products	(128.5)	—
Amortization of net investment premium	39.5	42.8
Changes in assets and liabilities:		
Accrued investment income	(1.6)	(2.6)
Premiums due and other receivables	(1,560.4)	(1,588.7)
Income taxes	418.4	230.0
Other assets and other liabilities	817.0	781.8
Health care and insurance liabilities	718.8	389.3
Net cash provided by operating activities	2,209.8	1,729.1
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,698.8	5,872.0
Cost of investments	(6,534.2)	(6,193.8)
Additions to property, equipment and software	(128.7)	(187.8)
Cash used for acquisitions, net of cash acquired	—	(20.6)
Net cash provided by (used for) investing activities	35.9	(530.2)
Cash flows from financing activities:		
Issuance of long-term debt	12,885.7	—
Repayment of long-term debt	—	(228.8)
Net repayment of short-term debt	—	(500.0)
(Withdrawals) net of deposits and interest credited to investment contracts	—	(35.5)
Common shares issued under benefit plans, net	(87.4)	(95.2)
Stock-based compensation tax benefits	—	38.5
Settlements from repurchase agreements	—	(201.7)
Common shares repurchased	—	(296.3)
Dividends paid to shareholders	(175.0)	(174.3)
Net (payment) receipt on interest rate derivatives	(273.5)	9.5
Distributions, non-controlling interests	(.4)	(9.7)
Net cash provided by (used for) financing activities	12,349.4	(1,493.5)
Net increase (decrease) in cash and cash equivalents	14,595.1	(294.6)
Cash and cash equivalents, beginning of period	2,524.3	1,420.4
Cash and cash equivalents, end of period	$17,119.4	$1,125.8
Supplemental cash flow information:		
Interest paid	$171.9	$173.2
Income taxes paid	702.5	848.0

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 emerging business products and services, such as Accountable Care Solutions, that complement and enhance our medical products. 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 networks in select geographies.

- Group Insurance primarily includes group life insurance and group disability products. Group life insurance products are offered on an Insured basis. Group disability products are offered to employers on both an Insured and an ASC basis. Group Insurance also includes long-term care products that were offered primarily on an Insured basis. 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 18 beginning on page 38 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 2015 Annual Report on Form 10-K (our "2015 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 2015 Annual Report, unless the information contained in those disclosures materially changed and is required by GAAP. The Company has evaluated subsequent events that occurred after June 30, 2016 through the date the financial statements were issued and determined there were no subsequent events to disclose other than as disclosed in Notes 3 and 15 beginning on pages 10 and 32.

Reclassifications
Certain reclassifications were made to 2015 financial information to conform with the 2016 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 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 adopted 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. The adoption of this new guidance did not have an 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 adopted new 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. The adoption of this new guidance did not 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 adopted new accounting guidance related to the presentation of extraordinary items. The amendment eliminates the concept of extraordinary items, which are 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 did not have a material impact on our financial position or operating results.

Amendments to the Consolidation Analysis

Effective January 1, 2016, we adopted new 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. The adoption of this new guidance required more of our other investments to be considered variable interest entities; however, it did not require additional investments to be consolidated or de-consolidated or have a material impact on our financial position or operating results. Our variable interest entity disclosures as of December 31, 2015 were retrospectively adjusted to conform with the new accounting guidance. Refer to Note 7 beginning on page 12 for further discussion.

Simplifying the Presentation of Debt Issuance Costs

Effective January 1, 2016, we adopted new accounting guidance related to the financial statement presentation of all debt issuance costs, including those related to line-of-credit arrangements. 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 premiums or discounts. We also elected to report debt issuance costs associated with any line-of-credit arrangements as a direct deduction from the carrying amount of our debt liability. Amortization of debt issuance costs also will be reported in our statements of income in interest expense, as opposed to general and administrative expenses. We are applying this new guidance on a full retrospective basis, with all prior periods restated for the new presentation. The adoption of this new guidance requires certain reclassifications in our financial statements and did not have a material impact on our financial position or operating results. As a result of adopting this guidance, we reclassified $43 million of other current and long-term assets as a reduction of long-term debt on our balance sheet at December 31, 2015. Additionally, we reclassified an immaterial amount of general and administrative expenses into interest expense for the three and six months ended June 30, 2015.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

Effective January 1, 2016, we adopted new 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

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license element must be accounted for consistent with the acquisition of a software license. The adoption of this new guidance did not 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 adopted new accounting guidance related to the presentation of investments in certain entities that calculate net asset value per share (or its equivalent). 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. 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 did not have a material impact on our financial position or operating results.

Simplifying the Accounting for Measurement-Period Adjustments
Effective January 1, 2016, we adopted new accounting guidance related to the recognition of adjustments to provisional amounts that are identified during the measurement period in a business combination. The new guidance eliminates the requirement to retrospectively account for measurement-period adjustments as part of a business combination and permits such adjustments to be recognized in the period in which the adjustment was determined. The adoption of this new guidance did not have a material impact on our financial position or operating results.

Improvements to Employee Share-Based Payment Accounting
Effective April 1, 2016, we elected to early adopt new accounting guidance related to the accounting for and financial statement presentation of employee share-based payments. As a result of adopting this new guidance, we recognized an immaterial amount of excess tax benefits in our statements of income that previously would have been recorded in additional paid-in capital for the three and six months ended June 30, 2016, and correspondingly reclassified the excess tax benefits for the six months ended June 30, 2016 from financing activities to operating activities in our statements of cash flows. We applied each of these provisions on a prospective basis, with adjustments reflected as of January 1, 2016, and prior periods were not retrospectively adjusted. Our ability under the new guidance to withhold more shares to satisfy our statutory income tax obligations had no impact on our financial statements and was adopted on a modified retrospective basis. We continue to estimate expected forfeitures of share-based payment awards in each period.

Future Application of Accounting Standards
Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern
Effective December 31, 2016, we will adopt new 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.

Disclosures about Short-Duration Insurance Contracts
Effective December 31, 2016, we will adopt new 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. 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.

Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships
Effective January 1, 2017, we will adopt new accounting guidance clarifying that the novation of a derivative contract in a hedge accounting relationship does not, in and of itself, require dedesignation of the hedge accounting relationship. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Contingent Put and Call Options in Debt Instruments
Effective January 1, 2017, we will adopt new accounting guidance related to the assessment of embedded contingent put or call options in debt instruments. The new guidance clarifies that assessment of whether an embedded contingent put or call option is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Simplifying the Transition to the Equity Method of Accounting
Effective January 1, 2017, we will adopt new accounting guidance related to the accounting for investments that subsequently qualify for the equity method of accounting. The new accounting guidance eliminates the requirement that an entity retrospectively apply the equity method of accounting to an investment previously accounted for by another method when we subsequently obtain significant influence. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Revenue from Contracts with Customers
Effective January 1, 2018, 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 those 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. Early adoption of this new guidance is permitted as of January 1, 2017. We are still assessing the impact of this new guidance on our financial position and operating results in addition to evaluating the transition method we will use when we adopt this new guidance.

Recognition and Measurement of Financial Assets and Financial Liabilities
Effective January 1, 2018, we will adopt new accounting guidance related to the recognition and measurement of financial assets and financial liabilities. Under the new guidance, all equity investments in unconsolidated entities will be measured at fair value with changes in fair value recognized in net income. A reporting entity may elect to report equity investments without a readily determinable fair value at cost. The new guidance also revises certain disclosures regarding financial assets and liabilities. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

Leases
Effective January 1, 2019, we will adopt new accounting guidance related to the recognition, measurement and disclosure requirements for leases. Under the new guidance, lessees will be required to recognize a right-of-use asset and corresponding lease liability on their balance sheets for all leases other than those that meet the definition of a short-term lease. The new guidance also revises certain disclosure requirements regarding leases. We are still assessing the impact of this new guidance on our financial position and operating results.

Measurement of Credit Losses on Financial Instruments
Effective January 1, 2020, we will adopt new accounting guidance related to the measurement of credit losses on financial assets and certain other instruments. The new guidance requires the use of a new forward-looking expected loss impairment model for trade and other receivables, held-to-maturity debt securities, loans and other instruments; requires impairments and recoveries for available-for-sale debt securities to be recorded through an allowance account; and revises certain disclosure requirements. We are still assessing the impact of this new guidance on our financial position and operating results.

3. Proposed Acquisition of Humana

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.

On October 19, 2015, Aetna and Humana each obtained the approval of their respective shareholders necessary for our proposed acquisition of Humana (the “Humana Acquisition”). On June 24, 2016, in accordance with the terms of the Merger Agreement, each of Aetna and Humana delivered a written notice to the other that such party had elected to extend the “End Date” (as defined in the Merger Agreement) from June 30, 2016 to December 31, 2016.

In June 2016, we issued $13 billion of senior notes (collectively, the “2016 Humana-related senior notes”) to partially fund the Humana Acquisition. If the Humana Acquisition has not been completed by December 31, 2016 (or such later date to which the “End Date” under the Merger Agreement is extended by agreement between us and Humana) or if, prior to such date, the Merger Agreement is terminated, we must redeem approximately $10.2 billion aggregate principal amount of certain of the 2016 Humana-related senior notes at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest and recognize the entire unamortized portion of the related cash flow hedge losses, debt issuance costs and debt issuance discounts in our net income upon such redemption.

On July 21, 2016, the U.S. Department of Justice (the “DOJ”) and certain state attorneys general filed a civil complaint in the U.S. District Court for the District of Columbia against us and Humana charging that the Humana Acquisition would violate Section 7 of the Clayton Antitrust Act, and seeking a permanent injunction to prevent Aetna from acquiring Humana (the “DOJ litigation”). The DOJ litigation could extend beyond December 31, 2016. We plan to vigorously defend the Humana Acquisition.

In order to address the DOJ’s perceived competitive concerns regarding Medicare Advantage, on August 2, 2016, we entered into a definitive agreement (as it may be amended, the “Aetna APA”) to sell for cash to Molina Healthcare, Inc. (“Molina”) certain of our Medicare Advantage assets. Also on August 2, 2016, Humana entered into a substantially identical definitive agreement (as it may be amended, the “Humana APA”) to sell for cash to Molina certain of Humana’s Medicare Advantage assets. The sale price under the Aetna APA is approximately $76 million, based on the estimated membership in the plans that are involved in the transaction. The transactions contemplated by the Aetna APA and the Humana APA remain subject to the completion of the Humana Acquisition, the resolution of the DOJ litigation, CMS approvals and actions, and customary closing conditions, including approvals of state departments of insurance and other regulators.

The Humana Acquisition remains subject to resolution of the DOJ litigation and customary closing conditions, including approvals of state departments of insurance and other regulators, and, depending upon the resolution of the DOJ litigation, the completion of the transactions contemplated by the Aetna APA and the Humana APA. Neither the Humana Acquisition nor the transactions contemplated by the Aetna APA have 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, 2016 and 2015 are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Millions, except per common share data)	2016	2015	2016	2015
Net income attributable to Aetna	$790.8	$731.8	$1,527.7	$1,509.3
Weighted average shares used to compute basic EPS	351.2	349.0	351.0	349.2
Dilutive effect of outstanding stock-based compensation awards	2.9	3.2	3.0	3.3
Weighted average shares used to compute diluted EPS	354.1	352.2	354.0	352.5
Basic EPS	$2.25	$2.10	$4.35	$4.32
Diluted EPS	$2.23	$2.08	$4.32	$4.28

The stock-based compensation awards excluded from the calculation of diluted EPS for the three and six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Millions)	2016	2015	2016	2015
Stock appreciation rights (“SARs”) (1)	.1	—	.1	.9
Other stock-based compensation awards (2)	.8	.6	.9	.9

(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.

5. Operating Expenses

For the three and six months ended June 30, 2016 and 2015, 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		Six Months Ended	
	June 30,		June 30,	
(Millions)	2016	2015	2016	2015
Selling expenses	$415.7	$405.7	$836.8	$820.6
General and administrative expenses:				
Salaries and related benefits	1,225.2	1,216.4	2,479.1	2,423.0
Other general and administrative expenses (1)	1,142.2	1,178.4	2,330.8	2,372.4
Total general and administrative expenses	2,367.4	2,394.8	4,809.9	4,795.4
Total operating expenses	$2,783.1	$2,800.5	$5,646.7	$5,616.0

(1) The three and six months ended June 30, 2016 include estimated fees mandated by the ACA (as defined in Note 8 on page 19) comprised primarily of the health insurer fee of $203.2 million and $417.0 million, respectively, and our estimated contribution to the funding of the ACA’s reinsurance program of $29.6 million and $59.0 million, respectively. 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 ACA's reinsurance program of $52.2 million and $105.8 million, respectively.

6. Cash and Cash Equivalents

Cash and cash equivalents include approximately $13 billion of highly rated money market fund investments related to the net proceeds received from the 2016 Humana-related senior notes we issued in June 2016 to partially fund the Humana Acquisition. These money market funds have average maturities of 60 days or less and are redeemable daily at par value plus accrued dividends with specified yield rates.

7. Investments

Total investments at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016			December 31, 2015		
(Millions)	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	$2,829.3	$19,452.6	$22,281.9	$2,877.1	$18,445.9	$21,323.0
Mortgage loans	152.3	1,377.4	1,529.7	126.9	1,426.8	1,553.7
Other investments	.2	1,593.0	1,593.2	10.8	1,792.1	1,802.9
Total investments	$2,981.8	$22,423.0	$25,404.8	$3,014.8	$21,664.8	$24,679.6

Debt and Equity Securities

Debt and equity securities available for sale at June 30, 2016 and December 31, 2015 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
Debt securities:				
U.S. government securities	$1,819.1	$131.7	$(.3)	$1,950.5
States, municipalities and political subdivisions	4,883.2	358.0	(4.4)	5,236.8
U.S. corporate securities	8,021.0	613.9	(16.2)	8,618.7
Foreign securities	2,913.0	246.4	(11.9)	3,147.5
Residential mortgage-backed securities	883.1	26.9	(.5)	909.5
Commercial mortgage-backed securities	1,221.0	38.6	(.3) [1]	1,259.3
Other asset-backed securities	998.4	9.8	(23.8) [1]	984.4
Redeemable preferred securities	27.3	6.9	—	34.2
Total debt securities	20,766.1	1,432.2	(57.4)	22,140.9
Equity securities	126.8	17.4	(3.2)	141.0
Total debt and equity securities [2]	$20,892.9	$1,449.6	$(60.6)	$22,281.9
December 31, 2015				
Debt securities:				
U.S. government securities	$1,803.5	$68.8	$(.6)	$1,871.7
States, municipalities and political subdivisions	4,889.5	244.3	(9.3)	5,124.5
U.S. corporate securities	7,981.5	339.5	(146.6)	8,174.4
Foreign securities	2,910.2	148.3	(61.4)	2,997.1
Residential mortgage-backed securities	914.6	16.6	(6.3)	924.9
Commercial mortgage-backed securities	1,262.4	17.2	(9.0) [1]	1,270.6
Other asset-backed securities	910.4	3.1	(19.2) [1]	894.3
Redeemable preferred securities	33.0	11.5	—	44.5
Total debt securities	20,705.1	849.3	(252.4)	21,302.0
Equity securities	22.8	4.1	(5.9)	21.0
Total debt and equity securities [2]	$20,727.9	$853.4	$(258.3)	$21,323.0

(1) At June 30, 2016 and December 31, 2015, we held securities for which we previously recognized $4.9 million and $5.4 million, respectively, of non-credit related impairments in accumulated other comprehensive loss. These securities had a net unrealized capital gain at June 30, 2016 and December 31, 2015 of $1.2 million and $1.9 million, respectively.

(2) Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results (refer to Note 18 beginning on page 38 for additional information on our accounting for discontinued products). At June 30, 2016, debt and equity securities with a fair value of approximately $3.2 billion, gross unrealized capital gains of $333.6 million and gross unrealized capital losses of $9.7 million and, at December 31, 2015, debt and equity securities with a fair value of approximately $3.0 billion, gross unrealized capital gains of $208.7 million and gross unrealized capital losses of $68.0 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, 2016 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	$1,272.5
One year through five years	6,790.8
After five years through ten years	5,392.1
Greater than ten years	5,532.3
Residential mortgage-backed securities	909.5
Commercial mortgage-backed securities	1,259.3
Other asset-backed securities	984.4
Total	$22,140.9

Mortgage-Backed and Other Asset-Backed Securities

All of our residential mortgage-backed securities at June 30, 2016 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, 2016, our residential mortgage-backed securities had an average credit quality rating of AAA and a weighted average duration of 3.5 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, 2016, these securities had an average credit quality rating of AA+ and a weighted average duration of 5.4 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, 2016, these securities had an average credit quality rating of AA- and a weighted average duration of 1.3 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, 2016 and December 31, 2015 that were in an unrealized capital loss position, aggregated by the length of time the investments have been in that position:

	Less than 12 months		Greater than 12 months		Total [1]	
(Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2016						
Debt securities:						
U.S. government securities	$—	$ —	$10.3	$ .3	$10.3	$ .3
States, municipalities and political subdivisions	166.7	1.8	130.1	2.6	296.8	4.4
U.S. corporate securities	249.2	4.4	268.8	11.8	518.0	16.2
Foreign securities	78.9	1.2	169.3	10.7	248.2	11.9
Residential mortgage-backed securities	3.1	—	52.1	.5	55.2	.5
Commercial mortgage-backed securities	59.7	.2	30.3	.1	90.0	.3
Other asset-backed securities	215.5	8.6	246.2	15.2	461.7	23.8
Total debt securities	773.1	16.2	907.1	41.2	1,680.2	57.4
Equity securities	7.1	.3	4.3	2.9	11.4	3.2
Total debt and equity securities [1]	$780.2	$ 16.5	$911.4	$ 44.1	$1,691.6	$ 60.6
December 31, 2015						
Debt securities:						
U.S. government securities	$66.8	$ .2	$12.6	$ .4	$79.4	$ .6
States, municipalities and political subdivisions	714.2	6.1	91.6	3.2	805.8	9.3
U.S. corporate securities	3,168.7	130.8	144.3	15.8	3,313.0	146.6
Foreign securities	1,102.4	50.4	89.2	11.0	1,191.6	61.4
Residential mortgage-backed securities	328.7	2.9	89.5	3.4	418.2	6.3
Commercial mortgage-backed securities	562.0	8.6	23.8	.4	585.8	9.0
Other asset-backed securities	653.5	15.6	67.1	3.6	720.6	19.2
Total debt securities	6,596.3	214.6	518.1	37.8	7,114.4	252.4
Equity securities	—	5.0	1.3	.9	1.3	5.9
Total debt and equity securities [1]	$6,596.3	$ 219.6	$519.4	$ 38.7	$7,115.7	$ 258.3

(1) At June 30, 2016 and December 31, 2015, debt and equity securities in an unrealized capital loss position of $9.7 million and $68.0 million, respectively, and with related fair value of $175.8 million and $966.2 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, 2016, 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, 2016 were as follows:

	Supporting discontinued and experience-rated products		Supporting remaining products		Total	
(Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Due to mature:						
Less than one year	$ —	$ —	$74.2	$ .5	$74.2	$ .5
One year through five years	10.3	.1	254.0	4.2	264.3	4.3
After five years through ten years	80.7	1.9	331.7	8.5	412.4	10.4
Greater than ten years	80.5	5.7	241.9	11.9	322.4	17.6
Residential mortgage-backed securities	—	—	55.2	.5	55.2	.5
Commercial mortgage-backed securities	—	—	90.0	.3	90.0	.3
Other asset-backed securities	—	—	461.7	23.8	461.7	23.8
Total	$ 171.5	$ 7.7	$1,508.7	$ 49.7	$1,680.2	$ 57.4

Net realized capital gains for the three and six months ended June 30, 2016 and 2015, excluding amounts related to experience-rated contract holders and discontinued products, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2016	2015	2016	2015
OTTI losses on debt securities recognized in earnings	$(.6)	$(7.6)	$(9.7)	$(10.0)
Other net realized capital gains	51.7	9.6	60.4	20.1
Net realized capital gains	$51.1	$2.0	$50.7	$10.1

The net realized capital gains for the three and six months ended June 30, 2016 were primarily attributable to gains from the sales of debt securities, partially offset by losses on other investments. 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.

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, 2016 or 2015.

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, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2016	2015	2016	2015
Proceeds on sales	$1,772.4	$1,545.3	$3,354.8	$2,491.2
Gross realized capital gains	67.5	20.7	99.8	45.6
Gross realized capital losses	3.8	13.6	35.1	22.4

Mortgage Loans
Our mortgage loans are collateralized by commercial real estate. During the three and six months ended June 30, 2016 and 2015 we had the following activity in our mortgage loan portfolio:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Millions)	2016	2015	2016	2015
New mortgage loans	$76.6	$24.4	$88.8	$37.1
Mortgage loans fully repaid	38.1	19.5	86.4	59.0
Mortgage loans foreclosed	—	—	—	9.0

At June 30, 2016 and December 31, 2015, we had no material problem, restructured or potential problem mortgage loans. We also had no material impairment reserves on these loans at June 30, 2016 or December 31, 2015.

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. The vast majority of our mortgage loans fall into the Category 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, 2016 and December 31, 2015, our mortgage loans were given the following credit quality indicators:

(In Millions, except credit ratings indicator)	June 30, 2016	December 31, 2015
1	$49.6	$ 65.8
2 to 4	1,454.4	1,466.9
5 and 6	17.5	21.0
7	8.2	—
Total	$1,529.7	$ 1,553.7

Variable Interest Entities
As discussed in Note 2 beginning on page 6, we adopted the guidance of Accounting Standards Update (ASU) No. 2015-02, Amendments to the Consolidation Analysis (Topic 810) effective January 1, 2016. As a result of adopting the new guidance, we have investments in certain hedge fund and private equity investments and real estate partnerships that are considered Variable Interest Entities ("VIE's"). We do not have a future obligation to fund losses or debts on behalf of these investments; however, we may voluntarily contribute funds.

In evaluating whether we are the primary beneficiary of a VIE, we considered several factors, including whether we (a) have the power to direct the activities that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE.

Variable Interest Entities - Primary Beneficiary
Upon adoption of the new guidance, we identified one hedge fund investment previously consolidated as a Voting Interest Entity in our statement of financial position and operating results that is determined to be a VIE under the new

guidance. The investment represents a majority owned hedge fund where we are the investment manager and have the power to direct the activities that most significantly impact the VIE’s economic performance, including determining the hedge fund’s investment strategy. Accordingly, we are the primary beneficiary and will continue to consolidate the investment in our financial results. The fund invests in additional hedge funds that are VIEs; however, we are not the primary beneficiary of these underlying funds as discussed in further detail below.

Substantially all of the assets of the VIE hedge fund are comprised of hedge fund investments reported as long-term investments on our balance sheets. The VIE hedge fund had no material liabilities at June 30, 2016 or December 31, 2015. The total amount of the VIE hedge fund's assets included in long term investments on our balance sheets at June 30, 2016 and December 31, 2015 were $466 million and $477 million, respectively.

Variable Interest Entities - Other Variable Interest Holder
Our involvement with VIEs where we are not determined to be the primary beneficiary consist of the following:

Hedge fund and private equity investments - We invest in hedge fund and private equity investments in order to generate investment returns for our investment portfolio supporting our businesses.

Real estate partnerships - We invest in various real estate partnerships including those that construct, own and manage low-income housing developments. For the low income housing development investments, substantially all of the projected benefits to us are from tax credits and other tax benefits.

We are not the primary beneficiary of these investments because the nature of our involvement with the activities of the VIEs does not give us the power to direct the activities that most significantly impact their economic performance. We record the amount of our investment as long-term investments on our balance sheets and recognize our share of each VIE's income or losses in earnings. Our maximum exposure to loss is limited to our investment balances as disclosed below and the risk of recapture of tax credits related to real estate partnerships previously recognized, which we do not consider significant.

The total amount of other variable interest holder VIE assets included in long term investments on our balance sheets at June 30, 2016 and December 31, 2015 were as follows:

(Millions)	June 30, 2016	December 31, 2015
Hedge fund investments	$397.0	$ 418.1
Private equity investments	440.9	443.3
Real estate partnerships	262.3	253.3
Total	$1,100.2	$ 1,114.7

The carrying value of the total assets and liabilities of our other variable interest holder VIE investments at June 30, 2016 and December 31, 2015 were as follows:

(Millions)	June 30, 2016	December 31, 2015
Assets:		
Hedge fund investments	$34,149.1	$ 33,065.7
Private equity investments	27,303.3	28,552.5
Real estate partnerships	6,711.6	6,808.7
Total	$68,164.0	$ 68,426.9
Liabilities:		
Hedge fund investments	$3,790.3	$ 3,535.3
Private equity investments	2,954.2	3,235.7
Real estate partnerships	5,030.8	5,044.5
Total	$11,775.3	$ 11,815.5

Non-controlling (Minority) Interests

At June 30, 2016 and December 31, 2015, continuing business non-controlling interests were $67 million and $64 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 $1.9 million and $3.2 million for the three and six months ended June 30, 2016, respectively. 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. 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, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2016	2015	2016	2015
Debt securities	$196.4	$201.3	$391.3	$397.7
Mortgage loans	21.0	21.7	50.1	43.6
Other investments	42.8	38.6	46.6	62.5
Gross investment income	260.2	261.6	488.0	503.8
Investment expenses	(9.2)	(14.2)	(19.3)	(23.5)
Net investment income [(1)]	$251.0	$247.4	$468.7	$480.3

(1) Net investment income includes $66.0 million and $110.7 million for the three and six months ended June 30, 2016, respectively, and $74.8 million and $141.4 million for the three and six months ended June 30, 2015, respectively, related to investments supporting our experience rated and discontinued products.

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

We participate in certain public health insurance exchanges ("Public Exchanges") established pursuant to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended, collectively, "Health Care Reform" or the "ACA"). 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 the 3Rs risk management programs.

Our net receivable (payable) related to the 3Rs risk management programs at June 30, 2016 and December 31, 2015 were as follows:

	At June 30, 2016			At December 31, 2015		
(Millions)	Reinsurance	Risk Adjustment	Risk Corridor	Reinsurance	Risk Adjustment	Risk Corridor
Current	$263.4	$ (627.9)	$ (59.7)	$394.5	$ (710.2)	$ (8.1)
Long-term	45.3	(343.1)	—	—	—	—
Total net receivable (payable)	$308.7	$ (971.0)	$ (59.7)	$394.5	$ (710.2)	$ (8.1)

At June 30, 2016, we did not record any ACA risk corridor receivables related to the 2016 or 2015 program years or any amount in excess of the prorated 12.6% HHS funding amount received for the 2014 program year, because payments from HHS are uncertain.

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

9. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive loss for the six months ended June 30, 2016 and 2015:

(Millions)	Net Unrealized Gains (Losses) Securities: Previously Impaired (1)	All Other	Foreign Currency and Derivatives	Pension and OPEB Plans: Unrecognized Net Actuarial Losses	Unrecognized Prior Service Credit	Total Accumulated Other Comprehensive (Loss) Income
Six months ended June 30, 2016						
Balance at December 31, 2015	$ 18.7	$ 312.4	$ (74.0)	$ (1,602.3)	$ 14.9	$ (1,330.3)
Other comprehensive (loss) income before reclassifications	(2.6)	400.5	(175.5)	—	—	222.4
Amounts reclassified from accumulated other comprehensive income	3.8 (2)	(14.2) (2)	6.5 (3)	20.8 (4)	(1.4) (4)	15.5
Other comprehensive income (loss)	1.2	386.3	(169.0)	20.8	(1.4)	237.9
Balance at June 30, 2016	$ 19.9	$ 698.7	$ (243.0)	$ (1,581.5)	$ 13.5	$ (1,092.4)
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)

(1) Represents unrealized gains or losses 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, 2016 or 2015. Refer to Note 12 beginning on page 27 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 11 beginning on page 27 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.

10. 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, 2016 or December 31, 2015.

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, 2016 or December 31, 2015. The total fair value of our broker quoted debt securities was $79 million at June 30, 2016 and $78 million at December 31, 2015. 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 placed. Our publicly-traded securities are classified in Level 1 because quoted prices are available for these securities in an active market. For privately-placed 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, 2016 and December 31, 2015 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
June 30, 2016				
Assets:				
Debt securities:				
U.S. government securities	$1,678.3	$272.2	$—	$1,950.5
States, municipalities and political subdivisions	—	5,235.8	1.0	5,236.8
U.S. corporate securities	—	8,544.0	74.7	8,618.7
Foreign securities	—	3,119.1	28.4	3,147.5
Residential mortgage-backed securities	—	909.5	—	909.5
Commercial mortgage-backed securities	—	1,259.3	—	1,259.3
Other asset-backed securities	—	984.4	—	984.4
Redeemable preferred securities	—	32.4	1.8	34.2
Total debt securities	1,678.3	20,356.7	105.9	22,140.9
Equity securities	108.8	—	32.2	141.0
Derivatives	—	.2	—	.2
Total	$1,787.1	$20,356.9	$138.1	$22,282.1
December 31, 2015				
Assets:				
Debt securities:				
U.S. government securities	$1,671.0	$200.7	$—	$1,871.7
States, municipalities and political subdivisions	—	5,123.4	1.1	5,124.5
U.S. corporate securities	—	8,110.5	63.9	8,174.4
Foreign securities	—	2,972.3	24.8	2,997.1
Residential mortgage-backed securities	—	924.9	—	924.9
Commercial mortgage-backed securities	—	1,270.6	—	1,270.6
Other asset-backed securities	—	894.3	—	894.3
Redeemable preferred securities	—	39.0	5.5	44.5
Total debt securities	1,671.0	19,535.7	95.3	21,302.0
Equity securities	1.7	—	19.3	21.0
Derivatives	—	19.7	—	19.7
Total	$1,672.7	$19,555.4	$114.6	$21,342.7
Liabilities:				
Derivatives	$—	$88.3	$—	$88.3

There were no transfers between Levels 1 and 2 during the three or six months ended June 30, 2016 or 2015. During both the three and six months ended June 30, 2016 we had had an immaterial amount of gross transfers out of Level 3 financial assets. During both the three and six months ended June 30, 2015, we had gross transfers out of Level 3 of $33 million related to other asset-backed securities. During both the three and six months ended June 30, 2016 and 2015, 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 creditworthiness 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 our financial instruments carried at adjusted cost or contract value at June 30, 2016 and December 31, 2015 were as follows:

Carrying
Value