

Mary T. Hoeltzel
Vice President and Chief Accounting Officer



October 25, 2013

Ms. Susan M. Cospers, Technical Director
File Reference No. 2013-290
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Routing TL 14A
1601 Chestnut Street
Philadelphia, PA 19192
Tel 215.761.1170
Fax 215.761.5613
mary.hoeltzel@cigna.com

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom
Via electronic submission: www.ifrs.org

Re: Proposed Accounting Standards Update, *Insurance Contracts (Topic 834)*

Dear Ms. Cospers and Mr. Hoogervorst:

Cigna Corporation appreciates the opportunity to comment on the Financial Accounting Standards Board's Proposed Accounting Standards Update, *Insurance Contracts (Topic 834)* (the "Proposal" or "Proposed Update").

Cigna is one of the largest investor-owned health care and related benefits organizations in the United States, and has operations in selected international markets. Our insurance subsidiaries are major providers of medical, dental, disability, life and accident insurance and related products and services, the majority of which are offered through employers and other groups (e.g. governmental and non-governmental organizations, unions and associations). Cigna also offers Medicare and Medicaid products. In addition to its ongoing operations described above, Cigna also has a reinsurance segment and retirement and individual life and annuity businesses in run-off. Cigna also has separate account assets of nearly \$8 billion, comprising approximately 15% of total consolidated assets.

We have taken this opportunity to provide comments to the Financial Accounting Standards Board ("FASB" or the "Board") and the International Accounting Standards Board ("IASB" and, collectively with the FASB, the "Boards") as the Boards have worked together extensively to address issues raised by numerous constituents and to produce draft standards that are more converged.

Cigna supports the Boards' goal to update insurance accounting and to improve the decision usefulness of the information about an entity's insurance contracts in its financial statements. However, our field testing of various products across our businesses revealed that the Boards' proposals will create a significant lack of transparency for the users of our financial information. Therefore we expect the Proposal's wholesale changes and voluminous disclosures to fall short of achieving this key objective.

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In addition, implementation of this Proposal will require significant one-time and ongoing costs, and it will create unintelligible revenue metrics and distractions by reporting the effects of potential, future changes in cash flows in current net income and commingling separate account data with assets and liabilities that inure to general policyholders and shareholders. This cacophony of financial information will obscure the ability of the readers of our financial statements to understand the most relevant issues and risks. Commotion and complicated machinations will only serve to overwhelm readers, obfuscating the critical elements and insights intended by a more focused improvement effort. The additional costs are likely to drive up the pricing of insurance products to absorb such overhead along with any increased costs of capital arising from the market uncertainty fueled by net income volatility created from the frequency of changes in assumptions related to future cash flows. We believe that these changes could undermine the broad financial viability of our industry and prevent the continuing development of new products that address the insurance needs of our many local communities.

Consistent with Cigna's letter to the FASB dated November 13, 2007 when we encouraged the Board to work together with the IASB, we remain convinced that the FASB's goal for improvement must be accomplished through targeted and specific changes to the current U.S. measurement models for insurance. By addressing the provisions in the current model that require update, we could provide readers the opportunity for greater visibility into the potential impacts of key assumptions and estimates, while building upon their knowledge of the fundamentals of the current accounting and reporting models. If this approach was conducted together with the IASB and was the basis for a converged, global accounting standard for insurance contracts, the knowledge and understanding of our users would deepen – providing insight based on a solid foundation, helping to launch a global model for insurance contracts that will withstand the test of changes in the global industry as it has within the U.S. Strategic targeted areas should include evolutionary improvements for long duration contracts, most importantly: requiring regular consideration of updated assumptions for long duration contracts that are recognized as adjustments to their margins.

Relative to short duration contracts, we suggest that changes to current U.S. GAAP be limited to addressing discounting of long-term payouts for these contracts. As you will see articulated in the comment letter submitted separately in collaboration by the five leading managed care organizations, including Cigna, we believe the application of the current U.S. short duration model meets investor needs and provides financial statement users with the necessary useful information to make informed investment decisions -- and users have not expressed a desire for any fundamental changes to this model and it seems to be well understood by them. Therefore, we believe that the radical changes proposed by the Boards – most notably the recognition of margin and changes to reported revenues -- are completely unnecessary and ultimately will cost millions for Cigna and others in the health insurance business to train preparers, auditors, management, owners and other users; these costs are driven by complex multiple changes needed to reporting environments in place to support various products and geographies. We also believe that the proposed changes to reserving practices, including the FASB's call for stochastic modeling, may imply a false precision to the readers of our financial statements and potentially undervalue liabilities for the industry, with the eventuality of impairing the industry's ability to withstand the cataclysmic changes that are underway the in the U.S. health care market.

If the Boards persist in their radical changes to accounting for insurance contracts, we believe their reconsideration must converge and address the following areas that introduce pointless complexity and confusing results: unit of account, margin recognition, revenue recognition and reporting changes in revenues and claim expectations, discount rate selection, business combinations, reinsurance and separate accounts presentation. Our concerns around each relative to the proposed BBA model are detailed in Attachment 1 as Answers to specific questions posed by the FASB.

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You will note that Questions 1, 2, 6, 7, 15, 33, 38 and 41 have been omitted from Cigna's response as our comments have been addressed in the Comment Letter submitted collaboratively by the five leading publicly-traded managed care organizations in the U.S, primarily addressing the proposed PAA model and other general provisions of the Proposal.

Thank you for your attention to our comments. If we can provide further information or clarification of our comments, please call me (215-761-1170) or Natalie Prosper (215-761-1647).

Sincerely,

A handwritten signature in cursive script that reads "Mary T. Hoeltzel". The signature is written in black ink and is positioned above the printed name.

Mary T. Hoeltzel

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Scope

Measurement Approaches

Questions for All Respondents

Question 5: Do you agree that entities should apply different approaches to contracts with different characteristics, described as the building block approach and the premium allocation approach? If not, which model do you think should apply and do you think there should be any changes made to that model?

Answer: Cigna agrees that different approaches should be applied to contracts with different characteristics; however, as further described in comments to the Boards provided jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013, Cigna believes that the proposed radical changes to accounting for insurance contracts are not cost justified. We suggest that limited changes to U.S. GAAP (as currently exists in section 944 of the Codification) will better remedy the identified perceived deficiencies of current U.S. GAAP and provide a sound and reliable basis for converged international guidance for insurance contracts without requiring the inordinate costly changes expected from this proposal. We support the recommendations identified in our joint letter dated October 25, 2013, along with Cigna's additional suggestions for various issues related to the building block approach (BBA) detailed in answers below.

Portfolio and Contract Boundary

Questions for Preparers and Auditors

Question 8: Do you agree with the definition of a portfolio of insurance contracts as included in this proposed Update? If not, what do you recommend and why?

Answer: Cigna has provided comments on this question jointly with the five leading publicly-traded managed care companies in a letter to the Boards dated October 25, 2013.

In addition to those comments, based on internal modeling as a result of participation in the FASB field testing, Cigna has considered the proposed portfolio definition for several lines of business that would be measured and reported under either of the proposed PAA or BBA models and determined from our field testing that potentially hundreds of portfolios might result in applying this definition across our various lines of business. We believe this will elongate our quarterly close calendar and consequently is not a viable approach as it will place a severe administrative and costly burden on the Company. We believe this result occurs primarily because of part (b) of the definition that requires the grouping of contracts to share similar duration and similar expected patterns of release from risk.

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These two criteria would typically cause a line of business such as long-term disability to produce at least one new portfolio each reporting period due to the different pricing and long-term payout patterns of such contracts. As Cigna has written such business for more than twenty years, 100 or more portfolios could be required to measure and report under this proposal for this one line of business. Considering Cigna's product written in the mid 1990's to reinsure death benefits guaranteed by direct writers of variable annuity contracts, less than 20 of these reinsurance contracts were written to assume business from the direct writers, with a majority of the business placed on our books over a two-year period. Given the proposed definition of a portfolio, we will be required to establish single portfolios for all business written each quarter for each reinsurance treaty resulting in approximately 120 portfolios requiring analysis and disclosure.

Contrast this estimated outcome of more than 200 portfolios for these two lines of business that Cigna has managed for many years with historical testing conducted for premium deficiency and measuring insurance liabilities under existing guidance in less than 25 portfolios. The assumed guaranteed death benefits business has been determined to be premium deficient and managed as one block of business since that determination in 2000. The related equity and foreign currency risks of this block have been effectively mitigated with hedging instruments considering the entire block of contracts collectively for more than ten years. The long-term disability line of business has been measured and tested for deficiency, grouped annually, without resulting loss indications. We believe that the current guidance in Section 944 of the Codification provides sufficient direction and guidance to group and measure insurance contracts (without concern for inappropriately offsetting loss contracts with dissimilar gain contracts) by grouping in the same manner that "management acquires, measures and assesses profitability for their insurance contracts." For a multiline insurer, this segregation may result in portfolios at or below the operating segment level. For a global insurer, this segregation may reflect different geographies and markets. The point is that it should reflect an insurer's risk management approach. We encourage the Boards to reach convergence on this key issue by retaining this portion of the current U.S. GAAP model for insurance contracts. We believe it properly reflects the risk pooling principle inherent in the business of insurance.

Otherwise, if the Boards choose to proceed with the radical changes contained in this proposal, then we strongly recommend that the definition of portfolio be modified to aggregate contracts with similar risks that are priced adequately for the risk undertaken and managed together as a single pool.

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Question 9: Do you agree with the requirements included in this proposed Update on contract boundary (that is, the requirements that establish how to identify the future cash flows that will arise as the insurer fulfills its obligations)? If not, what do you recommend and why?

Answer: Cigna has provided comments on this question jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013.

In addition to those comments, Cigna is very concerned that the application of contract boundary in estimating future cash flows for assumed reinsurance of contracts that have yet to be written by the direct writer will demand estimates that are neither reliable nor auditable. For example, in the mid 1990's Cigna's treaties with direct writers of variable annuity business covered mortality risks for new policies to be written by the direct writers for periods of up to 5 years after the effective dates of these treaties. The volume of business written was far in excess of predictions for this new reinsurance product. There have been other blocks of assumed business with actual volume far less than expected. There are likely many situations that produce actual reinsured business different than expected. Recording multiple years' worth of cash flows at treaty inception, before the underlying business has even been written, will be misleading and unreliable as it will not reflect either the contractual provisions or economic reality. Therefore, we believe that assumed reinsurance assets and liabilities should not be measured and recognized until the underlying direct insurance is sold by the direct writer. This would be consistent with 834-10-25-16a, as it applies to ceded reinsurance.

Fulfillment Cash Flows

Questions for Preparers and Auditors

Question 10: Do you agree with the types of cash flows that would be included in the measurement of the fulfillment cash flows, including embedded options and guarantees related to the insurance coverage under existing insurance contracts that are not separated and accounted for as embedded derivatives? If not, what cash flows do you think also should be included or excluded and why?

Answer: Cigna agrees with the types of cash flows that would be included in the measurement of the fulfillment cash flows.

Question 11: Do you agree that the assumptions used in the measurement of the fulfillment cash flows should be updated each reporting period? If not, what do you recommend and why?

Answer: Cigna agrees that assumptions used in the measurement of the fulfillment cash flows should be updated quarterly to the extent that they are primarily based on market-observable inputs. Behavioral and actuarial assumptions such as lapse, mortality or benefit election rates should be updated only when actuarial studies indicate the current assumptions are no longer representative of conditions expected to persist.

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This proposal to update all assumptions quarterly will demand a dramatic increase in the amount of time and effort from our actuarial and accounting professionals' quarterly analysis. We currently conduct reserve studies annually due to the complexity of reserving practices and, most importantly, the need for credible data that is generally not available as frequently as quarterly. This need for credible data requires statistically sound volumes and professional deliberations to ensure that emerging trends are valid and expected to persist and are not the result of short term aberrations producing random and inaccurate volatility.

Our recommended approach is predicated on our response to Question 13, that the potentially volatile changes related to future fulfillment cash flows resulting from these quarterly assumption updates (other than for changes in interest rates) should not be directly recognized in net income in the reporting period, but should be reflected by first "unlocking" the margin. Only differences in current period cash flows as a result of actual cash flows differing from expected cash flows should be recognized immediately within income.

Cigna believes this approach will consistently present margin as the expected profit of an insurance contract from inception adjusted for known and expected changes and avoid a moral hazard that might occur when product managers are setting assumptions quarterly for hundreds of portfolios for which small assumption changes could produce relatively large valuation changes. We believe this risk is not inconsequential and will demand extraordinary levels of controls for quarterly change management to protect the reliability of our reported financial information for a multitude of products across our global markets.

We also believe that without such a modification to the current proposal, the long-term negative effects to the insurance industry from unwarranted, inflammatory volatility in net income could produce devastating increases to our cost of capital due to the effects of shareholder and lender mistaken perceptions of highly uncertain cash flows.

Question 12: Do you agree that the fulfillment cash flows for contracts measured using the building block approach and the liability for incurred claims for contracts measured using the premium allocation approach should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract, adjusted to reflect any contractual linkage between the contract and any underlying assets? If not, what do you recommend and why?

Answer: Cigna has provided comments on this question jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013.

In addition, we observe that while the Boards may not have intended wholesale changes in actuarial methods to measure fulfillment cash flows, many industry discussions about actuarial approaches seem to imply that stochastic modeling is appropriate across many insurance products.

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We believe this is not the case, particularly for products without market-sensitive terms, such as various products for health insurance and global supplemental benefits. We recommend that the Boards clarify their final guidance to recognize that many current actuarial methods and models will continue to produce results that are compliant with the Boards' objective.

Questions for All Respondents

Question 13: Do you agree with the approach in this proposed Update to recognize changes in estimates of cash flows (other than the effect of changes in the liability arising from changes in the discount rates) in net income in the reporting period? If not, what do you recommend and why?

Answer: No. Cigna does not agree that changes in estimates of cash flows (other than the effects of changes arising from changes in discount rates) should be fully recognized in net income in the reporting period. We believe this approach is a fatal flaw of the FASB's BBA and that reporting changes for future fulfillment cash flows could result in highly volatile periodic net income when such changes in future cash flows may never be realized.

While market assumptions should be developed based on current market conditions, because future fulfillment cash flows will ultimately be dependent on those market conditions when the cash flows occur, we believe that reporting changes in those future cash flows in current net income will erroneously imply that such cash flow impacts have been currently realized. This implication would result in less transparent reporting and decreased understanding of insurance risks and cash flows. This will ultimately increase the cost of capital for insurers and undermine the support and faith of our investors. This increased cost will not be based on increased actual risk, merely the perception of increased risk that arises from overstated uncertainty.

Therefore, Cigna recommends that the BBA margin should be unlocked for the effects of quarterly changes in assumptions (other than those related to interest rates). We believe a similar approach could be used to address a perceived deficiency of the current U.S. model for long duration contracts to increase transparency into the potential impacts of updating assumptions for these contracts. This could be accomplished through limited changes to the current U.S. model for long duration contracts. However, if the Boards continue to work towards more radical converged changes to the U.S. insurance contracts model, we believe this approach can also 1) consistently present margin as the expected profit of an insurance contract from inception, adjusted for known and expected changes and 2) increase transparency into the potential impacts of updating assumptions when measuring liabilities for long duration insurance contracts, while mitigating gaming opportunities and preventing irrational and inflammatory volatility in reported net income.

We believe this is a key element to achieve convergence for a global standard for insurance contracts.

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Discount Rates and Discounting

Questions for All Respondents

Question 14: Do you agree that the discount rates used by the entity for nonparticipating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

Answer: No. While insurance assets and their liabilities are not contractually linked, we believe that the current U.S. model for long duration insurance activities most consistently and practically measures the insurance liability with a discount rate derived from the asset portfolio backing the liabilities (or a reference portfolio of assets with similar duration as the liabilities.) This approach is typically consistent with pricing assumptions of the portfolio (as considered in BC 157 of the Proposal) and avoids losses at inception for contracts that have been profitably priced. We believe that this practical approach is acceptable as insurance liabilities are uniquely non-transferrable and highly illiquid. The limited types of transactions that can effectively transfer insurance liabilities rarely separate those liabilities from their underlying investment portfolios and therefore, we believe that this approach to establishing a discount rate is a reasonable practical expedient.

We also note that this approach is consistent with the project objective to address the mixed-attribute accounting model and will mitigate net volatility in other comprehensive income arising from unrealized gains/losses from investment assets and those arising from insurance contracts if those liabilities were based on interest rates derived using either of the proposed approaches.

Question 16: Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income? If not, do you think that the effect of changes in the discount rates should be presented in net income? Please explain your reasoning.

Answer: Cigna generally agrees with segregating the effects of changes in discount rates on the fulfillment cash flows, but recommends that two modifications to this proposed provision could significantly reduce the complexity and costs of compliance:

- Measuring the effects of changes in interest rates should use the most current yield curve and most recent prior period yield curve, and
- Recognizing the effects of changes in discount rates should be elective so that insurers can determine at the portfolio level if and when the benefits of this complex approach are economically justifiable.

The first of these suggestions serves to simplify the measurement process without changing the reported results.

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For the second suggestion, although elective provisions are generally considered unattractive as they typically reduce comparability across companies with similar transactions, we believe that the historical data requirements demanded by this proposed provision warrant the unusual decision to allow rather than require this treatment. For example, Cigna's runoff individual life and retirement businesses and assumed variable annuity guaranteed death benefits are effectively reinsured with third parties such that segregating the effects of interest rate changes on fulfillment cash flows for those books of business would not be cost justifiable, and in fact, would serve to increase volatility in OCI as they are no longer supported by investment assets, but by the related reinsurance recoverables. Therefore, the choice to record all changes in fulfillment cash flows in net income makes for an economic and cost effective reporting model for these books of business. Otherwise, Cigna would be required to work with the reinsurers of these books of business to determine, retain and update yield curves for the various groups of products comprising these portfolios to comply with the proposed requirements when the economically important information concerning these books of business is the collectability of the reinsurance recoverable.

In addition, to accomplish the Boards' objective to resolve the mixed-attribute accounting model, they should consider an option to value financial instruments backing a book of insurance or reinsurance contracts at fair value through other comprehensive income. Although this approach is contract-specific, we believe it is justified given that the Boards' proposed accounting model is unique to insurance contracts.

Question 17: Because the proposed guidance includes the approach under which changes in the insurance liability arising from changes in the discount rates should be recorded in other comprehensive income, do you think that a test should be required to trigger recognition in net income of some or all of the amounts in accumulated other comprehensive income (that is, a loss recognition test based on asset-liability mismatches)? Why or why not?

Answer: No; Cigna believes such a test will further complicate this complex BBA model to deal with temporary balances that reverse over time.

Questions for Preparers and Auditors

Question 18: Do you agree that the method for calculating the discount rates should not be prescribed? Is the proposed guidance on determining the discount rates understandable and operable? If not, what do you recommend?

Answer: Yes. However, the discount rates to be used for cash flows beyond the time periods available for market-observable interest rates should be clarified. For example, explicitly allowing or providing an example demonstrating the use of discount rates that grade from market observable rates to long-term average interest rates for longer durations may be helpful.

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Question 19: Do you agree that interest expense generally should be based on the discount rates determined at the date the portfolio of contracts was initially recognized? Why or why not? If not, what do you recommend?

Answer: Yes.

Question 20: Do you agree that upon any change in expectations of the crediting rates used to measure the insurance contract liability for insurance contracts with discretionary participation features, the interest accretion rates should be reset in a manner that recognizes any changes in estimated interest crediting and related expected cash flows on a level-yield basis over the remaining life of the contracts? If not, what do you recommend?

Answer: No. We believe that interest accretion should follow the pattern of the expected interest crediting rate when known.

Margin for Contracts Measured Using the Building Block Approach

Questions for All Respondents

Question 21: Do you agree that an insurer should not recognize a gain at initial recognition of an insurance contract (such a gain would arise when the expected present value of the cash outflows is less than the expected present value of the cash inflows) but, rather, should defer that amount as profit to be recognized in the future? Why or why not?

Answer: Yes.

Question 22: Do you support using a one-margin approach, as is included in this proposed guidance, or an explicit risk adjustment and a contractual service margin (as the IASB proposes)? Please explain the reason(s) for your view.

Answer: We support the one-margin approach for the reasons articulated in BC 205. As noted in our cover letter, we also believe this issue is a key element to achieving convergence and urge the IASB to reconsider their dual-margin approach as its precision is not reliable and adds significant complexity to a sufficiently complex model.

Question 23: If you support a risk adjustment and a contractual service margin, do you agree with the IASB's approach to adjust the contractual service margin for changes in estimates of cash flows? Why or why not? Do you agree with the IASB's approach to not specify acceptable approaches to determine the risk adjustment? Why or why not?

Answer: While we do not support a separate risk adjustment and contractual service margin, we do agree with the IASB's approach to adjust the margin for changes in estimates of future cash flows.

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As indicated in our response to Question 13, if the Boards continue to work towards radical converged changes to the U.S. insurance contracts model, we believe this approach can 1) consistently present margin as the expected profit of an insurance contract from inception, adjusted for known and expected changes and 2) increase transparency into the known and potential impacts of updating assumptions when measuring liabilities for long duration insurance contracts, while preventing premature, irrational and inflammatory volatility in reported net income.

Question 24: Do you agree that a loss at initial recognition of a portfolio of insurance contracts should be recognized immediately in net income (such a loss would arise when the expected present value of the cash outflows exceeds the expected present value of cash inflows)? Why or why not?

Answer: Yes, consistent with the general notion of loss recognition throughout U.S. GAAP. In addition, for reinsurance of profitable direct business, the loss on reinsurance that represents the transfer of part of the expected profits should not be recognized immediately. However, when the direct or assumed business is not profitable, any loss on reinsurance should be immediately recognized by the cedant, consistent with our response to Question 36.

Questions for Preparers and Auditors

Question 25: Do you agree with the proposed method(s) of recognizing the margin (that is, as the entity is released from risk under the insurance contracts as evidenced by a reduction in the variability of cash outflows)? If not, what do you suggest and why?

Answer: Yes; however, consistent with our response to Questions 13 and 23, we recommend that the margin be adjusted for changes in estimates for future cash flows.

In addition, as new markets develop and the availability of information changes or valuation techniques improve, we believe that any indicated change in methodology for recognizing the margin should be treated as a change in estimate.

Question 26: Do you agree that interest should be accreted on the margin and therefore affect insurance contract revenue? If not, why?

Answer: Yes.

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Question 27: Do you agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income? Why or why not?

Answer: No, consistent with our recommendation in response to Question 13, we believe that unlocking the margin will obviate the need to test for premium deficiency.

In addition, for certain books of business measured using the BBA approach, such a test will demand data retention for decades and significantly increase the costs related to the Proposal. Therefore, we believe this element fails any possible cost/benefit test.

Acquisition Costs

Questions for Preparers and Auditors

Question 28: Do you agree that the direct acquisition costs presented with the margin should include only the costs directly related to the entity's selling efforts that result in obtaining the contracts in the portfolio and that all other acquisition costs should be recognized as expenses when incurred? If not, what do you recommend and why?

Answer: Consistent with Cigna's comment letter to the FASB dated September 3, 2010, we believe all acquisition costs directly attributable to obtaining a portfolio of insurance contracts should be considered for deferral.

Question 29: Do you agree that the measurement of the margin for contracts measured using the building block approach and the liability for remaining coverage for contracts measured using the premium allocation approach should be reduced for direct acquisition costs incurred? If not, what do you recommend?

Answer: No. We believe that acquisition costs should be part of the BBA cash flow building block to simplify the treatment of any differences in actual acquisition costs compared with those expected; they will then be updated quarterly (and adjust the margin, consistent with our recommendation for Question 13.)

Question 30: Do you agree that an entity should recognize acquisition costs as an expense in net income in the same pattern that it recognizes the margin for contracts measured using the building block approach or in the same pattern that it reduces the liability for remaining coverage under the premium allocation approach? If not, why not?

Answer: No. If acquisition costs are recognized in net income as paid and included in the BBA cash flow building block, then projected acquisition costs will emerge in proportion to margin and any difference between actual and projected will be recognized currently in net income. This approach will provide greater transparency for acquisition costs.

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Insurance Contract Revenue

Questions for All Respondents

Question 31: Do you agree that users of financial statements would obtain relevant information that faithfully represents the entity's financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins (that is, the net profit)? If not, why not?

Answer: We agree that net income should present measures of both revenue and expenses as is the reporting paradigm for most enterprises and expected by our user constituency.

However, we believe that the approaches used in the current U.S. insurance models (premiums received or earned, less deposits) best presents revenues in a manner aligned with the various products' contractual terms. In addition, these models provide metrics that are understood and valued by our user communities without the investment of significant and costly changes in infrastructure, controls and audit processes. For those reasons, we urge the Boards to reconsider their radical proposals and simply adopt limited changes to those current U.S. models to correct their perceived deficiencies focused on discounting and updated changes in cash flow assumptions.

See also our responses to Questions 32 and 34.

Also note that Cigna has provided comments on this question jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013 addressing issues related to the PAA model.

Question 32: Do you agree that, for all contracts, revenue should exclude any amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and that expenses should exclude the corresponding repayment of those amounts? If not, what do you recommend? Please specify whether your view depends on the type of contract.

Answer: No. Cigna has provided comments on this question jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013 addressing issues related to the PAA model.

In addition, we do not agree with the current definition of estimated returnable amount as it relates to the BBA model. That definition implies that the cash surrender value of traditional life insurance contracts should fall within the amounts to be excluded from net income while the account balances of universal life contracts should be included in net income. The definition in the proposed Update has the irrational result of ignoring explicit account balances, while causing a cash surrender value to be treated as an account balance.

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We believe that if the Boards continue to pursue a replacement of the U.S. insurance contracts model with a BBA model, the definition of estimated returnable amount should be amended to the following:

“The amounts available to the policyholder of an insurance contract that if withdrawn would not affect the insurance risk covered by the contract”.

Questions for Preparers and Auditors

Question 34: For contracts measured using the building block approach, does this proposed Update contain sufficient guidance on how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time (that is, to allocate consideration between periods by reference to the relative value of the services provided in each period)? If not, explain what additional guidance is necessary.

Answer: Consistent with our response to Question 31, no. We do not believe that the proposed approach will produce relevant information. We believe that the measure of revenues should reflect the insurance contract provisions (premiums) to provide relevant cash flow information to users.

Participating Contracts

Questions for Preparers and Auditors

Question 35: Do you agree that participation features that are contractually dependent on the performance of other assets or liabilities of the insurer or the performance of the entity itself should be measured on the same basis used to measure the underlying items and changes in the measurement should be presented in the same statements (that is, net income or other comprehensive income)? Do you agree that this approach should be limited to only participating features for which the amount of the performance of the underlying items passed through to policyholders is contractually determined and not extended to participating features that allow an entity discretion about the amount of the performance of the underlying item to pass through to the policyholders? If not, what do you recommend and why?

Answer: Yes.

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Reinsurance

Questions for All Respondents

Question 36: Do you agree that a cedant should record a margin if the expected present value of the cedant's future cash inflows exceed the expected present value of the cedant's future cash outflows (thus prohibiting the recognition of a gain at inception upon entering into a reinsurance arrangement) for (a) retrospective reinsurance contracts accounted for using either the building block approach or the premium allocation approach and (b) prospective reinsurance contracts accounted for using the building block approach? If not, what do you recommend and why?

Answer: Yes. However, to the extent that the cedant's premium for retrocessional coverage exceeds the cedant's recorded liabilities for a premium deficient book of business, we believe that a reinsurance margin should not be recorded but that a Day 1 loss should be recognized. This approach is consistent with 834-10-30-32 and 944-605-35-15 that direct the cedant to estimate cash flows using assumptions consistent with those used to measure the underlying insurance contracts. To the extent that a cedant projects a book of business to be premium deficient without any expectation that gains could be realized as the claim runoff occurs (i.e., the cedant's loss or minimum loss under the contract is fixed or determinable), recording a negative margin as cost of reinsurance will defer a known loss. This outcome is inconsistent with the principle of a Day 1 loss for direct business as discussed in Question 24.

Therefore, we recommend the following changes:

834-10-30-31a If the expected present value of the cedant's cash inflows from the reinsurance contract is less than the expected present value of the cedant's cash outflows from the reinsurance contract, an entity shall recognize that amount as part of the cost of reinsurance, **except in the case of underlying insurance contracts that are premium deficient, that amount should be immediately recognized in net income.**

Questions for Preparers and Auditors

Question 37: Do you agree that a cedant should estimate the fulfillment cash flows (including the ceded premium) for a reinsurance contract using assumptions consistent with those used to measure the corresponding fulfillment cash flows for the underlying insurance contract or contracts, without reference to the margin on the underlying contracts? If not, what would you recommend and why?

Answer: Yes. Note that this is consistent with our response to Question 36, including the recommended change to 834-10-30-31a.

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Contract Modifications

Questions for Preparers and Auditors

Question 39: Do you agree that for a substantial modification (a) an entity should recognize a gain or loss as the difference between the measurement of the modified contract using the current entity-specific price that the entity would hypothetically charge the policyholder for a contract equivalent to the new contract and the carrying amount of the existing contract and (b) that the carrying amount of the existing contract should be derecognized? If not, what do you recommend?

Answer: No; as noted previously in our responses, we believe that current U.S. GAAP provides a time-tested basis for a global accounting standard on insurance. Therefore, Cigna believes that the current U.S. GAAP guidance for modifications provides more helpful guidance in determining when a modification has occurred and the resulting accounting treatment.

However, if the Boards' continue to consider more radical changes to the current U.S. GAAP model, we believe that the modification guidance can be simplified because the Proposal is dynamic with unlocking assumptions and an explicit margin.

Presentation

Questions for All Respondents

Question 40: Do you agree with the presentation requirements included in this proposed Update? If not, what would you recommend and why?

Answer: Cigna has provided comments on this question jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013.

In addition, we note that the Proposal does not segregate assets and liabilities for separate accountholders as such arrangements exist in the U.S. regulatory environment, but presents those balances within the standard investment asset and proposed insurance asset and liability captions. The Proposal then calls for disclosure of these separate account balances in the footnotes. The Proposal justifies this proposed presentation in BC 187 by determining that the legal insulation of the separate accounts from the general account is not a differentiating product feature. Despite the Board's opinion, we believe that this proposed presentation will be misleading to our shareholders by reporting assets that cannot be used for their dividends and liabilities that will not be funded with shareholder money. These results fail the relevance test for financial information along with the Board's objective to improve the transparency of insurance contract activities.

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If the Board believes that the various assets and liabilities comprising the separate accounts should be detailed for the financial statement users, that information should be provided in the footnotes rather than obfuscating the basic financial statements with balances that have little relevance to an entity's shareholders.

Effective Date and Transition

Questions for Preparers and Auditors

Question 42: The Board will establish the effective date of the requirements when it issues the final amendments. However, the Board is interested in determining the key drivers affecting the timing of implementation. What are those key drivers? How do those drivers affect the time it will take to implement this proposed guidance?

Answer: Cigna has provided comments on this question jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013. We reiterate that if the Boards continue with these radical changes, implementation will demand more than five years given the vast number of actions required to be completed, including: data needs from more than 20 years of operations, some of which are no longer controlled by our management; systems and processes development across geographies and product platforms; controls for these new systems and processes, particularly for change management of actuarial assumptions; and new metrics to measure and communicate results to management and external parties.

We also believe it imperative that early adoption be prohibited.

Question 43: Do you think the effective date should be the same for both public and nonpublic entities? Do you think the effective date should be the same for regulated insurance entities and other entities that issue insurance contracts within the scope of this proposed guidance? Why or why not?

Answer: Yes.

Question 44: Do you agree that the practical expedients relating to transition included in this proposed guidance are sufficient for retrospective application (that is, are the transition provisions in this proposed guidance operable)? If not, what would you recommend and why?

Answer: Not as proposed – consistent with Cigna's comments provided jointly with the five leading publically-traded managed care companies in a letter to the Boards dated October 25, 2013, an additional practical expedient for business disposals by sale or reinsurance prior to the effective date should be provided as recommended in those comments.

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Question 45: For business combinations that occurred before the transition date, is the requirement included in this proposed Update on reallocating the fair value of the asset and liability balances related to insurance contracts between the expected fulfillment cash flows and the margin operable? Why or why not? If not, what would you recommend and why?

Answer: See our response to Question 44.

Costs and Complexities

Questions for Preparers

Question 47: Describe the nature of the incremental costs of adopting the guidance in this proposed Update, distinguishing between one-time costs and ongoing costs. Explain which aspects of the guidance in this proposed Update are driving those costs and include ideas to make the proposal more cost effective.

Answer: As a mature organization, we have developed systems and processes over time for specific products and geographies. With that in mind, Cigna tested certain aspects of the proposed Update and determined that several elements of the Proposal have the likelihood of producing radically increased costs related to newly required data gathering and retention, processes, systems, controls and audit processes: the definition of portfolio; unbiased, probability-weighted estimate of future cash flows for the BBA and PAA models; the measurement of the effect of interest rate changes recorded to OCI using the yield curve determined at inception of the contract; and estimated returnable amounts related to experience-rated group health contracts. We believe that implementation costs will include education, systems, processes and controls development, data gathering and processing for up to 20 years in the past for certain of our long duration books of business, several of which have been disposed of through sale or reinsurance. Across the organization, the current Proposal could cost from \$50 to \$60 million to implement with ongoing, incremental costs of \$25 to \$30 million annually.

In addition, as noted in our response to Question 8, the definition of portfolio is expected to add hundreds of portfolios compared with current U.S. GAAP. For one book of fully reinsured contracts currently using stochastic modeling to determine recoverables and insurance liabilities, the expansion of the number of portfolios could triple the processing time for quarterly reporting. This would be measured in days, not hours and is not manageable with additional calculating capacity or personnel – but would extend our external reporting calendar for a book of business that has little impact on Cigna's reported net income. Such cost, time and effort are not justified with the lack of expected beneficial improvements in financial information to our user communities.

For these reasons, we reiterate and reemphasize our first recommendation to the Boards: abandon these radical proposals and converge to a global insurance contracts standard by adopting evolutionary changes to the current model for insurance in U.S. GAAP.