UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2020

OR

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

for the transition period from _____ to _____

Commission file number 1-38769

**Cigna Corporation**
(Exact name of registrant as specified in its charter)

| **Delaware** | **82-4991898** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**900 Cottage Grove Road**
**Bloomfield, Connecticut 06002**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(860) 226-6000**

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, Par Value $0.01 | CI | New York Stock Exchange, Inc. |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No _

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller Reporting Company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes _

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of October 16, 2020, 361,267,280 shares of the issuer's common stock were outstanding.

**Cigna Corporation**

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As used herein, "Cigna" or the "Company" refers to one or more of Cigna Corporation and its consolidated subsidiaries.

**Part I.** ***FINANCIAL INFORMATION***
**Item 1.** ***FINANCIAL STATEMENTS***

**Cigna Corporation**
**Consolidated Statements of Income**

| | Unaudited Three Months Ended September 30, | | Unaudited Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions, except per share amounts)* | **2020** | **2019** | **2020** | **2019** |
| **Revenues** | | | | |
| Pharmacy revenues | **$ 27,802** | $ 25,987 | **$ 79,464** | $ 77,454 |
| Premiums | **10,682** | 9,935 | **31,928** | 29,709 |
| Fees and other revenues | **2,174** | 2,285 | **6,424** | 7,123 |
| Net investment income | **297** | 349 | **873** | 1,035 |
| **Total revenues** | **40,955** | 38,556 | **118,689** | 115,321 |
| **Benefits and expenses** | | | | |
| Pharmacy and other service costs | **26,624** | 24,552 | **76,425** | 73,565 |
| Medical costs and other benefit expenses | **8,429** | 7,734 | **23,863** | 22,930 |
| Selling, general and administrative expenses | **3,301** | 3,413 | **10,106** | 10,096 |
| Amortization of acquired intangible assets | **493** | 734 | **1,487** | 2,214 |
| **Total benefits and expenses** | **38,847** | 36,433 | **111,881** | 108,805 |
| **Income from operations** | **2,108** | 2,123 | **6,808** | 6,516 |
| Interest expense and other | **(336)** | (411) | **(1,101)** | (1,291) |
| Debt extinguishment costs | **—** | — | **(199)** | — |
| Net realized investment gains (losses) | **32** | 51 | **(18)** | 84 |
| **Income before income taxes** | **1,804** | 1,763 | **5,490** | 5,309 |
| **Total income taxes** | **406** | 409 | **1,143** | 1,173 |
| **Net income** | **1,398** | 1,354 | **4,347** | 4,136 |
| Less: Net income attributable to noncontrolling interests | **10** | 3 | **24** | 9 |
| **Shareholders' net income** | **$ 1,388** | $ 1,351 | **$ 4,323** | $ 4,127 |
| **Shareholders' net income per share** | | | | |
| Basic | **$ 3.81** | $ 3.60 | **$ 11.77** | $ 10.94 |
| Diluted | **$ 3.78** | $ 3.57 | **$ 11.66** | $ 10.83 |

*The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**Cigna Corporation**
**Consolidated Statements of Comprehensive Income**

| *(In millions)* | Unaudited Three Months Ended September 30, 2020 | 2019 | Unaudited Nine Months Ended September 30, 2020 | 2019 |
|---|---|---|---|---|
| **Net income** | **$ 1,398** | $ 1,354 | **$ 4,347** | $ 4,136 |
| **Other comprehensive income, net of tax** | | | | |
| Net unrealized appreciation on securities and derivatives | **120** | 223 | **401** | 1,008 |
| Net translation gains (losses) on foreign currencies | **109** | (127) | **4** | (195) |
| Postretirement benefits liability adjustment | **14** | 12 | **(15)** | 37 |
| Other comprehensive income, net of tax | **243** | 108 | **390** | 850 |
| Total comprehensive income | **1,641** | 1,462 | **4,737** | 4,986 |
| | | | | |
| **Comprehensive income (loss) attributable to noncontrolling interests** | | | | |
| Net income attributable to redeemable noncontrolling interest | **4** | 3 | **12** | 8 |
| Net income attributable to other noncontrolling interests | **6** | — | **12** | 1 |
| Other comprehensive (loss) attributable to redeemable noncontrolling interest | **(4)** | 1 | **(10)** | (3) |
| Total comprehensive income attributable to noncontrolling interests | **6** | 4 | **14** | 6 |
| **SHAREHOLDERS' COMPREHENSIVE INCOME** | **$ 1,635** | $ 1,458 | **$ 4,723** | $ 4,980 |

*The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**Cigna Corporation**
**Consolidated Balance Sheets**

| *(In millions)* | Unaudited | |
|---|---|---|
| | **As of September 30, 2020** | **As of December 31, 2019** |
| **Assets** | | |
| Cash and cash equivalents | **$ 5,344** | $ 4,619 |
| Investments | **1,324** | 937 |
| Accounts receivable, net | **13,488** | 10,716 |
| Inventories | **2,657** | 2,661 |
| Other current assets | **1,722** | 1,400 |
| Assets of business held for sale | **10,022** | 9,512 |
| Total current assets | **34,557** | 29,845 |
| Long-term investments | **21,952** | 21,542 |
| Reinsurance recoverables | **4,898** | 5,100 |
| Deferred policy acquisition costs | **3,161** | 2,958 |
| Property and equipment | **4,203** | 4,417 |
| Goodwill | **44,685** | 44,602 |
| Other intangible assets | **35,492** | 36,562 |
| Other assets | **2,480** | 2,283 |
| Separate account assets | **8,616** | 8,465 |
| **TOTAL ASSETS** | **$ 160,044** | $ 155,774 |
| **Liabilities** | | |
| Current insurance and contractholder liabilities | **$ 5,223** | $ 4,921 |
| Pharmacy and service costs payable | **12,539** | 10,454 |
| Accounts payable | **5,327** | 5,090 |
| Accrued expenses and other liabilities | **7,153** | 7,347 |
| Short-term debt | **6,449** | 5,514 |
| Liabilities of business held for sale | **7,195** | 6,812 |
| Total current liabilities | **43,886** | 40,138 |
| Non-current insurance and contractholder liabilities | **16,213** | 16,052 |
| Deferred tax liabilities, net | **9,142** | 9,387 |
| Other non-current liabilities | **4,552** | 4,460 |
| Long-term debt | **29,537** | 31,893 |
| Separate account liabilities | **8,616** | 8,465 |
| **TOTAL LIABILITIES** | **111,946** | 110,395 |
| **Contingencies — Note 18** | | |
| Redeemable noncontrolling interests | **59** | 35 |
| **Shareholders' equity** | | |
| Common stock [(1)] | **4** | 4 |
| Additional paid-in capital | **28,777** | 28,306 |
| Accumulated other comprehensive loss | **(541)** | (941) |
| Retained earnings | **24,440** | 20,162 |
| Less: treasury stock, at cost | **(4,648)** | (2,193) |
| **TOTAL SHAREHOLDERS' EQUITY** | **48,032** | 45,338 |
| Other noncontrolling interests | **7** | 6 |
| Total equity | **48,039** | 45,344 |
| Total liabilities and equity | **$ 160,044** | $ 155,774 |

*(1) Par value per share, $0.01; shares issued, 389 million as of September 30, 2020 and 386 million as of December 31, 2019; authorized shares, 600 million.*

*The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**Cigna Corporation**

**Consolidated Statements of Changes in Total Equity**

**Unaudited**

**Three months ended September 30, 2020**

| *(In millions)* | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss) | Retained Earnings | Treasury Stock | Shareholders' Equity | Other Non-controlling Interests | Total Equity | Redeemable Noncontrolling Interests |
|---|---|---|---|---|---|---|---|---|---|
| Balance at June 30, 2020 | **$ 4** | **$ 28,699** | **$ (788)** | **$ 23,052** | **$ (3,601)** | **$ 47,366** | **$ 5** | **$ 47,371** | **$ 34** |
| Effects of issuing stock for employee benefits plans | | **78** | | | **(2)** | **76** | | **76** | |
| Other comprehensive income (loss) | | | **247** | | | **247** | | **247** | **(4)** |
| Net income | | | | **1,388** | | **1,388** | **6** | **1,394** | **4** |
| Repurchase of common stock | | | | | **(1,045)** | **(1,045)** | | **(1,045)** | |
| Other transactions impacting noncontrolling interests | | | | | | **—** | **(4)** | **(4)** | **25** |
| **Balance at September 30, 2020** | **$ 4** | **$ 28,777** | **$ (541)** | **$ 24,440** | **$ (4,648)** | **$ 48,032** | **$ 7** | **$ 48,039** | **$ 59** |

**Three months ended September 30, 2019**

| *(In millions)* | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss) | Retained Earnings | Treasury Stock | Shareholders' Equity | Other Non-controlling Interests | Total Equity | Redeemable Noncontrolling Interests |
|---|---|---|---|---|---|---|---|---|---|
| Balance at June 30, 2019 | $ 4 | $ 27,891 | $ (965) | $ 17,834 | $ (949) | $ 43,815 | $ 3 | $ 43,818 | $ 31 |
| Effect of issuing stock for employee benefit plans | | 224 | | | (125) | 99 | | 99 | |
| Other comprehensive income (loss) | | | 107 | | | 107 | | 107 | 1 |
| Net income | | | | 1,351 | | 1,351 | | 1,351 | 3 |
| Repurchase of common stock | | | | | (676) | (676) | | (676) | |
| Other transactions impacting noncontrolling interests | | | | | | | | | (1) |
| **Balance at September 30, 2019** | $ 4 | $ 28,115 | $ (858) | $ 19,185 | $ (1,750) | $ 44,696 | $ 3 | $ 44,699 | $ 34 |

**Cigna Corporation**

**Consolidated Statements of Changes in Total Equity**

**Unaudited**

**Nine Months Ended September 30, 2020**

| *(In millions)* | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss) | Retained Earnings | Treasury Stock | Shareholders' Equity | Other Non-controlling Interests | Total Equity | Redeemable Noncontrolling Interests |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2019 | $ 4 | $ 28,306 | $ (941) | $ 20,162 | $ (2,193) | $ 45,338 | $ 6 | $ 45,344 | $ 35 |
| Cumulative effect of adopting new credit loss guidance (ASU 2016-13)[1] | | | | (30) | | (30) | | (30) | |
| Effect of issuing stock for employee benefit plans | | 471 | | | (86) | 385 | | 385 | |
| Other comprehensive income (loss) | | | 400 | | | 400 | | 400 | (10) |
| Net income | | | | 4,323 | | 4,323 | 12 | 4,335 | 12 |
| Common dividends declared (per share: $0.04) | | | | (15) | | (15) | | (15) | |
| Repurchase of common stock | | | | | (2,369) | (2,369) | | (2,369) | |
| Other transactions impacting noncontrolling interests | | | | | | | (11) | (11) | 22 |
| **Balance at September 30, 2020** | $ 4 | $ 28,777 | $ (541) | $ 24,440 | $ (4,648) | $ 48,032 | $ 7 | $ 48,039 | $ 59 |

**Nine Months Ended September 30, 2019**

| *(In millions)* | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss) | Retained Earnings | Treasury Stock | Shareholders' Equity | Other Non-controlling Interests | Total Equity | Redeemable Noncontrolling Interests |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2018 | $ 4 | $ 27,751 | $ (1,711) | $ 15,088 | $ (104) | $ 41,028 | $ 7 | $ 41,035 | $ 37 |
| Cumulative effect of adopting new lease accounting guidance (ASU 2016-02) | | | | (15) | | (15) | | (15) | |
| Effect of issuing stock for employee benefit plans | | 364 | | | (102) | 262 | | 262 | |
| Other comprehensive income (loss) | | | 853 | | | 853 | | 853 | (3) |
| Net income | | | | 4,127 | | 4,127 | 1 | 4,128 | 8 |
| Common dividends declared (per share: $0.04) | | | | (15) | | (15) | | (15) | |
| Repurchase of common stock | | | | | (1,544) | (1,544) | | (1,544) | |
| Other transactions impacting noncontrolling interests | | | | | | | (5) | (5) | (8) |
| **Balance at September 30, 2019** | $ 4 | $ 28,115 | $ (858) | $ 19,185 | $ (1750) | $ 44,696 | $ 3 | $ 44,699 | $ 34 |

*(1) See Note 3 for further information about the Company's adoption of new credit loss guidance (ASU 2016-13).*

*The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**Cigna Corporation**
**Consolidated Statements of Cash Flows**

| *(In millions)* | Unaudited Nine Months Ended September 30, 2020 | 2019 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | **$ 4,347** | $ 4,136 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation and amortization | **2,089** | 2,724 |
| Realized investment losses (gains), net | **18** | (84) |
| Deferred income tax (benefit) | **(340)** | (400) |
| Debt extinguishment costs | **199** | — |
| **Net changes in assets and liabilities, net of non-operating effects:** | | |
| Accounts receivable | **(2,810)** | (1,171) |
| Inventories | **5** | 661 |
| Deferred policy acquisition costs | **(244)** | (162) |
| Reinsurance recoverable and Other assets | **(468)** | (92) |
| Insurance liabilities | **740** | 590 |
| Pharmacy and service costs payable | **2,084** | 210 |
| Accounts payable and Accrued expenses and other liabilities | **(32)** | 23 |
| Other, net | **468** | 257 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **6,056** | 6,692 |
| **Cash Flows from Investing Activities** | | |
| **Proceeds from investments sold:** | | |
| Debt securities and equity securities | **2,038** | 2,639 |
| **Investment maturities and repayments:** | | |
| Debt securities and equity securities | **1,097** | 1,281 |
| Commercial mortgage loans | **14** | 174 |
| Other sales, maturities and repayments (primarily short-term and other long-term investments) | **1,086** | 978 |
| **Investments purchased or originated:** | | |
| Debt securities and equity securities | **(3,317)** | (3,347) |
| Commercial mortgage loans | **(55)** | (221) |
| Other (primarily short-term and other long-term investments) | **(1,434)** | (1,214) |
| Property and equipment purchases, net | **(775)** | (740) |
| Acquisitions, net of cash acquired | **(135)** | (6) |
| Other, net | **37** | (7) |
| **NET CASH (USED IN) INVESTING ACTIVITIES** | **(1,444)** | (463) |
| **Cash Flows from Financing Activities** | | |
| Deposits and interest credited to contractholder deposit funds | **769** | 731 |
| Withdrawals and benefit payments from contractholder deposit funds | **(736)** | (845) |
| Net change in short-term debt | **592** | (479) |
| Net proceeds on issuance of term loan | **1,398** | — |
| Payments for debt extinguishment | **(212)** | — |
| Repayment of long-term debt | **(6,897)** | (3,340) |
| Net proceeds on issuance of long-term debt | **3,465** | — |
| Repurchase of common stock | **(2,352)** | (1,540) |
| Issuance of common stock | **239** | 101 |
| Other, net | **(78)** | (108) |
| **NET CASH (USED IN) FINANCING ACTIVITIES** | **(3,812)** | (5,480) |
| Effect of foreign currency rate changes on cash, cash equivalents and restricted cash | **(7)** | (27) |
| Net increase in cash, cash equivalents and restricted cash | **793** | 722 |
| Cash, cash equivalents, and restricted cash January 1, [(1)] | **5,411** | 3,855 |
| Cash, cash equivalents and restricted cash, September 30, | **6,204** | 4,577 |
| Cash reclassified to assets of business held for sale | **(798)** | — |
| Cash, cash equivalents, and restricted cash September 30, per Consolidated Balance Sheets [(2)] | **$ 5,406** | $ 4,577 |
| **Supplemental Disclosure of Cash Information:** | | |
| Income taxes paid, net of refunds | **$ 1,408** | $ 1,607 |
| Interest paid | **$ 1,112** | $ 1,257 |

*(1) Includes restricted cash of $26 million reported in Other assets, $23 million in Long-term investments, and $743 million reported in Assets of business held for sale as of January 1, 2020.*
*(2) See table below for Cash, cash equivalents and restricted cash reconciliation as of September 30, 2020 and September 30, 2019.*

The following table provides a reconciliation of cash, cash equivalents and restricted cash and cash equivalents reported within the Consolidated Balance Sheets to the totals above:

| | Unaudited As of September 30, | |
|---|---|---|
| | **2020** | **2019** |
| Cash and cash equivalents | **$ 5,344** | $ 4,577 |
| Restricted cash and cash equivalents, included in other long-term investments | **62** | — |
| **Total cash, cash equivalents, and restricted cash and cash equivalents** | **$ 5,406** | $ 4,577 |



*The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**CIGNA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**Note 1 – Description of Business**

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as "Cigna," the "Company," "we," "our" or "us") is a global health services organization with a mission of helping those we serve improve their health, well-being and peace of mind. We offer a differentiated set of pharmacy, medical, dental, disability, life and accident insurance and related products and services offered by our subsidiaries.

The majority of these products are offered through employers and other groups such as governmental and non-governmental organizations, unions and associations. Cigna also offers commercial health and dental insurance, Medicare and Medicaid products and health, life and accident insurance coverages to individuals in the United States and selected international markets. In addition to these ongoing operations, Cigna also has certain run-off operations.

The Company reports its results in the following segments.

As of the third quarter 2020, two reporting segments were re-named: Health Services to Evernorth and Integrated Medical to U.S. Medical. In addition, two of our operating segments were re-named: Commercial and Government to U.S. Commercial and U.S. Government, respectively. There were no changes to the underlying businesses reported in the segments.

***Evernorth*** includes a broad range of coordinated and point solution health services, including pharmacy services, benefits management, care solutions and data and analytics, which are provided to health plans, employers, government organizations, and health care providers.

***U.S. Medical*** offers a variety of health care solutions to employers and individuals.

- The ***U.S. Commercial*** operating segment serves employers (also referred to as "clients") and their employees (also referred to as "customers") and other groups. This segment's products and services include medical, pharmacy, dental, behavioral health, vision, health advocacy programs and other products and services for insured and self-insured clients.
- The ***U.S. Government*** operating segment offers Medicare Advantage, Medicare Supplement and Medicare Part D plans for seniors (including the acquired Express Scripts' Medicare Part D business), Medicaid plans, and individual health insurance plans both on and off the public exchanges.

***International Markets*** includes supplemental health, life and accident insurance products and health care coverage in our international markets, as well as health care benefits to globally mobile employees of multinational organizations.

The remainder of our business operations are reported in ***Group Disability and Other,*** consisting of the following:

- ***Group Disability and Life*** provides group long-term and short-term disability, group life, accident, voluntary and specialty insurance products and related services. In December 2019, Cigna entered into a definitive agreement to sell the U.S. Group Disability and Life insurance business to New York Life Insurance Company. See Note 6 for further information on the classification of this business as held for sale.

- ***Corporate-Owned Life Insurance ("COLI")*** offers permanent insurance contracts sold to corporations to provide coverage on the lives of certain employees for the purpose of financing employer-paid future benefit obligations.
- ***Run-off businesses:***
  - ***Reinsurance:*** predominantly comprised of guaranteed minimum death benefit ("GMDB") and guaranteed minimum income benefit ("GMIB") business effectively exited through reinsurance with Berkshire Hathaway Life Insurance Company of Nebraska ("Berkshire") in 2013.
  - ***Settlement Annuity*** business in run-off.
  - ***Individual Life Insurance and Annuity and Retirement Benefits Businesses:*** deferred gains from the sales of these businesses.

***Corporate*** reflects amounts not allocated to operating segments, including interest expense, net investment income on investments not supporting segment and other operations, interest on uncertain tax positions, certain litigation matters, expense associated with our frozen pension plans, severance, certain enterprise-wide projects and intersegment eliminations for products and services sold between segments.

**Note 2 – COVID-19 and Related Economic Impact**

Cigna continues to actively monitor all aspects of our business in light of the ongoing coronavirus ("COVID-19") pandemic. The Company also initiated several actions to assist our customers, clients, health care providers, and employees in this time of crisis. As described below, management has taken a number of steps to assess the impact on our business, including the financial reporting implications associated with this pandemic.

The COVID-19 pandemic has pervasively impacted the economy, financial markets and the global health care delivery systems. The effects of the COVID-19 pandemic on the Company began to emerge in the U.S. at the end of the first quarter and were not material to the Company's results of operations or financial condition for that period. Beginning in April, we experienced a significant deferral of care by our customers. The deferral of care moderated over the course of the second quarter with utilization levels eventually returning to nearly normal levels by the end of June. As expected, in the third quarter we experienced medical utilization at more typical levels as we observed a reduction to the level of deferred care and our customers sought care for COVID-19 testing and treatment. These impacts were most prevalent in the U.S. Medical segment where quarterly earnings reflect the impacts of COVID-19 including the return of medical utilization to more typical levels, costs of COVID-19 care as well as the costs of actions we have taken to support customers and providers, decreased contributions from our specialty products, and lower net investment income. Higher year to date U.S. Medical results reflect deferral of care by our customers in April and May that exceeded the cost of COVID-19 testing and treatment, the cost of COVID-19 related actions including premium relief programs for employer clients as well as cost share waivers for customers, and lower net investment income. Our Group Disability and Other results reflect significantly elevated life insurance claims related to the COVID-19 pandemic and its effects in the third quarter. Quarterly and year to date earnings in our Evernorth segment also reflected effects of the pandemic, specifically, a favorable mix of claims as a result of both the type of drugs dispensed as well as the distribution method used for dispensing and fulfilling, partially offset by lower non-specialty, 30-day retail script volume.

The Company conducted its annual quantitative evaluation of goodwill impairment during the third quarter of 2020. These evaluations were performed at the reporting unit level, based on discounted cash flow analyses and market data. The estimated fair value of each of our reporting units exceeded their carrying values by significant margins.

For all other long-lived assets, including intangible assets, the Company conducted its normal quarterly qualitative impairment assessment and concluded that the current economic and business conditions did not result in a triggering event requiring a quantitative impairment analysis. There were no material impairments recorded for the nine months ended September 30, 2020.

The Company reviewed all classes of financial instruments including investments, accounts receivable and reinsurance recoverables. The additional allowance for expected credit losses recorded was not material for the nine months ended September 30, 2020.

**Note 3 – Summary of Significant Accounting Policies**

**Basis of Presentation**

The Consolidated Financial Statements include the accounts of Cigna Corporation and its consolidated subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Amounts recorded in the Consolidated Financial Statements necessarily reflect management's estimates and assumptions about medical costs, investment and receivable valuations, interest rates and other factors. Significant estimates are discussed throughout these Notes; however, actual results could differ from those estimates. The impact of a change in estimate is generally included in earnings in the period of adjustment.

These interim Consolidated Financial Statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes included in the 2019 Annual Report on Form 10-K ("2019 Form 10-K"). The preparation of interim Consolidated Financial Statements necessarily relies heavily on estimates. This and other factors, including the seasonal nature of portions of the health care and related benefits business, competitive and other market conditions, as well as COVID-19 related impacts, call for caution in estimating full-year results based on interim results of operations.

**Recent Accounting Pronouncements**

The Company's 2019 Form 10-K includes discussion of significant recent accounting pronouncements that either have impacted our financial statements or may impact them in the future. The following information provides updates on recently adopted or recently issued accounting pronouncements that have occurred since the Company filed its 2019 Form 10-K.

**Recently Adopted Accounting Guidance**

| Accounting Standard and Adoption Date | Requirements and Effects of Adopting New Guidance |
|---|---|
| Measurement of Credit Losses on Financial Instruments (Accounting Standards Update (ASU) 2016-13 and related amendments)<br><br>Adopted as of January 1, 2020 | Requires:<br>• A new approach using expected credit losses to estimate and recognize credit losses for certain financial instruments (such as mortgage loans, reinsurance recoverables and other receivables) when such instruments are first originated or acquired, and in each subsequent reporting period, compared with the incurred loss model previously followed under GAAP. At adoption, the Company recorded an allowance for estimated credit losses and subsequent changes in the allowance will be reported in current period earnings.<br>• Changes in the criteria for impairment of available-for-sale debt securities<br>Effects of adoption:<br>• Adopted using a modified retrospective approach<br>• Cumulative effect adjustment of $30 million after-tax was recorded as a reduction to retained earnings as of January 1, 2020, reflecting an additional allowance for future expected credit losses required under the new model, primarily related to reinsurance recoverables.<br>• See additional information regarding the Company's accounting policy for establishing the allowance for credit losses in Note 4, Accounts Receivable, Net, Note 10, Reinsurance, and Note 11, Investments. |
| Simplifying the Test for Goodwill Impairment (ASU 2017-04)<br><br>Adopted as of January 1, 2020 | Requires:<br>• A simplified approach to the accounting for goodwill impairment by eliminating the need to determine the fair value of individual assets and liabilities of a reporting unit to measure a goodwill impairment<br>• The amount of goodwill impairment to equal the amount by which a reporting unit's carrying value exceeds its fair value, limited to the total amount of goodwill of the reporting unit<br>Effects of adoption:<br>• Adopted on a prospective basis<br>• There was no impact of adopting this new standard to the Company's financial statements because our quarterly qualitative assessments did not result in a triggering event for impairment of goodwill, and the results of our annual quantitative evaluation performed in the third quarter of 2020 indicated that the estimated fair value of each of our reporting units exceeded their carrying values by significant margins. |

**Accounting Guidance Not Yet Adopted**

| Accounting Standard and Effective Date | Requirements and Expected Effects of New Guidance Not Yet Adopted |
|---|---|
| Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04)<br><br>Optional, effective upon issuance (March 12, 2020) through December 31, 2022 | Guidance:<br>• Provides temporary optional relief to ease the potential burden of accounting for reference rate reform under existing GAAP. Amendments are elective and apply to all entities that have contracts, hedging relationships and other transactions that reference interbank offered rates, including LIBOR, expected to be discontinued by December 31, 2021.<br>• Permits optional expedients and exceptions to simplify the accounting for contract modifications, hedging arrangements and held-to-maturity investments, when certain changes are made to a contract or instrument to facilitate reference rate reform.<br>• An entity may elect to apply the amendments, by topic or subsection, at any point prospectively through December 31, 2022. When elected, the optional expedients must be applied consistently for all eligible contracts or transactions.<br>Expected effects:<br>• To date, the Company has identified minimal exposure to LIBOR and does not anticipate that LIBOR’s phase-out will have a material impact on its operations or financial results. |

The Financial Accounting Standards Board voted to propose the deferral of the effective date of ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts* and, in September 2020, affirmed its decision to extend the effective date by one year, or until January 1, 2023 for the Company. A final standard is expected in the fourth quarter.

**Note 4 - Accounts Receivable, Net**

***Accounting policy.*** The Company's accounts receivable balances primarily include amounts due from clients, third-party payors, customers and pharmaceutical manufacturers, and are presented net of allowances. The Company's adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), as of January 1, 2020 did not have a material impact on our accounts receivable credit loss allowance, as there were no substantive changes to our methodology for this class of assets. The allowance for expected credit losses for current accounts receivable is based primarily on past collections experience relative to the length of time receivables are past due; however, when available evidence reasonably supports an assumption that counterparty credit risk over the expected payment period will differ from current and historical payment collections, a forecasting adjustment is reflected in the allowance for expected credit losses.

All other (non-credit) allowances are based on the current status of each customer's receivable balance as well as current economic and market conditions and a variety of other factors, including the length of time the receivables are past due, the financial health of customers and our past experience. We bill pharmaceutical manufacturers based on management's interpretation of contractual terms and estimate a contractual allowance based on the best information available at the time a claim is processed. Contractual allowances for certain rebates receivable from pharmaceutical manufacturers are determined by reviewing payment experience and specific known items that could be adjusted under contract terms. The Company's estimation process for contractual allowances for pharmaceutical

manufacturer receivables generally results in an allowance for balances outstanding greater than 90 days. Contractual allowances for certain receivables from third-party payors are based on their contractual terms and are estimates based on the Company's best information available at the time revenue is recognized.

Receivables and any associated allowance are written off only when all collection attempts have failed and such amounts are determined unrecoverable. We regularly review the adequacy of these allowances based on a variety of factors, including age of the outstanding receivable and collection history. When circumstances related to specific collection patterns change, estimates of the recoverability of receivables are adjusted.

The following amounts were included within accounts receivable, net:

| *(In millions)* | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Noninsurance customer receivables | **$ 5,688** | $ 5,143 |
| Pharmaceutical manufacturers receivable | **5,433** | 3,439 |
| Insurance customer receivables | **2,575** | 2,321 |
| Other receivables | **368** | 334 |
| Total | **14,064** | 11,237 |
| Accounts receivable, net classified as assets of business held for sale | **(576)** | (521) |
| Accounts receivable, net per Consolidated Balance Sheets | **$ 13,488** | $ 10,716 |

These receivables are reported net of our allowances of $1.2 billion as of September 30, 2020 and $778 million as of December 31, 2019. These allowances include contractual allowances for certain rebates receivable with pharmaceutical manufacturers and certain receivables from third-party payors, discounts and claims adjustments issued to customers in the form of client credits, an allowance for current expected credit losses and other non-credit adjustments. The Company's allowance for current expected credit losses was $69 million as of September 30, 2020 and $39 million as of January 1, 2020 (no change to allowance for credit losses from December 31, 2019). The allowance for current expected credit losses as of September 30, 2020 includes an additional forecasting adjustment of $11 million related to COVID-19.

**Note 5 – Mergers and Acquisitions**

**Integration and Transaction-related Costs**

The Company incurred integration and transaction costs related to the acquisition and integration of Express Scripts, the terminated merger with Anthem, Inc. (“Anthem”), the sale of the U.S. Group Disability and Life insurance business, and other transactions. These costs were $112 million pre-tax ($83 million after-tax) for the three months and $339 million pre-tax ($256 million after-tax) for the nine months ended September 30, 2020, compared with $114 million pre-tax ($88 million after-tax) for the three months and $405 million pre-tax ($311 million after-tax) for the nine months ended September 30, 2019. These costs consisted primarily of certain projects to integrate or separate the Company’s systems, products and services, fees for legal, advisory and other professional services and certain employment-related costs.

**Note 6 – Assets and Liabilities of Business Held for Sale**

In December 2019, Cigna entered into a definitive agreement to sell its U.S. Group Disability and Life insurance business to New York Life Insurance Company for $6.3 billion. The sale is expected to close in the fourth quarter of 2020 following applicable regulatory approvals and other customary closing conditions. The Company believes this sale is probable and has aggregated and classified the assets and liabilities directly associated with the pending sale of its Group Disability and Life insurance business as held for sale and has reported them separately on our Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019. The assets and liabilities of business held for sale were as follows:

| *(In millions)* | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Cash and cash equivalents | **$ 798** | $ 743 |
| Accounts receivable, net | **576** | 521 |
| Investments | **8,258** | 7,709 |
| Other assets | **390** | 539 |
| Total assets of business held for sale | **10,022** | 9,512 |
| Insurance and contractholder liabilities | **6,591** | 6,308 |
| Other liabilities | **604** | 504 |
| Total liabilities of business held for sale | **$ 7,195** | $ 6,812 |

**Note 7 – Earnings Per Share ("EPS")**

Basic and diluted earnings per share were computed as follows:

| | **Three Months Ended** | | | | | |
|---|---|---|---|---|---|---|
| | **September 30, 2020** | | | **September 30, 2019** | | |
| *(Shares in thousands, dollars in millions, except per share amounts)* | **Basic** | **Effect of Dilution** | **Diluted** | **Basic** | **Effect of Dilution** | **Diluted** |
| Shareholders' net income | **$ 1,388** | | **$ 1,388** | $ 1,351 | | $ 1,351 |
| **Shares:** | | | | | | |
| Weighted average | **364,427** | | **364,427** | 374,842 | | 374,842 |
| Common stock equivalents | | **2,763** | **2,763** | | 3,479 | 3,479 |
| Total shares | **364,427** | **2,763** | **367,190** | 374,842 | 3,479 | 378,321 |
| EPS | **$ 3.81** | **$ (0.03)** | **$ 3.78** | $ 3.60 | $ (0.03) | $ 3.57 |

| | **Nine Months Ended** | | | | | |
|---|---|---|---|---|---|---|
| | **September 30, 2020** | | | **September 30, 2019** | | |
| *(Shares in thousands, dollars in millions, except per share amounts)* | **Basic** | **Effect of Dilution** | **Diluted** | **Basic** | **Effect of Dilution** | **Diluted** |
| Shareholders' net income | **$ 4,323** | | **$ 4,323** | $ 4,127 | | $ 4,127 |
| **Shares:** | | | | | | |
| Weighted average | **367,410** | | **367,410** | 377,381 | | 377,381 |
| Common stock equivalents | | **3,421** | **3,421** | | 3,710 | 3,710 |
| Total shares | **367,410** | **3,421** | **370,831** | 377,381 | 3,710 | 381,091 |
| EPS | **$ 11.77** | **$ (0.11)** | **$ 11.66** | $ 10.94 | $ (0.11) | $ 10.83 |

The following outstanding employee stock options were not included in the computation of diluted earnings per share because their effect was anti-dilutive.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| Anti-dilutive options | **4.6** | 3.6 | **4.2** | 3.9 |

The Company held approximately 26.7 million shares of common stock in treasury at September 30, 2020, 13.0 million shares as of December 31, 2019 and 10.4 million shares as of September 30, 2019.

**Note 8 – Debt**

The outstanding amounts of debt and finance leases were as follows:

| *(In millions)* | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **Short-term debt** | | |
| $1,000 million, Floating Rate Notes due 3/2020 | **$ —** | $ 999 |
| $300 million, 5.125% Notes due 6/2020 | **—** | 300 |
| $1,750 million, 3.2% Notes due 9/2020 | **—** | 1,748 |
| $349 million, 4.125% Notes due 9/2020 | **—** | 351 |
| $500 million, 2.6% Notes due 11/2020 | **500** | 496 |
| $400 million, Floating Rate Notes due 11/2020 | **400** | 400 |
| $250 million, 4.375% Notes due 12/2020 | **250** | 249 |
| $1,400 million, Floating Rate Term Loan due 3/2021 | **1,399** | — |
| $78 million, 6.37% Notes due 6/2021 | **78** | — |
| $1,000 million, Floating Rate Notes due 9/2021 | **999** | — |
| $1,250 million, 3.4% Notes due 9/2021 | **1,248** | — |
| Commercial paper | **1,555** | 944 |
| Other, including finance leases | **20** | 27 |
| Total short-term debt | **$ 6,449** | $ 5,514 |
| **Long-term debt** | | |
| $500 million, 3.3% Notes due 2021 | **$ —** | $ 499 |
| $300 million, 4.5% Notes due 2021 | **—** | 298 |
| $78 million, 6.37% Notes due 2021 | **—** | 78 |
| $1,000 million, Floating Rate Notes due 2021 | **—** | 998 |
| $1,250 million, 3.4% Notes due 2021 | **—** | 1,247 |
| $1,248 million, 4.75% Notes due 2021 | **—** | 1,272 |
| $277 million, 4% Notes due 2022 | **276** | 747 |
| $973 million, 3.9% Notes due 2022 | **972** | 999 |
| $500 million, 3.05% Notes due 2022 | **489** | 485 |
| $17 million, 8.3% Notes due 2023 | **17** | 17 |
| $63 million, 7.65% Notes due 2023 | **63** | 100 |
| $700 million, Floating Rate Notes due 2023 | **698** | 698 |
| $1,000 million, 3% Notes due 2023 | **973** | 966 |
| $2,187 million, 3.75% Notes due 2023 | **2,180** | 3,088 |
| $1,000 million, 3.5% Notes due 2024 | **976** | 970 |
| $900 million, 3.25% Notes due 2025 | **896** | 895 |
| $2,200 million, 4.125% Notes due 2025 | **2,189** | 2,188 |
| $1,500 million, 4.5% Notes due 2026 | **1,505** | 1,506 |
| $1,500 million, 3.4% Notes due 2027 | **1,406** | 1,396 |
| $259 million, 7.875% Debentures due 2027 | **259** | 259 |
| $600 million, 3.05% Notes due 2027 | **595** | 595 |
| $3,800 million, 4.375% Notes due 2028 | **3,779** | 3,776 |
| $1,500 million, 2.4% Notes due 2030 | **1,489** | — |
| $45 million, 8.3% Step Down Notes due 2033 | **45** | 45 |
| $190 million, 6.15% Notes due 2036 | **190** | 190 |
| $2,200 million, 4.8% Notes due 2038 | **2,180** | 2,178 |
| $750 million, 3.2% Notes due 2040 | **742** | — |
| $121 million, 5.875% Notes due 2041 | **119** | 119 |
| $448 million, 6.125% Notes due 2041 | **490** | 491 |
| $317 million, 5.375% Notes due 2042 | **315** | 315 |
| $1,500 million, 4.8% Notes due 2046 | **1,465** | 1,465 |
| $1,000 million, 3.875% Notes due 2047 | **988** | 988 |
| $3,000 million, 4.9% Notes due 2048 | **2,966** | 2,964 |
| $1,250 million, 3.4% Notes due 2050 | **1,235** | — |
| Other, including finance leases | **40** | 61 |
| Total long-term debt | **$ 29,537** | $ 31,893 |

***Debt Issuance and Redemption.*** In order to decrease future interest expense and reduce future refinancing risk, the Company entered into the following transactions:

- Debt issuance: On March 16, 2020, the Company issued $3.5 billion of new senior notes. The proceeds of this debt were mainly used to pay the consideration for the cash tender and redemption offer as described below. Interest on this debt is paid semi-annually.

| Principal | Maturity Date | Interest Rate | Net Proceeds |
|---|---|---|---|
| $1,500 million | March 15, 2030 | 2.40% | $1,491 million |
| $750 million | March 15, 2040 | 3.20% | $743 million |
| $1,250 million | March 15, 2050 | 3.40% | $1,237 million |

- Debt tender and redemption: In March and April 2020, the Company completed a tender offer and an optional redemption totaling $3.5 billion of aggregate principal amount of certain of its outstanding debt securities. The principal amount repurchased in this tender offer was $1.5 billion. Additionally, $2.0 billion of notes were repurchased via optional redemption. The Company recorded a pre-tax loss of $199 million ($151 million after-tax), consisting primarily of premium payments on the tender and optional redemption.

***Debt Exchange.*** In the fourth quarter of 2019, the Company settled an exchange of approximately $12.7 billion of Notes issued by Express Scripts Holding Company, Medco Health Solutions, Inc. and Cigna Holding Company (formerly named Cigna Corporation) for privately placed Notes issued by Cigna with the same interest rates and maturities and comparable other terms. We initiated an exchange offer to register such debt in the second quarter of 2020 and completed the exchange in July 2020.

***Debt Repayment.*** During the first nine months of 2020, the Company repaid $6.9 billion of long-term debt, including the $3.5 billion debt tender and redemption described above.

***Revolving Credit Agreements.*** Cigna has a revolving credit and letter of credit agreement that matures in April 2023 and is diversified among 23 banks. Cigna can borrow up to $3.25 billion for general corporate purposes, with up to $500 million available for issuance of letters of credit. This revolving credit agreement also includes an option to increase the facility amount up to $500 million and an option to extend the termination date for additional one year periods, subject to consent of the banks.

Additionally, Cigna has a 364-day $1.0 billion revolving credit agreement that will mature in October 2021. The agreement replaces the $1.0 billion 364-day revolving credit agreement that expired in October 2020. The agreement is diversified among 23 banks. Pursuant to this revolving credit agreement, Cigna can borrow up to $1.0 billion for general corporate purposes. The agreement includes the option to “term out” any revolving loans that are outstanding at maturity by converting them into a term loan maturing on the one year anniversary of conversion.

The revolving credit agreements contain customary covenants and restrictions including a financial covenant that the Company’s leverage ratio may not exceed 60%. As of September 30, 2020, there were no outstanding balances under the revolving credit agreements.

**Term Loan Credit Agreement.** On April 1, 2020, the Company borrowed an aggregate principal amount of $1.4 billion under a new 364-Day Term Loan Credit Agreement (the "Credit Agreement"). The Company entered into the Credit Agreement to enhance its liquidity position in light of disruption in the commercial paper market and used a portion of the net proceeds to pay down amounts outstanding under its commercial paper facility. The Credit Agreement may be prepaid at any time in whole or in part without premium or penalty. Term loans prepaid may not be re-borrowed. The Credit Agreement provides for mandatory prepayment of the term loans in an amount equal to 20% of any Net Cash Proceeds (as defined in the Credit Agreement) arising from the previously announced sale of Cigna’s U.S. Group Disability and Life insurance business to New York Life Insurance Company.

***Commercial Paper***. The commercial paper program had approximately $1.6 billion outstanding at September 30, 2020 at an average interest rate of 0.2%.

The Company was in compliance with its debt covenants as of September 30, 2020.

**Note 9 – Insurance and Contractholder Liabilities**

**A. Account Balances – Insurance and Contractholder Liabilities**

As of September 30, 2020, December 31, 2019 and September 30, 2019, the Company's insurance and contractholder liabilities were comprised of the following:

| | September 30, 2020 | | | December 31, 2019 | | | September 30, 2019 |
|---|---|---|---|---|---|---|---|
| *(In millions)* | **Current** | **Non-current** | **Total** | **Current** | **Non-current** | **Total** | **Total** |
| Contractholder deposit funds | **$ 624** | **$ 7,038** | **$ 7,662** | $ 600 | $ 7,139 | $ 7,739 | $ 7,789 |
| Future policy benefits | **597** | **9,505** | **10,102** | 553 | 9,281 | 9,834 | 9,808 |
| **Unpaid claims and claim expenses** | | | | | | | |
| U.S. Medical | **3,182** | **18** | **3,200** | 2,875 | 17 | 2,892 | 3,061 |
| Other segments | **2,521** | **3,714** | **6,235** | 2,529 | 3,474 | 6,003 | 5,857 |
| Unearned premiums | **449** | **379** | **828** | 453 | 360 | 813 | 755 |
| Total | **7,373** | **20,654** | **28,027** | 7,010 | 20,271 | 27,281 | 27,270 |
| Insurance and contractholder liabilities classified as liabilities of business held for sale[(1)] | **(2,150)** | **(4,441)** | **(6,591)** | (2,089) | (4,219) | (6,308) | |
| Total insurance and contractholder liabilities | **$ 5,223** | **$ 16,213** | **$ 21,436** | $ 4,921 | $ 16,052 | $ 20,973 | $ 27,270 |

*[(1)] Amounts classified as Liabilities of business held for sale primarily include $5.2 billion of unpaid claims, $759 million of contractholder deposit funds and $646 million of future policy benefits as of September 30, 2020 and $4.9 billion of unpaid claims, $717 million of contractholder deposit funds and $653 million of future policy benefits as of December 31, 2019.*

Insurance and contractholder liabilities expected to be paid within one year are classified as current.

**B. Unpaid Claims and Claim Expenses – U.S. Medical**

This liability reflects estimates of the ultimate cost of claims that have been incurred but not reported, including expected development on reported claims, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities.

The total of incurred but not reported liabilities plus expected development on reported claims, including reported claims in process, was $3.0 billion at September 30, 2020 and $2.8 billion at September 30, 2019.

Activity, net of intercompany transactions, in the unpaid claims liability for the U.S. Medical segment for the nine months ended September 30 was as follows:

| | Nine Months Ended | |
|---|---|---|
| *(In millions)* | **September 30, 2020** | **September 30, 2019** |
| Beginning balance | **$ 2,892** | $ 2,697 |
| Less: Reinsurance and other amounts recoverable | **303** | 264 |
| Beginning balance, net | **2,589** | 2,433 |
| **Incurred costs related to:** | | |
| Current year | **18,935** | 18,169 |
| Prior years | **(126)** | (159) |
| Total incurred | **18,809** | 18,010 |
| **Paid costs related to:** | | |
| Current year | **16,061** | 15,555 |
| Prior years | **2,363** | 2,160 |
| Total paid | **18,424** | 17,715 |
| Ending balance, net | **2,974** | 2,728 |
| Add: Reinsurance and other amounts recoverable | **226** | 333 |
| Ending balance | **$ 3,200** | $ 3,061 |

Reinsurance and other amounts recoverable reflect amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims of certain business for which the Company administers the plan benefits without any right of offset. See Note 10 for additional information on reinsurance.

Variances in incurred costs related to prior years' unpaid claims and claims expenses that resulted from the differences between actual experience and the Company's key assumptions for the nine months ended September 30 were as follows:

| | Nine Months Ended | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | **September 30, 2020** | | **September 30, 2019** | |
| | **$** | **%[1]** | **$** | **%[2]** |
| Actual completion factors | **$ 47** | **0.2 %** | $ 87 | 0.4 % |
| Medical cost trend | **79** | **0.3** | 72 | 0.3 |
| Total favorable variance | **$ 126** | **0.5 %** | $ 159 | 0.7 % |

*(1) Percentage of current year incurred costs as reported for the year ended December 31, 2019.*
*(2) Percentage of current year incurred costs as reported for the year ended December 31, 2018.*

Incurred costs related to prior years in the table above, although adjusted through shareholders' net income, do not directly correspond to an increase or decrease to shareholders' net income. The primary reason for this difference is that decreases to prior year incurred costs pertaining to the portion of the liability established for moderately adverse conditions are not considered as impacting shareholders' net income if they are offset by increases in the current year provision for moderately adverse conditions.

Prior year development increased shareholders' net income by $30 million ($38 million before-tax) for the nine months ended September 30, 2020, compared with $68 million ($86 million before-tax) for the nine months ended

September 30, 2019. Favorable prior year development in both periods reflects lower than expected utilization of medical services.

## C. Unpaid Claims and Claim Expenses – Group Disability and Other and International Markets

***Liability balance details.*** The liability details for unpaid claims and claim expenses are as follows:

| *(In millions)* | September 30, 2020 [1] | September 30, 2019 |
|---|---|---|
| **Group Disability and Other** | | |
| Group Disability and Life | **$ 5,206** | $ 4,887 |
| Other Operations | **162** | 189 |
| Total Group Disability and Other | **5,368** | 5,076 |
| **International Markets** | **867** | 781 |
| Unpaid claims and claim expenses Group Disability and Other and International Markets | **$ 6,235** | $ 5,857 |

[1] *Includes unpaid claim amounts classified as Liabilities of business held for sale.*

Activity in the Company's liabilities for unpaid claims and claim expenses, excluding Other Operations, are presented in the following table. Liabilities associated with Other Operations are excluded because they pertain to obligations for long-duration insurance contracts or, if short-duration, the liabilities have been fully reinsured.

| | Nine Months Ended | |
|---|---|---|
| *(In millions)* | September 30, 2020[1] | September 30, 2019 |
| Beginning balance | **$ 5,816** | $ 5,432 |
| Less: Reinsurance | **184** | 156 |
| Beginning balance, net | **5,632** | 5,276 |
| **Incurred claims related to:** | | |
| Current year | **4,277** | 4,205 |
| **Prior years:** | | |
| Interest accretion | **118** | 117 |
| All other incurred | **(12)** | (59) |
| Total incurred | **4,383** | 4,263 |
| **Paid claims related to:** | | |
| Current year | **2,435** | 2,422 |
| Prior years | **1,702** | 1,594 |
| Total paid | **4,137** | 4,016 |
| Foreign currency | **5** | (26) |
| Ending balance, net | **5,883** | 5,497 |
| Add: Reinsurance | **190** | 171 |
| Ending balance | **$ 6,073** | $ 5,668 |

[1] *Includes unpaid claims amounts classified as Liabilities of business held for sale.*

Reinsurance in the table above reflects amounts due from reinsurers related to unpaid claims liabilities. The Company's insurance subsidiaries enter into agreements with other companies primarily to limit losses from large exposures and to permit recovery of a portion of incurred losses. See Note 10 for additional information on reinsurance.

The majority of the liability for unpaid claims and claim expenses is related to disability claims with long-tailed payouts that relate to a business held for sale. Interest earned on assets backing these liabilities is an integral part of pricing and reserving. Therefore, interest accreted on prior year balances is shown as a separate component of prior year incurred claims and reported in Medical costs and other benefit expenses in the income statement. This interest is calculated by applying the average discount rate used in determining the liability balance to the average liability balance over the period. The remaining prior year incurred claims amount primarily reflects updates to the Company's liability estimates and variances between actual experience during the period relative to the assumptions and expectations reflected in determining the liability. Assumptions reflect the Company's expectations over the life of the book of business and will vary from actual experience in any period, both favorably and unfavorably, with variation in resolution rates being the most significant driver for the long-term disability business. Favorable prior year incurred claims for the nine months ended September 30, 2019 primarily reflected favorable long-term disability resolution rate experience relative to expectations reflected in the prior year reserve and favorable reserve development for life, accident and voluntary driven by lower than expected incidence.

**Note 10 – Reinsurance**

The Company's insurance subsidiaries enter into agreements with other insurance companies to assume and cede reinsurance. Reinsurance is ceded primarily in acquisition and disposition transactions when the underwriting company is not being acquired. Reinsurance is also used to limit losses from large exposures and to permit recovery of a portion of direct or assumed losses. Reinsurance does not relieve the originating insurer of liability. Therefore, reinsured liabilities must continue to be reported along with the related reinsurance recoverables. The Company regularly evaluates the financial condition of its reinsurers and monitors concentrations of its credit risk.

**A. Reinsurance Recoverables**

***Accounting policy.*** Reinsurance recoverables represent amounts due from reinsurers for both paid and unpaid claims of the Company's insurance businesses. Most reinsurance recoverables are classified as non-current assets. The current portion of reinsurance recoverables is reported in Other current assets and consists primarily of recoverables on paid claims expected to be settled within one year. Reinsurance recoverables are presented net of allowances for uncollectible reinsurance that, effective with adopting ASU 2016-13 on January 1, 2020, consists primarily of an allowance for expected credit losses. Estimates of the allowance for expected credit losses are based on internal and external data used to develop expected loss rates over the anticipated duration of the recoverable asset that vary by external credit rating and collateral level. The Company's allowance for credit losses on reinsurance recoverables was $34 million as of September 30, 2020, of which $31 million was recorded as a cumulative effect adjustment to retained earnings at adoption.

The majority of the Company's reinsurance recoverables resulted from acquisition and disposition transactions in which the underwriting company was not acquired. Included in the table below is $209 million of current reinsurance recoverables that are reported in Other current assets as of September 30, 2020; as of December 31, 2019 there was $222 million of current reinsurance recoverables reported in Other current assets. The Company's reinsurance recoverables are presented in the following table by range of external credit rating and collateral level.

| *(Dollars in millions)* | Fair value of collateral contractually required to meet or exceed carrying value of recoverable | Collateral provisions exist that may mitigate risk of credit loss [3] | No collateral | Total |
|---|---|---|---|---|
| **Ongoing Operations** | | | | |
| Upper-medium grade and higher [1] | **$ —** | **$ 8** | **$ 326** | **$ 334** |
| Lower-medium grade [2] | **—** | **—** | **63** | **63** |
| Not rated | **90** | **14** | **29** | **133** |
| Total recoverables related to ongoing operations [3] | **$ 90** | **$ 22** | **$ 418** | **$ 530** |
| **Acquisition, disposition or runoff activities** | | | | |
| Upper-medium grade and higher [1] | | | | |
| Lincoln National Life and Lincoln Life & Annuity of New York | **—** | **3,049** | **—** | **3,049** |
| Berkshire | **318** | **476** | **—** | **794** |
| Prudential Retirement Insurance and Annuity | **641** | **—** | **—** | **641** |
| Other | **237** | **21** | **17** | **275** |
| Not rated | **—** | **38** | **4** | **42** |
| Total recoverables related to acquisition, disposition or runoff activities | **1,196** | **3,584** | **21** | **4,801** |
| Total | **$ 1,286** | **$ 3,606** | **$ 439** | **$ 5,331** |
| Allowance for uncollectible reinsurance | | | | **(34)** |
| Reinsurance recoverables classified as assets of business held for sale | | | | **(190)** |
| Total reinsurance recoverables | | | | **$ 5,107** |

*[1] Includes A- equivalent and higher current ratings certified by a nationally recognized statistical rating organization ('NRSRO')*

*[2] Includes BBB- to BBB+ equivalent current credit ratings certified by a NRSRO*

*[3] This includes collateral provisions requiring the reinsurer to fully collateralize its obligation if its external credit rating is downgraded to a specified level*

Collateral levels are defined internally based on the fair value of the collateral relative to the carrying amount of the reinsurance recoverable, the frequency at which collateral is required to be replenished and the potential for volatility in the collateral's fair value. The Company bears the risk of loss if its reinsurers and retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company. The Company reviews its reinsurance arrangements and establishes reserves against the recoverables, as further described above.

## B. Effects of Reinsurance

In the Company's Consolidated Statements of Income, premiums were reported net of amounts ceded to reinsurers and medical costs and other benefit expenses were reported net of reinsurance recoveries in the following amounts:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| Total ceded premiums | **$ 122** | $ 124 | **$ 367** | $ 380 |
| Total reinsurance recoveries | **$ 117** | $ 180 | **$ 397** | $ 292 |

## C. Effective Exit of GMDB and GMIB Business

The Company entered into an agreement with Berkshire to effectively exit the GMDB and GMIB business via a reinsurance transaction in 2013. Berkshire reinsured 100% of the Company's future claim payments in this business, net of other reinsurance arrangements existing at that time. The reinsurance agreement is subject to an overall limit with approximately $3.2 billion remaining at September 30, 2020.

GMDB is accounted for as assumed and ceded reinsurance and GMIB assets and liabilities are reported as derivatives at fair value as discussed below. GMIB assets are reported in Other current assets and Other assets, and GMIB liabilities are reported in Accrued expenses and other liabilities and Other non-current liabilities.

### *GMDB*

The GMDB exposure arises under annuities written by ceding companies that guarantee the benefit received at death. The Company's exposure arises when the guaranteed minimum death benefit exceeds the fair value of the related mutual fund investments at the time of a contractholder's death.

The following table presents the account value, net amount at risk and the number of contractholders for guarantees assumed by the Company in the event of death. The net amount at risk is the amount that the Company would have to pay if all contractholders died as of the specified date. The Company should be reimbursed in full for these payments unless the Berkshire reinsurance limit is exceeded.

| *(Dollars in millions, excludes impact of reinsurance ceded)* | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Account value | **$ 8,650** | $ 9,110 |
| Net amount at risk | **$ 1,694** | $ 1,764 |
| Number of contractholders (estimated) | **190,000** | 200,000 |

### *GMIB*

The Company reinsured contracts with issuers of GMIB products. The Company's exposure represents the excess of a contractually guaranteed amount over the level of variable annuity account values. Payment by the Company depends on the actual account value in the related underlying mutual funds and the level of interest rates when the contractholders elect to receive minimum income payments that can only occur within 30 days of a policy

anniversary after the appropriate waiting period. The Company has purchased retrocessional coverage ("GMIB assets") for these contracts including retrocessional coverage from Berkshire.

***Assumptions used in fair value measurement***. GMIB assets and liabilities are established using capital market assumptions and assumptions related to future annuitant behavior (including mortality, lapse, and annuity election rates). The Company classifies GMIB assets and liabilities in Level 3 of the fair value hierarchy described in Note 12 because assumptions related to future annuitant behavior are largely unobservable.

The only assumption expected to impact future shareholders' net income is non-performance risk. The non-performance risk adjustment reflects a market participant's view of nonpayment risk by adding an additional spread to the discount rate in the calculation of both (a) the GMIB liabilities to be paid by the Company, and (b) the GMIB assets to be paid by the reinsurers, after considering collateral. The impact of non-performance risk was immaterial for the three and nine months ended September 30, 2020 and September 30, 2019.

GMIB liabilities totaling $786 million as of September 30, 2020 and $688 million as of December 31, 2019 were reported in Accrued expenses and other liabilities and Other non-current liabilities. There were three reinsurers covering 100% of the GMIB exposures as of September 30, 2020 and December 31, 2019 as follows:

*(In millions)*

| Line of Business | Reinsurer | September 30, 2020 | December 31, 2019 | Collateral and Other Terms at September 30, 2020 |
|---|---|---|---|---|
| **GMIB** | Berkshire | **$ 382** | $ 332 | 100% were secured by assets in a trust. |
| | Sun Life Assurance Company of Canada | **233** | 202 | |
| | Liberty Re (Bermuda) Ltd. | **205** | 179 | 100% were secured by assets in a trust. |
| Total GMIB recoverables reported in Other current assets and Other assets | | **$ 820** | $ 713 | |

*All reinsurers are rated A- equivalent and higher by a nationally recognized statistical rating organization ('NRSRO')*

Amounts included in shareholders' net income for GMIB assets and liabilities were not material for the three or nine months ended September 30, 2020 or September 30, 2019.

**Note 11 – Investments**

Cigna's investment portfolio consists of a broad range of investments including debt securities, equity securities, commercial mortgage loans, policy loans, other long-term investments, short-term investments and derivative financial instruments. The sections below provide more detail regarding our investment balances and realized investment gains and losses. See Note 12 for information about the valuation of the Company's investment portfolio. The following table summarizes the Company's investments by category and current or long-term classification.

| | September 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| *(In millions)* | **Current** | **Long-term** | **Total** | **Current** | **Long-term** | **Total** |
| Debt securities | **$ 1,113** | **$ 23,560** | **$ 24,673** | $ 928 | $ 22,827 | $ 23,755 |
| Equity securities | **—** | **379** | **379** | — | 303 | 303 |
| Commercial mortgage loans | **13** | **1,966** | **1,979** | — | 1,947 | 1,947 |
| Policy loans | **—** | **1,347** | **1,347** | — | 1,357 | 1,357 |
| Other long-term investments | **—** | **2,698** | **2,698** | — | 2,403 | 2,403 |
| Short-term investments | **458** | **—** | **458** | 423 | — | 423 |
| Total | **$ 1,584** | **$ 29,950** | **$ 31,534** | $ 1,351 | $ 28,837 | $ 30,188 |
| Investments classified as assets of business held for sale[1] | **(260)** | **(7,998)** | **(8,258)** | (414) | (7,295) | (7,709) |
| Investments per Consolidated Balance Sheets | **$ 1,324** | **$ 21,952** | **$ 23,276** | $ 937 | $ 21,542 | $ 22,479 |

*[1] The table above includes $8.3 billion as of September 30, 2020 and $7.7 billion as of December 31, 2019 of investments associated with the U.S. Group Disability and Life business that are held for sale to New York Life. Under the terms of the definitive agreement, some of the assets currently associated with the Group Disability and Life business can be substituted for other assets. The assets that will transfer to New York Life will be primarily debt securities and to a lesser extent commercial mortgage loans and short-term investments.*

## A. Investment Portfolio

### *Debt Securities*

***Accounting policy.*** Debt securities (including bonds, mortgage and other asset-backed securities and preferred stocks redeemable by the investor) are classified as available for sale and are carried at fair value with changes in fair value recorded either in Accumulated other comprehensive income (loss) within Shareholders' equity or in credit loss expense based on fluctuations in the allowance for credit losses, as further discussed below. Net unrealized appreciation on debt securities supporting the Company's run-off settlement annuity business is reported in Non-current insurance and contractholder liabilities rather than Accumulated other comprehensive income (loss). When the Company intends to sell or determines that it is more likely than not to be required to sell an impaired debt security, the excess of amortized cost over fair value is directly written down with a charge to Realized investment gains and losses.

As of January 1, 2020, the Company adopted ASU 2016-13 that included certain targeted improvements to the accounting for available-for-sale debt securities. The new guidance resulted in certain policy changes related to the process used by the Company to review declines in fair value from a security's amortized cost basis to determine whether a credit loss exists. For example, the length of time that a debt security has been impaired is no longer a criterion for this review. In addition, under this new guidance, the Company recognizes an allowance for credit loss with a corresponding charge to credit loss expense, presented in Realized investment gains and losses in the Company's income statement. Prior to this new guidance, the Company recorded a direct write-down of the instrument's amortized cost basis. The allowance for credit loss represents the excess of amortized cost over the greater of its fair value or the net present value of the debt security's projected future cash flows (based on

qualitative and quantitative factors, including the probability of default, and the estimated timing and amount of recovery). Each period, the allowance for credit loss is adjusted through credit loss expense.

The Company elected the expedient to not measure an allowance for credit losses for accrued interest receivables. Consistent with prior practice, when interest payments are delinquent based on contractual terms or when certain terms (interest rate or maturity date) of the investment have been restructured, accrued interest, reported in Other current assets, is written off through a charge to Net investment income, and interest income is recognized on a cash basis.

Debt securities are classified as either Current or Long-term investments based on their contractual maturities.

The amortized cost and fair value by contractual maturity periods for debt securities were as follows at September 30, 2020:

| *(In millions)* | | **Amortized Cost** | | **Fair Value** |
|---|---|---|---|---|
| Due in one year or less | **$** | **1,133** | **$** | **1,143** |
| Due after one year through five years | | **7,403** | | **7,789** |
| Due after five years through ten years | | **9,011** | | **10,015** |
| Due after ten years | | **4,212** | | **5,211** |
| Mortgage and other asset-backed securities | | **514** | | **515** |
| Total | **$** | **22,273** | **$** | **24,673** |

Actual maturities of these securities could differ from their contractual maturities used in the table above because issuers may have the right to call or prepay obligations, with or without penalties.

Gross unrealized appreciation (depreciation) on debt securities by type of issuer is shown below.

| *(In millions)* | Amortized Cost | Allowance for Credit Loss | Unrealized Appreciation | Unrealized Depreciation | Fair Value |
|---|---|---|---|---|---|
| **September 30, 2020** | | | | | |
| Federal government and agency | **$ 411** | **$ —** | **$ 223** | **$ —** | **$ 634** |
| State and local government | **628** | **—** | **85** | **—** | **713** |
| Foreign government | **2,091** | **—** | **317** | **(6)** | **2,402** |
| Corporate | **18,629** | **(31)** | **1,890** | **(79)** | **20,409** |
| Mortgage and other asset-backed | **514** | **(9)** | **32** | **(22)** | **515** |
| Total | **$ 22,273** | **$ (40)** | **$ 2,547** | **$ (107)** | **$ 24,673** |
| Investments supporting liabilities of the Company's run-off settlement annuity business (included in total above) [1] | **$ 2,147** | **$ (9)** | **$ 828** | **$ (13)** | **$ 2,953** |
| **December 31, 2019** | | | | | |
| Federal government and agency | $ 498 | $ — | $ 235 | $ — | $ 733 |
| State and local government | 729 | — | 81 | — | 810 |
| Foreign government | 2,027 | — | 230 | (1) | 2,256 |
| Corporate | 18,149 | — | 1,299 | (28) | 19,420 |
| Mortgage and other asset-backed | 506 | — | 31 | (1) | 536 |
| Total | $ 21,909 | $ — | $ 1,876 | $ (30) | $ 23,755 |
| Investments supporting liabilities of the Company's run-off settlement annuity business (included in total above) [1] | $ 2,229 | $ — | $ 740 | $ (4) | $ 2,965 |

*(1) Net unrealized appreciation for these investments is excluded from accumulated other comprehensive income.*

***Review of declines in fair value.*** Management reviews impaired debt securities to determine whether a credit loss allowance is needed based on criteria that include:

- severity of decline;
- financial health and specific prospects of the issuer; and
- changes in the regulatory, economic or general market environment of the issuer's industry or geographic region.

The table below summarizes debt securities with a decline in fair value from amortized cost by investment grade and the length of time these securities have been in an unrealized loss position. These debt securities are primarily corporate securities with a decline in fair value that reflects an increase in market yields since purchase. See discussion of Realized Investment Gains and Losses below for further information on the credit loss expense recorded for the Company's investments.

| | September 30, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Fair Value | Amortized Cost | Unrealized Depreciation | Number of Issues | Fair Value | Amortized Cost | Unrealized Depreciation | Number of Issues |
| **One year or less** | | | | | | | | |
| Investment grade | **$ 1,193** | **$ 1,224** | **$ (31)** | **356** | $ 723 | $ 729 | $ (6) | 267 |
| Below investment grade | **$ 713** | **$ 774** | **$ (61)** | **536** | $ 340 | $ 348 | $ (8) | 355 |
| **More than one year** | | | | | | | | |
| Investment grade | **$ 107** | **$ 111** | **$ (4)** | **19** | $ 366 | $ 378 | $ (12) | 118 |
| Below investment grade | **$ 76** | **$ 87** | **$ (11)** | **36** | $ 84 | $ 88 | $ (4) | 93 |
| Total | **$ 2,089** | **$ 2,196** | **$ (107)** | **947** | $ 1,513 | $ 1,543 | $ (30) | 833 |

The table below presents a roll-forward of the allowance for credit losses on debt securities for the three and nine months ended September 30, 2020.

| *(Dollars in millions)* | Three Months Ended September 30, 2020 | Nine Months Ended September 30, 2020 |
|---|---|---|
| Balance at beginning of period | **$ 48** | **$ 0** |
| Additions for debt securities where no credit loss has previously been recognized | **2** | **82** |
| Reductions for securities sold during the period | **(6)** | **(15)** |
| Decrease for debt securities where credit losses have previously been recorded | **(4)** | **(27)** |
| Balance September 30, | **$ 40** | **$ 40** |

***Equity Securities***

Equity securities with a readily determinable fair value consist primarily of mutual funds that invest in fixed income debt securities. Equity securities without a readily determinable fair value consist of private equity investments and are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes. The amount of impairments or value changes resulting from observable price changes was not material as of September 30, 2020 and December 31, 2019. Hybrid equity securities consist of preferred stock investments that have call features.

The following table provides the values of the Company's equity security investments as of September 30, 2020 and December 31, 2019.

| | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| Equity securities with readily determinable fair values | **$ 126** | **$ 124** | $ 61 | $ 64 |
| Equity securities with no readily determinable fair value | **$ 203** | **$ 212** | $ 183 | $ 192 |
| Hybrid equity securities | **$ 57** | **$ 43** | $ 58 | $ 47 |
| **Total** | **$ 386** | **$ 379** | $ 302 | $ 303 |

***Commercial Mortgage Loans***

***Accounting policy.*** Commercial mortgage loans are carried at unpaid principal balances. Beginning January 1, 2020 with the adoption of ASU 2016-13, unpaid principal balances are presented net of an allowance for expected credit losses. Changes in the allowance for expected credit losses are recognized as credit loss expense and presented in Realized investment gains and losses in the Company’s income statement. Each period, the Company establishes (or adjusts) its allowance for expected credit losses for commercial mortgage loans. The allowance for expected credit losses is based on a credit risk category that is assigned to each loan at origination using key credit quality indicators, including debt service coverage and loan-to-value ratios. Credit risk categories are updated as key credit quality indicators change. An expected loss rate, assigned based on the credit risk category, is applied to each loan's unpaid principal balance to develop an aggregate allowance for expected credit losses. Prior to adoption, impaired commercial mortgage loans were written down to the lower of unpaid principal or fair value of the underlying collateral when it became probable that the Company would not collect all amounts due under its promissory note. The Company recorded an allowance of $7 million through a cumulative effect adjustment to retained earnings to reflect expected credit losses at adoption. The credit loss allowance for the Company’s commercial mortgage loan investments was $9 million as of September 30, 2020.

Commercial mortgage loans are considered impaired and written off against the allowance when it is probable that the Company will not collect all amounts due per the terms of the promissory note. The Company elected the expedient to not measure an allowance for credit losses for accrued interest receivables. Consistent with our prior practice, accrued interest, reported in other current assets, is written off through a charge to net investment income; interest income on impaired loans is only recognized when a payment is received.

In the event of a foreclosure, the allowance for credit losses is based on the excess of the carrying value of the mortgage loan over the fair value of its underlying collateral.

Mortgage loans held by the Company are made exclusively to commercial borrowers and are diversified by property type, location and borrower. Loans are generally issued at fixed rates of interest and are secured by high quality, primarily completed and substantially leased operating properties. Commercial mortgage loans are classified as either current or long-term investments based on their contractual maturities.

***Credit quality*.** The Company regularly evaluates and monitors credit risk, beginning with the initial underwriting of a mortgage loan and continuing throughout the investment holding period. Mortgage origination professionals employ an internal credit quality rating system designed to evaluate the relative risk of the transaction at origination that is then updated each year as part of the annual portfolio loan review. The Company evaluates and monitors credit quality on a consistent and ongoing basis.

Quality ratings are based on our evaluation of a number of key inputs related to the loan, including real estate market-related factors such as rental rates and vacancies, and property-specific inputs such as growth rate assumptions and lease rollover statistics. However, the two most significant contributors to the credit quality rating are the debt service coverage and loan-to-value ratios. The debt service coverage ratio measures the amount of property cash flow available to meet annual interest and principal payments on debt, with a ratio below 1.0 indicating that there is not enough cash flow to cover the required loan payments. The loan-to-value ratio, commonly expressed as a percentage, compares the amount of the loan to the fair value of the underlying property collateralizing the loan.

The following table summarizes the credit risk profile of the Company's commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios as of September 30, 2020 and December 31, 2019:

| *(Dollars in millions)* | **September 30, 2020** | | | **December 31, 2019** | | |
|---|---|---|---|---|---|---|
| **Loan-to-Value Ratio** | **Carrying Value** | **Average Debt Service Coverage Ratio** | **Average Loan-to-Value Ratio** | **Carrying Value** | **Average Debt Service Coverage Ratio** | **Average Loan-to-Value Ratio** |
| Below 60% | **$ 861** | **2.20** | | $ 1,136 | 2.19 | |
| 60% to 79% | **985** | **1.93** | | 723 | 1.98 | |
| 80% to 100% | **142** | **1.33** | | 88 | 1.62 | |
| Allowance for credit losses | **(9)** | | | | | |
| Total | **$ 1,979** | **2.01** | **60 %** | $ 1,947 | 2.09 | 58 % |

The Company's annual in-depth review of its commercial mortgage loan investments is the primary mechanism for identifying emerging risks in the portfolio. The Company's investment professionals completed the annual in-depth review in the second quarter of 2020 that included an analysis of each underlying property's most recent annual financial statements, rent rolls, operating plans, budgets, a physical inspection of the property and other pertinent factors. Based on historical results, current leases, lease expirations and rental conditions in each market, the Company estimated the current year and future stabilized property income and fair value for each loan. The average loan to value increased slightly from last year and remains strong. The portfolio's average debt service coverage ratio decreased slightly at September 30, 2020 compared with December 31, 2019 but remains at a high level.

The Company re-evaluates a loan's credit quality between annual reviews if new property information is received or an event such as delinquency or a borrower's request for restructure causes management to believe that the Company's estimate of financial performance, fair value or the risk profile of the underlying property has been impacted.

All commercial mortgage loans in the Company's portfolio are current as of September 30, 2020 and December 31, 2019.

***Other Long-Term Investments***

Other long-term investments include investments in unconsolidated entities, including certain limited partnerships and limited liability companies holding real estate, securities or loans. These investments are carried at cost plus the Company's ownership percentage of reporting income or loss, based on the financial statements of the underlying investments that are generally reported at fair value. Income or loss from these investments is reported on a one quarter lag due to the timing of when financial information is received from the general partner or manager of the investments.

Other long-term investments also include investment real estate, foreign currency swaps, and statutory and other deposits. The following table provides carrying value information for these investments.

| | Carrying value as of | |
|---|---|---|
| *(In millions)* | **September 30, 2020** | **December 31, 2019** |
| Real estate investments | **$ 888** | $ 788 |
| Securities partnerships | **1,591** | 1,409 |
| Other | **219** | 206 |
| Total | **$ 2,698** | $ 2,403 |

***Short-Term Investments and Cash Equivalents***

Short-term investments and cash equivalents included the following types of issuers:

| *(In millions)* | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Corporate securities | **$ 2,729** | $ 1,985 |
| Federal government securities | **$ 1,139** | $ 472 |
| Foreign government securities | **$ 89** | $ 65 |
| Money market funds | **$ 313** | $ 631 |

## B. Realized Investment Gains and Losses

***Accounting policy.*** Realized investment gains and losses are based on specifically identified assets and result from sales, investment asset write-downs, change in the fair value of certain derivatives and equity securities, and changes in valuation reserves on commercial mortgage loans. Commencing January 1, 2020, realized gains and losses also

include credit loss expense resulting from the impact of changes in the allowances for credit losses on debt securities and commercial mortgage loan investments under ASU 2016-13.

The following realized gains and losses on investments exclude amounts required to adjust future policy benefits for the run-off settlement annuity business (consistent with accounting for a premium deficiency), as well as realized gains and losses attributed to the Company's separate accounts because those gains and losses generally accrue directly to separate account policyholders.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| Net realized investment gains, excluding credit loss expense and asset write-downs | **$ 24** | $ 60 | **$ 33** | $ 96 |
| Credit loss (expense) recoveries on invested assets | **8** | — | **(41)** | — |
| Other investment asset write-downs | **—** | (9) | **(10)** | (12) |
| Net realized investment gains (losses), before income taxes | **$ 32** | $ 51 | **$ (18)** | $ 84 |

Net realized investment gains, excluding credit loss expense and asset write-downs, for the nine months ended September 30, 2020 primarily represent gains on the sales of debt securities, partially offset by mark-to-market losses on equity securities and foreign exchange derivatives. Net realized investment gains, excluding credit loss expense and asset write-downs, for the nine months ended September 30, 2019 represent gains on the sales of real estate partnerships and debt securities. Credit loss (expense) recoveries on invested assets for the nine months ended September 30, 2020 reflects credit losses incurred primarily on debt securities due to uncertainty around issuers in certain industries that are particularly impacted by the global COVID-19 pandemic. Realized gains and losses on equity securities still held at September 30, 2020 and 2019 were not material.

The following table presents sales information for available-for-sale debt securities. Gross gains on sales and gross losses on sales exclude amounts required to adjust future policy benefits for the run-off settlement annuity business.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| Proceeds from sales | **$ 380** | $ 591 | **$ 2,003** | $ 2,242 |
| Gross gains on sales | **$ 15** | $ 18 | **$ 81** | $ 41 |
| Gross losses on sales | **$ —** | $ (5) | **$ (21)** | $ (17) |

## C. Derivative Financial Instruments

The Company uses derivative financial instruments to manage the characteristics of investment assets (such as duration, yield, currency and liquidity) to meet the varying demands of the related insurance and contract holder liabilities. The Company also uses derivative financial instruments to hedge the risk of changes in the net assets of certain of its foreign subsidiaries due to changes in foreign currency exchange rates. The Company has written and purchased GMIB reinsurance contracts in its run-off reinsurance business that are accounted for as freestanding derivatives as discussed in Note 10. Derivatives in the Company's separate accounts are excluded from the following discussion because associated gains and losses generally accrue directly to separate account policyholders.

Derivative instruments used by the Company typically include foreign currency swap contracts and foreign currency forward contracts. Foreign currency swap contracts periodically exchange cash flows between two currencies for principal and interest. Foreign currency forward contracts require the Company to purchase a foreign currency in exchange for the functional currency of its operating unit at a future date.

The Company manages the credit risk of these derivative instruments by diversifying its portfolio among approved dealers of high credit quality and through routine monitoring of credit risk exposures. Certain of the Company's over-the-counter derivative instruments require either the Company or the counterparty to post collateral or demand immediate payment depending on the amount of the net liability position of the derivative instrument and predefined financial strength or credit rating thresholds. These collateral posting requirements vary by counterparty. The Company would incur a loss if dealers completely failed to perform under derivative contracts, however collateral has been posted by dealers to cover substantially all of the fair values owed by dealers at September 30, 2020 and December 31, 2019. The fair value of collateral posted by the Company was not significant as of September 30, 2020 or December 31, 2019.

The gross fair values of our derivative financial instruments are presented in Note 12. The following table summarizes the types and notional quantity of derivative instruments held by the Company. As of September 30, 2020 and December 31, 2019, the effects of these individual hedging strategies were not material to the Consolidated Financial Statements, including gains or losses reclassified from accumulated other comprehensive income into shareholders' net income, as well as amounts excluded from the assessment of hedge effectiveness.

| | *(In millions)* | **Notional Value as of** | |
|---|---|---|---|
| **Purpose** | **Type of Instrument** | **September 30, 2020** | **December 31, 2019** |
| Fair value hedge: To hedge the foreign exchange-related changes in fair values of certain foreign-denominated bonds. The notional value of these derivatives matches the amortized cost of the hedged bonds. | Foreign currency swap contracts | **$ 853** | $ 817 |
| Net investment hedge: To reduce the risk of changes in net assets due to changes in foreign currency spot exchange rates for certain foreign subsidiaries that conduct their business principally in Euros, Korean Won, and Taiwan Dollar. The notional value of hedging instruments matches the hedged amount of subsidiary net assets. | Foreign currency swap contracts | **$ 526** | $ 438 |
| | Foreign currency forward contracts | **$ 636** | $ 406 |
| Economic hedge: To hedge the foreign exchange-related changes in fair value of U.S. dollar-denominated investment assets to reflect the local currency for the Company's foreign subsidiary in South Korea. The notional value of hedging instruments generally aligns with the fair value of the hedged investments. | Foreign currency forward contracts | **$ 495** | $ 410 |

The Company's derivative financial instruments are presented as follows:

- Fair value hedges of the foreign exchange-related changes in fair values of certain foreign-denominated bonds: Swap fair values are reported in Long-term investments or Other non-current liabilities. Changes in fair values attributable to foreign exchange risk of the swap contracts and the hedged bonds are reported in Realized investment gains and losses. The portion of the swap contracts' changes in fair value excluded from the assessment of hedge effectiveness is recorded in Other comprehensive income and recognized in Net investment income as swap coupon payments are accrued, offsetting the foreign-denominated coupons received on the designated bonds. Net cash flows are reported in Operating activities, while exchanges of notional principal amounts are reported in Investing activities.

- Net investment hedges of certain foreign subsidiaries that conduct their business principally in currencies other than the U.S. dollar: The fair values of the foreign currency swap and forward contracts are reported in Other assets or Other liabilities. The changes in fair values of these instruments are reported in Other comprehensive income, specifically in translation of foreign currencies. The portion of the change in fair values relating to foreign exchange spot rates will be recognized in earnings upon deconsolidation of the hedged foreign subsidiaries. The remaining changes in fair value of these instruments are excluded from our effectiveness assessment and recognized in interest expense when coupon payments are accrued or

ratably over the term of the instrument. The notional value of hedging instruments matches the hedged amount of subsidiary net assets. Cash flows relating to these contracts are reported in Investing activities.

- Economic hedges for derivatives not designated as accounting hedges: Fair values of forward contracts are reported in current Investments or Accrued expenses and other liabilities. The changes in fair values are reported in Realized investment gains and losses. Cash flows relating to these contracts are reported in Investing activities.

**Note 12 – Fair Value Measurements**

The Company carries certain financial instruments at fair value in the financial statements including debt securities, certain equity securities, short-term investments and derivatives. Other financial instruments are measured at fair value only under certain conditions, such as when impaired or when there are observable price changes for equity securities with no readily determinable fair value.

Fair value is defined as the price at which an asset could be exchanged in an orderly transaction between market participants at the balance sheet date. A liability's fair value is defined as the amount that would be paid to transfer the liability to a market participant, not the amount that would be paid to settle the liability with the creditor.

The Company's financial assets and liabilities carried at fair value have been classified based upon a hierarchy defined by GAAP. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level of input that is significant to its measurement. For example, a financial asset or liability carried at fair value would be classified in Level 3 if unobservable inputs were significant to the instrument's fair value, even though the measurement may be derived using inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The Company estimates fair values using prices from third parties or internal pricing methods. Fair value estimates received from third-party pricing services are based on reported trade activity and quoted market prices when available, and other market information that a market participant would use to estimate fair value. The internal pricing methods are performed by the Company's investment professionals and generally involve using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality as well as other qualitative factors. In instances where there is little or no market activity for the same or similar instruments, fair value is estimated using methods, models and assumptions that the Company believes a hypothetical market participant would use to determine a current transaction price. These valuation techniques involve some level of estimation and judgment that becomes significant with increasingly complex instruments or pricing models.

The Company is responsible for determining fair value and for assigning the appropriate level within the fair value hierarchy based on the significance of unobservable inputs. The Company reviews methodologies, processes and controls of third-party pricing services and compares prices on a test basis to those obtained from other external pricing sources or internal estimates. The Company performs ongoing analyses of both prices received from third-party pricing services and those developed internally to determine that they represent appropriate estimates of fair value. The controls executed by the Company include evaluating changes in prices and monitoring for potentially stale valuations. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates. The minimal exceptions identified during these processes indicate that adjustments to prices are infrequent and do not significantly impact valuations. An annual due-diligence review of the most significant pricing

service is conducted to review their processes, methodologies and controls. This review includes a walk-through of inputs for a sample of securities held across various asset types to validate the documented pricing process.

## A. Financial Assets and Financial Liabilities Carried at Fair Value

The following table provides information as of September 30, 2020 and December 31, 2019 about the Company's financial assets and liabilities carried at fair value. Separate account assets are also recorded at fair value on the Company's Consolidated Balance Sheets and are reported separately in the Separate Accounts section below as gains and losses related to these assets generally accrue directly to policyholders.

| *(In millions)* | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | As of September 30, 2020 | As of December 31, 2019 | As of September 30, 2020 | As of December 31, 2019 | As of September 30, 2020 | As of December 31, 2019 | As of September 30, 2020 | As of December 31, 2019 |
| **Financial assets at fair value** | | | | | | | | |
| **Debt securities** | | | | | | | | |
| Federal government and agency | **$ 183** | $ 197 | **$ 451** | $ 536 | **$ —** | $ — | **$ 634** | $ 733 |
| State and local government | **—** | — | **713** | 810 | **—** | — | **713** | 810 |
| Foreign government | **—** | — | **2,381** | 2,228 | **21** | 28 | **2,402** | 2,256 |
| Corporate | **—** | — | **19,662** | 19,063 | **747** | 357 | **20,409** | 19,420 |
| Mortgage and other asset-backed | **—** | — | **368** | 398 | **147** | 138 | **515** | 536 |
| Total debt securities | **183** | 197 | **23,575** | 23,035 | **915** | 523 | **24,673** | 23,755 |
| Equity securities [1] | **1** | 7 | **135** | 72 | **31** | 32 | **167** | 111 |
| Short-term investments | **—** | — | **458** | 423 | **—** | — | **458** | 423 |
| Derivative assets | **—** | — | **104** | 83 | **—** | — | **104** | 83 |
| Real estate funds priced at NAV as a practical expedient [2] | | | | | | | **165** | 184 |
| **Financial liabilities at fair value** | | | | | | | | |
| Derivative liabilities | **$ —** | $ — | **$ 21** | $ 18 | **$ —** | $ — | **$ 21** | $ 18 |

*(1) Excludes certain equity securities that have no readily determinable fair value.*
*(2) As a practical expedient, certain real estate funds are carried at fair value based on the Company's ownership share of the equity of the investee (Net Asset Value ("NAV")) including changes in the fair value of its underlying investments. The Company has $50 million in unfunded commitments in these funds as of September 30, 2020.*

### *Level 1 Financial Assets*

Inputs for instruments classified in Level 1 include unadjusted quoted prices for identical assets in active markets accessible at the measurement date. Active markets provide pricing data for trades occurring at least weekly and include exchanges and dealer markets.

Assets in Level 1 include actively-traded U.S. government bonds and exchange-listed equity securities. A relatively small portion of the Company's investment assets are classified in this category given the narrow definition of Level 1 and the Company's investment asset strategy to maximize investment returns.

***Level 2 Financial Assets and Financial Liabilities***

Inputs for instruments classified in Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active or other inputs that are market observable or can be corroborated by market data for the term of the instrument. Such other inputs include market interest rates and volatilities, spreads and yield curves. An instrument is classified in Level 2 if the Company determines that unobservable inputs are insignificant.

***Debt and equity securities***. Approximately 95% of the Company's investments in debt and equity securities are classified in Level 2 including most public and private corporate debt and hybrid equity securities, federal agency and municipal bonds, non-government mortgage-backed securities and preferred stocks. Third-party pricing services and internal methods often use recent trades of securities with similar features and characteristics because many debt securities do not trade daily. Pricing models are used to determine these prices when recent trades are not available. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

Nearly all of these instruments are valued using recent trades or pricing models. Less than 1% of the fair value of investments classified in Level 2 represents foreign bonds that are valued using a single, unadjusted market-observable input derived by averaging multiple broker-dealer quotes, consistent with local market practice.

***Short-term investments*** are carried at fair value that approximates cost. The Company compares market prices for these securities to recorded amounts on a regular basis to validate that current carrying amounts approximate exit prices. The short-term nature of the investments and corroboration of the reported amounts over the holding period support their classification in Level 2.

***Derivative assets and liabilities*** classified in Level 2 represent over-the-counter instruments such as foreign currency forward and swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties and determined that no adjustments for credit risk were required as of September 30, 2020 or December 31, 2019. The nature and use of these derivative financial instruments are described in Note 11.

***Level 3 Financial Assets and Financial Liabilities***

Certain inputs for instruments classified in Level 3 are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Company classifies certain newly-issued, privately-placed, complex or illiquid securities in Level 3. Approximately 4% of debt and equity securities are priced using significant unobservable inputs and classified in this category.

Fair values of mortgage and other asset-backed securities, as well as corporate and government debt securities, are primarily determined using pricing models that incorporate the specific characteristics of each asset and related assumptions including the investment type and structure, credit quality, industry and maturity date in comparison to current market indices, spreads and liquidity of assets with similar characteristics. Inputs and assumptions for pricing may also include characteristics of the issuer, collateral attributes and prepayment speeds for mortgage and other asset-backed securities. Recent trades in the subject security or similar securities are assessed when available, and the Company may also review published research in its evaluation, as well as the issuer's financial statements.

Quantitative Information about Unobservable Inputs

The following table summarizes the fair value and significant unobservable inputs used in pricing the following debt securities that were developed directly by the Company as of September 30, 2020 and December 31, 2019. The range and weighted average basis point ("bps") amounts for liquidity and credit spreads (adjustment to discount rates) reflect the Company's best estimates of the unobservable adjustments a market participant would make to calculate these fair values. These liquidity and credit spreads have increased over the reported periods, resulting from continued uncertainty over the economic impacts related to COVID-19.

***Corporate and government debt securities.*** The significant unobservable input used to value the following corporate and government debt securities is an adjustment for liquidity. This adjustment is needed to reflect current market conditions and issuer circumstances when there is limited trading activity for the security.

***Mortgage and other asset-backed securities.*** The significant unobservable inputs used to value the following mortgage and other asset-backed securities are liquidity and weighting of credit spreads. An adjustment for liquidity is made as of the measurement date that considers current market conditions, issuer circumstances and complexity of the security structure when there is limited trading activity for the security. An adjustment to weight credit spreads is needed to value a more complex bond structure with multiple underlying collateral and no standard market valuation technique. The weighting of credit spreads is primarily based on the underlying collateral's characteristics and their proportional cash flows supporting the bond obligations.

| | Fair Value as of | | | Unobservable Adjustment Range (Weighted Average by Quantity) as of | |
|---|---|---|---|---|---|
| *(Fair value in millions )* | **September 30, 2020** | **December 31, 2019** | **Unobservable input September 30, 2020** | **September 30, 2020** | **December 31, 2019** |
| **Debt securities** | | | | | |
| Corporate and government debt securities | **$ 765** | $ 385 | **Liquidity** | **60 - 1570 (410) bps** | 70 - 930 (280) bps |
| Mortgage and other asset-backed securities | **147** | 138 | **Liquidity** | **60 - 370 (80) bps** | 60 - 370 (70) bps |
| | | | **Weighting of credit spreads** | **320 - 650 (460) bps** | 240 - 460 (330) bps |
| Securities not priced by the Company [(1)] | **3** | — | | | |
| Total Level 3 debt securities | **$ 915** | $ 523 | | | |

*(1) The fair values for these securities use single, unadjusted non-binding broker quotes not developed directly by the Company.*

Significant increases in liquidity or credit spreads would result in lower fair value measurements while decreases in these inputs would result in higher fair value measurements. The unobservable inputs are generally not interrelated and a change in the assumption used for one unobservable input is not accompanied by a change in the other unobservable input.

***Changes in Level 3 Financial Assets and Financial Liabilities Carried at Fair Value***

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three and nine months ended September 30, 2020 and 2019. Gains and losses reported in these tables may include net changes in fair value that are attributable to both observable and unobservable inputs.

**Debt and Equity Securities**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| Balance at beginning of period | **$ 860** | $ 431 | **$ 555** | $ 410 |
| Total gains (losses) included in shareholders' net income | **(1)** | (6) | **4** | (7) |
| Gains (losses) included in other comprehensive income | **17** | 4 | **(42)** | 16 |
| Gains (losses) required to adjust future policy benefits for settlement annuities [1] | **7** | 1 | **4** | 3 |
| **Purchases, sales and settlements** | | | | |
| Purchases | **3** | 10 | **67** | 53 |
| Sales | **(1)** | — | **(13)** | — |
| Settlements | **(8)** | (6) | **(15)** | (16) |
| Total purchases, sales and settlements | **$ (6)** | $ 4 | **$ 39** | $ 37 |
| **Transfers into/(out of) Level 3** | | | | |
| Transfers into Level 3 | **102** | 80 | **629** | 113 |
| Transfers out of Level 3 | **(33)** | — | **(243)** | (58) |
| Total transfers into/(out of) Level 3 | **$ 69** | $ 80 | **$ 386** | $ 55 |
| Balance at September 30, | **$ 946** | $ 514 | **$ 946** | $ 514 |
| Total gains (losses) included in shareholders' net income attributable to instruments held at the reporting date | **$ —** | $ (6) | **$ (2)** | $ (8) |
| Change in unrealized gains or losses included in other comprehensive income for assets held at the end of the reporting period | **$ 17** | N/A | **$ (37)** | N/A |

Total gains and losses included in Shareholders' net income in the tables above are reflected in the Consolidated Statements of Income as Net realized investment gains (losses) and Net investment income.

Gains and losses included in Other comprehensive income in the tables above are reflected in Net unrealized appreciation (depreciation) on securities in the Consolidated Statements of Comprehensive Income.

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between Level 2 and Level 3 during 2020 and 2019 primarily reflected changes in liquidity and credit risk estimates for certain private placement issuers across several sectors.

***Separate Accounts***

The investment income and fair value gains and losses of separate account assets generally accrue directly to the contractholders and, together with their deposits and withdrawals, are excluded from the Company's Consolidated Statements of Income and Cash Flows.

Fair values of separate account assets at September 30, 2020 and December 31, 2019 were as follows:

| *(In millions)* | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **September 30, 2020** | **December 31, 2019** | **September 30, 2020** | **December 31, 2019** | **September 30, 2020** | **December 31, 2019** | **September 30, 2020** | **December 31, 2019** |
| Guaranteed separate accounts (See Note 18) | **$ 208** | $ 219 | **$ 302** | $ 271 | **$ —** | $ — | **$ 510** | $ 490 |
| Non-guaranteed separate accounts [1] | **1,541** | 1,450 | **5,508** | 5,522 | **335** | 263 | **7,384** | 7,235 |
| Subtotal | **$ 1,749** | $ 1,669 | **$ 5,810** | $ 5,793 | **$ 335** | $ 263 | **$ 7,894** | $ 7,725 |
| Non-guaranteed separate accounts priced at NAV as a practical expedient [1] | | | | | | | **736** | 756 |
| Total | | | | | | | **$ 8,630** | $ 8,481 |
| Separate account assets of business classified as held for sale | | | | | | | **(14)** | (16) |
| Separate account assets per Consolidated Balance Sheets | | | | | | | **$ 8,616** | $ 8,465 |

*(1) Non-guaranteed separate accounts included $3.9 billion as of September 30, 2020 and $4.0 billion as of December 31, 2019 in assets supporting the Company's pension plans, including $0.3 billion classified in Level 3 as of September 30, 2020 and $0.2 billion classified in Level 3 as of December 31, 2019.*

Separate account assets classified as Level 1 primarily include exchange-listed equity securities. Level 2 assets primarily include:

- corporate and structured bonds valued using recent trades of similar securities or pricing models that discount future cash flows at estimated market interest rates as described above; and
- actively-traded institutional and retail mutual fund investments.

Separate account assets classified in Level 3 primarily support Cigna's pension plans and include certain newly-issued, privately-placed, complex, or illiquid securities that are priced using methods discussed above, as well as commercial mortgage loans. Activity, including transfers into and out of Level 3, was not material for the three and nine months ended September 30, 2020 and 2019.

Separate account investments in securities partnerships, real estate, and hedge funds are generally valued based on the separate account's ownership share of the equity of the investee (NAV as a practical expedient) including changes in the fair values of its underlying investments. Substantially all of these assets support the Cigna Pension Plans. The following table provides additional information on these investments.

| *(In millions)* | Fair Value as of | | Unfunded Commitment as of September 30, 2020 | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| | **September 30, 2020** | **December 31, 2019** | | | |
| Securities partnerships | **$ 511** | $ 531 | **$ 283** | Not applicable | Not applicable |
| Real estate funds | **221** | 220 | **—** | Quarterly | 30 - 90 days |
| Hedge funds | **4** | 5 | **—** | Up to annually, varying by fund | 30 - 90 days |
| Total | **$ 736** | $ 756 | **$ 283** | | |

As of September 30, 2020, the Company does not have plans to sell any of these assets at less than fair value. These investments are structured to satisfy longer-term investment objectives. Securities partnerships are contractually

non-redeemable, and the underlying investment assets are expected to be liquidated by the fund managers within ten years after inception.

**B. Assets and Liabilities Measured at Fair Value under Certain Conditions**

Some financial assets and liabilities are not carried at fair value each reporting period, but may be measured using fair value only under certain conditions such as when investments become impaired, including investment real estate and commercial mortgage loans and certain equity securities with no readily determinable fair value. Equity securities with no readily determinable fair value are also measured at fair value when there are observable price changes from orderly transactions with the same issuer. For the nine months ended September 30, 2020 and 2019, there were immaterial gains relating to price changes for equity securities with no readily determinable fair value and no impaired investments written down to their fair values. Carrying values represented less than 1% of total investments as of both September 30, 2020 and September 30, 2019.

**C. Fair Value Disclosures for Financial Instruments Not Carried at Fair Value**

The following table includes the Company's financial instruments not recorded at fair value that are subject to fair value disclosure requirements at September 30, 2020 and December 31, 2019. In addition to universal life products and finance leases, financial instruments that are carried in the Company's Consolidated Financial Statements at amounts that approximate fair value are excluded from the following table.

| | | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| *(In millions)* | Classification in Fair Value Hierarchy | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Commercial mortgage loans | Level 3 | **$ 2,033** | **$ 1,979** | $ 1,989 | $ 1,947 |
| Long-term debt, including current maturities, excluding finance leases | Level 2 | **$ 37,976** | **$ 32,972** | $ 39,439 | $ 36,375 |

Fair values of off-balance sheet financial instruments were not material as of September 30, 2020 and December 31, 2019.

**Note 13 – Variable Interest Entities**

When the Company becomes involved with a variable interest entity and when there is a change in the Company's involvement with an entity, the Company must determine if it is the primary beneficiary and must consolidate the entity. The Company is considered the primary beneficiary if it has the power to direct the entity's most significant economic activities and has the right to receive benefits or obligation to absorb losses that could be significant to the entity. The Company evaluates the following criteria:

- the structure and purpose of the entity;
- the risks and rewards created by, and shared through, the entity; and
- the Company's ability to direct its activities, receive its benefits and absorb its losses relative to the other parties involved with the entity including its sponsors, equity holders, guarantors, creditors and servicers.

The Company determined it was not a primary beneficiary in any material variable interest entities as of September 30, 2020 or December 31, 2019. The Company's involvement in variable interest entities for which it is not the primary beneficiary is described below.

***Securities limited partnerships and real estate limited partnerships.*** The Company owns interests in securities limited partnerships and real estate limited partnerships that are defined as variable interest entities. These partnerships invest in the equity or mezzanine debt of privately-held companies and real estate properties. General partners unaffiliated with the Company control decisions that most significantly impact the partnership's operations and the limited partners do not have substantive kick-out or participating rights. The Company's maximum exposure to loss from these entities of $3.9 billion across approximately 150 limited partnerships as of September 30, 2020, included $2.0 billion reported in Long-term investments and commitments to contribute an additional $1.9 billion. The Company's noncontrolling interest in each of these limited partnerships is generally less than 15% of the partnership ownership interests.

***Other asset-backed and corporate securities.*** In the normal course of its investing activities, the Company also makes passive investments in certain asset-backed and corporate securities that are issued by variable interest entities whose sponsors or issuers are unaffiliated with the Company. The Company receives fixed-rate cash flows from these investments and the maximum potential exposure to loss is limited to our carrying amount of $0.7 billion as of September 30, 2020 that is reported in debt securities. The Company's combined ownership interests are insignificant relative to the total principal amounts issued by these entities.

The Company is involved with various other variable interest entities with immaterial carrying values and maximum exposures to loss.

The Company has not provided, and does not intend to provide, financial support to any of the variable interest entities beyond what it is contractually required to provide. The Company performs ongoing qualitative analyses of its involvement with these variable interest entities to determine if consolidation is required.

**Note 14 – Accumulated Other Comprehensive Income (Loss) ("AOCI")**

AOCI includes unrealized appreciation on securities and derivatives (excluding appreciation on investments supporting future policy benefit liabilities of the run-off settlement annuity business) (See Note 11), foreign currency translation and the net postretirement benefits liability adjustment. AOCI includes the Company's share from unconsolidated entities reported on the equity method. Generally, tax effects in AOCI are established at the currently enacted tax rate and reclassified to net income in the same period that the related pre-tax AOCI reclassifications are recognized. Changes in the components of AOCI were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| **Securities and Derivatives** | | | | |
| Beginning balance | **$ 1,256** | $ 803 | **$ 975** | $ 18 |
| Appreciation on securities and derivatives | **159** | 298 | **499** | 1,305 |
| Tax (expense) | **(27)** | (68) | **(96)** | (284) |
| Net appreciation on securities and derivatives | **132** | 230 | **403** | 1,021 |
| Reclassification adjustment for (gains) included in shareholders' net income (net realized investment (gains)) | **(16)** | (10) | **(3)** | (17) |
| Tax benefit | **4** | 3 | **1** | 4 |
| Net (gains) reclassified from AOCI to net income | **(12)** | (7) | **(2)** | (13) |
| Other comprehensive income, net of tax | **120** | 223 | **401** | 1,008 |
| Ending balance | **$ 1,376** | $ 1,026 | **$ 1,376** | $ 1,026 |
| | | | | |
| **Translation of foreign currencies** | | | | |
| Beginning balance | **$ (374)** | $ (285) | **$ (275)** | $ (221) |
| Translation of foreign currencies | **102** | (124) | **7** | (191) |
| Tax (expense) benefit | 7 | (3) | **(3)** | (4) |
| Net translation of foreign currencies | **109** | (127) | **4** | (195) |
| Less: Net translation of foreign currencies attributable to noncontrolling interests | **(4)** | 1 | **(10)** | (3) |
| Shareholders' net translation of foreign currencies | **113** | (128) | **14** | (192) |
| Ending balance | **$ (261)** | $ (413) | **$ (261)** | $ (413) |
| | | | | |
| **Postretirement benefits liability** | | | | |
| Beginning balance | **$ (1,670)** | $ (1,483) | **$ (1,641)** | $ (1,508) |
| Reclassification adjustment for amortization of net losses from past experience and prior service costs (interest expense and other) | **18** | 16 | **54** | 47 |
| Reclassification adjustment for settlement (interest expense and other) | **—** | — | **—** | 10 |
| Tax (expense) | **(4)** | (3) | **(13)** | (12) |
| Net adjustments reclassified from AOCI to net income | **14** | 13 | **41** | 45 |
| Valuation update | **—** | (1) | **(73)** | (9) |
| Tax benefit | **—** | — | **17** | 1 |
| Net change due to valuation update | **—** | (1) | **(56)** | (8) |
| Other comprehensive (loss) income, net of tax | **14** | 12 | **(15)** | 37 |
| Ending balance | **$ (1,656)** | $ (1,471) | **$ (1,656)** | $ (1,471) |

**Note 15 - Organizational Efficiency Plan**

The Company is continuously evaluating ways to deliver our products and services more efficiently and at a lower cost. During the fourth quarter of 2019, we committed to a plan to increase our organizational alignment and operational efficiency and reduce costs. As a result, we recognized a charge in Selling, general and administrative expenses of $207 million pre-tax ($162 million after-tax) in the fourth quarter of 2019 and an additional $31 million pre-tax ($24 million after-tax) in the first quarter 2020, primarily for severance costs related to headcount reductions. As of September 30, 2020, we expect most of the severance to be paid by the end of 2021.

**Note 16 – Leases**

Operating and finance lease right of use ("ROU") assets and lease liabilities were as follows:

| *(In millions)* | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| **Operating leases:** | | |
| Operating lease ROU assets | **$ 530** | $ 536 |
| | | |
| Accrued expenses and other current liabilities | **$ 160** | $ 166 |
| Other non-current liabilities | **461** | 465 |
| Total operating lease liabilities | **$ 621** | $ 631 |
| | | |
| **Finance leases:** | | |
| Property and equipment, gross | **$ 99** | $ 110 |
| Accumulated depreciation | **(42)** | (23) |
| Property and equipment, net | **$ 57** | $ 87 |
| | | |
| Short-term debt | **$ 20** | $ 27 |
| Long-term debt | **40** | 61 |
| Total finance lease liabilities | **$ 60** | $ 88 |

**Note 17 – Income Taxes**

**Income Tax Expense**

The 20.8% effective tax rate for the nine months ended September 30, 2020 was lower than the 22.1% rate for the same period in 2019. This decrease is primarily attributable to incremental tax benefits including the remeasurement of deferred state income taxes and the settlement of uncertain tax positions. This decrease was partially offset by return of the nondeductible health insurer tax.

**Note 18 – Contingencies and Other Matters**

The Company, through its subsidiaries, is contingently liable for various guarantees provided in the ordinary course of business.

**A. Financial Guarantees: Retiree and Life Insurance Benefits**

The Company guarantees that separate account assets will be sufficient to pay certain life insurance or retiree benefits. For the majority of these benefits, the sponsoring employers are primarily responsible for ensuring that assets are sufficient to pay these benefits and are required to maintain assets that exceed a certain percentage of benefit obligations. If employers fail to do so, the Company or an affiliate of the buyer of the retirement benefits business has the right to redirect the management of the related assets to provide for benefit payments. As of September 30, 2020, employers maintained assets that generally exceeded the benefit obligations under these arrangements of approximately $455 million. An additional liability is established if management believes that the Company will be required to make payments under the guarantees; there were no additional liabilities required for these guarantees, net of reinsurance, as of September 30, 2020. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy.

The Company does not expect that these financial guarantees will have a material effect on the Company's consolidated results of operations, liquidity or financial condition.

**B. Certain Other Guarantees**

The Company had indemnification obligations as of September 30, 2020 in connection with acquisition and disposition transactions. These indemnification obligations are triggered by the breach of representations or covenants provided by the Company, such as representations for the presentation of financial statements, filing of tax returns, compliance with law or identification of outstanding litigation. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential amount due is subject to contractual limitations based on a percentage of the transaction purchase price, while in other cases limitations are not specified or applicable. The Company does not believe that it is possible to determine the maximum potential amount due under these obligations because not all amounts due under these indemnification obligations are subject to limitation. There were no liabilities for these indemnification obligations as of September 30, 2020.

**C. Guaranty Fund Assessments**

The Company operates in a regulatory environment that may require its participation in assessments under state insurance guaranty association laws. The Company's exposure to assessments for certain obligations of insolvent insurance companies to policyholders and claimants is based on its share of business written in the relevant jurisdictions.

There were no material effects for existing or new guaranty fund assessments for the nine months ended September 30, 2020.

## D. Legal and Regulatory Matters

The Company is routinely involved in numerous claims, lawsuits, regulatory inquiries and audits, government investigations, including under the federal False Claims Act and state false claims acts initiated by a government investigating body or by a qui tam relator's filing of a complaint under court seal, and other legal matters arising, for the most part, in the ordinary course of managing a global health service business. Additionally, the Company has received and is cooperating with subpoenas or similar processes from various governmental agencies requesting information, all arising in the normal course of its business. Disputed tax matters arising from audits by the Internal Revenue Service or other state and foreign jurisdictions, including those resulting in litigation, are accounted for under GAAP guidance for uncertain tax positions.

Pending litigation and legal or regulatory matters that the Company has identified with a reasonably possible material loss and certain other material litigation matters are described below. For those matters that the Company has identified with a reasonably possible material loss, the Company provides disclosure in the aggregate of accruals and range of loss, or a statement that such information cannot be estimated. The Company's accruals for the matters discussed below under "Litigation Matters" and "Regulatory Matters" are not material. Due to numerous uncertain factors presented in these cases, it is not possible to estimate an aggregate range of loss (if any) for these matters at this time. In light of the uncertainties involved in these matters, there is no assurance that their ultimate resolution will not exceed the amounts currently accrued by the Company. An adverse outcome in one or more of these matters could be material to the Company's results of operations, financial condition or liquidity for any particular period. The outcomes of lawsuits are inherently unpredictable and we may be unsuccessful in these ongoing litigation matters or any future claims or litigation.

### *Litigation Matters*

***Risk Corridors and CSR Litigation with the Federal Government***. As a result of a Supreme Court decision in April 2020, the Company filed suit in early May against the United States in the U.S. Court of Federal Claims seeking to recover two types of payments the Federal Government owes Cigna under the risk corridors and cost-sharing reduction ("CSR") programs of The Patient Protection and Affordable Care Act ("ACA"). In aggregate, the complaint seeks to recover more than $315 million: $120 million in risk corridors payments and more than $195 million in CSR payments. We received $120 million in payments in September 2020, which resolved our risk corridors claim. Our claim seeking recovery for CSR payments is stayed pending resolution of a consolidated set of appeals currently before the Court of Appeals for the Federal Circuit.

***Cigna Litigation with Anthem***. In February 2017, the Company delivered a notice to Anthem terminating the 2015 merger agreement and notifying Anthem that it must pay the Company the $1.85 billion reverse termination fee pursuant to the terms of the merger agreement. Also in February 2017, the Company filed suit against Anthem in the Delaware Court of Chancery (the "Chancery Court") seeking declaratory judgments that the Company's termination of the merger agreement was valid and that Anthem was not permitted to extend the termination date. The complaint also sought payment of the reverse termination fee and additional damages in an amount exceeding $13 billion, including the lost premium value to the Company's shareholders caused by Anthem's willful breaches of the merger agreement. Anthem countersued, alleging its own claims for damages.

On February 15, 2017, the Chancery Court granted Anthem's motion for a temporary restraining order and temporarily enjoined the Company from terminating the merger agreement. In May 2017, the Chancery Court denied Anthem's motion for a preliminary injunction to enjoin Cigna from terminating the merger agreement but stayed its ruling pending Anthem's determination as to whether to seek an appeal. Anthem subsequently notified Cigna and the Chancery Court that it did not intend to appeal the Chancery Court's decision. As a result, the merger agreement was terminated.

The litigation continued over the next three years. A trial was held during the first quarter of 2019, oral arguments on post-trial briefs were held on November 26, 2019, and in early 2020, supplemental post-trial briefing was completed. In August 2020, the Chancery Court issued an opinion finding that, although Cigna breached its contractual obligation to use reasonable best efforts to support the Anthem/Cigna merger agreement, its actions did not cause the merger to fail. The Court denied claims by both parties for damages and further denied Cigna's claim for a reverse termination fee. The Company filed a Notice of Appeal with the Delaware Supreme Court on October 30, 2020. The Company's opening brief is due on or before December 15, 2020 with Anthem's answering brief due thirty days following the Company's brief filing. We believe in the merits of our case and intend to vigorously pursue our positions.

***Express Scripts Litigation with Anthem***. In March 2016, Anthem filed a lawsuit in the United States District Court for the Southern District of New York alleging various breach of contract claims against Express Scripts relating to the parties' rights and obligations under the periodic pricing review section of the pharmacy benefit management agreement between the parties including allegations that Express Scripts failed to negotiate new pricing concessions in good faith, as well as various alleged service issues. Anthem also requested that the court enter declaratory judgment that Express Scripts is required to provide Anthem competitive benchmark pricing, that Anthem can terminate the agreement, and that Express Scripts is required to provide Anthem with post-termination services at competitive benchmark pricing for one year following any termination by Anthem. Anthem claims it is entitled to $13 billion in additional pricing concessions over the remaining term of the agreement, as well as $1.8 billion for one year following any contract termination by Anthem and $150 million damages for service issues ("Anthem's Allegations"). On April 19, 2016, in response to Anthem's complaint, Express Scripts filed its answer denying Anthem's Allegations in their entirety and asserting affirmative defenses and counterclaims against Anthem. The court subsequently granted Anthem's motion to dismiss two of six counts of Express Scripts' amended counterclaims. The current scheduling order runs through the completion of summary judgment briefing in April 2021. There is no tentative trial date. We believe in the merits of our claims and dispute Anthem's claims, and we intend to vigorously defend ourselves and pursue our claims.

***Regulatory Matters***

***Civil Investigative Demand***. The U.S. Department of Justice ("DOJ") is conducting an industry-wide investigation of Medicare Advantage organizations' risk adjustment practices under Medicare Parts C and D including medical chart reviews and health exams. For certain other Medicare Advantage organizations, the investigation has resulted in litigation. The Company is currently responding to information requests (civil investigative demands) received from the DOJ (U.S. Attorney's Offices for the Eastern District of Pennsylvania and the Southern District of New York ("SDNY")). Additionally, in relation to the SDNY's pending investigation, a *qui tam* action that was filed by a relator in the United States District Court for the Southern District of New York in 2017 was unsealed on August 6, 2020. The action asserts claims related to risk adjustment practices arising from certain home health assessments conducted as part of Cigna's Medicare Advantage business. The DOJ has not intervened in the case at this time. We intend to vigorously defend ourselves against relator's claims and will continue to cooperate with the DOJ's investigations.

**Note 19 – Segment Information**

See Note 1 for a description of our segments. A description of our basis for reporting segment operating results is outlined below. Intersegment revenues primarily reflect pharmacy related transactions between the Evernorth and U.S. Medical segments.

The Company uses "pre-tax adjusted income from operations" and "adjusted revenues" as its principal financial measures of segment operating performance because management believes they best reflect the underlying results of business operations and permit analysis of trends in underlying revenue, expenses and profitability. Pre-tax adjusted income from operations is defined as income before taxes excluding realized investment results, amortization of acquired intangible assets, special items and, for periods prior to 2020, earnings contribution from transitioning clients Anthem Inc. and Coventry Health Care, Inc. (the "transitioning clients"). As of December 31, 2019, the transition of these clients was substantially complete; therefore, beginning in 2020, we no longer exclude results of transitioning clients from our adjusted revenues and adjusted income from operations. Income or expense amounts that are excluded from adjusted income from operations because they are not indicative of underlying performance or the responsibility of operating segment management include:

- Realized investment gains (losses) including changes in market values of certain financial instruments between balance sheet dates, as well as gains and losses associated with invested asset sales.
- Amortization of acquired intangible assets because these relate to costs incurred for acquisitions.
- Results of transitioning clients, for periods prior to 2020, because those results were not indicative of ongoing results.
- Special items, if any, that management believes are not representative of the underlying results of operations due to the nature or size of these matters.

The Company does not report total assets by segment because this is not a metric used to allocate resources or evaluate segment performance.

Adjusted revenues is defined as revenues excluding: 1) revenue contribution from transitioning clients for periods prior to 2020; 2) the Company's share of certain realized investment results of its joint ventures reported in the International Markets segment using the equity method of accounting; and 3) special items, if any.

The following tables present the special items recorded by the Company for the three and nine months ended September 30, 2020 and 2019.

| | Three Months Ended | | | |
|---|---|---|---|---|
| *(In millions)* | September 30, 2020 | | September 30, 2019 | |
| **Description of Special Item Charges (Benefits) and Financial Statement Line Item(s)** | **After-tax** | **Before-tax** | **After-tax** | **Before-tax** |
| Integration and transaction-related costs (Selling, general and administrative expenses) | **$ 83** | **$ 112** | $ 88 | $ 114 |
| (Benefits) charges associated with litigation matters (Selling, general and administrative expenses) | **—** | **—** | (23) | (30) |
| Risk corridors recovery (Selling, general and administrative expenses) | **$ (76)** | **$ (101)** | $ — | $ — |
| Contractual adjustment for a former client (Pharmacy revenues) | **(89)** | **(117)** | — | — |
| Total impact from special items | **$ (82)** | **$ (106)** | $ 65 | $ 84 |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| *(In millions)* | September 30, 2020 | | September 30, 2019 | |
| **Description of Special Item Charges (Benefits) and Financial Statement Line Item(s)** | **After-tax** | **Before-tax** | **After-tax** | **Before-tax** |
| Integration and transaction-related costs (Selling, general and administrative expenses) | **$ 256** | **$ 339** | $ 311 | $ 405 |
| Debt extinguishment costs (Debt extinguishment costs) | **151** | **199** | — | — |
| Charge for organizational efficiency plan (Selling, general and administrative expenses) | **24** | **31** | — | — |
| (Benefits) charges associated with litigation matters (Selling, general and administrative expenses) | **19** | **25** | 41 | 51 |
| Risk corridors recovery (Selling, general and administrative expenses) | **(76)** | **(101)** | — | — |
| Contractual adjustment for a former client (Pharmacy revenues) | **$ (155)** | **$ (204)** | $ — | $ — |
| Total impact from special items | **$ 219** | **$ 289** | $ 352 | $ 456 |

Summarized segment financial information for the three and nine months ended September 30 was as follows:

| *(In millions)* | Evernorth | U.S. Medical | International Markets | Group Disability and Other | Corporate and Eliminations | Total |
|---|---|---|---|---|---|---|
| **Three months ended September 30, 2020** | | | | | | |
| Revenues from external customers | **$ 29,016** | **$ 9,047** | **$ 1,439** | **$ 1,156** | **$ —** | **$ 40,658** |
| Inter-segment revenues | **926** | **478** | **—** | **6** | **(1,410)** | |
| Net investment income | **2** | **104** | **38** | **152** | **1** | **297** |
| Total revenues | **29,944** | **9,629** | **1,477** | **1,314** | **(1,409)** | **40,955** |
| Net realized investment results from certain equity method investments | **—** | **—** | **(37)** | **—** | **—** | **(37)** |
| Special item related to contractual adjustment for a former client | **(117)** | **—** | **—** | **—** | **—** | **(117)** |
| Adjusted revenues | **$ 29,827** | **$ 9,629** | **$ 1,440** | **$ 1,314** | **$ (1,409)** | **$ 40,801** |
| **Income (loss) before taxes** | **$ 1,086** | **$ 846** | **$ 253** | **$ 97** | **$ (478)** | **$ 1,804** |
| **Pre-tax adjustments to reconcile to adjusted income from operations** | | | | | | |
| (Income) attributable to noncontrolling interests | **(5)** | **—** | **(5)** | **—** | **—** | **(10)** |
| Net realized investment (gains) losses | **—** | **6** | **(48)** | **(27)** | **—** | **(69)** |
| Amortization of acquired intangible assets | **479** | **6** | **8** | **—** | **—** | **493** |
| **Special items** | | | | | | |
| Integration and transaction-related costs | **—** | **—** | **—** | **—** | **112** | **112** |
| Risk corridors recovery | **—** | **(101)** | **—** | **—** | **—** | **(101)** |
| Contractual adjustment for a former client | **(117)** | **—** | **—** | **—** | **—** | **(117)** |
| Pre-tax adjusted income (loss) from operations | **$ 1,443** | **$ 757** | **$ 208** | **$ 70** | **$ (366)** | **$ 2,112** |

| *(In millions)* | Evernorth | U.S. Medical | International Markets | Group Disability and Other | Corporate and Eliminations | Total |
|---|---|---|---|---|---|---|
| **Three months ended September 30, 2019** | | | | | | |
| Revenues from external customers | $ 27,084 | $ 8,648 | $ 1,368 | $ 1,107 | $ — | $ 38,207 |
| Inter-segment revenues | 499 | 376 | — | 7 | (882) | |
| Net investment income | 15 | 124 | 39 | 170 | 1 | 349 |
| Total revenues | 27,598 | 9,148 | 1,407 | 1,284 | (881) | 38,556 |
| Revenue contributions from transitioning clients | (2,718) | — | — | — | — | (2,718) |
| Net realized investment results from certain equity method investments | — | — | (5) | — | — | (5) |
| Adjusted revenues | $ 24,880 | $ 9,148 | $ 1,402 | $ 1,284 | $ (881) | $ 35,833 |
| **Income (loss) before taxes** | $ 965 | $ 1,011 | $ 184 | $ 159 | $ (556) | $ 1,763 |
| **Pre-tax adjustments to reconcile to adjusted income from operations** | | | | | | |
| Adjustment for transitioning clients | (274) | — | — | — | — | (274) |
| (Income) attributable to noncontrolling interests | — | — | (4) | — | — | (4) |
| Net realized investment (gains) losses | — | (43) | 5 | (18) | — | (56) |
| Amortization of acquired intangible assets | 708 | 15 | 9 | 2 | — | 734 |
| **Special items** | | | | | | |
| Integration and transaction-related costs | — | — | — | — | 114 | 114 |
| (Benefits) charges associated with litigation matters | — | (30) | — | — | — | (30) |
| Pre-tax adjusted income (loss) from operations | $ 1,399 | $ 953 | $ 194 | $ 143 | $ (442) | $ 2,247 |

| *(In millions)* | Evernorth | U.S. Medical | International Markets | Group Disability and Other | Corporate and Eliminations | Total |
|---|---|---|---|---|---|---|
| **Nine months ended September 30, 2020** | | | | | | |
| Revenues from external customers | **$ 82,986** | **$ 26,999** | **$ 4,325** | **$ 3,506** | **$ —** | **$ 117,816** |
| Inter-segment revenues | **2,785** | **1,448** | **—** | **17** | **(4,250)** | **—** |
| Net investment income | **30** | **279** | **104** | **458** | **2** | **873** |
| Total revenues | **85,801** | **28,726** | **4,429** | **3,981** | **(4,248)** | **118,689** |
| Net realized investment results from certain equity method investments | **—** | **—** | **(87)** | **—** | **—** | **(87)** |
| Special item related to contractual adjustment for a former client | **(204)** | **—** | **—** | **—** | **—** | **(204)** |
| Adjusted revenues | **$ 85,597** | **$ 28,726** | **$ 4,342** | **$ 3,981** | **$ (4,248)** | **$ 118,398** |
| **Income (loss) before taxes** | **$ 2,551** | **$ 3,529** | **$ 877** | **$ 298** | **$ (1,765)** | **$ 5,490** |
| **Pre-tax adjustments to reconcile to adjusted income from operations** | | | | | | |
| (Income) attributable to noncontrolling interests | **(12)** | **—** | **(15)** | **—** | **—** | **(27)** |
| Net realized investment (gains) losses | **—** | **28** | **(75)** | **(22)** | **—** | **(69)** |
| Amortization of acquired intangible assets | **1,439** | **23** | **22** | **3** | **—** | **1,487** |
| **Special items** | | | | | | |
| Integration and transaction-related costs | **—** | **—** | **—** | **—** | **339** | **339** |
| Debt extinguishment costs | **—** | **—** | **—** | **—** | **199** | **199** |
| Charge for organizational efficiency plan | **—** | **—** | **—** | **—** | **31** | **31** |
| (Benefits) charges associated with litigation matters | **—** | **—** | **—** | **—** | **25** | **25** |
| Risk corridors recovery | **—** | **(101)** | **—** | **—** | **—** | **(101)** |
| Contractual adjustment for a former client | **(204)** | **—** | **—** | **—** | **—** | **(204)** |
| Pre-tax adjusted income (loss) from operations | **$ 3,774** | **$ 3,479** | **$ 809** | **$ 279** | **$ (1,171)** | **$ 7,170** |

| *(In millions)* | Evernorth | U.S. Medical | International Markets | Group Disability and Other | Corporate and Eliminations | Total |
|---|---|---|---|---|---|---|
| **Nine months ended September 30, 2019** | | | | | | |
| Revenues from external customers | $ 80,618 | $ 26,226 | $ 4,095 | $ 3,347 | $ — | $ 114,286 |
| Inter-segment revenues | 1,869 | 727 | — | 21 | (2,617) | |
| Net investment income (loss) | 47 | 358 | 117 | 521 | (8) | 1,035 |
| Total revenues | 82,534 | 27,311 | 4,212 | 3,889 | (2,625) | 115,321 |
| Revenue contribution from transitioning clients | (11,657) | — | — | — | — | (11,657) |
| Net realized investment results from certain equity method investments | — | — | (27) | — | — | (27) |
| Adjusted revenues | $ 70,877 | $ 27,311 | $ 4,185 | $ 3,889 | $ (2,625) | $ 103,637 |
| **Income (loss) before taxes** | $ 3,015 | $ 3,157 | $ 601 | $ 407 | $ (1,871) | $ 5,309 |
| **Pre-tax adjustments to reconcile to adjusted income from operations** | | | | | | |
| Adjustment for transitioning clients | (1,589) | — | — | — | — | (1,589) |
| (Income) attributable to noncontrolling interests | (1) | — | (12) | — | — | (13) |
| Net realized investment (gains) losses | — | (65) | (10) | (36) | — | (111) |
| Amortization of acquired intangible assets | 2,130 | 51 | 28 | 5 | — | 2,214 |
| **Special items** | | | | | | |
| Integration and transaction-related costs | — | — | — | — | 405 | 405 |
| (Benefits) charges associated with litigation matters | — | (30) | — | — | 81 | 51 |
| Pre-tax adjusted income (loss) from operations | $ 3,555 | $ 3,113 | $ 607 | $ 376 | $ (1,385) | $ 6,266 |

Revenue from external customers includes pharmacy revenues, premiums and fees and other revenues. The following table presents these revenues by product, premium and service type for the three and nine months ended September 30:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | **2020** | **2019** |
| **Products (Pharmacy revenues) (ASC 606)** | | | | |
| Network revenues | **$ 13,968** | $ 12,923 | **$ 39,200** | $ 37,954 |
| Home delivery and specialty revenues | **12,422** | 11,837 | **36,319** | 35,893 |
| Other | **1,412** | 1,227 | **3,945** | 3,607 |
| Total pharmacy revenues | **27,802** | 25,987 | **79,464** | 77,454 |
| **Insurance premiums (ASC 944)** | | | | |
| U.S. Medical premiums | | | | |
| U.S. Commercial | | | | |
| Health Insurance | **3,397** | 3,174 | **9,948** | 9,278 |
| Stop loss | **1,146** | 1,085 | **3,459** | 3,221 |
| Other | **281** | 260 | **853** | 779 |
| U.S. Government | | | | |
| Medicare Advantage | **1,895** | 1,562 | **5,680** | 4,779 |
| Medicare Part D | **360** | 404 | **1,242** | 1,329 |
| Other | **1,117** | 1,059 | **3,246** | 3,137 |
| Total U.S. Medical premiums | **8,196** | 7,544 | **24,428** | 22,523 |
| International Markets premiums | **1,360** | 1,309 | **4,079** | 3,914 |
| Domestic disability, life and accident premiums | **1,106** | 1,049 | **3,346** | 3,165 |
| Other premiums | **20** | 33 | **75** | 107 |
| Total premiums | **10,682** | 9,935 | **31,928** | 29,709 |
| **Services (ASC 606)** | | | | |
| Fees | **2,120** | 2,249 | **6,253** | 7,015 |
| Other external revenues | **54** | 36 | **171** | 108 |
| Total services | **2,174** | 2,285 | **6,424** | 7,123 |
| Total revenues from external customers | **$ 40,658** | $ 38,207 | **$ 117,816** | $ 114,286 |

Evernorth may provide certain financial and performance guarantees, including a minimum level of discounts a client may receive, generic utilization rates and various service levels. Clients may be entitled to receive compensation if we fail to meet these guarantees. Actual performance is compared to the contractual guarantee for each measure throughout the period and the Company defers revenue for any estimated payouts within Accrued expenses and other liabilities (current). These estimates are adjusted at the end of the guarantee period. Historically, adjustments to original estimates have not been material. The performance guarantee liability was $1.0 billion as of September 30, 2020 and December 31, 2019.

**Signature page**

**Item 2.** ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

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*Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist you in better understanding and evaluating our financial condition as of September 30, 2020 compared with December 31, 2019 and our results of operations for the three and nine months ended September 30, 2020 compared with the same periods last year and intended to help you understand the ongoing trends in our business. We encourage you to read this MD&A in conjunction with our Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2019 ("2019 Form 10-K"), in particular the "Risk Factors" contained in Part I, Item 1A of that form as such Risk Factors are supplemented by the information contained in Part II, Item 1A of our Form 10-Q for the quarter ended March 31, 2020.*

*Unless otherwise indicated, financial information in the MD&A is presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). See Note 2 to the Consolidated Financial Statements in our 2019 Form 10-K for additional information regarding the Company's significant accounting policies and Note 3 to the Consolidated Financial Statements in this Form 10-Q for updates to those accounting policies resulting from adopting new accounting guidance. The preparation of interim consolidated financial statements necessarily relies heavily on estimates. This and certain other factors call for caution in estimating full-year results based on interim results of operations. In some of our financial tables in this MD&A, we present either percentage changes or "N/M" when those changes are so large as to become not meaningful. Changes in percentages are expressed in basis points ("bps").*

*In this MD&A, our consolidated measures "adjusted income from operations," earnings per share on that same basis and "adjusted revenues" are not determined in accordance with GAAP and should not be viewed as substitutes for the most directly comparable GAAP measures of "shareholders' net income," "earnings per share" and "total revenues." We also use pre-tax adjusted income from operations and adjusted revenues to measure the results of our segments.*

*We use adjusted income from operations as our principal financial measure of operating performance because management believes it best reflects the underlying results of our business operations and permits analysis of trends in underlying revenue, expenses and profitability. We define adjusted income from operations as shareholders' net income (or income before taxes for the segment metric) excluding realized investment gains and losses, amortization of acquired intangible assets, special items, and for periods prior to 2020, results of Anthem, Inc. and Coventry Health Care Inc. ("Coventry") (collectively, the "transitioning clients") (see the "Key Transactions and Business Developments" section of the MD&A for further discussion of transitioning clients). Cigna's share of certain realized investment results of its joint ventures reported in the International Markets segment using the equity method of accounting are also excluded. Income or expense amounts excluded from adjusted income from operations because they are not indicative of underlying performance or the responsibility of operating segment management include:*

- *Realized investment gains (losses) including changes in market values of certain financial instruments between balance sheet dates, as well as gains and losses associated with invested asset sales.*
- *Amortization of acquired intangible assets because these relate to costs incurred for acquisitions.*
- *Results of transitioning clients, for periods prior to 2020, because those results are not indicative of ongoing results*.
- *Special items, if any, that management believes are not representative of the underlying results of operations due to the nature or size of these matters.*

*The term "Adjusted revenues" is defined as total revenues excluding the following adjustments: revenue contribution from transitioning clients for periods prior to 2020, special items and Cigna's share of certain realized investment results of its joint ventures reported in the International Markets segment using the equity method of accounting. We exclude these items from this measure because management believes they are not indicative of past or future underlying performance of the business.*

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on Cigna's current expectations and projections about future trends, events and uncertainties. These statements are not historical facts. Forward-looking statements may include, among others, statements concerning future financial or operating performance, including our ability to deliver affordable, personalized and innovative solutions for our customers and clients, in light of the challenges presented by the COVID-19 pandemic; future growth, business strategy, strategic or operational initiatives, including our organizational efficiency plan; economic, regulatory or competitive environments, particularly with respect to the pace and extent of change in these areas; financing or capital deployment plans and amounts available for future deployment; our prospects for growth in the coming years; strategic transactions, including the merger ("Merger") with Express Scripts Holding Company and the sale of our U.S. Group Disability and Life business; our ongoing operational response to the COVID-19 pandemic; and other statements regarding Cigna's future beliefs, expectations, plans, intentions, financial condition or performance. You may identify forward-looking statements by the use of words such as "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "may," "should," "will" or other words or expressions of similar meaning, although not all forward-looking statements contain such terms.

Forward-looking statements are subject to risks and uncertainties, both known and unknown, that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Such risks and uncertainties include, but are not limited to: our ability to achieve our financial, strategic and operational plans or initiatives; our ability to predict and manage medical and pharmacy costs and price effectively; our ability to adapt to changes or trends in an evolving and rapidly changing industry; our ability to effectively differentiate our

products and services from those of our competitors and maintain or increase market share; our ability to develop and maintain good relationships with physicians, hospitals, other health care providers, producers, consultants and pharmaceutical manufacturers; changes in the pharmacy provider marketplace or pharmacy networks; changes in drug pricing; the impact of modifications to our operations and processes; our ability to identify potential strategic transactions and realize the expected benefits (including anticipated synergies) of such transactions in full or within the anticipated time frame, including with respect to the Merger and the sale of our Group Disability and Life business, as well as our ability to integrate or separate operations, resources and systems; the substantial level of government regulation over our business and the potential effects of new laws or regulations or changes in existing laws or regulations; the outcome of litigation, regulatory audits, investigations, actions or guaranty fund assessments; uncertainties surrounding participation in government-sponsored programs such as Medicare; the effectiveness and security of our information technology and other business systems and those of our key suppliers or other third parties; the impact of our debt service obligations on the availability of funds for other business purposes; unfavorable industry, economic or political conditions, including foreign currency movements; acts of civil unrest, war, terrorism, natural disasters or pandemics; reinsurance credit risk, the scale and scope of the COVID-19 pandemic and its potential impact on our business, operating results, cash flows and financial condition, as well as on our employees, clients, customers, suppliers and partners and on the U.S. and global economies, as well as more specific risks and uncertainties discussed in Part I, Item 1A – Risk Factors of our 2019 Form 10-K, as such Risk Factors are supplemented by information contained in Part II, Item 1A of the Form 10-Q for the quarter ended March 31, 2020, Part II, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2019 Form 10-K and this MD&A and as described from time to time in our future reports filed with the Securities and Exchange Commission (the "SEC").

You should not place undue reliance on forward-looking statements which speak only as of the date they are made, are not guarantees of future performance or results, and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Cigna undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law.

## EXECUTIVE OVERVIEW

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as "Cigna," the "Company," "we," "our" or "us") is a global health services organization with a mission of helping those we serve improve their health, well-being and peace of mind. We offer a differentiated set of pharmacy, medical, dental, disability, life and accident insurance and related products and services offered by our subsidiaries.

### COVID-19 Update

The novel strain of coronavirus ("COVID-19") was declared a pandemic by the World Health Organization in March 2020 because the virus had surfaced in nearly all regions around the world. From the onset of the COVID-19 pandemic, Cigna has focused on continuing to deliver peace of mind for the people and businesses we serve, and our employees and their families. We have taken actions to drive affordability, reduce uncertainty, and make health care easier. For customers, these actions include COVID-19 related cost share waivers, expanded access to virtual care, support for access to medication, and advocating for whole person health through various behavioral health initiatives. We have supported the medical community by simplifying processes and donating medications for a COVID-19 clinical trial. Cigna and the Cigna Foundation have assisted our communities through several initiatives including the launch of the Brave of Heart Fund that provides financial assistance to survivors of front-line U.S. healthcare workers who gave their lives in the fight against COVID-19. Cigna also provides emotional support services to their families.

We have continued to support our workforce by enabling remote work where appropriate, implementing enhanced safety protocols and programs that support the health and mental well-being of our employees. We have continued to execute our business continuity plans over our operations such as leveraging purchasing volume across the pharmaceutical supply chain in order to mitigate risk associated with prescription drug supply. We did not incur significant disruptions to our operations during the three and nine months ended September 30, 2020 from COVID-19.

We will continue to work with our clients, customers, providers and employees to provide support during the pandemic.

The COVID-19 pandemic has pervasively impacted the economy, financial markets and the global health care delivery systems. The effects of the COVID-19 pandemic on the Company began to emerge in the U.S. at the end of the first quarter and were not material to the Company's results of operations or financial condition for that period. Beginning in April, we experienced a significant deferral of care by our customers. The deferral of care moderated over the course of the second quarter with utilization levels eventually returning to nearly normal levels by the end of June. As expected, in the third quarter we experienced medical utilization at more typical levels as we observed a reduction to the level of deferred care and our customers sought care for COVID-19 testing and treatment. These impacts were most prevalent in the U.S. Medical segment where quarterly earnings reflect the impacts of COVID-19 including the return of medical utilization to more typical levels, costs of COVID-19 care as well as the costs of actions we have taken to support customers and providers, decreased contributions from our specialty products, and lower net investment income. Higher year to date U.S. Medical results reflect deferral of care by our customers in April and May that exceeded the cost of COVID-19 testing and treatment, the cost of COVID-19 related actions including premium relief programs for employer clients as well as cost share waivers for customers, and lower net investment income. Our Group Disability and Other results reflect significantly elevated life insurance claims related to the COVID-19 pandemic and its effects in the third quarter. Quarterly and year to date earnings in our Evernorth segment also reflected effects of the pandemic, specifically, a favorable mix of claims as a result of both the type of drugs dispensed as well as the distribution method used for dispensing and fulfilling, partially offset by lower non-specialty, 30-day retail script volume. Segment results are discussed further in the Segment Reporting section of this MD&A and discussion of the impact of COVID-19 on our investment portfolio and related considerations regarding our investment outlook can be found in Note 11 to the Consolidated Financial Statements and in the "Investment Assets" discussion of this MD&A, respectively.

While it is difficult to quantify the impact of the COVID-19 pandemic on our results for the remainder of 2020 and beyond, we believe that such results may be impacted by, among other things, lower customer volumes due to rising unemployment levels, higher medical costs to treat those affected by the virus or those who defer care, the return of costs related to previously deferred care, the potential for continued deferral of care, higher life insurance claims, lower investment returns, or lower future risk adjustment revenue due to disrupted care impeding appropriate documentation of customer risk profiles.

The Company has taken actions to enhance our liquidity that, combined with our other sources of liquidity described in the "Liquidity and Capital Resources Outlook" below, and our current projections for operating cash flows, we believe are sufficient to support our operations and meet our obligations.

The situation surrounding COVID-19 remains fluid, and we are actively managing our response and assessing impacts to our financial position and operating results, as well as adverse developments in our business.

For further information regarding the potential impact of COVID-19 on the Company, please see “Risk Factors” contained in Part I, Item 1A of the 2019 Form 10-K as such Risk Factors are supplemented in Part II, Item 1A of the Form 10-Q for the quarter ended March 31, 2020.

See Note 1 to the Consolidated Financial Statements for a description of our segments. Unless otherwise specified, the commentary provided below describes our results for the three and nine months ended September 30, 2020 compared with the same periods in 2019.

Summarized below are certain key measures of our performance by segment for the three and nine months ended September 30, 2020 and 2019:

**Financial highlights by segment**

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions, except per share amounts)* | **2020** | **2019** | **% Change** | **2020** | **2019** | **% Change** |
| **Revenues** | | | | | | |
| **Adjusted revenues by segment** | | | | | | |
| Evernorth | **$ 29,827** | $ 24,880 | 20 % | **$ 85,597** | $ 70,877 | 21 % |
| U.S. Medical | **9,629** | 9,148 | 5 | **28,726** | 27,311 | 5 |
| International Markets | **1,440** | 1,402 | 3 | **4,342** | 4,185 | 4 |
| Group Disability and Other | **1,314** | 1,284 | 2 | **3,981** | 3,889 | 2 |
| Corporate, net of eliminations | **(1,409)** | (881) | (60) | **(4,248)** | (2,625) | (62) |
| Adjusted revenues | **40,801** | 35,833 | 14 | **118,398** | 103,637 | 14 |
| Revenue contribution from transitioning clients | **—** | 2,718 | N/M | **—** | 11,657 | N/M |
| Net realized investment results from certain equity method investments | **37** | 5 | N/M | **87** | 27 | 222 |
| Special items | **117** | — | N/M | **204** | — | N/M |
| Total revenues | **$ 40,955** | $ 38,556 | 6 % | **$ 118,689** | $ 115,321 | 3 % |
| **Shareholders' net income** | **$ 1,388** | $ 1,351 | 3 % | **$ 4,323** | $ 4,127 | 5 % |
| **Adjusted income from operations** | **$ 1,618** | $ 1,718 | (6) % | **$ 5,528** | $ 4,856 | 14 % |
| **Earnings per share (diluted)** | | | | | | |
| Shareholders' net income | **$ 3.78** | $ 3.57 | 6 % | **$ 11.66** | $ 10.83 | 8 % |
| Adjusted income from operations | **$ 4.41** | $ 4.54 | (3) % | **$ 14.91** | $ 12.74 | 17 % |
| **Pre-tax adjusted income from operations by segment** | | | | | | |
| Evernorth | **$ 1,443** | $ 1,399 | 3 % | **$ 3,774** | $ 3,555 | 6 % |
| U.S. Medical | **757** | 953 | (21) | **3,479** | 3,113 | 12 |
| International Markets | **208** | 194 | 7 | **809** | 607 | 33 |
| Group Disability and Other | **70** | 143 | (51) | **279** | 376 | (26) |
| Corporate, net of eliminations | **(366)** | (442) | 17 | **(1,171)** | (1,385) | 15 |
| Consolidated pre-tax adjusted income from operations | **2,112** | 2,247 | (6) | **7,170** | 6,266 | 14 |
| Adjustment for transitioning clients | **—** | 274 | N/M | **—** | 1,589 | N/M |
| Income attributable to noncontrolling interests | **10** | 4 | 150 | **27** | 13 | 108 |
| Net realized investment gains (losses) | **69** | 56 | 23 | **69** | 111 | (38) |
| Amortization of acquired intangible assets | **(493)** | (734) | 33 | **(1,487)** | (2,214) | 33 |
| Special items | **106** | (84) | N/M | **(289)** | (456) | 37 |
| **Income before income taxes** | **$ 1,804** | $ 1,763 | 2 % | **$ 5,490** | $ 5,309 | 3 % |

For further analysis and explanation of each segment's results, see the "Segment Reporting" section of this MD&A.

**Consolidated Results of Operations (GAAP basis)**

| *(Dollars in millions)* | Three Months Ended September 30, 2020 | 2019 | % Change | Nine Months Ended September 30, 2020 | 2019 | % Change |
|---|---|---|---|---|---|---|
| Pharmacy revenues | **$ 27,802** | $ 25,987 | 7 % | **$ 79,464** | $ 77,454 | 3 % |
| Premiums | **10,682** | 9,935 | 8 | **31,928** | 29,709 | 7 |
| Fees and other revenues | **2,174** | 2,285 | (5) | **6,424** | 7,123 | (10) |
| Net investment income | **297** | 349 | (15) | **873** | 1,035 | (16) |
| **Total revenues** | **40,955** | 38,556 | 6 | **118,689** | 115,321 | 3 |
| Pharmacy and other service costs | **26,624** | 24,552 | 8 | **76,425** | 73,565 | 4 |
| Medical costs and other benefit expenses | **8,429** | 7,734 | 9 | **23,863** | 22,930 | 4 |
| Selling, general and administrative expenses | **3,301** | 3,413 | (3) | **10,106** | 10,096 | — |
| Amortization of acquired intangible assets | **493** | 734 | (33) | **1,487** | 2,214 | (33) |
| **Total benefits and expenses** | **38,847** | 36,433 | 7 | **111,881** | 108,805 | 3 |
| Income from operations | **2,108** | 2,123 | (1) | **6,808** | 6,516 | 4 |
| Interest expense and other | **(336)** | (411) | 18 | **(1,101)** | (1,291) | 15 |
| Debt extinguishment costs | **—** | — | N/M | **(199)** | — | N/M |
| Net realized investment gains (losses) | **32** | 51 | (37) | **(18)** | 84 | N/M |
| **Income before income taxes** | **1,804** | 1,763 | 2 | **5,490** | 5,309 | 3 |
| Total income taxes | **406** | 409 | (1) | **1,143** | 1,173 | (3) |
| **Net income** | **1,398** | 1,354 | 3 | **4,347** | 4,136 | 5 |
| Less: Net income attributable to noncontrolling interests | **10** | 3 | 233 | **24** | 9 | 167 |
| **Shareholders' net income** | **$ 1,388** | $ 1,351 | 3 % | **$ 4,323** | $ 4,127 | 5 % |
| Consolidated effective tax rate | **22.5 %** | 23.2 % | (70) bps | **20.8 %** | 22.1 % | (130) bps |
| **Medical customers (in thousands)** | | | | | | |
| U.S. Medical | | | | **15,314** | 15,495 | (1) % |
| International Markets | | | | **1,668** | 1,576 | 6 |
| Total | | | | **16,982** | 17,071 | (1) % |

**Reconciliation of Shareholders' Net Income (GAAP) to Adjusted Income from Operations**

| | $ in millions | | | | Diluted Earnings Per Share | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Shareholders' net income** | **$ 1,388** | $ 1,351 | **$ 4,323** | $ 4,127 | **$ 3.78** | $ 3.57 | **$ 11.66** | $ 10.83 |
| **After-tax adjustments required to reconcile to adjusted income from operations** | | | | | | | | |
| Net realized investment (gains) losses | **(64)** | (49) | **(75)** | (100) | **(0.17)** | (0.13) | **(0.20)** | (0.26) |
| Amortization of acquired intangible assets | **376** | 558 | **1,061** | 1,694 | **1.02** | 1.47 | **2.86** | 4.43 |
| Adjustment for transitioning clients | **—** | (207) | **—** | (1,217) | **—** | (0.55) | **—** | (3.19) |
| **Special items** | | | | | | | | |
| Integration and transaction-related costs | **83** | 88 | **256** | 311 | **0.23** | 0.24 | **0.69** | 0.82 |
| Debt extinguishment costs | **—** | — | **151** | — | **—** | — | **0.41** | — |
| Charge for organizational efficiency plan | **—** | — | **24** | — | **—** | — | **0.06** | — |
| (Benefits) charges associated with litigation matters | **—** | (23) | **19** | 41 | **—** | (0.06) | **0.05** | 0.11 |
| Risk corridors recovery | **(76)** | — | **(76)** | — | **(0.21)** | — | **(0.20)** | — |
| Contractual adjustment for a former client | **(89)** | — | **(155)** | — | **(0.24)** | — | **(0.42)** | — |
| Total special items | **(82)** | 65 | **219** | 352 | **(0.22)** | 0.18 | **0.59** | 0.93 |
| **Adjusted income from operations** | **$ 1,618** | $ 1,718 | **$ 5,528** | $ 4,856 | **$ 4.41** | $ 4.54 | **$ 14.91** | $ 12.74 |

## Commentary: Three and Nine Months Ended September 30, 2020 versus the same periods in 2019

Unless indicated otherwise, the commentary presented below, and in the segment discussions that follow, compare results for the three and nine months ended September 30, 2020 with results for the three and nine months ended September 30, 2019.

## Earnings and Revenue

***Shareholders' net income.*** The increase for the three months ended September 30, 2020 compared with the same period in 2019 was driven by lower amortization for customer-related intangibles associated with transitioning clients and the risk corridors claim recovery (see Risk Mitigation Programs - Individual ACA Business section of this MD&A and Note 18 to the Consolidated Financial Statements for further discussion), partially offset by the absence of earnings from transitioning clients and lower adjusted income from operations. For the nine months ended September 30, 2020, shareholders' net income increased compared with the same period in 2019, primarily due to higher adjusted income from operations and lower amortization, partially offset by the absence of earnings from transitioning clients.

***Adjusted income from operations.*** The decrease for the three months ended September 30, 2020 compared with the same period in 2019 reflects impacts of COVID-19 in the U.S. Medical segment and unfavorable life claims experience in Group Disability and Other segment. Adjusted income from operations increased for the nine months ended September 30, 2020 compared with the same period in 2019, driven in part by higher earnings in the U.S. Medical and International segments resulting from the deferral of care in April and May due to the COVID-19 pandemic. Also contributing to the increase were higher Evernorth segment earnings reflecting customer growth and increased script volumes, and lower interest costs in Corporate driven by debt repayments.

***Medical customers*** decreased slightly as of September 30, 2020 compared with the same period last year primarily as a result of declines in the National Accounts market segment and increased disenrollment driven by the impacts of COVID-19. Those decreases were partially offset by growth in the Select, International and Medicare Advantage market segments.

***Pharmacy revenues*** increased, primarily reflecting the transition of U.S. Medical's customers to Evernorth, higher claims volumes, primarily driven by the Evernorth collaboration with Prime Therapeutics, and an increase in pricing, primarily due to inflation on branded drugs. These factors were substantially offset by the absence of revenues from the transitioning clients and, to a lesser extent, an increase in generic fill rate. See the Evernorth segment section of this MD&A for further discussion of pharmacy revenues.

***Premiums*** increased, primarily resulting from customer growth in insured products and rate increases reflecting expected medical cost inflation and the return of the health insurance industry tax. These factors were partially offset by the impact of premium relief programs implemented in response to significantly lower than historical utilization as individuals deferred care in April and May due to the COVID-19 pandemic.

***Fees and other revenues*** decreased, primarily reflecting the transition of U.S. Medical's commercial customers to Evernorth's retail pharmacy network beginning in the third quarter of 2019 (see Note 2(K) to the Consolidated Financial Statements included in our 2019 Form 10-K for further information).

***Net investment income*** decreased, primarily driven by lower yields, including lower income from partnership investments due to current economic conditions. These effects were partially offset by higher average assets. See the Investment Asset section of this MD&A for further discussion.

**Other Components of Consolidated Results of Operations**

- ***Pharmacy and other service costs*** increased, primarily reflecting the transition of U.S. Medical's customers to Evernorth, higher claims volumes, primarily driven by the Evernorth collaboration with Prime Therapeutics, and an increase in pricing, primarily due to inflation on branded drugs. These factors were substantially offset by the impact of the absence of the transitioning clients and, to a lesser extent, effective management of supply chain and the favorable impact of the mix of claims.

- ***Medical costs and other benefit expenses*** increased, reflecting both medical cost trend and customer growth in insured products in U.S. Medical and higher life claims in Group Disability and Other due to the effects of the COVID-19 pandemic.

- ***Selling, general and administrative expenses*** decreased slightly for the three months and were essentially flat for the nine months ended September 30, 2020, compared with the same periods in 2019. These results primarily reflected the risk corridors claim recovery recognized in the third quarter of 2020 (see Risk Mitigation Programs - Individual ACA Business section of this MD&A and Note 18 to the Consolidated Financial Statements for further discussion) and lower costs associated with operations-related litigation and compliance costs (see the U.S. Medical section of this MD&A), offset by the return of the health insurance industry tax.

- ***Amortization of acquired intangible assets*** decreased, primarily reflecting lower amortization of customer-related intangibles associated with the transitioning clients.

- ***Consolidated effective tax rate*** decreased, driven by recognition of certain incremental federal and state tax benefits, partially offset by the return of the nondeductible health insurance industry tax.

## Key Transactions and Business Developments

### Merger with Express Scripts

As discussed in more detail in our 2019 Form 10-K, Cigna acquired Express Scripts on December 20, 2018 in a cash and stock transaction valued at $52.8 billion. Costs related to this transaction are reported in "integration and transaction-related costs" as a special item and excluded from adjusted income from operations because they are not indicative of future underlying performance of the business.

On January 30, 2019, Anthem exercised its early termination right and terminated its pharmacy benefit management services agreement with us, effective March 1, 2019. There was a twelve-month transition period that ended March 1, 2020. We excluded the results of Express Scripts' contract with Anthem (and also Coventry) from our non-GAAP reporting metrics "adjusted revenues" and "adjusted income from operations" for 2019 and refer to these clients as "transitioning clients." As of December 31, 2019, the transition was substantially complete; therefore, beginning in 2020, we no longer exclude results of transitioning clients from our reported adjusted revenues and adjusted income from operations.

### Agreement to sell Group Disability and Life business

As discussed in Note 6 to the Consolidated Financial Statements, Cigna entered into a definitive agreement in December 2019 to sell the U.S. Group Disability and Life business to New York Life Insurance Company for $6.3 billion. The "Liquidity" section of this MD&A provides further discussion of the impact of this pending divestiture on our liquidity and capital resources.

### Organizational Efficiency Plan

Consistent with our commitment to affordability for our customers and clients, during the fourth quarter of 2019 the Company committed to a plan to increase our organizational alignment and operational efficiency and reduce costs. As a result, we recognized a charge in Selling, general and administrative expenses of $207 million, pre-tax ($162 million, after-tax) in the fourth quarter of 2019 and an additional charge of $31 million pre-tax ($24 million, after-tax) in the first quarter of 2020. We expect to realize annualized after-tax savings of approximately $200 million. A substantial portion of the savings will be realized in 2020. See Note 15 to the Consolidated Financial Statements for discussion.

## Industry Developments and Other Matters

Our 2019 Form 10-K provides a detailed description of The Patient Protection and Affordable Care Act ("ACA") provisions and other legislative initiatives that impact our health care and pharmacy services businesses, including regulations issued by the Centers for Medicare & Medicaid Services ("CMS") and the Departments of the Treasury and Health and Human Services. The health care and pharmacy services businesses continue to operate in a dynamic environment, and the laws and regulations applicable to these businesses, including the ACA, continue to be subject to legislative, regulatory and judicial challenges. The following table provides an update on the expected impact of these items and other matters:

| Item | Description |
|---|---|
| **Executive Orders Regarding Drug Pricing** | On July 24, 2020, President Trump signed four Executive Orders addressing prescription drug importation; affordability of insulin and epinephrine purchased at federally qualified health centers through the Public Health Service Act Section 340B drug pricing program; drug rebates and most favored-nation international pricing. The release of the most favored-nation international pricing order, an approach to international reference pricing, was delayed and a revised order was issued on September 13, 2020. All four orders call for subsequent policy action by the Department of Health and Human Services (HHS). They do not contain any policy changes that take effect immediately. The order covering rebate policy directs HHS to complete prior rulemaking which proposed changes to the federal anti-kickback safe harbor to exclude regulatory protection for rebates between drug manufacturers and Medicare Part D plans, Medicaid managed care organizations and pharmacy benefit managers. This order also requires that prior to taking such action, the Secretary of HHS confirm that the action is not projected to increase federal spending, Medicare beneficiary premiums or customers' total out-of-pocket costs. In late September 2020, HHS released a rule intended to allow importation of certain prescription drugs from Canada under the Federal Food, Drug and Cosmetic Act, effective November 30, 2020, as well as guidance to pharmaceutical manufacturers related to importation or reimportation of certain products. Also in late September, HHS released a proposed rule that would implement the program to make insulin and epinephrine available at Section 340B pricing at participating federally qualified health centers. Comments on the proposed rule were due in late October.<br><br>President Trump signed an additional Executive Order on September 24, 2020 directing HHS to take various actions to expand upon existing actions to provide Americans more choice, lower costs, and better healthcare. The September 24 Order specifically calls on HHS, in coordination with the Commissioner of Food and Drugs, to continue to expand access to affordable medications, including accelerating approvals of new generic and biosimilar drugs and facilitating safe importation of prescription drugs.<br><br>The Company is continuing to monitor actions related to the Executive Orders and expects any final regulations, in the aggregate, will not have a material impact on our business. |
| **Transparency in Coverage** | On October 29, 2020, the HHS, the Department of Labor and the Department of the Treasury issued a final rule which requires most group health plans and health insurance issuers in the individual and group markets to disclose price and cost-sharing information for all items and services to participants and enrollees. The cost-sharing information requirements under the rule take effect in a phased approach beginning January 1, 2023. In addition to providing personalized cost-sharing information, health plans and health insurers must also publicly disclose in-network provider negotiated rates and historical out-of-network allowed amounts beginning January 1, 2022. Beginning in 2021, insurers will be able to receive credit in their medical loss ratio calculations for certain savings they share with enrollees.<br><br>We will continue to work with policymakers and our clients and customers on the implications of the rule. |
| **COVID-19-related Regulatory Actions** | In response to the COVID-19 public health emergency, U.S. federal and state governments have increasingly enacted new regulatory requirements, as well as provided additional flexibility to industry participants. These regulatory actions primarily provide for:<br>• client and customer premium relief to avoid the cancellation or non-renewal of policies;<br>• mandating or requesting waiver of customer cost-sharing and other associated costs related to COVID-19 testing or treatment, as well as establishing provider reimbursement and future vaccine immunizations coverage requirements;<br>• extending claims filing deadlines for providers, customers and facilities;<br>• mandating or encouraging waiver of customer cost-share related to telemedicine services, as well as requiring certain reimbursement levels for telemedicine providers to encourage its utilization;<br>• enacting coverage and reimbursement requirements at in-network levels for certain services received from out-of-network providers;<br>• revising or suspending the use of certain medical management procedures; and<br>• mandating prescription drug benefit administration requirements primarily related to formulary exceptions and restrictions, and prior authorization and prescription drug refill limits.<br>We are diligently working with federal, state and local governments to deliver access to simple, affordable and predictable health care and continue to monitor developments. |

| | |
|---|---|
| **Medicare Advantage ("MA")** | **Medicare Star Quality Ratings ("Star Ratings"):** CMS uses a Star Rating system to measure how well MA plans perform and scores performance in several categories, including quality of care and customer service. Star Ratings range from one to five stars. CMS recognizes plans with Star Ratings of four stars or greater with quality bonus payments and the ability to offer enhanced benefits. Approximately 77% of our MA customers were in four star or greater plans for bonus payments received in 2020 and 87% for bonus payments to be received in 2021. In October 2020, CMS announced the Star Ratings for bonus payments to be received in 2022. We expect the percentage of our MA customers in four star or greater plans will increase to 88% for bonus payments to be received in 2022. |
| | **MA Rates:** Final MA reimbursement rates for 2021 were published by CMS in April 2020. We do not expect the new rates to have a material impact on our consolidated results of operations in 2021. |
| | **Risk Adjustment:** As discussed in the "Regulation" and "Risk Factors" sections of our 2019 Form 10-K, our MA business is subject to reviews, including risk adjustment data validation ("RADV") audits by CMS and the Office of the Inspector General ("OIG"). We expect that CMS, OIG and other federal agencies will continue to closely scrutinize components of the Medicare program.<br>The "Regulation" section of the 2019 Form 10-K also discusses a proposed rule issued by CMS in 2018 for RADV audits of contract year 2011 and all subsequent years that included, among other things, extrapolation of the error rate related to RADV audit findings without applying the adjustment for underlying fee-for-service data errors as currently contemplated by CMS' RADV audit methodology. RADV audits for our contract years 2011 through 2015 are currently in process. CMS has announced its intent to use third-party auditors to audit all Medicare Advantage contracts by either a comprehensive or a targeted RADV review for each contract year. If the proposed rule is adopted in its current form, it could result in some combination of degraded plan benefits, higher monthly premiums and reduced choice for the population served by all MA insurers. The Company, along with other MA organizations and additional interested parties, submitted comments to CMS on the proposed rule as part of the notice-and-comment rulemaking process. The comment period concluded on August 28, 2019. If CMS adopts the rule as proposed, there could be a material impact on the Company's future results of operations, though we expect the rule would be subject to legal challenges. In addition, the Company is subject to OIG RADV audits that are in process. Previously suspended CMS and OIG audit activities have resumed.<br>Also, as described in Note 18 to the Consolidated Financial Statements, the U.S. Department of Justice is currently conducting an industry-wide investigation of risk adjustment data submission practices and business processes, which in the case of certain other MA organizations has resulted in litigation. |

| Item | Description |
|---|---|
| **Affordable Care Act** | **Cost-Sharing Reduction Subsidies:** The ACA provides for cost-sharing reductions that offset the amount that qualifying customers pay for deductibles, copays and coinsurance. The federal government stopped funding insurers for the cost-sharing reduction subsidies in 2017. Certain insurers have sued the federal government for failure to pay cost-sharing reduction subsidies and the matter remains unresolved. In the first set of consolidated appeals, the Court of Appeals for the Federal Circuit issued a decision on August 14, 2020, finding that (i) the CSR reimbursement provision of the ACA imposes an obligation on the government to pay, and (ii) the government's payments must be reduced by the amount of additional premium tax credit payments that each insurer received as a result of the government's termination of CSR payments. On September 28, 2020, the insurers filed a petition for rehearing en banc in the Federal Circuit and that petition remains pending before the court. As described in Note 18 to the Consolidated Financial Statements, we filed a lawsuit in May 2020 against the federal government seeking payment of these subsidies and our case is stayed pending the outcome of the consolidated appeals currently pending in the Federal Circuit. Our premium rates for the 2018, 2019 and 2020 plan years reflected a lack of government funding for cost-sharing reduction subsidies. |
| | **ACA Litigation:** As described in the "Business - Regulation" section of our 2019 Form 10-K, a federal district court ruled that the "individual mandate" in the ACA is unconstitutional. On appeal, the Court of Appeals for the Fifth Circuit agreed that the "individual mandate" is unconstitutional but ordered the district court to reexamine whether the other provisions of the ACA can remain in effect, thereby leaving in doubt whether the entire ACA is unconstitutional until there is a final judicial determination on appeal. The California-led states and the U.S. House of Representatives filed petitions seeking to appeal the Fifth Circuit's ruling to the U.S. Supreme Court. On March 2, 2020, the Supreme Court agreed to hear the appeals and the case is scheduled to be argued before the Supreme Court on November 10, 2020. |

**Risk Mitigation Programs – Individual ACA Business**

***Risk Corridors.*** In 2016, we recorded an allowance for the balance of our ACA risk corridors receivable based on court decisions and the large program deficit. On April 27, 2020, the U.S. Supreme Court ruled that insurers are entitled to the full amount due under the risk corridors program. The Supreme Court remanded the cases before it to the lower courts for further proceedings consistent with its opinion. We filed a lawsuit in May 2020 seeking payment of these funds. We received $120 million in payments in September 2020, which resolved our risk corridors claim. See Note 18 to the Consolidated Financial Statements for further information.

***Risk Adjustment.*** Following each program year, risk adjustment balances are subject to audit adjustment by CMS through the RADV program. RADV audits commenced with the 2017 benefit year. CMS published the final RADV transfers for the 2017 benefit year in 2019 along with guidance that the settlement will not take place until 2021. The 2018 benefit year data validation error rates were released by CMS in June 2020 and the RADV transfers were published by CMS in August 2020, subject to an appeals period with final settlement expected in 2022. Based on the information currently available, we adjusted our risk adjustment balance to reflect the expected outcome of the RADV program.

The following table presents our balances associated with the risk adjustment program and RADV audit adjustments as of September 30, 2020 and December 31, 2019.

| *(In millions)* | Receivable (Payable) Balances | |
|---|---|---|
| | **September 30, 2020** | **December 31, 2019** |
| **Risk Adjustment** | | |
| Receivables [1] | **$ 110** | $ 47 |
| Payables [2] | **$ (121)** | $ (213) |

*(1) Receivables, net of allowances, are reported in Accounts receivable, net in the Consolidated Balance Sheets.*
*(2) Payables are reported in Accrued expenses and other liabilities (current) in the Consolidated Balance Sheets.*

Risk adjustment program activity, including any RADV adjustments, was favorable by $7 million pre-tax ($5 million after tax) for the three months and $21 million pre-tax ($17 million after tax) for the nine months ended September 30, 2020 compared with charges of $18 million pre-tax ($14 million after-tax) and $134 million pre-tax ($103 million after-tax) for the same periods in 2019.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

We maintain liquidity at two levels: the subsidiary level and the parent company level.

Liquidity requirements at the subsidiary level generally consist of:

- pharmacy, medical costs and other benefit payments;
- expense requirements, primarily for employee compensation and benefits, information technology and facilities costs;
- income taxes; and
- debt service.

Our subsidiaries normally meet their liquidity requirements by:

- maintaining appropriate levels of cash, cash equivalents and short-term investments;
- using cash flows from operating activities;
- matching investment durations to those estimated for the related insurance and contractholder liabilities;
- selling investments; and
- borrowing from affiliates, subject to applicable regulatory limits.

Liquidity requirements at the parent company level generally consist of:

- debt service and dividend payments to shareholders;
- lending to subsidiaries as needed; and
- pension plan funding.

The parent company normally meets its liquidity requirements by:

- maintaining appropriate levels of cash and various types of marketable investments;
- collecting dividends from its subsidiaries;
- using proceeds from issuing debt and common stock; and
- borrowing from its subsidiaries, subject to applicable regulatory limits.

Dividends from our insurance, Health Maintenance Organization ("HMO") and foreign subsidiaries are subject to regulatory restrictions. See Note 20 to the Consolidated Financial Statements in our 2019 Form 10-K for additional information regarding these restrictions. Most of Express Scripts' subsidiaries are not subject to regulatory restrictions regarding dividends and therefore provide significant financial flexibility to Cigna.

Cash flows for the nine months ended September 30 were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| *(In millions)* | **2020** | **2019** |
| Operating activities | **$ 6,056** | $ 6,692 |
| Investing activities | **$ (1,444)** | $ (463) |
| Financing activities | **$ (3,812)** | $ (5,480) |

The following discussion explains variances in the various categories of cash flows for the nine months ended September 30, 2020 compared with the same period in 2019.

***Operating activities***

Cash flows from operating activities consist principally of cash receipts and disbursements for pharmacy revenues and costs, premiums, fees, investment income, taxes, benefit costs and other expenses.

Cash flows from operating activities decreased, primarily driven by an increase in accounts receivable due to business growth, higher inventory purchases and resumption of the health insurance industry tax payment, offset by higher pharmacy and services costs payable due to business growth.

***Investing and Financing activities***

Cash used in investing activities increased, primarily due to higher net investment purchases.

Cash used in finance activities decreased, primarily due to higher proceeds from issuance of debt, partially offset by higher debt repayments and stock repurchases.

We maintain a share repurchase program authorized by our Board of Directors. Under this program, we may repurchase shares from time to time, depending on market conditions and alternate uses of capital. The timing and actual number of shares repurchased will depend on a variety of factors including price, general business and market conditions and alternate uses of capital. The share repurchase program may be effected through open market purchases or privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of

1934, as amended, including through Rule 10b5-1 trading plans. The program may be suspended or discontinued at any time.

For the nine months ended September 30, 2020, we repurchased 13.2 million shares for approximately $2.4 billion. From October 1, 2020 through November 4, 2020 we repurchased 2.8 million shares for approximately $500 million. Share repurchase authority was $3.1 billion as of November 4, 2020.

**Capital Resources**

Our capital resources (primarily cash flows from operating activities and proceeds from the issuance of debt and equity securities) provide protection for policyholders, furnish the financial strength to underwrite insurance risks and facilitate continued business growth.

In December 2019, Cigna entered into a definitive agreement to sell the U.S. Group Disability and Life business to New York Life Insurance Company for $6.3 billion. The sale is expected to close in the fourth quarter of 2020 subject to applicable regulatory approvals and other customary closing conditions. Cigna estimates approximately $5.3 billion of net after-tax proceeds from this transaction and expects to use these proceeds primarily for share repurchase and repayment of debt.

In 2018, Cigna entered into a $3.25 billion five-year revolving credit agreement and a $3.0 billion term loan credit agreement in financing the Express Scripts acquisition. The term loan was repaid in full and the term loan credit agreement was terminated in the fourth quarter of 2019.

In 2019, Cigna entered into an additional $1 billion 364-day revolving credit agreement that expired in October 2020. In October 2020, Cigna replaced the revolving credit agreement with a new $1.0 billion 364-day revolving credit agreement which will expire in October 2021.

As of September 30, 2020, there were no outstanding balances under either of the revolving credit agreements.

On April 1, 2020, the Company borrowed an aggregate principal amount of $1.4 billion under a new 364-day term loan credit agreement. The Company entered into this agreement to further enhance its liquidity position in light of disruption in the commercial paper market and used a portion of the proceeds to pay down amounts outstanding under its commercial paper facility. See Note 8 to the Consolidated Financial Statements for further information on our credit agreements.

At September 30, 2020, our debt-to-capitalization ratio was 42.8%, a decline from 45.2% at December 31, 2019. We have a near-term focus on accelerated debt repayment and expect to continue to deleverage to below 40% using cash flows from operating activities and a portion of the proceeds from the sale of the Group Disability and Life business.

Management, guided by regulatory requirements and rating agency capital guidelines, determines the amount of capital resources that we maintain. Management allocates resources to new long-term business commitments when returns, considering the risks, look promising and when the resources available to support existing business are adequate.

We prioritize our use of capital resources to:

- provide the capital necessary to support growth and maintain or improve the financial strength ratings of subsidiaries and to fund pension obligations;

- consider acquisitions that are strategically and economically advantageous; and
- return capital to investors primarily through share repurchases.

Our capital management strategy to support the liquidity and regulatory capital requirements of our foreign operations and certain international growth initiatives is to retain overseas a significant portion of the earnings generated by our foreign operations. This strategy does not materially limit our ability to meet our liquidity and capital needs in the United States.

**Liquidity and Capital Resources Outlook**

We maintain sufficient liquidity to meet our cash needs through our cash and cash equivalents balances, cash flows from operations, commercial paper program, credit agreements, and the issuance of long-term debt. As of September 30, 2020, we had $4.25 billion of undrawn committed capacity under our revolving credit agreements, $1.7 billion of remaining capacity under our commercial paper program, and approximately $5.8 billion in cash and short-term investments, approximately $1.2 billion of which was held by the parent company or certain nonregulated subsidiaries. We actively monitor our debt obligations and engage in issuance or redemption activities as needed in accordance with our capital management strategy. A description of our outstanding debt can be found in Note 8 to the Consolidated Financial Statements.

During the nine months ended September 30, 2020, we made an immaterial pension contribution as required under the Pension Protection Act of 2006. We expect the required contributions for 2021 to be immaterial.

Our cash projections may not be realized and the demand for funds could exceed available cash if our ongoing businesses experience unexpected shortfalls in earnings or we experience material adverse effects from one or more risks or uncertainties described more fully in the Risk Factors section of our 2019 Form 10-K and Part II, Item 1A of the Form 10-Q for the quarter ended March 31, 2020. Though we believe we have adequate sources of liquidity, significant disruption or volatility in the capital and credit markets could affect our ability to access those markets for additional borrowings or increase costs. In addition to the sources of liquidity discussed above, the parent company can borrow an additional $0.9 billion from its subsidiaries without further approvals as of September 30, 2020.

**Guarantees and Contractual Obligations**

We are contingently liable for various contractual obligations entered into in the ordinary course of business. See Note 18 to the Consolidated Financial Statements for discussion of various guarantees.

We have updated long-term debt obligations as of September 30, 2020 previously provided in our 2019 Form 10-K. Investment commitments are described in Note 13 to the Consolidated Financial Statements. There have been no material changes to the other information presented in our table of guarantees and contractual obligations as set forth in our 2019 Form 10-K.

| *(In millions, on an undiscounted basis)* | **Total** | **2020** | **2021 to 2022** | **2023 to 2024** | **Thereafter** |
|---|---|---|---|---|---|
| **On-Balance Sheet** | | | | | |
| Long-term debt[(1)] | **50,954** | **1,503** | **7,953** | **7,106** | **34,392** |

*(1) Amounts include scheduled interest payments, current maturities of long-term debt and term loan borrowing. Finance leases are included in long-term debt and primarily represent obligations for information technology network storage, servers and equipment. See Note 16 to the Consolidated Financial Statements for information regarding finance leases. See Note 8 to the Consolidated Financial Statements for information regarding our long-term debt.*

## CRITICAL ACCOUNTING ESTIMATES

The preparation of Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures in the Consolidated Financial Statements. Management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material effect on our consolidated results of operations or financial condition.

Management has discussed how critical accounting estimates are developed and selected with the Audit Committee of our Board of Directors and the Audit Committee has reviewed the disclosures presented in our 2019 Form 10-K. We regularly evaluate items that may impact critical accounting estimates. Our most critical accounting estimates, as well as the effect of hypothetical changes in material assumptions used to develop each estimate, are described in the 2019 Form 10-K. As of September 30, 2020 there were no significant changes to the critical accounting estimates from what was reported in our 2019 Form 10-K.

### Goodwill and Other Intangible Assets

Our annual evaluations of goodwill and other intangible assets for impairments were completed during the third quarter of 2020. These evaluations were performed at the reporting unit level, based on discounted cash flow analyses or market data. The estimated fair value of each of our reporting units exceeded their carrying values by significant margins.

Management believes the current assumptions used to estimate amounts reflected in our Consolidated Financial Statements are appropriate. However, if actual experience significantly differs from the assumptions used in estimating amounts reflected in our Consolidated Financial Statements, the resulting changes could have a material adverse effect on our consolidated results of operations, and in certain situations, could have a material adverse effect on liquidity and our financial condition.

As discussed in the executive overview of this MD&A, the COVID-19 pandemic has pervasively impacted the economy, financial markets and the global health care delivery systems. If the impact of the COVID-19 pandemic over the remainder of 2020 and beyond is worse than management's current projections, these adverse effects to our business could impact the estimated fair value of our reporting units.

## SEGMENT REPORTING

The following section of this MD&A discusses the results of each of our segments. See Note 1 to the Consolidated Financial Statements for a description of our segments.

In segment discussions, we present adjusted revenues and “pre-tax adjusted income from operations,” defined as income before taxes excluding realized investment gains (losses), amortization of acquired intangible assets, special items and, for periods prior to 2020, results of transitioning clients. Ratios presented in this segment discussion exclude the same items as pre-tax adjusted income from operations. See Note 19 to the Consolidated Financial Statements for additional discussion of these metrics and a reconciliation of income before income taxes to pre-tax adjusted income from operations, as well as a reconciliation of total revenues to adjusted revenues. Note 19 to the

Consolidated Financial Statements also explains that segment revenues include both external revenues and sales between segments that are eliminated in Corporate.

In these segment discussions, we also present "pre-tax adjusted margin," defined as pre-tax adjusted income from operations divided by adjusted revenues.

As of the third quarter 2020, the segment previously reported as Health Services is reported as Evernorth, and the segment previously reported as Integrated Medical is reported as U.S. Medical. There are no changes to the underlying business reported in either segment.

**Evernorth Segment**

Evernorth includes pharmacy services, benefits management, care solutions and data and analytics. As described in the introduction to Segment Reporting, Evernorth performance is measured using pre-tax adjusted income from operations.

The key factors that impact Evernorth revenues and costs of revenues are volume, mix of claims and price. These key factors are discussed further below. See Note 2 to the Consolidated Financial Statements included in our 2019 Form 10-K for additional information on revenue and cost recognition policies for this segment.

- As our clients' claim volumes increase or decrease, our resulting revenues and cost of revenues correspondingly increase or decrease. Our gross profit could also increase or decrease as a result of changes in purchasing discounts.

- The mix of claims generally considers the type of drug and distribution method used for dispensing and fulfilling. Types of drugs can have an impact on our pharmacy revenues, pharmacy and other service costs and gross profit, including amounts payable under certain financial and performance guarantees with our clients. In addition to the types of drugs, the mix of generic claims (i.e., generic fill rate) also impacts our gross profit. Generally, higher generic fill rates reduce revenues, as generic drugs are typically priced lower than the branded drugs they replace. However, as ingredient cost paid to pharmacies on generic drugs is incrementally lower than the price charged to our clients, higher generic fill rates generally have a favorable impact on our gross profit. The home delivery generic fill rate is currently lower than the network generic fill rate as fewer generic substitutions are available among maintenance medications (such as therapies for chronic conditions) commonly dispensed from home delivery pharmacies as compared to acute medications that are primarily dispensed by pharmacies in our retail networks. Furthermore, our gross profit differs among network, home delivery and specialty distribution methods and can impact our profitability.

- Our client contract pricing is impacted by our ongoing ability to negotiate supply chain contracts for pharmacy network, pharmaceutical and wholesaler purchasing, and manufacturer rebates. As we seek to improve the effectiveness of our integrated solutions for the benefit of our clients, we are continuously innovating and optimizing the supply chain. Our gross profit could also increase or decrease as a result of supply chain initiatives implemented. Inflation also impacts our pricing because most of our contracts provide that we bill clients and pay pharmacies based on a generally recognized price index for pharmaceuticals. Therefore, the rate of inflation for prescription drugs and our efforts to manage this inflation for our clients can affect our revenues and cost of revenues.

In this MD&A, we present revenues and gross profit, as well as adjusted revenues and adjusted gross profit, consistent with our segment reporting metrics, which exclude special items and, for periods prior to 2020, contributions from transitioning clients. As of December 31, 2019, the transition of these clients was substantially complete; therefore, beginning in 2020, we no longer exclude results of transitioning clients from our adjusted metrics. See the "Key Transactions and Business Developments" section of our 2019 Form 10-K MD&A for further discussion of transitioning clients and why we present this information.

***Results of Operations***

| **Financial Summary** | **Three Months Ended September 30,** | | **Change Favorable (Unfavorable)** | | **Nine Months Ended September 30,** | | **Change Favorable (Unfavorable)** | |
|---|---|---|---|---|---|---|---|---|
| *(In millions)* | **2020** | **2019** | | | **2020** | **2019** | | |
| Total revenues | **$ 29,944** | $ 27,598 | 9 | % | **$ 85,801** | $ 82,534 | 4 | % |
| Less: Transitioning clients | **—** | (2,718) | | N/M | **—** | (11,657) | | N/M |
| Less: Contractual adjustment for a former client | **(117)** | — | | N/M | **(204)** | — | | N/M |
| Adjusted revenues[1] | **$ 29,827** | $ 24,880 | 20 | % | **$ 85,597** | $ 70,877 | 21 | % |
| Gross profit | **$ 2,107** | $ 2,192 | (4) | % | **$ 5,589** | $ 6,631 | (16) | % |
| Adjusted gross profit[1] | **$ 1,990** | $ 1,880 | 6 | % | **$ 5,385** | $ 4,887 | 10 | % |
| Pre-tax adjusted income from operations | **$ 1,443** | $ 1,399 | 3 | % | **$ 3,774** | $ 3,555 | 6 | % |
| Pre-tax adjusted margin | **4.8 %** | 5.6 % | (80) | bps | **4.4 %** | 5.0 % | (60) | bps |

| *(Dollars and adjusted scripts in millions)* | **Three Months Ended September 30,** | | **Change Favorable (Unfavorable)** | | **Nine Months Ended September 30,** | | **Change Favorable (Unfavorable)** | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | | | **2020** | **2019** | | |
| **Selected Financial Information[1]** | | | | | | | | |
| **Pharmacy revenue by distribution channel** | | | | | | | | |
| Adjusted network revenues | **$ 14,522** | $ 10,911 | 33 | % | **$ 41,179** | $ 29,937 | 38 | % |
| Adjusted home delivery and specialty revenues | **12,699** | 11,650 | 9 | % | **37,111** | 34,198 | 9 | % |
| Other revenues | **1,412** | 1,228 | 15 | % | **3,946** | 3,608 | 9 | % |
| Total adjusted pharmacy revenues | **$ 28,633** | $ 23,789 | 20 | % | **$ 82,236** | $ 67,743 | 21 | % |
| **Pharmacy script volume** | | | | | | | | |
| Adjusted network scripts[2] | **309** | 242 | 28 | % | **890** | 687 | 30 | % |
| Adjusted home delivery and specialty scripts[2] | **72** | 70 | 3 | % | **215** | 211 | 2 | % |
| Total adjusted scripts[2] | **381** | 312 | 22 | % | **1,105** | 898 | 23 | % |
| **Generic fill rate** | | | | | | | | |
| Network | **87.0 %** | 87.1 % | (10) | bps | **87.9 %** | 87.5 % | 40 | bps |
| Home delivery | **85.3 %** | 84.2 % | 110 | bps | **85.1 %** | 84.2 % | 90 | bps |
| Overall generic fill rate | **86.9 %** | 86.7 % | 20 | bps | **87.6 %** | 87.1 % | 50 | bps |

*(1) Amounts exclude special items and, for periods prior to 2020, contributions from transitioning clients.*

*(2) Non-specialty network scripts filled through 90-day programs and home delivery scripts are multiplied by three. All other network and specialty scripts are counted as one script.*

**Three and Nine Months Ended September 30, 2020 versus Three and Nine Months Ended September 30, 2019**

In the third quarter of 2019, U.S. Commercial operating segment customers transitioned to Express Scripts' retail pharmacy network. In the first quarter of 2020, U.S. Government operating segment customers transitioned to Express Scripts' retail pharmacy network.

***Adjusted network revenues.*** The increase reflected the transition of U.S. Medical's customers and higher claims volume, primarily due to our collaboration with Prime Therapeutics. For the nine months ended September 30, 2020, the increase was further driven by increased prices due to inflation on branded drugs, partially offset by claims mix due to the increase in the generic fill rate.

***Adjusted home delivery and specialty revenues.*** The increase reflected higher prices, primarily due to inflation on branded drugs and higher home delivery and specialty claims volume. These increases were partially offset by claims mix due to an increase in the generic fill rate.

***Adjusted gross profit.*** The increase reflected customer growth, higher adjusted pharmacy script volumes, benefits from the effective management of supply chain, and the favorable impact of claims mix as a result of the types of drugs dispensed, the distribution method used for dispensing and fulfilling, and an increase in the generic fill rate.

***Pre-tax adjusted income from operations.*** The increase reflected customer growth, higher adjusted pharmacy scripts volumes, benefits from the effective management of supply chain, and the favorable impact of claims mix as a result of the types of drugs dispensed, the distribution method used for dispensing and fulfilling, and an increase in the generic fill rate, partially offset by an increase in operating expenses due to client transitions.

**U.S. Medical Segment**

U.S. Medical consists of a U.S. Commercial operating segment that includes our employer-sponsored medical coverage and a U.S. Government operating segment that includes Medicare offerings for seniors and individual insurance offerings both on and off the public health insurance exchanges. As described in the introduction to Segment Reporting, performance of the U.S. Medical segment is measured using pre-tax adjusted income from operations. Key factors affecting profitability for this segment include:

- customer growth;
- revenues from integrated specialty products, including pharmacy services sold to clients and customers across all funding solutions;
- percentage of Medicare Advantage customers in plans eligible for quality bonus payments;
- benefit expenses as a percentage of premiums (medical care ratio or "MCR") for our insured commercial and government businesses; and
- selling, general and administrative expense as a percentage of adjusted revenues (expense ratio).

***Results of Operations***

| Financial Summary (*In millions*) | Three Months Ended September 30, 2020 | 2019 | Change Favorable (Unfavorable) | Nine Months Ended September 30, 2020 | 2019 | Change Favorable (Unfavorable) |
|---|---|---|---|---|---|---|
| Adjusted revenues | **$ 9,629** | $ 9,148 | 5 % | **$ 28,726** | $ 27,311 | 5 % |
| Pre-tax adjusted income from operations | **$ 757** | $ 953 | (21) % | **$ 3,479** | $ 3,113 | 12 % |
| Pre-tax adjusted margin | **7.9 %** | 10.4 % | (250) bps | **12.1 %** | 11.4 % | 70 bps |
| Medical care ratio | **82.6 %** | 80.5 % | (210) bps | **77.2 %** | 80.3 % | 310 bps |
| Expense ratio | **21.8 %** | 23.2 % | 140 bps | **22.2 %** | 22.3 % | 10 bps |

| (*In thousands*) | As of September 30, 2020 | 2019 | % Change |
|---|---|---|---|
| **U.S. Medical Customers** | | | |
| U.S. Commercial | **2,120** | 2,078 | 2 % |
| U.S. Government | **1,413** | 1,374 | 3 % |
| Insured | **3,533** | 3,452 | 2 % |
| Service | **11,781** | 12,043 | (2) % |
| Total | **15,314** | 15,495 | (1) % |

| (*In millions*) | As of September 30, 2020 | As of December 31, 2019 | % Change |
|---|---|---|---|
| Unpaid claims and claim expenses – U.S. Medical | **$ 3,200** | $ 2,892 | 11 % |

**Three and Nine Months Ended September 30, 2020 versus Three and Nine Months Ended September 30, 2019**

***Adjusted revenues.*** The increase for the three and nine months ended September 30, 2020 compared with the same periods in 2019 reflects customer growth in our U.S. Commercial insured and Medicare Advantage businesses, as well as higher premium rates due to anticipated underlying medical cost trend and the resumption of the health insurance industry tax. The increase for the nine months ended September 30, 2020 compared with the same period in 2019 includes the impact of premium relief programs for clients implemented in the second quarter of 2020 in response to significantly lower than historical utilization as individuals deferred care due to the COVID-19 pandemic.

***Pre-tax adjusted income from operations.*** The decrease for the three months ended September 30, 2020 compared with the same period in 2019 reflects unfavorable prior period development primarily related to the second quarter of 2020, COVID-19 related impacts, and the return of the health insurance industry tax. COVID-19 related impacts include the net impact of the return of medical utilization to more typical levels, direct COVID-19 costs, as well as the costs of actions we have taken to support customers and providers, decreased specialty contributions, and lower net investment income. The increase for the nine months ended September 30, 2020 compared with the same period in 2019 reflects increased earnings from the U.S. Commercial and U.S. Government insured businesses due to deferral of care by our customers in response to the COVID-19 pandemic exceeding the cost of COVID-19 related care, partially offset by premium relief programs extended to employer clients and lower net investment income.

***Medical care ratio.*** The medical care ratio increased for the three months ended September 30, 2020 compared with the same period in 2019 reflecting unfavorable prior period development primarily related to the second quarter of 2020 and COVID-19 related impacts, partially offset by the pricing effect of the health insurance industry tax. The decrease for the nine months ended September 30, 2020 compared with the same period in 2019 is due to the COVID-19 pandemic effects of significant deferred utilization experienced in April and May exceeding incremental costs of care, partially offset by premium relief programs extended to employer clients.

***Expense ratio.*** The expense ratio decreased for the three months ended September 30, 2020 and was essentially flat for the nine months ended September 30, 2020 compared with the same periods in 2019 reflecting higher insured revenues and lower costs associated with operations-related litigation and compliance matters, partially offset by the resumption of the health insurance industry tax.

**Other Items Affecting U.S. Medical Results**

***Unpaid Claims and Claim Expenses***

Our unpaid claims and claim expenses liability was higher as of September 30, 2020 compared with December 31, 2019, primarily due to seasonality in our stop-loss products and membership growth in our Medicare Advantage business.

***Medical Customers***

Our medical customer base decreased at September 30, 2020 compared with the same period in 2019, reflecting a lower customer base in our National Accounts segment and increased disenrollment resulting from the economic impacts of the COVID-19 pandemic partially offset by growth in our Select segment and our Medicare Advantage business.

A medical customer is defined as a person meeting any one of the following criteria:

- is covered under a medical insurance policy, managed care arrangement or service agreement issued by us;
- has access to our provider network for covered services under their medical plan; or
- has medical claims that are administered by us.

**International Markets Segment**

As described in the introduction to Segment Reporting, performance of the International Markets segment is measured using pre-tax adjusted income from operations. Key factors affecting pre-tax adjusted income from operations for this segment are:

- premium growth, including new business and customer retention;
- benefit expenses as a percentage of premiums (loss ratio);
- selling, general and administrative expense and acquisition expense as a percentage of revenues (expense ratio and acquisition cost ratio); and
- the impact of foreign currency movements.

***Results of Operations***

| Financial Summary<br>*(In millions)* | Three Months Ended September 30, 2020 | 2019 | Change Favorable (Unfavorable) | | Nine Months Ended September 30, 2020 | 2019 | Change Favorable (Unfavorable) | |
|---|---|---|---|---|---|---|---|---|
| Adjusted revenues | **$ 1,440** | $ 1,402 | 3 | % | **$ 4,342** | $ 4,185 | 4 | % |
| Pre-tax adjusted income from operations | **$ 208** | $ 194 | 7 | % | **$ 809** | $ 607 | 33 | % |
| Pre-tax adjusted margin | **14.4 %** | 13.8 % | 60 | bps | **18.6 %** | 14.5 % | 410 | bps |
| Loss ratio | **57.4 %** | 57.6 % | 20 | bps | **55.1 %** | 56.8 % | 170 | bps |
| Acquisition cost ratio | **11.8 %** | 13.0 % | 120 | bps | **10.9 %** | 13.0 % | 210 | bps |
| Expense ratio (excluding acquisition costs) | **19.5 %** | 19.0 % | (50) | bps | **18.7 %** | 19.0 % | 30 | bps |

**Three and Nine Months Ended September 30, 2020 versus Three and Nine Months Ended September 30, 2019**

***Adjusted revenues*** increased mainly due to business growth in Asia and Europe, partially offset by premium relief programs, primarily in Europe. The increase in adjusted revenues was also partially offset by unfavorable foreign currency movements for the nine months ended September 30, 2020.

***Pre-tax adjusted income from operations*** increased for the three months ended September 30, 2020 due to lower acquisition and loss ratios, as well as business growth, partially offset by higher expense ratios. For the nine months ended September 30, 2020, the increase in pre-tax adjusted income from operations reflects lower acquisition, loss and expense ratios and business growth, primarily in Asia, partially offset by unfavorable foreign currency movements and lower net investment income. The ratios for both the three and nine months ended September 30, 2020 reflect the unfavorable impact of premium relief programs.

The segment's ***loss ratio*** decreased reflecting lower medical utilization due to the COVID-19 pandemic, partially offset by premium relief programs. For the nine months ended September 30, 2020, the decrease in the loss ratio was also partially offset by the absence of 2019 reserve updates.

The ***acquisition cost ratio*** decreased reflecting an update to our commission deferral process and lower acquisition expenses in Asia, partially offset by premium relief programs.

The ***expense ratio*** (excluding acquisition costs) increased for the three months ended September 30, 2020 reflecting premium relief programs. For the nine months ended September 30, 2020, the decrease in the expense ratio was mainly driven by lower spend across markets.

***Other Items Related to International Markets Results***

South Korea is the single largest geographic market for our International Markets segment. For the nine months ended September 30, 2020, South Korea generated 37% of the segment's adjusted revenues and 53% of the segment's pre-tax adjusted income from operations.

## Group Disability and Other

As described in the introduction of Segment Reporting, performance of Group Disability and Other is measured using pre-tax adjusted income from operations. Key factors affecting pre-tax adjusted income from operations are:

- premium growth, including new business and customer retention;
- net investment income;
- benefit expenses as a percentage of premiums (loss ratio); and
- selling, general and administrative expense as a percentage of revenues excluding net investment income (expense ratio).

***Results of Operations***

| Financial Summary | Three Months Ended September 30, | | Change Favorable (Unfavorable) | | Nine Months Ended September 30, | | Change Favorable (Unfavorable) | |
|---|---|---|---|---|---|---|---|---|
| *(In millions)* | 2020 | 2019 | | | 2020 | 2019 | | |
| Adjusted revenues | **$ 1,314** | $ 1,284 | 2 | % | **$ 3,981** | $ 3,889 | 2 | % |
| Pre-tax adjusted income from operations | **$ 70** | $ 143 | (51) | % | **$ 279** | $ 376 | (26) | % |
| Pre-tax adjusted margin | **5.3 %** | 11.1 % | (580) | bps | **7.0 %** | 9.7 % | (270) | bps |

### Three and Nine Months Ended September 30, 2020 versus Three and Nine Months Ended September 30, 2019

***Adjusted revenues*** increased primarily due to growth in disability, life and voluntary products, partially offset by lower investment income.

***Pre-tax adjusted income from operations and margin*** decreased due to unfavorable life claims experience related to the COVID-19 pandemic, lower investment income and lower interest rates, partially offset by favorable results in our voluntary products.

## Corporate

Corporate reflects amounts not allocated to operating segments, including net interest expense (defined as interest on corporate debt less net investment income on investments not supporting segment and other operations), certain litigation matters, expense associated with our frozen pension plans, charitable contributions, severance, certain overhead and project costs and intersegment eliminations for products and services sold between segments.

| Financial Summary | Three Months Ended September 30, | | Change Favorable (Unfavorable) | | Nine Months Ended September 30, | | Change Favorable (Unfavorable) | |
|---|---|---|---|---|---|---|---|---|
| *(In millions)* | 2020 | 2019 | | | 2020 | 2019 | | |
| Pre-tax adjusted loss from operations | **$ (366)** | $ (442) | 17 | % | **$ (1,171)** | $ (1,385) | 15 | % |

**Three and Nine Months Ended September 30, 2020 versus Three and Nine Months Ended September 30, 2019**

***Pre-tax adjusted loss from operations*** was lower, primarily reflecting lower interest expense.

**INVESTMENT ASSETS**

The following table presents our investment asset portfolio excluding separate account assets as of September 30, 2020 and December 31, 2019. Additional information regarding our investment assets is included in Notes 11, 12, 13 and 14 to the Consolidated Financial Statements.

| *(In millions)* | | September 30, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Debt securities | **$** | **24,673** | $ | 23,755 |
| Equity securities | | **379** | | 303 |
| Commercial mortgage loans | | **1,979** | | 1,947 |
| Policy loans | | **1,347** | | 1,357 |
| Other long-term investments | | **2,698** | | 2,403 |
| Short-term investments | | **458** | | 423 |
| Total | **$** | **31,534** | $ | 30,188 |
| Investments classified as assets of business held for sale [(1)] | **$** | **(8,258)** | $ | (7,709) |
| Investments per Consolidated Balance Sheets | **$** | **23,276** | $ | 22,479 |

*[(1)] The table above includes $8.3 billion as of September 30, 2020 and $7.7 billion as of December 31, 2019 of investments associated with the U.S. Group Disability and Life business that are held for sale to New York Life. Under the terms of the definitive agreement, some of the assets currently associated with the Group Disability and Life business can be substituted for other assets. The assets that will transfer to New York Life will be primarily debt securities and, to a lesser extent, commercial mortgage loans and short-term investments.*

**Debt Securities**

Investments in debt securities include publicly-traded and privately-placed bonds, mortgage and other asset-backed securities and preferred stocks redeemable by the investor. These investments are classified as available for sale and are carried at fair value on our balance sheet. Additional information regarding valuation methodologies, key inputs and controls is included in Note 12 to the Consolidated Financial Statements. More detailed information about debt securities by type of issuer and maturity dates is included in Note 11 to the Consolidated Financial Statements.

The following table reflects our portfolio of debt securities by type of issuer as of September 30, 2020 and December 31, 2019.

| *(In millions)* | | September 30, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Federal government and agency | **$** | **634** | $ | 733 |
| State and local government | | **713** | | 810 |
| Foreign government | | **2,402** | | 2,256 |
| Corporate | | **20,409** | | 19,420 |
| Mortgage and other asset-backed | | **515** | | 536 |
| Total | **$** | **24,673** | $ | 23,755 |

Our debt securities portfolio increased during the first nine months of 2020 reflecting an increase in valuations due to decreasing yields and net purchase activity. As of September 30, 2020, $22.1 billion, or 90% of the debt securities in our investment portfolio were investment grade (Baa and above, or equivalent) and the remaining $2.6 billion were below investment grade. The majority of the bonds that are below investment grade are rated at the higher end of the non-investment grade spectrum. These quality characteristics have not materially changed from the prior year and are consistent with our investment strategy. Investments in debt securities are diversified by issuer, geography and industry as appropriate. On an aggregate basis, the debt securities portfolio continues to perform according to original investment expectations. However, due to the economic impacts of the COVID-19 pandemic, there are certain issuers, particularly within the aviation, energy and hospitality sectors that are showing signs of distress, primarily in the form of requests for temporary covenant relief. There were no material unrealized losses in any of these sectors as of the reporting date. We continue to monitor the economic environment and its effect on our portfolio, and consider the impact of various factors in determining the allowance for credit losses on debt securities, which is discussed in Note 11 to the Consolidated Financial Statements.

Foreign government obligations are concentrated in Asia, primarily South Korea, consistent with our risk management practice and local regulatory requirements of our international business operations. Corporate debt securities include private placement assets of $7.9 billion. These investments are generally less marketable than publicly-traded bonds; however yields on these investments tend to be higher than yields on publicly-traded bonds with comparable credit risk. We perform a credit analysis of each issuer and require financial and other covenants that allow us to monitor issuers for deteriorating financial strength and pursue remedial actions, if warranted.

In addition to amounts classified as debt securities in our Consolidated Balance Sheets, we participate in an insurance joint venture in China with a 50% ownership interest. This entity had an investment portfolio of approximately $10.3 billion supporting its business that is primarily invested in Chinese corporate and government debt securities. We account for this joint venture on the equity method of accounting and report it in Other assets. There were no investments with a material unrealized loss as of September 30, 2020.

**Commercial Mortgage Loans**

Our commercial mortgage loans are fixed rate loans, diversified by property type, location and borrower. Loans are secured by high quality commercial properties, located in strong institutional markets, and are generally made at less than 65% of the property's value at origination of the loan. Property value, debt service coverage, quality, building tenancy and stability of cash flows are all important financial underwriting considerations. We hold no direct residential mortgage loans and do not originate or service securitized mortgage loans.

Overall, commercial real estate capital market activity has been negatively impacted by COVID-19 with concentrated weakness in hotels and regional malls. Our mortgage loan portfolio is well diversified by property type and geography with no material exposure to hotels and no exposure to regional shopping malls.

As of September 30, 2020, the $2.0 billion commercial mortgage loan portfolio consisted of approximately 65 loans that are in good standing. Given the quality and diversity of the underlying real estate, positive debt service coverage and significant borrower cash invested generally ranging between 30 and 40%, we remain confident that the vast majority of borrowers will continue to perform as expected under their contract terms. For further discussion of the results and changes in key loan metrics, see Note 11 to the Consolidated Financial Statements.

**Other Long-term Investments**

Other long-term investments of $2.7 billion as of September 30, 2020 included investments in securities limited partnerships and real estate limited partnerships, direct investments in real estate joint ventures, and other deposit activity that is required to support various insurance and health services businesses. The increase in other long-term

investments is driven by net new funding activity. Our approximately $2 billion of limited partnership entities typically invest in mezzanine debt or equity of privately-held companies (securities partnerships) and equity real estate. Given our subordinate position in the capital structure of these underlying entities, we assume a higher level of risk for higher expected returns. To mitigate risk, these investments are diversified across approximately 175 separate partnerships and approximately 90 general partners who manage one or more of these partnerships. Also, the underlying investments are diversified by industry sector or property type and geographic region. No single partnership investment exceeded 4% of our securities and real estate partnership portfolio.

Income from our limited partnership investments is generally reported on a one quarter lag due to the timing of when financial information is received from the general partner or manager of the investments. Accordingly, our net investment income in the third quarter largely reflects the underlying financial information from the second quarter of 2020. We could experience losses during the remainder of 2020 and into future periods, but the magnitude of these losses will depend in part on the length and extent of the economic disruption, the speed of the recovery, and the overall economic impacts.

**Investment Outlook**

The impact of COVID-19 on the economy, despite unprecedented monetary and fiscal support, and the uncertainty as to the strength and sustainability of the recovery prior to a widely available vaccine continue to dominate financial markets. Net investment income was positively impacted by third quarter valuations of mezzanine, private equity, and real estate fund asset holdings based on improving economic prospects, as also reflected in public equity valuations. However, the low interest rate environment continues to pressure income from both short-term and longer-term investments. U.S. treasury rates remain near all-time lows and the wider market credit spreads experienced during the beginning of the second quarter have meaningfully narrowed, resulting in historically low yields for investment grade assets. We continue to actively monitor the economic impact of the pandemic, as well as fiscal and monetary responses, and their potential impact on the portfolio. Our full year net investment income projections reflect continued market volatility and portfolio impacts, particularly in certain sectors such as retail, hospitality, aviation and energy, as well as other areas most severely impacted by COVID-19. Future realized and unrealized investment results will be driven largely by market conditions that exist when a transaction occurs or at the reporting date. These future conditions are not reasonably predictable; however, we believe that the vast majority of our investments will continue to perform under their contractual terms. Based on our strategy to match the duration of invested assets to the duration of insurance and contractholder liabilities, we expect to hold a significant portion of these assets for the long term. Although future impairment losses resulting from interest rate movements and credit deterioration due to both investment-specific and the global economic uncertainties discussed above remain possible, we do not expect these losses to have a material adverse effect on our financial condition or liquidity.

**MARKET RISK**

**Financial Instruments**

Our assets and liabilities include certain financial instruments subject to the risk of potential losses from adverse changes in market rates and prices. Our primary market risk exposures are interest rate risk and foreign currency exchange rate risk. We encourage you to read this in conjunction with “Market Risk – Financial Instruments” included in the MD&A section of our 2019 Form 10-K. Given the transactions in our long-term debt further described in Note 8 to the Consolidated Financial Statements, in the event of a 100 basis point increase in interest rates, the fair value of the Company's long-term debt would decrease approximately $2.9 billion at September 30, 2020, compared to approximately $2.5 billion at December 31, 2019. Other than this, there were no material changes in our risk exposures from those reported in our 2019 Form 10-K.

**Item 3.** ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Information responsive to this item is contained under the caption “Market Risk” in Item 2 above, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and is incorporated herein by reference.

**Item 4.** ***CONTROLS AND PROCEDURES***

Based on an evaluation of the effectiveness of Cigna’s disclosure controls and procedures conducted under the supervision and with the participation of Cigna’s management (including Cigna’s Chief Executive Officer and Chief Financial Officer), Cigna's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, Cigna’s disclosure controls and procedures are effective to ensure that information required to be disclosed by Cigna in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to Cigna’s management, including Cigna’s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this report, there have been no changes in Cigna’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Cigna’s internal control over financial reporting.

**Part II.** ***OTHER INFORMATION***

**Item 1.** ***LEGAL PROCEEDINGS***

The information contained under “Litigation Matters” and “Regulatory Matters” in Note 18 to the Consolidated Financial Statements is incorporated herein by reference.

**Item 1A.** ***RISK FACTORS***

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019 as such Risk Factors are supplemented by the information contained in Part II, Item 1A of our Form 10-Q for the quarter ended March 31, 2020. There have been no material changes to our previously reported Risk Factors.

***ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

**Issuer Purchases of Equity Securities**

The following table provides information about Cigna's share repurchase activity for the quarter ended September 30, 2020

| Period | Total # of shares purchased [1] | Average price paid per share | Total # of shares purchased as part of publicly announced program [2] | Approximate dollar value of shares that may yet be purchased as part of publicly announced program [3] |
|---|---|---|---|---|
| July 1-31, 2020 | **1,181,665** | **$ 179.88** | **1,180,578** | **$ 4,425,497,842** |
| August 1-31, 2020 | **2,352,958** | **$ 178.78** | **2,349,942** | **$ 4,005,359,665** |
| September 1-30, 2020 | **2,440,490** | **$ 169.35** | **2,438,383** | **$ 3,592,431,915** |
| Total | **5,975,113** | **$ 175.15** | **5,968,903** | **N/A** |

*(1) Includes shares tendered by employees under the Company's equity compensation plans as follows: 1) payment of taxes on vesting of restricted stock (grants and units) and strategic performance shares and 2) payment of the exercise price and taxes for certain stock options exercised. Employees tendered 1,087 shares in July, 3,016 shares in August and 2,107 shares in September2020.*

*(2) Additionally, the Company maintains a share repurchase program authorized by the Board of Directors. Under this program, the Company may repurchase shares from time to time, depending on market conditions and alternate uses of capital. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions and alternate uses of capital. The share repurchase program may be effected through Rule 10b5-1 plans, open market purchases or privately negotiated transactions, each in compliance with Rule 10b-18 under the Exchange Act. The program may be suspended or discontinued at any time and does not have an expiration date. In July 2020, the Board increased repurchase authority by an additional $2 billion. From October 1, 2020 through November 4, 2020, the Company repurchased 2.8 million shares for approximately $500 million, leaving repurchase authority at $3.1 billion as of November 4, 2020.*

*(3) Approximate dollar value of shares is as of the last date of the applicable month.*

**ITEM 6. EXHIBITS**

**INDEX TO EXHIBITS**

| Number | Description | Method of Filing |
|---|---|---|
| 31.1 | Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 | Filed herewith. |
| 31.2 | Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 | Filed herewith. |
| 32.1 | Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350 | Furnished herewith. |
| 32.2 | Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350 | Furnished herewith. |
| 101 | Financial statements from the quarterly report on Form 10-Q of Cigna Corporation for the quarter ended September 30, 2020 formatted in inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Total Equity; (v) the Consolidated Statements of Cash Flow; and (vi) the Notes to the Consolidated Financial Statements | Filed herewith. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) | Filed herewith. |

* *Management contracts and compensatory plans or arrangements.*

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 5, 2020

**CIGNA CORPORATION**

/s/ Eric P. Palmer
Eric P. Palmer
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

**Exhibit 31.1**

CERTIFICATION

I, DAVID M. CORDANI, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cigna Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ David M. Cordani
Chief Executive Officer

**Exhibit 31.2**

CERTIFICATION

I, ERIC P. PALMER, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cigna Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Eric P. Palmer

Chief Financial Officer

**Exhibit 32.1**

Certification of Chief Executive Officer of
Cigna Corporation pursuant to 18 U.S.C. Section 1350

I certify that, to the best of my knowledge and belief, the Quarterly Report on Form 10-Q of Cigna Corporation for the fiscal period ending September 30, 2020 (the "Report"):

(1) complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cigna Corporation.

/s/ David M. Cordani

David M. Cordani
Chief Executive Officer
November 5, 2020

**Exhibit 32.2**

Certification of Chief Financial Officer of
Cigna Corporation pursuant to 18 U.S.C. Section 1350

I certify that, to the best of my knowledge and belief, the Quarterly Report on Form 10-Q of Cigna Corporation for the fiscal period ending September 30, 2020 (the "Report"):

(1) complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cigna Corporation.

/s/ Eric P. Palmer
Eric P. Palmer
Chief Financial Officer
November 5, 2020