1999 ANNUAL REPORT

CIGNA

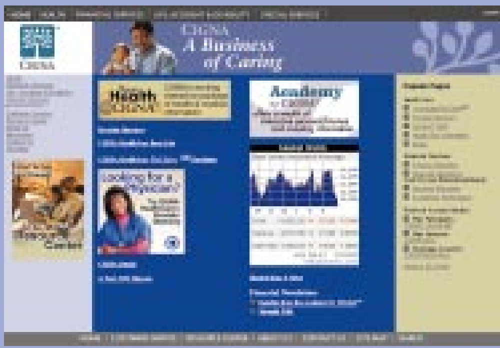
From birth through retirement,

CIGNA helps people around the world

protect the present, plan for the future

and take care of the unexpected.

Health Care • Group Insurance • Retirement Services • Investment Management



www.cigna.com

CIGNA's Business of Caring Internet site is continually updated to make it easy for consumers, employers and our distribution partners to do business with us. For example, our health plan participants can choose their physicians and order prescriptions on-line. Our retirement customers can manage their investment portfolios and trade stocks at our discount brokerage. And there's a wealth of wellness information and interactive features to help keep everyone healthy.

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Highlights

(Dollars in millions, except per share amounts)	1999	1998	1997	1996	1995
Revenues:					
Premiums and fees and other revenues	$ 15,814	$ 14,402	$ 12,264	$ 10,963	$ 10,716
Net investment income	2,959	3,115	3,598	3,645	3,621
Realized investment gains	8	134	93	52	140
Total revenues	$ 18,781	$ 17,651	$ 15,955	$ 14,660	$ 14,477
Income from Continuing Operations:					
Operating Income (Loss):					
Employee Health Care, Life and Disability Benefits	$ 728	$ 617	$ 425	$ 497	$ 489
Employee Retirement Benefits and Investment Services	265	248	230	210	197
International Life, Health and Employee Benefits	(342)	17	21	5	(4)
Other Operations	122	313	180	155	151
Corporate	(78)	(97)	(113)	(95)	(100)
Total operating income	695	1,098	743	772	733
Realized investment gains, net of taxes	4	88	69	29	118
Income from continuing operations	$ 699	$ 1,186	$ 812	$ 801	$ 851
Earnings per share from continuing operations:					
Basic	$ 3.59	$ 5.62	$ 3.69	$ 3.55	$ 3.90
Diluted	$ 3.54	$ 5.56	$ 3.65	$ 3.52	$ 3.87
Common dividends declared per share	$ 1.20	$ 1.15	$ 1.11	$ 1.07	$ 1.01
Total assets	$ 95,333	$ 95,890	$ 89,369	$ 78,497	$ 75,276
Long-term debt	$ 1,359	$ 1,428	$ 1,462	$ 1,019	$ 1,064
Shareholders' equity	$ 6,149	$ 8,277	$ 7,932	$ 7,208	$ 7,157
Per share	$ 36.24	$ 40.25	$ 36.55	$ 32.38	$ 31.25
Common shares outstanding (thousands)	169,697	205,650	216,996	222,594	228,996
Shareholders of record	11,716	12,441	12,953	14,027	15,131
Employees	41,900	49,900	47,700	42,800	44,700

Operating income (loss) is defined as net income (loss) excluding after-tax realized investment results, the results of discontinued operations and, in 1999, the cumulative effect of adopting Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." For more information regarding the effect of adopting accounting pronouncements, see the Notes to Financial Statements.

As discussed in Note 3, CIGNA sold its domestic and international property and casualty business in July 1999. In 1999, CIGNA began reporting this business as discontinued operations and reclassified prior year financial information.

The past year has been a good one for our company, with strong financial results, a sharpened focus on consumers and solid business decisions that position us well for the future.

CIGNA's 1999 operating income from continuing operations, excluding certain nonrecurring items, was $5.38 per share, up 28 percent over 1998.†

The performance of our employee benefits business is underscored by the strength of our market positions in a full range of managed and indemnity health care products; group life, disability and accident insurance; and retirement and investment products and services.

Continuing to deliver value to our shareholders...

During 1999, we repurchased 36.7 million CIGNA common shares for $3.1 billion – representing approximately 18 percent of our outstanding shares at the beginning of the year – utilizing proceeds from the sale of our property and casualty business, coupled with significant cash flow from ongoing operations. Our capital position remains very strong.

1999 Segment Results

Operating income for our employee health care, life and disability benefits segment in 1999 increased 18 percent to $728 million from $617 million last year.

Participation in CIGNA HMO and indemnity medical plans grew this year by approximately 700,000 to a total of 13.3 million people, one of the industry's largest enrollment bases. Earnings for our HMO operations rose 32 percent over 1998. Revenues were strong, reflecting rate increases and membership growth. In addition, operational efficiencies during the year contributed to improved expense ratios.

Our indemnity business generated solid earnings in 1999, and premiums rose 13 percent, driven by increased sales of our preferred provider organization (PPO) offerings.

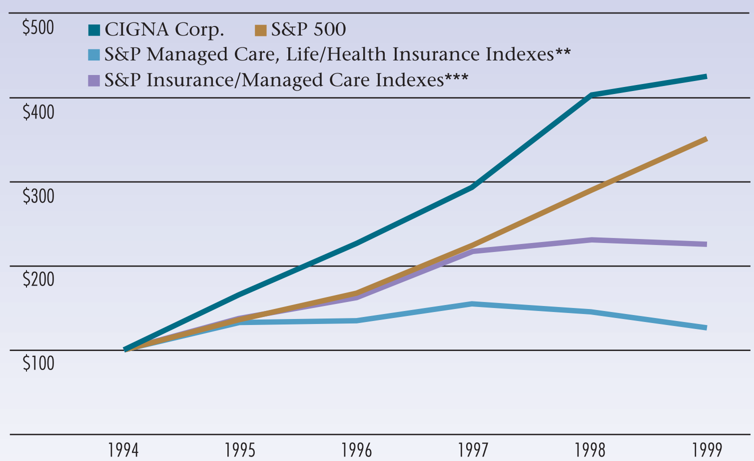
Also this year, operating income for our employee retirement benefits and investment services segment, which operates in the defined contribution and defined benefit markets, increased 7 percent to $265 million. Assets under management rose to $56 billion from $53 billion in 1998.

Operating income for our international life, health and employee benefits segment, excluding nonrecurring items, was $18 million in 1999, comparable with the previous year. Expanding CIGNA's employee benefits business into selected high-potential international markets remains a strategic growth priority for us.

Strategic Focus

Completing the sale of our property and casualty business this year removed the last major business operation that did not fit with our portfolio of benefits products. We now can focus management resources on our strategy to establish CIGNA as the leading employee benefits company. We already

Comparison of Five-Year Cumulative Total Return* *(In dollars)*



* *Assumes that the value of the investment in CIGNA common stock and each index was $100 on December 30, 1994, and that all dividends were reinvested.*

** *Weighted average of S&P Managed Care (75%) and Life/Health Insurance (25%) Indexes.*

*** *Equally weighted average of S&P Multi-line, P&C, Life/Health Insurance and Managed Care Indexes.*

†Operating income is defined as net income excluding after-tax realized investment results and the cumulative effect of an accounting change in 1999.

Results for 1999 exclude certain nonrecurring items aggregating $827 million in after-tax income: a gain of $1.2 billion from the sale of the property and casualty (P&C) business (reported in discontinued operations), a $43 million gain from the sale of a partial interest in the Japanese life insurance operation, a $400 million charge from certain Brazilian investments and $10 million in charges for initiatives to reduce costs following the P&C sale.

The 1998 results exclude an after-tax gain of $202 million from the sale of the individual life insurance and annuity business.

have strong market positions in each of our major benefits businesses.

CIGNA's array of health care products is the broadest in the industry. Our health, dental and disability products are available on indemnity or managed care bases. And, we tailor our product offerings to the preferences of our customers.

We also are well positioned in the group life, accident and disability, and retirement and investment management markets. We lead the nation in group accident and business travel insurance, covering nearly one of every four insured employees. Additionally, our retirement business offers a full range of defined benefit, defined contribution and non-qualified plans that uniquely can be integrated into a single program.

As we continue to maximize the competitive advantage of our market strengths, we have sharpened our focus on the consumer. We are streamlining our business systems to bring more simplified, consistent processes and transactions into all of our customer relationships. In addition, we have launched a corporate-wide e-commerce initiative to enhance customer service, help consumers make better-informed health care and investment decisions using the Internet, and increase the efficiency of our operations.

Focusing on the consumer in each of our businesses...

Our priorities for the most effective use of our capital continue to include funding internal growth, making acquisitions consistent with our strategic direction and repurchasing our stock.

Legal and Legislative Challenges

Near the end of the year, CIGNA was among several health care companies named in potential class action lawsuits filed by a small group of special-interest trial lawyers who are challenging managed care practices. We firmly believe that our practices and procedures emphasize appropriate patient care and are confident that these suits are without merit.

While the outcome of federal health care legislation is still uncertain, many of the elements in proposals for a national "patients' bill of rights" already are standard business practices at CIGNA. With our full range of health care alternatives, moreover, we are well positioned to accommodate shifts in market preferences.

Management Changes

In January 2000, the Board of Directors elected H. Edward Hanway chief executive officer of CIGNA Corporation. This is the next step in our leadership transition that began a year ago, when Ed became president and chief operating officer.

His election reflects the Board's and my own personal confidence in this knowledgeable and experienced executive who has served CIGNA for 22 years in a variety of staff and operating assignments. Most recently, he achieved an outstanding record of success in managing our health care operations, our largest and most profitable business. Earlier, he achieved similar success with our international businesses.

CIGNA's results this year reflect Ed's personal commitment to continued high-quality earnings growth and customer service.

Outlook

We have made significant progress this year in implementing our employee benefits strategy. Operational results in our various businesses are among the best in their market segments, and our shareholder returns remain strong. Our solid business fundamentals, breadth of quality products, superior service capabilities and financial strength position us well for the future. Our goal continues to be creating increased value for CIGNA customers, shareholders and employees.

W H Taylor

Wilson H. Taylor
Chairman

See the cautionary statement about forward-looking information on page 22.

Through all of life's milestones, CIGNA is there.

Encouraging wellness. Providing quality health care.

Offering retirement security. Managing investments.

Helping people in their challenging times and good turns.

That's what we do every day in thousands of communities

around the world, where millions of people depend

on CIGNA as a business of caring.

With assets of $95.3 billion and shareholders' equity of $6.1 billion, CIGNA is a leading provider of employee benefits in the United States and also serves selected international markets. CIGNA's operating subsidiaries offer one of the broadest arrays of innovative, high-value products and services available in the industry:

- Managed medical and dental care products, group indemnity health insurance and related services;
- Group life, accident and disability insurance;
- Retirement and investment products and services;
- Investment management for CIGNA's insurance businesses and customers;
- International employee benefits and life insurance coverages; and
- Life, accident and health reinsurance products and services.

CIGNA HealthCare

William M. Pastore, President

CIGNA HealthCare offers a complete range of group medical, dental and life insurance products and designs benefit programs to meet the needs of employers of all sizes and their employees. HealthCare is one of the nation's leading providers of employee benefits, with health care programs marketed in all 50 states and managed care networks in 45 states, the District of Columbia and Puerto Rico. HealthCare's national managed dental care networks serve 44 states and the District of Columbia.

Products and Services

- Managed medical and dental care products
- Indemnity group health insurance and related services
- Managed behavioral care products and services, including mental health, substance abuse and employee assistance programs
- Managed pharmacy services
- Disability, medical cost and utilization management services
- Group life insurance

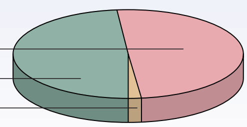
**Includes subscribers and dependents under guaranteed cost, retrospectively experience-rated and alternative funding arrangements. Participants in more than one category are included in each of the appropriate categories shown above, and medical indemnity and dental indemnity amounts are estimated.*

1999 Business Information *(Dollars in millions)*

Premiums and Fees		$ 10,921
Premium Equivalents		15,385
Adjusted Premiums and Fees		$ 26,306
Lives Covered* *(In millions)*		
Medical HMO		6.7
Medical Indemnity		6.6
Preferred Provider Organization	4.2	
Other	2.4	
Behavioral Care		10.3
Dental HMO		2.9
Dental Indemnity		10.8

Business Mix (Adjusted Premiums and Fees)

Health Indemnity (Medical and Dental)	50%
Managed Medical and Dental	46%
Life	4%



CIGNA Group Insurance

John K. Leonard, President

CIGNA Group Insurance provides a full spectrum of employer-paid and voluntary life, accident and disability products and designs disability management services to meet specific customer needs. Based on earned premiums, Group is the leading U.S. provider of group accident insurance, including voluntary accident and business travel accident insurance. Group is also among the largest providers of group long-term disability insurance, with a wide range of disability management services that focus on reducing employer costs and returning employees to productivity as quickly and safely as possible. In addition, the business is a leading provider of group life insurance, including group universal life and group variable universal life, and maintains service centers dedicated to easing employers' administrative burdens.

Products and Services

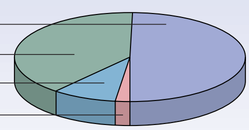
- Integrated management of health care, workers' compensation and disability programs
- Short- and long-term disability insurance and disability management services
- Group universal life, group variable universal life and group term life insurance
- Group voluntary and business travel accident insurance
- Specialty plans for nonemployer-sponsored groups and selected employer groups

1999 Business Information *(Dollars in millions)*

Premiums and Fees	$ 1,584

Business Mix (Premiums and Fees)

Life	49%
Disability	33%
Accident	13%
Other Health	5%



CIGNA Retirement & Investment Services

Byron D. Oliver, President

CIGNA Retirement & Investment Services is among the nation's leading retirement benefits plan providers in terms of assets under management. The business offers both stand-alone and fully integrated benefits programs, including defined contribution, defined benefit and non-qualified plans, and broker/dealer services. More than five million people invest or participate in a CIGNA retirement plan, including company and municipal employees and members of labor organizations.

Products and Services

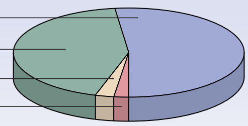
- Full retirement benefits integration
- 401(k) and other defined contribution plans
- Defined benefit pension plans
- IRAs and discount brokerage services
- Non-qualified benefit plans

1999 Business Information *(Dollars in millions)*

Deposits $ 8,506

Assets under Management

Defined Contribution	$ 30,576
Defined Benefit	19,294
Corporate Life Insurance	2,960
Other	2,924
Total	$ 55,754



CIGNA Investment Management

Thomas C. Jones, President

Through its presence in the world's capital markets, CIGNA Investment Management provides investment products and services for U.S. and international pension plans, institutional investors and CIGNA's insurance businesses. Investment Management operates through three business segments, each with a specific client market focus: retirement investment, insurance investment and capital markets. Incorporating its investment, credit analysis and research strengths, the business designs and delivers investment-related solutions and services targeted to the specific needs of its external and internal clients.

Products and Services

- Institutional investment management, global fixed income: sector specific and blended portfolios
- Institutional investment management, global equities: multi-manager suite of indexed and actively managed funds
- U.S. real estate equity and commercial mortgage origination and investing
- Asset securitization and collateral management
- Asset allocation and asset/liability matching
- Investment manager evaluation, selection and monitoring

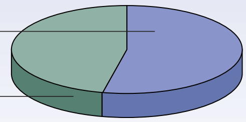
1999 Business Information *(Dollars in millions)**

CIGNA Consolidated Net Investment Income $ 2,959

CIGNA Realized Investment Gains $ 8

Invested Assets**

Advisory Portfolios, including Separate Accounts	$ 52,247
CIGNA Corporate and Insurance-Related Assets under Management	38,295
Total	$ 90,542



Reflects results from continuing operations, which exclude the discontinued property and casualty business (which was sold on July 2, 1999). CIGNA Investment Management continues to provide investment advisory services for this sold business. Investment assets of this business are included in Advisory Portfolios.

***Includes assets managed on behalf of CIGNA Retirement & Investment Services.*

CIGNA International

Terry L. Kendall, President

CIGNA International provides employee benefits, including health care and pensions for commercial customers and life, accident, health, disability and credit insurance for groups and individuals in selected international markets. International distributes its products through brokers, agents, direct sales forces, direct response marketing and, in selected countries, distribution alliances with major financial institutions.

Products and Services

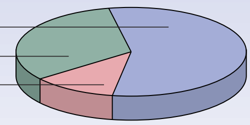
- Group and employee benefits: medical indemnity insurance, managed health care programs and pensions
- Life insurance
- Accident, health, disability and credit insurance

1999 Business Information *(Dollars in millions)*

Premiums and Fees $ 1,642

Business Mix (Premiums and Fees)

Japanese Life Operation	64%
Health Care	22%
Life, Accident and Health	14%



CIGNA Reinsurance

Francine M. Newman, President

CIGNA Reinsurance provides risk management products and related services for life, personal accident and health care coverages in the U.S. and international reinsurance markets. It offers insurance providers capacity, flexibility, underwriting knowledge and financial stability on a direct basis and through intermediaries. Customers include group and individual life, accident and health insurers; special risk and workers' compensation insurers; and managing general underwriters of sports disability insurance.

Other Operations also includes deferred gain recognition related to the sale of the individual life insurance and annuity business, corporate life insurance on which policy loans are outstanding, settlement annuity business and certain new business initiatives. The following information excludes these items.

Products and Services

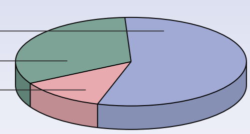
- Reinsurance for group, individual, and group voluntary life and accident products
- Personal accident reinsurance
- Employer stop-loss and first-dollar health care underwriting management services
- Health care underwriting management and consulting services

1999 Business Information *(Dollars in millions)*

Premiums and Fees $ 534

Business Mix (Premiums and Fees)

Accident	62%
Life	27%
Health	11%



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Consolidated Results of Continuing Operations

(In millions)

Financial Summary	1999	1998	1997
Premiums and fees	$ 15,079	$ 13,456	$ 11,781
Net investment income	2,959	3,115	3,598
Other revenues	735	946	483
Realized investment gains	8	134	93
Total revenues	18,781	17,651	15,955
Benefits and expenses	17,562	15,793	14,727
Income before taxes	1,219	1,858	1,228
Income taxes	520	672	416
Income from continuing operations	699	1,186	812
Less realized investment gains, net of taxes	4	88	69
Operating income	$ 695	$ 1,098	$ 743

Operating Income

Operating income is defined as net income excluding after-tax realized investment results, the results of discontinued operations and, in 1999, the cumulative effect of adopting SOP 97-3 (see Note 2(B) to the Financial Statements).

CIGNA's consolidated operating income included certain nonrecurring items. The most significant of these items are presented in the table below and discussed under "Other Matters" on pages 11-13.

(In millions)	1999	1998	1997
Operating income	$ 695	$ 1,098	$ 743
Charge related to certain Brazilian investments	400	—	—
Restructuring and integration costs	10	—	80
Gain on sale of partial interest in Japanese life insurance operation	(43)	—	—
Gain on sale of individual life insurance and annuity business	—	(202)	—
Adjusted operating income	$ 1,062	$ 896	$ 823

The 19% increase in adjusted operating income in 1999 primarily reflects improved operating results in CIGNA's Employee Health Care, Life and Disability Benefits segment and investment income on proceeds from the sale of the property and casualty business.

The 9% increase in adjusted operating income in 1998 reflects improved results in both the Employee Health Care, Life and Disability Benefits segment and the Employee Retirement Benefits and Investment Services segment. The 1998 increase was partially offset by lower operating income in Other Operations.

Realized Investment Results

The decrease in after-tax realized investment results in 1999 primarily reflects lower gains on sales of fixed maturities, real estate partnerships, equity securities and mortgage loans. The increase in 1998 reflects higher gains on sales of fixed maturities, equity securities and mortgage loans, partially offset by lower gains on sales of real estate. For additional information, see Note 5(B) to the Financial Statements.

Revenues

Consolidated revenues, excluding realized investment gains, were $18.8 billion in 1999, $17.5 billion in 1998 and $15.9 billion in 1997. The 1999 increase is largely the result of growth in two segments. The Employee Health Care, Life and Disability Benefits segment had higher revenues due to rate increases and membership growth. The International Life, Health and Employee Benefits segment had higher revenues due to growth in the Japanese life insurance operation. The 1999 increase was partially offset by the absence of the 1998 pre-tax gain of $316 million (reported in other revenues) recognized upon the sale of the individual life insurance and annuity business.

The 1998 increase reflects growth in two segments. The Employee Health Care, Life and Disability Benefits segment had higher revenues due to the acquisition of Healthsource (discussed below) and, to a lesser extent, rate increases and membership growth. In addition, the International Life, Health and Employee Benefits segment had higher revenues due to growth in the Japanese life insurance operation. Also, revenues in 1998 included the pre-tax gain of $316 million recognized upon the sale of the individual life insurance and annuity business. The 1998 increase was partially offset by the absence of 1997 revenues of $972 million from the sold individual life insurance and annuity business.

Outlook for 2000

Excluding the nonrecurring items presented above, management expects full year operating income to improve in 2000. However, such improvement could be adversely affected by factors such as those noted in the cautionary statement on page 22.

Other Matters

Acquisitions and Dispositions

Sale of property and casualty business. On July 2, 1999, CIGNA sold its domestic and international property and casualty business to ACE Limited for cash proceeds of $3.45 billion. The after-tax gain on the sale was $1.2 billion. In 1999, CIGNA began reporting this business as discontinued operations and reclassified prior year financial information. CIGNA's priorities for use of capital, including proceeds from the sale, are internal growth, acquisitions and share repurchase.

Brazilian investments. In the third quarter of 1999, CIGNA recognized an after-tax charge of $400 million attributable to certain Brazilian investments. See page 15 for more information about these investments.

Sale of partial interest in Japanese life insurance operation. In April 1999, CIGNA sold a 29% interest in its Japanese life insurance operation to Yasuda Fire & Marine Insurance Company Ltd., reducing CIGNA's ownership interest to 61%. Proceeds of the sale were $105 million. CIGNA reported the $43 million after-tax gain on this sale in the International Life, Health and Employee Benefits segment.

Sale of individual life insurance and annuity business. As of January 1, 1998, CIGNA sold its individual life insurance and annuity business for cash proceeds of $1.4 billion. The sale generated an after-tax gain of approximately $770 million. Of this amount, $202 million was recognized when the sale was completed in 1998. The remaining gain was deferred because the principal agreement to sell this business was an indemnity reinsurance arrangement. The deferred portion is being recognized at the rate that earnings from the sold business would have been expected to emerge, primarily over 15 years on a declining basis. CIGNA recognized $62 million of the deferred gain in 1999 and $66 million in 1998. In 1997, revenues for the sold business were $972 million and operating income was $98 million.

Acquisition of Healthsource, Inc. On June 25, 1997, CIGNA acquired the outstanding common stock of Healthsource, Inc. The total cost of the acquisition, which was accounted for as a purchase, was $1.7 billion, including $1.4 billion for the Healthsource common stock and $250 million to repay outstanding Healthsource debt. The acquisition was financed by issuing $600 million in long-term debt, supplemented by short-term debt and CIGNA's operating cash flows.

CIGNA conducts regular strategic and financial reviews of its businesses to ensure that its capital is used effectively. See Note 3 to the Financial Statements for additional information on acquisitions and dispositions.

Regulatory and Industry Developments

CIGNA's businesses are subject to a changing social, economic, legal, legislative and regulatory environment. Some of the more significant current issues that may affect CIGNA's businesses include:

- efforts to expand tort liability of health plans;
- proposed class action lawsuits targeting certain health care companies, including CIGNA;
- initiatives to increase health care regulation;
- initiatives to restrict insurance pricing and the application of underwriting standards; and
- efforts to revise federal tax laws.

Health care regulation. Efforts are underway in the federal and state legislatures and in the courts to increase regulation of the health care industry and change its operational practices. Regulatory and operational changes could have an adverse effect on CIGNA's health care operations if they reduce marketplace competition and innovation or result in increased medical or administrative costs without improving the quality of care.

Pending initiatives to increase health care regulation at the federal level include "managed care reform" and "patients' bill of rights" legislation. A bill that recently passed the House of Representatives would expand tort liability for health plans and undermine the ability of health plans to limit coverage to medically necessary care. A corresponding bill that recently passed the Senate does not include such provisions. Given these differences between the House and Senate bills and the general uncertainty of the political process, it is not possible to determine what legislation will be enacted, if any, or what the effect of any such legislation would be on CIGNA.

Other regulatory changes that have been under consideration and that could have an adverse effect on CIGNA's health care operations include:

- mandated benefits or services that increase costs without improving the quality of care;
- loss of the Employee Retirement Income Security Act of 1974 (ERISA) preemption of state tort laws through legislative actions and court decisions;
- changes in ERISA regulations imposing increased administrative burdens and costs;
- restrictions on the use of prescription drug formularies; and
- privacy legislation that interferes with the ability to properly use medical information for research, coordination of medical care and disease management.

Class action lawsuits and other litigation. CIGNA and several health care industry competitors have had proposed class action lawsuits filed against them by a coalition of plaintiffs' attorneys. These lawsuits allege violations under RICO and ERISA. CIGNA is routinely involved in numerous other lawsuits arising, for the most part, in the ordinary course of the business of administering and insuring employee benefit programs. Although the outcome of litigation is always uncertain, CIGNA does not believe that any litigation currently threatened or pending involving CIGNA will result in losses that would be material to results of operations, liquidity or financial condition.

Federal budget proposals. The Administration's proposed budget for fiscal year 2001 would tax amounts previously accumulated in a policyholders' surplus account. If enacted, CIGNA will record additional income tax expense of $158 million (see Note 9 to the Financial Statements for more information).

The proposed budget also would restrict the tax benefits for corporations owning non-leveraged corporate life insurance policies. If enacted as proposed, CIGNA does not anticipate that this provision will have a material effect on its consolidated results of operations, liquidity or financial condition, but it could have a material adverse effect on the results of operations of the Employee Retirement Benefits and Investment Services segment.

The eventual effect on CIGNA of the changing environment in which it operates remains uncertain. For additional information, see Note 17 to the Financial Statements.

Cost Reduction and Integration Initiatives

Subsequent to the sale of the property and casualty business in the third quarter of 1999, CIGNA adopted a plan to reduce costs. Adoption of the plan resulted in a charge of $15 million ($10 million after-tax), primarily for severance expenses, which was recorded in Corporate ($7 million after-tax) and the International Life, Health and Employee Benefits segment ($3 million after-tax). CIGNA expects to substantially complete this plan by mid-2000.

In the fourth quarter of 1997, CIGNA's health care operations adopted a cost reduction plan and completed a review of Healthsource's operations. The cost reduction plan resulted in an after-tax charge of $22 million, primarily for severance costs and office closings. The review of Healthsource's operations resulted in an after-tax integration charge of $58 million, primarily for Healthsource's HMO reserves, receivables and contractual obligations.

As of December 31, 1999, CIGNA had fully implemented both the 1997 cost reduction plan and the integration plan for Healthsource operations. Implementation of the cost reduction plan resulted in no material changes to the original estimates. CIGNA recorded adjustments to the integration charge resulting in increases to net income of $12 million in 1999 and $10 million in 1998. These amounts are included in the net favorable HMO adjustments discussed below.

Accounting Pronouncements

For information on recent accounting pronouncements, see Note 2(B) to the Financial Statements.

Employee Health Care, Life and Disability Benefits

(In millions)

Financial Summary	1999	1998	1997
Premiums and fees	$ 12,505	$ 11,421	$ 9,546
Net investment income	571	589	563
Other revenues	630	542	454
Segment revenues	13,706	12,552	10,563
Benefits and expenses	12,583	11,574	9,906
Income before taxes	1,123	978	657
Income taxes	395	361	232
Operating income	$ 728	$ 617	$ 425
Realized investment gains (losses), net of taxes	$ (2)	$ 54	$ 17

Operating Income

Operating income for the Employee Health Care, Life and Disability Benefits segment increased 18% in 1999 and 45% in 1998. Results for 1997 included after-tax charges of $58 million for Healthsource integration and $22 million related to cost reduction initiatives to restructure the health care operations. Excluding these items, operating income for the Indemnity and HMO operations was as follows:

(In millions)	1999	1998	1997
Indemnity operations	$ 327	$ 314	$ 302
HMO operations	401	303	203
Total	$ 728	$ 617	$ 505

Indemnity results increased 4% in 1999, primarily reflecting the following:

- higher earnings in the group life business;
- improved results for the Administrative Services Only (ASO) business; and
- favorable guaranteed cost medical claim experience.

These improvements were partially offset by lower earnings in the experience-rated health care and long-term disability businesses.

The improvement in 1998 indemnity results reflects favorable claim experience in the following businesses:

- guaranteed cost medical;
- group life; and
- long-term disability.

Partially offsetting these increases were lower earnings from experience-rated health care business.

HMO results included net favorable after-tax adjustments from account and tax reviews of $23 million in 1999, $7 million in 1998 and $6 million in 1997. Excluding those items, the increases in HMO operating results for 1999 and 1998 reflect the following:

- rate increases for guaranteed cost HMO business;
- higher earnings in the dental, behavioral, pharmacy and disability management service businesses;
- membership growth in the HMO alternative funding business; and
- lower operating expenses per member.

These improvements were partially offset by increased medical costs, primarily higher pharmacy and outpatient costs and, for 1998, higher amortization of goodwill and other intangibles associated with the Healthsource acquisition.

Premiums and Fees

Premiums and fees increased 9% in 1999 and 20% in 1998, primarily due to HMO and medical indemnity rate increases, membership growth and, in 1998, the addition of Healthsource.

Premium Equivalents

Management believes that business volume is best measured by premiums and fees plus premium equivalents, called adjusted premiums and fees. Premium equivalents generally equal paid claims under alternative funding programs. CIGNA would have recorded the amount of these paid claims as additional premiums if these programs had been written as guaranteed cost or experience-rated programs.

Under alternative funding programs, the customer assumes all or a portion of the responsibility for funding claims. The most common alternative funding programs offered by CIGNA are minimum premium and ASO plans. CIGNA generally earns a lower margin on these programs than under guaranteed cost or experience-rated programs. Adjusted premiums and fees were as follows for the year ended December 31:

(In millions)	1999	1998	1997
Premiums and fees	$ 12,505	$ 11,421	$ 9,546
Premium equivalents	15,385	13,039	10,807
Adjusted premiums and fees	$ 27,890	$ 24,460	$ 20,353

The 1999 increase of 18% in premium equivalents primarily reflects HMO and Preferred Provider Organization (PPO) membership growth in alternative funding programs. The 1998 increase of 21% reflects the Healthsource acquisition and growth in alternative funding HMO programs.

Net Investment Income

Net investment income decreased 3% in 1999 primarily because investment yields were lower than they were in 1998. Net investment income increased 5% in 1998 because CIGNA acquired Healthsource's assets, partially offset by lower investment yields.

HMO Medical Membership

Total HMO medical membership increased 4% in 1999 and 11% in 1998. CIGNA gained members in alternative funding programs in both years. Membership declined in guaranteed cost HMO programs during 1999.

Business Mix

Business mix in 1999, measured by adjusted premiums and fees, was approximately:

- 44% HMO medical and dental care;
- 39% medical indemnity;
- 8% dental indemnity;
- 6% life insurance;
- 2% long-term disability insurance; and
- 1% other insurance coverages.

Employee Retirement Benefits and Investment Services

(In millions)

Financial Summary	1999	1998	1997
Premiums and fees	$ 273	$ 257	$ 221
Net investment income	1,605	1,613	1,655
Segment revenues	1,878	1,870	1,876
Benefits and expenses	1,485	1,505	1,545
Income before taxes	393	365	331
Income taxes	128	117	101
Operating income	$ 265	$ 248	$ 230
Realized investment gains, net of taxes	$ 7	$ 25	$ 15

Operating Income

The increases in operating income of 7% in 1999 and 8% in 1998 reflect higher earnings from an increased asset base reflecting growth in separate account assets partially offset by lower general account assets. The increases also reflect higher earnings from non-leveraged corporate life insurance business resulting from an increased asset base and, in 1998, favorable mortality experience. In 1998, the increase was partially offset by a shift of assets to lower margin products, such as separate account equity funds.

See "Federal budget proposals" on page 12 for additional information regarding corporate life insurance.

Segment Revenues

Premiums and fees are principally asset management and administrative charges from general and separate accounts and amounts earned from non-leveraged corporate insurance. Net investment income primarily represents earnings from general account assets. Most of this net investment income is credited to customers and included in benefits and expenses.

Segment revenues are level for the years noted above, reflecting higher fees from separate accounts and, in 1998, higher revenues from non-leveraged corporate insurance. These increases were offset by lower net investment income due to lower general account assets.

Assets Under Management

Assets under management are a key determinant of earnings for this segment. The following table shows assets under management and related activity, including amounts attributable to separate accounts for the year ended December 31. Assets under management will continue to be affected by market value fluctuations for fixed maturities and equity securities.

(In millions)	1999	1998
Balance – January 1	$ 52,929	$ 48,231
Premiums and deposits	8,529	8,048
Investment results	5,085	3,432
Increase in fair value of assets	745	2,704
Customer withdrawals	(5,637)	(3,573)
Other, including participant withdrawals and benefit payments	(5,897)	(5,913)
Balance – December 31	$ 55,754	$ 52,929

Premiums and deposits. In 1999, approximately 59% of premiums and deposits were from existing customers, and 41% were from sales to new customers and new plan sales to existing customers. In 1998, 55% of premiums and deposits were from existing customers.

Investment results. Investment results increased 48% in 1999 due primarily to higher realized capital gains.

Fair value of assets. The increase in the fair value of assets was substantially lower in 1999 than 1998. This was primarily due to a decline in the fair value of fixed maturities caused by the rise in interest rates and lower market value appreciation on equity securities.

Customer withdrawals. Most of the increase in customer withdrawals in 1999 was attributable to four customers.

International Life, Health and Employee Benefits

(In millions)

Financial Summary	1999	1998	1997
Premiums and fees	$ 1,642	$ 1,227	$ 1,076
Net investment income	124	115	122
Other revenues	71	4	2
Segment revenues	1,837	1,346	1,200
Benefits and expenses	2,216	1,309	1,167
Income (loss) before taxes	(379)	37	33
Income taxes (benefits)	(37)	20	12
Operating income (loss)	$ (342)	$ 17	$ 21
Realized investment gains (losses), net of taxes	$ (1)	$ —	$ 2

Operating income (loss) for the International Life, Health and Employee Benefits segment included certain nonrecurring items summarized in the table below:

(In millions)	1999	1998	1997
Operating income (loss)	$ (342)	$ 17	$ 21
Charge related to certain Brazilian investments	400	—	—
Restructuring costs	3	1	—
Gain on sale of partial interest in Japanese life insurance operation	(43)	—	—
Adjusted operating income	$ 18	$ 18	$ 21

Brazilian Operations

During the third quarter of 1999, CIGNA completed a review of its Brazilian operations, including analyses of future estimated cash flows. These operations consist primarily of a health care operation and a managed health care business. After completing this review, CIGNA decided to withdraw from the health care operation but will continue to operate the managed health care business. As a result, CIGNA recorded an aggregate after-tax charge of $400 million, consisting of the following items:

- $305 million for the carrying value of the health care operation from which CIGNA is withdrawing, certain loans guaranteed by CIGNA and exit costs; and
- $95 million for impairment of other investments, primarily goodwill.

CIGNA's withdrawal from the health care operation could be challenged. While the outcome of any regulatory or legal actions cannot be determined, CIGNA does not expect that such actions would result in additional losses material to its consolidated results of operations, liquidity or financial condition.

Adjusted Operating Income

Adjusted operating income in 1999 primarily reflects favorable growth and product mix in the Japanese life insurance operation. This growth was partially offset by less favorable claim experience in the health care business for expatriate employees of multinational companies, unfavorable economic conditions in Latin America and unfavorable mortality experience in the group life business. Operating losses from Brazilian health care operations of $15 million in 1999 (excluding the charges noted above) were comparable with 1998.

The decline in 1998 adjusted operating income reflects operating losses from Brazilian health care operations, unfavorable economic conditions in Asia and expenses incurred to expand operations, primarily in Poland. Partially offsetting these decreases were higher earnings in the Japanese life insurance operation, reflecting higher business volume and favorable product mix, as well as growth in the health care business for expatriate employees of multinational companies.

Premiums and Fees

Premiums and fees increased 34% in 1999 and 14% in 1998. Excluding premiums and fees from the retained Brazilian managed health care business (which were not included in results until the fourth quarter of 1998) and the effects of foreign currency changes, premiums and fees increased 21% in 1999 and 22% in 1998. These increases reflect:

- growth in the Japanese life insurance operation;
- higher health care premiums and fees for expatriate employees of multinational companies; and
- for 1999, growth in life and group benefits business in Asia.

CIGNA intends to pursue international growth through acquisitions and other investments. This strategy will result in start-up costs and initial losses.

Other Operations

(In millions)

Financial Summary	1999	1998	1997
Premiums and fees	$ 659	$ 551	$ 938
Net investment income	581	771	1,235
Other revenues	195	514	151
Segment revenues	1,435	1,836	2,324
Benefits and expenses	1,250	1,356	2,056
Income before taxes	185	480	268
Income taxes	63	167	88
Operating income	122	313	180
Gain on sale of individual life insurance and annuity business	—	(202)	—
Deferred gain recognized	(62)	(66)	—
Operating income of individual life insurance and annuity business	—	—	(98)
Adjusted operating income	$ 60	$ 45	$ 82
Realized investment gains, net of taxes	$ —	$ 9	$ 35

Other Operations includes:

- the deferred gain recognized from the 1998 sale of the individual life insurance and annuity business;
- corporate life insurance on which policy loans are outstanding (leveraged corporate life insurance);
- life, accident and health reinsurance operations;
- settlement annuity business; and
- certain new business initiatives.

Adjusted Operating Income

The increase in 1999 adjusted operating income reflects improved results in the health, accident and specialty life reinsurance businesses, partially offset by reductions in leveraged corporate life insurance business due to policy surrenders.

The decrease in 1998 adjusted operating income primarily reflects unfavorable claim experience in the health and accident reinsurance operations and increased operating expenses for new business initiatives. This decrease was partially offset by growth in the specialty life reinsurance business.

Premiums and Fees

Premiums and fees increased 20% in 1999 and 11% in 1998, excluding 1997 premiums and fees from the sold individual life insurance and annuity business. The 1999 increase reflects growth in the personal accident reinsurance business, partially offset by a reduced volume of health reinsurance premiums. The 1998 increase is due to growth in specialty life reinsurance, partially offset by a reduced volume of renewal premiums for leveraged corporate life insurance.

Net Investment Income

Net investment income decreased 25% in 1999 and decreased slightly in 1998, excluding 1997 net investment income from the sold individual life insurance and annuity business. Investment income declined in both years primarily because CIGNA held fewer assets from leveraged corporate life insurance. In 1998, yields were generally lower than they had been in prior years. The 1998 decline was partially offset by higher assets from specialty life reinsurance products.

Other Revenues

Other revenues in 1998 includes a pre-tax gain of $316 million from the sale of the individual life insurance and annuity business.

Other Matters

Tax benefits for corporate life insurance. In 1996, Congress passed legislation implementing a three-year phase-out period for tax deductibility of policy loan interest for most leveraged corporate life insurance products. As a result, management expects revenues and operating income associated with these products to continue to decline. In 1999, revenues of $350 million and operating income of $32 million were from products affected by this legislation.

Specialty life reinsurance contracts. CIGNA has entered into specialty life reinsurance contracts that contain certain guarantees for variable annuities. One type of reinsurance contract guarantees minimum income benefits based on unfavorable changes in account values. The other type guarantees a minimum death benefit, also based on unfavorable changes in account values. The variable annuity account values are based on underlying domestic equity and bond mutual fund investments.

For those reinsurance contracts that guarantee minimum income benefits, CIGNA has purchased reinsurance from third parties, which substantially reduces the risk of these contracts.

For those reinsurance contracts that guarantee a minimum death benefit, management is reviewing alternatives to manage the equity market and interest rate risks associated with these guarantees. As part of this review, CIGNA is considering whether to modify certain reserve assumptions for the liabilities associated with the minimum death benefit contracts. The guarantees under these contracts and changes that could result from this review could adversely affect CIGNA's consolidated results of operations in future periods. However, management does not expect them to have a material adverse effect on CIGNA's liquidity or financial condition.

Unicover. The reinsurance operations include a 35% share in the primary layer of a workers' compensation reinsurance pool, which was managed by Unicover Managers, Inc. until recently. The pool had obtained reinsurance for a significant portion of its exposure to claims. Disputes have arisen regarding this reinsurance (retrocessional) coverage of the pool. Two of the retrocessionaires have commenced arbitration against Unicover and the pool members seeking rescission or damages. In addition, these retrocessionaires have separately asserted that CIGNA participates in an upper layer of reinsurance for the pool, which CIGNA denies. Resolution of these matters is likely to take some time. Although the outcome of these matters is uncertain, CIGNA does not expect them to result in losses material to CIGNA's consolidated results of operations, liquidity or financial condition.

Corporate

(In millions)

Financial Summary	1999	1998	1997
Operating loss	$ (78)	$ (97)	$ (113)

Corporate reflects amounts not allocated to segments, such as:

- interest expense on corporate debt;
- net investment income on unallocated investments;
- intersegment eliminations; and
- certain corporate overhead expenses (including overhead expenses previously allocated to the property and casualty business which have been reclassified to Corporate).

The reduced operating loss in 1999 primarily reflects higher net investment income resulting from the investment of the proceeds of the sale of the property and casualty business in 1999. This improvement is partially offset by a $7 million after-tax restructuring charge (primarily severance-related costs) recorded in the third quarter of 1999 for cost reduction initiatives.

The reduced loss for 1998 is primarily attributable to a decrease in unallocated corporate expenses.

Discontinued Property and Casualty Operations

(In millions)

Financial Summary	1999	1998	1997
Premiums and fees	$ 1,411	$ 2,957	$ 3,154
Net investment income	268	590	647
Other revenues	136	281	286
Realized investment gains	48	22	74
Total revenues	1,863	3,850	4,161
Benefits and expenses	1,911	3,698	3,739
Income (loss) before taxes	(48)	152	422
Income taxes (benefits)	(20)	46	148
Income (loss) from operations	(28)	106	274
Gain on sale, net of taxes of $1,152	1,194	—	—
Income from discontinued operations	$ 1,166	$ 106	$ 274

On July 2, 1999, CIGNA sold its property and casualty business. See Acquisitions and Dispositions on page 11 for additional information. Amounts in the table above are excluded from CIGNA's results of continuing operations.

The loss from operations for 1999 includes results through the sale date. The decline in results in 1999 is primarily attributable to:

- an after-tax charge of $67 million resulting from account and other financial reviews of an insurance-related service business;
- unfavorable claim experience;
- declining results from insurance-related service business; and
- the effects of continued competitive conditions in the property and casualty insurance markets.

The decline in income from operations for 1998 primarily reflects:

- increased after-tax catastrophe losses of approximately $80 million;
- after-tax restructuring costs of $18 million; and
- unfavorable claim experience, primarily in the international operations.

Liquidity and Capital Resources

(In millions)

Financial Summary	1999	1998	1997
Short-term investments	$ 950	$ 242	$ 137
Cash and cash equivalents	$ 2,232	$ 1,986	$ 1,832
Short-term debt	$ 57	$ 272	$ 690
Long-term debt	$ 1,359	$ 1,428	$ 1,462
Shareholders' equity	$ 6,149	$ 8,277	$ 7,932

Liquidity

CIGNA's operations have liquidity requirements that vary among the principal product lines.

Life insurance and pension plan reserves are primarily longer-term liabilities. Liquidity requirements are usually stable and predictable, and are supported primarily by medium-term, fixed-income investments.

Accident and health reserves, including long-term disability, consist of both short-term and long-term liabilities. The settlement of reported claims is generally stable and predictable, but usually shorter term, requiring greater liquidity.

CIGNA normally meets its operating requirements by:

- maintaining appropriate levels of liquidity in its investment portfolio;
- using cash flows from operating activities (operating cash flows); and
- matching investment maturities to the duration of the related insurance and contractholder liabilities.

Operating cash flows consist of operating income adjusted to reflect the timing of cash receipts and disbursements for premiums and fees, investment income and benefits, losses and expenses.

Each of CIGNA's insurance subsidiaries may use operating cash flows to fund its operations. However, CIGNA is only permitted to use operating cash flows to meet other external liquidity needs (such as to make dividend, interest or debt payments) if its insurance subsidiaries can pay dividends or make loans or other distributions to CIGNA, which are subject to various regulatory restrictions.

Liquidity for CIGNA and its insurance subsidiaries has remained strong, as evidenced by significant combined amounts of short-term investments and cash and cash equivalents. However, the demand for funds may exceed available cash if:

- management uses cash for investment opportunities;
- an insurance or contractholder liability becomes due before related investment assets mature; or
- insurance subsidiaries are unable to distribute cash due to regulatory restrictions.

In those cases, CIGNA's size and diversity provide the flexibility to satisfy liquidity needs through short-term borrowings. At December 31, 1999, CIGNA had approximately $435 million available under committed and uncommitted bank lines of credit.

Cash flows from continuing operations for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Operating activities	$ 1,817	$ 886	$ 1,455
Investing activities	$ 2,495	$ 871	$ (1,573)
Financing activities	$ (4,213)	$ (1,553)	$ 677

Cash and cash equivalents increased $246 million in 1999 and $154 million in 1998. The increase primarily reflects cash flows from operating and investing activities, substantially offset by cash used in financing activities, as follows:

1999:

- Cash flows from investing activities consisted of the $3.45 billion proceeds on the sale of the property and casualty business, partially offset by net investment purchases.
- Cash used in financing activities primarily reflects the payment of dividends on and repurchase of CIGNA's common stock ($3.3 billion), repayment of debt ($284 million) and net withdrawals from contractholder deposit funds ($705 million).

1998:

- Cash flows from investing activities consisted of net proceeds of $1.3 billion on the sale of the individual life insurance and annuity business, partially offset by investments of approximately $350 million in international initiatives.
- Cash used in financing activities consisted of payments of dividends on and repurchase of CIGNA's common stock ($1.1 billion) and repayment of debt ($456 million).

Capital Resources

CIGNA's capital resources (primarily retained earnings and the proceeds from the issuance of long-term debt and equity securities) represent funds available for long-term business commitments. Capital resources:

- provide protection for policyholders;
- furnish the financial strength to support the business of underwriting insurance risks; and
- facilitate continued business growth.

Senior management and the Board of Directors, guided by regulatory requirements, determine the amount of capital resources that CIGNA must 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.

CIGNA's financial strength provides the capacity and flexibility to raise funds in the capital markets. At December 31, 1999, CIGNA had $1 billion remaining under effective shelf registration statements filed with the Securities and Exchange Commission, which may be issued as debt securities, equity securities or both. Management and the Board of Directors will consider market conditions and internal capital requirements when deciding whether CIGNA should issue new securities.

CIGNA's Board of Directors has authorized a stock repurchase plan. Decisions to repurchase shares depend on market conditions and alternative uses of capital. Under this plan, stock repurchase activity for the year ended December 31 was as follows:

(In millions, except per share amounts)	1999	1998	1997
Shares repurchased	36.7	12.4	6.3
Cost of shares repurchased	$ 3,055	$ 822	$ 340
Average price per share	$ 83.24	$ 66.29	$ 53.97

From January 1, 2000 through February 23, 2000, an additional 2.4 million shares were repurchased for $189 million. On January 26, 2000, CIGNA's Board of Directors authorized an additional $1 billion of share repurchases. The total remaining authorization as of February 23, 2000 was $1.5 billion.

Investment Assets – Continuing Operations

Information regarding investment assets held by CIGNA is presented below. Additional information regarding CIGNA's investment assets and related accounting policies is included in Notes 2, 4 and 5 to the Financial Statements and in CIGNA's Form 10-K.

(In millions)

	As of December 31, 1999	1998
Financial Summary		
Fixed maturities	$ 22,944	$ 24,270
Equity securities	585	477
Mortgage loans	9,737	9,599
Real estate	789	733
Other, primarily policy loans	4,240	6,597
Total investment assets	$ 38,295	$ 41,676

The 8% decrease in investment assets as of December 31, 1999 is primarily due to:

- a $3.1 billion decline in policy loans on leveraged corporate life insurance policies; and
- a $1.7 billion reduction in the fair value of fixed maturities due to increases in interest rates; partially offset by
- $730 million of short-term investments purchased with proceeds of the sale of the property and casualty business.

A significant portion of CIGNA's investment assets are attributable to experience-rated contracts with policyholders (policyholder contracts). The following table shows, as of December 31, the percentage of investment assets (excluding separate account assets) that policyholder contracts represent:

	1999	1998
Fixed maturities	36%	39%
Mortgage loans	59%	57%
Real estate	65%	63%

Under the experience-rating process, net investment income and gains and losses on assets related to policyholder contracts generally accrue to the policyholders. Consequently, write-downs, changes in valuation reserves and non-accruals on investments attributable to policyholder contracts do not affect CIGNA's net income except under unusual circumstances.

Fixed Maturities

The fair value of investments in fixed maturities (bonds) as of December 31 was as follows:

(In millions)	1999	1998
Federal government and agency	$ 803	$ 1,171
State and local government	1,214	1,081
Foreign government	1,752	1,538
Corporate	13,465	13,929
Federal agency mortgage-backed	862	1,503
Other mortgage-backed	1,720	1,922
Other asset-backed	3,128	3,126
Total	$ 22,944	$ 24,270

Additional information regarding fixed maturities follows:

Quality ratings. As of December 31, 1999, $21.4 billion, or 93% of the fixed maturities in CIGNA's investment portfolio were investment grade, and the remaining $1.5 billion were below investment grade (BA and below, or equivalent). Most of the bonds that are below investment grade are rated at the higher end of the non-investment grade spectrum. Approximately 21% of CIGNA's below investment grade securities are attributable to policyholder contracts.

Private placement investments are generally less marketable than public bonds, but yields on these investments tend to be higher than yields on publicly offered debt with comparable credit risk. CIGNA has several controls on its participation in private placements. In particular, CIGNA:

- performs a credit analysis of each issuer;
- diversifies investments by industry and issuer; and
- requires financial and other covenants that allow CIGNA to monitor issuers for deteriorating financial strength so CIGNA can take remedial actions, if warranted.

Because of the higher yields and the inherent risk associated with privately placed investments and below investment grade securities, gains or losses from such investments could significantly affect future results of operations. However, management does not expect such gains or losses to be material to CIGNA's liquidity or financial condition.

Asset-backed securities are debt obligations secured by pools of mortgages, mortgage-backed securities, federal agency securities or corporate debt obligations. CIGNA's investment in asset-backed securities included collateralized mortgage obligations (CMOs) of $1.5 billion at December 31, 1999 and $2.2 billion at December 31, 1998. These investments were carried at fair value, with an amortized cost of $1.6 billion at December 31, 1999, and $2.1 billion at December 31, 1998.

Certain of the CMOs that CIGNA holds are backed by Aaa/AAA-rated federal agencies. Most others have high quality ratings because credit enhancements have been provided by subordinated securities or mortgage insurance from Aaa/AAA-rated insurance companies.

CIGNA's CMO holdings are concentrated in securities with limited prepayment, extension and default risk.

Mortgage Loans

CIGNA's mortgage loans are diversified by property type, location and borrower to reduce exposure to potential losses. CIGNA routinely monitors and evaluates the status of its mortgage loans through the review of loan and property-related information, including cash flows, expiring leases, financial health of the borrower and major tenants, loan payment history, occupancy and room rates for hotels and, for commercial properties, significant new competition. CIGNA evaluates this information in light of current economic conditions as well as geographic and property type considerations.

Problem and Potential Problem Bonds and Mortgage Loans

Problem bonds and mortgage loans are delinquent or have been restructured as to terms (interest rate or maturity date). Potential problem bonds and mortgage loans are fully current, but management believes they have certain characteristics that increase the likelihood that they will become "problems." CIGNA also considers mortgage loans to be potential problems if:

- the borrower has requested restructuring; or
- principal or interest payments are past due by more than 30 but fewer than 60 days.

The following table presents problem and potential problem bonds and mortgage loans, and includes amounts attributable to policyholder contracts as of December 31:

(In millions)	1999	1998
Problem bonds, including $14 and $3, respectively, related to emerging market investments	$ 151	$ 108
Potential problem bonds	$ 77	$ 58
Problem mortgage loans	$ 85	$ 98
Potential problem mortgage loans	$ 149	$ 55

Real Estate

Investment real estate includes both income-producing property and real estate held for sale. Most of the real estate held for sale in 1999 and 1998 was office buildings and retail facilities in the Central and Middle Atlantic regions that were acquired as a result of foreclosure of mortgage loans.

As of December 31, investment real estate (including amounts attributable to policyholder contracts) and related cumulative write-downs and valuation reserves were as follows:

(In millions)	1999	1998
Real estate held for sale	$ 450	$ 511
Less cumulative write-downs	100	132
Less valuation reserves	38	36
	312	343
Real estate held to produce income	523	435
Less cumulative write-downs	46	45
	477	390
Investment real estate	$ 789	$ 733

At December 31, 1999 and 1998, 60% of the carrying value of the properties acquired through foreclosure were attributable to policyholder contracts.

Summary

CIGNA's investment asset write-downs, non-accruals and changes in valuation reserves were not material to CIGNA's policyholder contracts, results of operations, liquidity or financial condition for the periods presented. CIGNA expects additional investment losses to occur in the normal course of business. However, assuming no significant deterioration in economic conditions, CIGNA does not expect additional losses to materially affect future results of operations, liquidity or financial condition, or to result in a significant decline in the aggregate carrying value of its assets.

Market Risk of Financial Instruments – Continuing Operations

A portion of CIGNA's assets and liabilities are financial instruments, which are subject to the risk of potential losses from adverse changes in market rates and prices. CIGNA's primary market risk exposures are:

- ***Interest-rate risk*** on fixed rate domestic medium-term instruments and, to a lesser extent, international medium-term and domestic and international short- and long-term instruments. Changes in market interest rates affect the value of instruments that promise a fixed return.
- ***Foreign currency exchange rate risk*** in the U.S. dollar to the Japanese yen, the Canadian dollar, the Chilean peso and the euro. An unfavorable change in exchange rates lowers the carrying value of net assets denominated in foreign currencies.
- ***Equity price risk*** for stocks and for reinsurance contract guarantees for variable annuity account values with underlying mutual fund investments. CIGNA's investment in domestic equity securities (which are primarily managed to mirror the S&P 500) was $541 million at December 31, 1999, and $442 million at December 31, 1998. CIGNA held $44 million in international securities at December 31, 1999, and $35 million at December 31, 1998. Substantially all of CIGNA's international securities were issued by entities based in developed countries, such as certain European countries and Japan. Reinsurance contract guarantees for variable annuity account values are based primarily on underlying domestic stock and bond mutual funds (see page 16 for additional information).

CIGNA uses a variety of techniques to manage its exposure to market risk:

- CIGNA generally selects investment assets with characteristics (such as duration, yield, currency and liquidity) that correspond to the underlying characteristics of its related insurance and contractholder liabilities so that CIGNA can match the investments to its obligations. Medium-term, fixed rate investments support interest-sensitive, experience-rated and health liabilities (subject to liquidity requirements). Shorter- and longer-term investments support generally shorter- and longer-term life and health claim liabilities. Longer-term investments generally support longer-term, fully guaranteed products—primarily annuities.
- CIGNA generally conducts its international business through foreign operating entities that maintain assets and liabilities in local currencies. This substantially limits exchange rate risk to net assets denominated in foreign currencies.
- CIGNA generally uses derivative financial instruments to minimize certain market risks.

See Notes 2(C) and 4(F) to the Financial Statements for additional information about financial instruments, including derivative financial instruments.

The following hypothetical examples illustrate the effect of changes in market rates or prices on the fair value of certain financial instruments. Actual results could differ materially because the examples were developed using estimates and assumptions. In addition, the following assets and liabilities are excluded from the hypothetical effects:

- insurance contract liabilities, which represented 53% of CIGNA's total liabilities (excluding separate accounts) at December 31, 1999, and 54% at December 31, 1998; and reinsurance recoverables on unpaid losses, which represented 12% of CIGNA's total assets (excluding separate accounts) at December 31, 1999, and 11% at December 31, 1998, because insurance contracts are excluded from requirements for these disclosures; and
- separate account assets and liabilities (because gains and losses in these accounts generally accrue to policyholders except for amounts invested by CIGNA).

Subject to these exclusions, the hypothetical effects of changes in market rates or prices on the fair values of financial instruments would have been as follows as of December 31:

Market scenario for certain noninsurance financial instruments	Loss in fair value 1999	1998
100 basis point increase in interest rate	$1.0 billion	$1.1 billion
10% strengthening in U.S. dollar to each foreign currency	$380 million	$300 million
10% decrease in market prices for equity exposures	$70 million	$50 million

The effect of an increase in interest rates was determined by estimating the present value of future cash flows using various models, primarily duration modeling.

The effect of a strengthening of the U.S. dollar relative to each of the foreign currencies held by CIGNA was estimated as 10% of the U.S. dollar equivalent fair value.

The effect of a decrease in the market prices of all equity securities was estimated as 10% of their fair value.

Year 2000

CIGNA Information Systems

CIGNA is highly dependent on automated systems and systems applications in conducting its operations. In particular, CIGNA relies on information technology (IT) systems for tasks like processing claims, billing, collecting premiums and managing investment activities. CIGNA also relies on non-IT systems, such as telephone, facility management and other systems using embedded computer chips. As of the end of February 2000, CIGNA's systems have not been adversely affected in any material way by the Year 2000 event.

Third-Party Systems

CIGNA has relationships with various third-party entities in the ordinary course of business. For example, CIGNA receives data from clients, hires third-party administrators and banks to perform certain services and bears credit risk on others, such as entities in which it invests. As of the end of February 2000, CIGNA has not been adversely affected in any material way because the systems of any third party were not Year 2000 compliant.

Contingency Plans

CIGNA has historically had security and backup policies and procedures for safeguarding critical corporate data, as well as business continuity plans. It supplemented these policies by developing Year 2000 contingency plans to provide for the continuity of operations in the event of Year 2000 systems failures or the failure of third-party providers to be Year 2000 ready.

Throughout 2000, CIGNA will continue to monitor its systems for any Year 2000-related systems issues that have not yet been identified. However, CIGNA does not expect any Year 2000 problems that would have a material adverse effect on CIGNA's results of operations, liquidity or financial condition.

Cost of Year 2000 Efforts

CIGNA used both internal and external resources to complete its Year 2000 efforts. The after-tax costs of those efforts (including amounts related to discontinued operations) were approximately $35 million in 1999 and $100 million in 1998.

Approximately 60% of total Year 2000 costs are attributable to existing systems resources that were redirected to Year 2000 efforts. The remaining amounts represent incremental costs for Year 2000 efforts. Although certain systems development efforts were deferred in order to address Year 2000 issues, CIGNA does not expect that this deferral will have a significant adverse effect on its results of operations or financial condition.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

CIGNA and its representatives may from time to time make written and oral forward-looking statements, including statements contained in CIGNA's filings with the Securities and Exchange Commission and in its reports to shareholders. These statements may contain information about financial prospects, economic conditions, trends and known uncertainties. CIGNA cautions the reader that actual results could differ materially from those that management expects, depending on the outcome of certain factors. In some cases, CIGNA describes uncertainties when offering a forward-looking statement. Some factors that could cause CIGNA's actual results to differ materially from the forward-looking statements include:

1. *increases in medical costs in CIGNA's health care operations, including increased use and costs of medical services;*
2. *increased medical, administrative or other costs resulting from legislative, regulatory and litigation challenges to CIGNA's health care business (see page 12 for more information);*
3. *heightened competition, particularly price competition, which could reduce product margins and constrain growth in CIGNA's businesses;*
4. *significant changes in interest rates;*
5. *significant stock market declines resulting in payments contingent on certain variable annuity account values (see page 16 for more information);*
6. *significant deterioration in economic conditions, which could have an adverse effect on CIGNA's investments; and*
7. *proposals to change federal income taxes.*

This list of important factors may not be complete. CIGNA will not update any forward-looking statement that may be made by or on behalf of CIGNA prior to the next required filing with the Securities and Exchange Commission.

Consolidated Statements of Income

(In millions, except per share amounts)			
For the years ended December 31,	1999	1998	1997
Revenues			
Premiums and fees	$ 15,079	$ 13,456	$ 11,781
Net investment income	2,959	3,115	3,598
Other revenues	735	946	483
Realized investment gains	8	134	93
Total revenues	18,781	17,651	15,955
Benefits, Losses and Expenses			
Benefits, losses and settlement expenses	12,522	11,614	10,809
Policy acquisition expenses	251	201	257
Other operating expenses	4,789	3,978	3,661
Total benefits, losses and expenses	17,562	15,793	14,727
Income From Continuing Operations Before Income Taxes	1,219	1,858	1,228
Income taxes (benefits):			
Current	473	839	462
Deferred	47	(167)	(46)
Total taxes	520	672	416
Income From Continuing Operations	699	1,186	812
Discontinued Operations			
Income (loss) from operations, net of taxes	(28)	106	274
Gain on sale, net of taxes	1,194	—	—
Income From Discontinued Operations	1,166	106	274
Income Before Cumulative Effect of Accounting Change	1,865	1,292	1,086
Cumulative Effect of Accounting Change, Net of Taxes	(91)	—	—
Net Income	$ 1,774	$ 1,292	$ 1,086
Basic Earnings Per Share			
Income from continuing operations	$ 3.59	$ 5.62	$ 3.69
Income from discontinued operations	5.99	0.50	1.24
Income before cumulative effect of accounting change	9.58	6.12	4.93
Cumulative effect of accounting change, net of taxes	(0.46)	—	—
Net income	$ 9.12	$ 6.12	$ 4.93
Diluted Earnings Per Share			
Income from continuing operations	$ 3.54	$ 5.56	$ 3.65
Income from discontinued operations	5.91	0.49	1.23
Income before cumulative effect of accounting change	9.45	6.05	4.88
Cumulative effect of accounting change, net of taxes	(0.46)	—	—
Net income	$ 8.99	$ 6.05	$ 4.88

The Notes to Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

(In millions, except per share amounts)				
As of December 31,		1999		1998
Assets				
Investments:				
Fixed maturities, at fair value (amortized cost, $23,111; $22,663)		$ 22,944		$ 24,270
Equity securities, at fair value (cost, $286; $249)		585		477
Mortgage loans		9,737		9,599
Policy loans		3,079		6,185
Real estate		789		733
Other long-term investments		211		170
Short-term investments		950		242
Total investments		38,295		41,676
Cash and cash equivalents		2,232		1,986
Accrued investment income		500		617
Premiums, accounts and notes receivable		2,475		2,481
Reinsurance recoverables		6,768		6,666
Deferred policy acquisition costs		927		730
Property and equipment		715		701
Deferred income taxes		1,156		1,034
Other assets		517		750
Goodwill and other intangibles		1,955		2,090
Separate account assets		39,793		34,808
Net assets of discontinued operations		—		2,351
Total assets		$ 95,333		$ 95,890
Liabilities				
Contractholder deposit funds		$ 26,599		$ 30,607
Unpaid claims and claim expenses		4,135		3,392
Future policy benefits		12,625		12,510
Unearned premiums		674		589
Total insurance and contractholder liabilities		44,033		47,098
Accounts payable, accrued expenses and other liabilities		4,552		4,385
Short-term debt		57		272
Long-term debt		1,359		1,428
Separate account liabilities		39,183		34,430
Total liabilities		89,184		87,613
Contingencies — Note 17				
Shareholders' Equity				
Common stock (shares issued, 267; 265)		67		66
Additional paid-in capital		2,825		2,719
Net unrealized appreciation (depreciation), fixed maturities	$ (36)		$ 750	
Net unrealized appreciation, equity securities	184		206	
Net translation of foreign currencies	18		(114)	
Accumulated other comprehensive income		166		842
Retained earnings		8,290		6,746
Less treasury stock, at cost		(5,199)		(2,096)
Total shareholders' equity		6,149		8,277
Total liabilities and shareholders' equity		$ 95,333		$ 95,890
Shareholders' Equity Per Share		$ 36.24		$ 40.25

The Notes to Financial Statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity

(In millions, except per share amounts)

For the years ended December 31,	1999		1998		1997	
	Compre-hensive Income	Share-holders' Equity	Compre-hensive Income	Share-holders' Equity	Compre-hensive Income	Share-holders' Equity
Common Stock, beginning of year		$ 66		$ 66		$ 66
Issuance of common stock for employee benefits plans		1		—		—
Common Stock, end of year		67		66		66
Additional Paid-In Capital, beginning of year		2,719		2,655		2,594
Issuance of common stock for employee benefits plans		106		64		61
Additional Paid-In Capital, end of year		2,825		2,719		2,655
Accumulated Other Comprehensive Income, beginning of year		842		758		582
Net unrealized appreciation (depreciation), fixed maturities	$ (786)	(786)	$ (2)	(2)	$ 213	213
Net unrealized appreciation (depreciation), equity securities	(22)	(22)	74	74	44	44
Net unrealized appreciation (depreciation) on investments	(808)		72		257	
Net translation of foreign currencies	132	132	12	12	(81)	(81)
Other comprehensive income (loss)	(676)		84		176	
Accumulated Other Comprehensive Income, end of year		166		842		758
Retained Earnings, beginning of year		6,746		5,696		4,855
Net income	1,774	1,774	1,292	1,292	1,086	1,086
Common dividends declared (per share: $1.20; $1.15; $1.11)		(230)		(242)		(245)
Retained Earnings, end of year		8,290		6,746		5,696
Treasury Stock, beginning of year		(2,096)		(1,243)		(889)
Repurchase of common stock		(3,055)		(822)		(340)
Other treasury stock transactions, net		(48)		(31)		(14)
Treasury Stock, end of year		(5,199)		(2,096)		(1,243)
Total Comprehensive Income and Shareholders' Equity	$ 1,098	$ 6,149	$ 1,376	$ 8,277	$ 1,262	$ 7,932

The Notes to Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(In millions)

For the years ended December 31,	1999	1998	1997
Cash Flows from Operating Activities			
Income from continuing operations	$ 699	$ 1,186	$ 812
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:			
Insurance liabilities	1,151	764	676
Reinsurance recoverables	(99)	(159)	(2)
Deferred policy acquisition costs	(133)	(120)	(210)
Premiums, accounts and notes receivable	(420)	(338)	46
Accounts payable, accrued expenses, other liabilities and current income taxes	87	92	280
Deferred income taxes	47	(167)	(46)
Realized investment gains	(8)	(134)	(93)
Depreciation and goodwill amortization	225	218	179
Gain on sale of businesses (excluding discontinued operations)	(163)	(418)	—
Charge attributable to Brazilian investments	478	—	—
Other, net	(47)	(38)	(187)
Net cash provided by operating activities of continuing operations	1,817	886	1,455
Cash Flows from Investing Activities			
Proceeds from investments sold:			
Fixed maturities	3,033	3,395	1,962
Equity securities	107	137	82
Mortgage loans	810	1,271	861
Other (primarily short-term investments)	3,433	1,003	1,669
Investment maturities and repayments:			
Fixed maturities	2,773	3,213	2,765
Mortgage loans	466	470	634
Investments purchased:			
Fixed maturities	(5,925)	(5,903)	(6,088)
Equity securities	(119)	(64)	(74)
Mortgage loans	(1,511)	(1,851)	(1,527)
Other (primarily short-term investments)	(3,692)	(1,349)	(284)
Sale of property and casualty business	3,450	—	—
Sale of individual life insurance and annuity business, net proceeds	—	1,296	—
Healthsource acquisition, net cash used	—	—	(1,305)
Other acquisitions and dispositions, net cash provided (used)	107	(336)	(111)
Other, net	(437)	(411)	(157)
Net cash provided by (used in) investing activities of continuing operations	2,495	871	(1,573)
Cash Flows from Financing Activities			
Deposits and interest credited to contractholder deposit funds	7,585	7,050	7,641
Withdrawals and benefit payments from contractholder deposit funds	(8,290)	(7,097)	(7,043)
Net change in short-term debt	(257)	(348)	358
Issuance of long-term debt	—	—	600
Repayment of long-term debt	(27)	(108)	(318)
Repurchase of common stock	(3,028)	(833)	(335)
Issuance of common stock	42	26	19
Common dividends paid	(238)	(243)	(245)
Net cash provided by (used in) financing activities of continuing operations	(4,213)	(1,553)	677
Effect of foreign currency rate changes on cash and cash equivalents	9	22	(12)
Net cash (to) from discontinued operations	138	(72)	380
Net increase in cash and cash equivalents	246	154	927
Cash and cash equivalents, beginning of year	1,986	1,832	905
Cash and cash equivalents, end of year	$ 2,232	$ 1,986	$ 1,832
Supplemental Disclosure of Cash Information:			
Income taxes paid, net of refunds	$ 511	$ 843	$ 620
Interest paid	$ 116	$ 128	$ 123

The Notes to Financial Statements are an integral part of these statements.

Note 1 — Description of Business

CIGNA Corporation's subsidiaries provide group life and health insurance, managed care products and related services, and retirement and investment products and services. CIGNA operates throughout the United States and in selected international locations.

Note 2 — Summary of Significant Accounting Policies

A. Basis of Presentation

The consolidated financial statements include the accounts of CIGNA Corporation and all significant subsidiaries, which are referred to collectively as "CIGNA."

These consolidated financial statements were prepared in conformity with generally accepted accounting principles. Amounts recorded in the financial statements reflect management's estimates and assumptions about medical costs, interest rates and other factors. Significant estimates are discussed in these Notes.

Results of the property and casualty business are now reported as discontinued operations because CIGNA sold that business in July (discussed in Note 3). Unless otherwise indicated, amounts in these Notes exclude the effects of discontinued operations. Certain other reclassifications have been made to prior years' amounts to conform to the 1999 presentation.

B. Recent Accounting Pronouncements

Insurance-related assessments. CIGNA adopted Statement of Position (SOP) 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," as of January 1, 1999. Issued by the American Institute of Certified Public Accountants, this SOP guides companies in measuring and recording liabilities for insolvency fund and other insurance-related assessments, such as workers' compensation second injury funds, medical risk pools and charges for operating expenses of state regulatory bodies. The cumulative effect of adopting the SOP was a $91 million ($140 million pre-tax) reduction in CIGNA's net income. Most of this effect resulted from the property and casualty business, which has been sold and is reported as discontinued operations.

Internal use software. In 1999, CIGNA adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP specifies the types of costs that must be capitalized and amortized over the software's expected useful life and the types of costs that must be immediately recognized as expense. Implementation of this SOP did not have a material effect on results of operations, liquidity or financial condition. The effect of this pronouncement in future periods will vary based on the level of software development costs incurred.

Derivative instruments and hedging activities. In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that derivatives be reported on the balance sheet at fair value. Changes in fair value are recognized in net income or, for derivatives that hedge market risk related to future cash flows, in accumulated other comprehensive income. Companies are required to implement SFAS No. 133 by the first quarter of 2001, showing the cumulative effect of adoption in net income and accumulated other comprehensive income. CIGNA has not determined whether it will adopt these changes before the required implementation date or what their effect will be.

C. Financial Instruments

In the normal course of business, CIGNA enters into transactions involving various types of financial instruments. These financial instruments include investments (such as fixed maturities and equity securities), short- and long-term debt, and off-balance-sheet instruments (such as investment and loan commitments and financial guarantees). These instruments may change in value due to interest rate and market fluctuations, and most have credit risk. CIGNA evaluates and monitors each financial instrument individually and, when management considers it appropriate, uses certain derivative instruments or obtains collateral or other forms of security to minimize risk of loss.

Most financial instruments that are subject to fair value disclosure requirements (such as fixed maturities and equity securities) are carried in the financial statements at amounts that approximate fair value. At the end of 1999 and 1998, the fair values of mortgage loans, contractholder deposit funds (non-insurance products), and long-term debt were not materially different from their carrying amounts. Fair values of off-balance-sheet financial instruments were not material.

Fair values of financial instruments are based on quoted market prices when available. When market prices are not available, management estimates fair value based on discounted cash flow analyses, which use current interest rates for similar financial instruments with comparable terms and credit quality. Management estimates the fair value of liabilities for contractholder deposit funds using the amount payable on demand and, for those deposit funds not payable on demand, using discounted cash flow analyses. In many cases, an estimate of the fair value of a financial instrument may differ significantly from the amount that could be realized if the instrument were sold immediately.

D. Investments

CIGNA's accounting policies for investment assets are discussed below.

Fixed maturities and mortgage loans. Investments in fixed maturities include bonds, mortgage- and other asset-backed securities and redeemable preferred stocks. These investments are classified as available for sale and are carried at fair value. Fixed maturities are considered impaired, and amortized cost is written down to fair value, when management expects a decline in value to persist.

Mortgage loans are carried at unpaid principal balances. Impaired loans are carried at the fair value of the underlying collateral. Mortgage loans are considered impaired when it is probable that CIGNA will not collect all amounts due according to the terms of the loan agreement.

When an investment is current, CIGNA recognizes interest income when it is earned. CIGNA stops recognizing interest income on fixed maturities and mortgage loans when they are delinquent or restructured for troubled borrowers to modify basic financial terms, such as to reduce the interest rate or extend the maturity date. Net investment income on these investments is recognized only when payment is received.

Real estate. Investment real estate can be held to produce income or for sale.

CIGNA carries real estate held to produce income at depreciated cost less any write-downs to fair value due to impairment. Depreciation is generally calculated using the straight-line method based on the estimated useful life of each asset.

CIGNA acquires most real estate held for sale through foreclosure of mortgage loans. At the time of foreclosure, properties are valued at fair value less estimated costs to sell, and are reclassified from mortgage loans to real estate held for sale. After foreclosure, these investments are carried at the lower of fair value at foreclosure or current fair value less estimated costs to sell, and are no longer depreciated. Valuation reserves reflect changes in fair value after foreclosure. CIGNA rehabilitates, re-leases and sells foreclosed properties held for sale, a process that usually takes from two to four years unless management considers a near-term sale preferable.

CIGNA uses several methods to determine the fair value of real estate, but relies primarily on discounted cash flow analyses and, in some cases, third-party appraisals.

Equity securities and short-term investments. CIGNA classifies equity securities and short-term investments as available for sale and carries them at fair value, which for short-term investments approximates cost. Equity securities include common and non-redeemable preferred stocks.

Policy loans. Policy loans are carried at unpaid principal balances.

Investment gains and losses. Realized investment gains and losses result from sales, investment asset write-downs and changes in valuation reserves and are based on specifically identified assets. CIGNA's net income does not include gains and losses on investment assets related to experience-rated pension policyholders' contracts and participating life insurance policies (policyholder share) because these amounts generally accrue to the policyholders.

Unrealized gains and losses on investments carried at fair value are included in accumulated other comprehensive income, net of policyholder share and deferred income taxes.

Derivative financial instruments. Note 4(F) discusses CIGNA's accounting policies for derivative financial instruments.

E. Cash and Cash Equivalents

Cash equivalents consist of short-term investments that mature in three months or less at the time of purchase.

F. Reinsurance Recoverables

Reinsurance recoverables are estimates of amounts that CIGNA will receive from reinsurers. Allowances are established for amounts owed to CIGNA under reinsurance contracts that management believes will not be received.

G. Deferred Policy Acquisition Costs

Acquisition costs consist of commissions, premium taxes and other costs that CIGNA incurs to acquire new business. Acquisition costs for:

- Contractholder deposit funds and universal life products are deferred and amortized in proportion to the present value of total estimated gross profits over the expected lives of the contracts.
- Annuity and other individual life insurance products are deferred and amortized, generally in proportion to the ratio of annual revenue to the estimated total revenues over the contract periods.
- Other products are expensed as incurred.

Management estimates future revenues less expected claims on products that carry deferred policy acquisition costs. If that estimate is less than the deferred costs, CIGNA reduces deferred policy acquisition costs and records an expense.

H. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. When applicable, cost includes interest, real estate taxes and other costs incurred during construction. CIGNA calculates depreciation principally using the straight-line method based on the estimated useful life of each asset. Accumulated depreciation was $877 million at December 31, 1999, and $853 million at December 31, 1998.

I. Other Assets

Other assets consist primarily of various insurance-related assets.

J. Goodwill and Other Intangibles

Goodwill represents the excess of the cost of businesses acquired over the fair value of their net assets. Other intangible assets primarily represent purchased customer lists and provider contracts.

CIGNA amortizes goodwill and other intangibles on a straight-line basis over periods ranging from five to 40 years. Management revises amortization periods if it believes there has been a change in the length of time that the intangibles will continue to have value. Accumulated amortization was $317 million at December 31, 1999, and $244 million at December 31, 1998.

For businesses that have recorded goodwill, management analyzes historical and estimated future income or undiscounted cash flows. If such results are lower than the amount recorded as goodwill, CIGNA reduces goodwill and records an expense.

K. Separate Accounts

Separate account assets and liabilities are policyholder funds maintained in accounts with specific investment objectives. These accounts are carried at market value. The investment income, gains and losses of these accounts generally accrue to the policyholders and are not included in CIGNA’s revenues and expenses.

L. Contractholder Deposit Funds

Liabilities for contractholder deposit funds include deposits received from customers for investment-related and universal life products and investment earnings on their fund balances. These liabilities are adjusted to reflect administrative charges, policyholder share of unrealized appreciation or depreciation on investment assets and, for universal life fund balances, mortality charges.

M. Unpaid Claims and Claim Expenses

Liabilities for unpaid claims and claim expenses are estimates of payments to be made under health coverages for reported claims and for losses incurred but not yet reported. Management develops these estimates using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors. When estimates change, CIGNA records the adjustment in benefits, losses and settlement expenses.

N. Future Policy Benefits

Future policy benefits are liabilities for estimated future obligations under traditional life and health policies and annuity products currently in force. Management develops these estimates using premium assumptions for group annuity policies and assumes receipt of premiums until benefits are paid for individual life policies. These estimation techniques rely on assumptions as to future investment yield, mortality and withdrawals that allow for adverse deviation.

Future policy benefits for individual life insurance and annuity policies are computed using interest rate assumptions that generally decline over the first 20 years and range from 2% to 11%. Mortality, morbidity and withdrawal assumptions are based on either CIGNA’s own experience or actuarial tables.

O. Unearned Premiums

Premiums for group life, accident and health insurance are recognized as revenue on a pro rata basis over the contract period. The unrecognized portion of these premiums is recorded as unearned premiums.

P. Other Liabilities

Other liabilities consist principally of postretirement and postemployment benefits and various insurance-related liabilities, including amounts related to reinsurance contracts and guaranty fund assessments that management can reasonably estimate.

Q. Translation of Foreign Currencies

CIGNA’s foreign operations primarily use the local currencies as their functional currencies. CIGNA uses exchange rates as of the balance sheet date to translate assets and liabilities.

The translation gain or loss on functional currencies, net of applicable taxes, is generally reflected in accumulated other comprehensive income. CIGNA uses average exchange rates during the year to translate revenues and expenses.

R. Premiums and Fees, Revenues and Related Expenses

Premiums for group life, accident and health insurance and prepaid health coverages are recognized as revenue on a pro rata basis over the contract period. Benefits, losses and settlement expenses are recognized when incurred.

Premiums for individual life insurance and individual and group annuity products, excluding universal life and investment-related products, are recognized as revenue when due. Benefits, losses and settlement expenses are matched with premiums.

Revenue for investment-related products is recognized as follows:

- Net investment income on assets supporting investment-related products is recognized as earned.
- Contract fees, which are based upon related administrative expenses, are assessed against the customer's fund balance ratably over the contract year.

Benefit expenses for investment-related products consist primarily of income credited to policyholders in accordance with contract provisions.

Revenue for universal life products is recognized as follows:

- Net investment income on assets supporting universal life products is recognized as earned.
- Fees for mortality are recognized ratably over the policy year.
- Administration fees are recognized as services are provided.
- Surrender charges are recognized as earned.

Benefit expenses for universal life products consist of benefit claims in excess of policyholder account balances which are recognized when filed, and amounts credited in accordance with contract provisions.

S. Participating Business

CIGNA's participating life insurance policies entitle policyholders to earn dividends that represent a portion of the earnings of CIGNA's life insurance subsidiaries. Participating insurance in force accounted for approximately 6% of CIGNA's total life insurance in force at the end of 1999, 1998 and 1997.

T. Income Taxes

CIGNA and its domestic subsidiaries file a consolidated United States federal income tax return. The consolidated group is segregated into subgroups of life insurance and non-life insurance companies.

Consolidation of these subgroups for tax purposes is subject to statutory restrictions on the percentage of eligible non-life tax losses that can be applied to offset life company taxable income.

CIGNA's foreign subsidiaries file tax returns in accordance with applicable foreign law. Tax returns for domestic subsidiaries owning those foreign affiliates include taxable income and credits for taxes paid by those foreign affiliates.

CIGNA generally recognizes deferred income taxes when assets and liabilities have different values for financial statement and tax reporting purposes (temporary differences).

Note 9 contains detailed information about CIGNA's income taxes.

Note 3 — Acquisitions and Dispositions

CIGNA conducts regular strategic and financial reviews of its businesses so that capital is used effectively. As a result of these reviews, CIGNA may acquire or dispose of assets, subsidiaries or lines of business. Significant transactions for 1999, 1998 and 1997 are described below.

Sale of property and casualty business. On July 2, 1999, CIGNA sold its domestic and international property and casualty business to ACE Limited for cash proceeds of \$3.45 billion. The after-tax gain on the sale was \$1.2 billion. In 1999, CIGNA began reporting this business as discontinued operations and reclassified prior year financial information.

Summarized financial data for the discontinued operations are outlined below:

(In millions)	1999	1998	1997
Income Statement Data			
Revenues	$ 1,863	$ 3,850	$ 4,161
Income (loss) before income taxes (benefits)	(48)	152	422
Income taxes (benefits)	(20)	46	148
Income (loss) from operations	(28)	106	274
Gain on sale, net of taxes of $1,152	1,194	—	—
Income from discontinued operations	$ 1,166	$ 106	$ 274

(In millions)	December 31, 1998
Balance Sheet Data	
Invested assets	$ 9,031
Reinsurance recoverables	6,470
Other assets	6,240
Total assets	21,741
Insurance liabilities	16,494
Other liabilities	2,896
Total liabilities	19,390
Net assets	$ 2,351

Accumulated other comprehensive income associated with the discontinued operations was $222 million as of December 31, 1998. The gain on the sale reflects the recognition of after-tax foreign currency translation losses of $139 million (net of tax benefits of $80 million) and net unrealized appreciation on securities of $163 million (net of taxes of $65 million).

Brazilian investments. During the third quarter of 1999, CIGNA completed a review of its Brazilian operations, including analyses of future estimated cash flows. These operations consist primarily of a health care operation and a managed health care business. After completing this review, CIGNA decided to withdraw from the health care operation but will continue to operate the managed health care business. As a result, CIGNA recorded an aggregate after-tax charge of $400 million, consisting of the following items:

- $305 million for the carrying value of the health care operation from which CIGNA is withdrawing, certain loans guaranteed by CIGNA and exit costs; and
- $95 million for impairment of other investments, primarily goodwill.

The charge includes the recognition of foreign currency translation losses of $89 million (net of a tax benefit of $48 million).

CIGNA's withdrawal from the health care operation could be challenged. While the outcome of any regulatory or legal actions cannot be determined, CIGNA does not expect that such actions would result in additional losses material to its consolidated results of operations, liquidity or financial condition.

Sale of partial interest in Japanese life insurance operation. In April 1999, CIGNA sold a 29% interest in its Japanese life insurance operation to Yasuda Fire & Marine Insurance Company Ltd., reducing CIGNA's ownership interest to 61%. Proceeds of the sale were $105 million. CIGNA reported the $43 million after-tax gain on this sale in the International Life, Health and Employee Benefits segment.

Sale of individual life insurance and annuity business. As of January 1, 1998, CIGNA sold its individual life insurance and annuity business for cash proceeds of $1.4 billion. The sale generated an after-tax gain of approximately $770 million. Of this amount, $202 million was recognized when the sale was completed in 1998. The remaining gain was deferred because the principal agreement to sell this business was an indemnity reinsurance arrangement. The deferred portion is being recognized at the rate that earnings from the sold business would have been expected to emerge, primarily over 15 years on a declining basis. CIGNA recognized $62 million of the deferred gain in 1999 and $66 million of the deferred gain in 1998.

As part of the sale, CIGNA transferred invested assets of $5.4 billion and various other assets and liabilities, and recorded a reinsurance recoverable of $5.8 billion for insurance liabilities retained.

In 1997, revenues for the sold business were $972 million and net income was $102 million.

Acquisition of Healthsource, Inc. On June 25, 1997, CIGNA acquired the outstanding common stock of Healthsource, Inc. The total cost of the acquisition, which was accounted for as a purchase, was $1.7 billion, including $1.4 billion for the Healthsource common stock and $250 million to repay outstanding Healthsource debt. The acquisition was financed by issuing $600 million in long-term debt supplemented by short-term debt and CIGNA's operating cash flows.

Healthsource's results of operations are included in the accompanying consolidated financial statements from the date that CIGNA acquired Healthsource. Healthsource's 1997 revenues prior to that date were $971 million. CIGNA's net income would not have changed significantly if CIGNA had acquired Healthsource at the beginning of 1997.

CIGNA amortizes goodwill and intangible assets of $1.5 billion associated with the Healthsource acquisition on a straight-line basis over periods ranging from eight to 40 years.

Note 4 — Investments

A. Fixed Maturities

The amortized cost and fair value by contractual maturity periods for fixed maturities, including policyholder share, were as follows at December 31, 1999:

(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 1,422	$ 1,417
Due after one year through five years	6,189	6,204
Due after five years through ten years	6,173	6,131
Due after ten years	3,379	3,482
Mortgage- and other asset-backed securities	5,948	5,710
Total	$ 23,111	$ 22,944

Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without penalties. Also, in some cases CIGNA may extend maturity dates.

Gross unrealized appreciation (depreciation) on fixed maturities, including policyholder share, by type of issuer was as follows:

	December 31, 1999			
(In millions)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Federal government and agency	$ 662	$ 146	$ (5)	$ 803
State and local government	1,259	12	(57)	1,214
Foreign government	1,664	107	(19)	1,752
Corporate	13,578	302	(415)	13,465
Federal agency mortgage-backed	860	12	(10)	862
Other mortgage-backed	1,776	17	(73)	1,720
Other asset-backed	3,312	21	(205)	3,128
Total	$ 23,111	$ 617	$ (784)	$ 22,944

	December 31, 1998			
Federal government and agency	$ 721	$ 451	$ (1)	$ 1,171
State and local government	1,033	49	(1)	1,081
Foreign government	1,424	150	(36)	1,538
Corporate	13,140	970	(181)	13,929
Federal agency mortgage-backed	1,450	55	(2)	1,503
Other mortgage-backed	1,875	58	(11)	1,922
Other asset-backed	3,020	130	(24)	3,126
Total	$ 22,663	$ 1,863	$ (256)	$ 24,270

At December 31, 1999, CIGNA had commitments to purchase $46 million of fixed maturities. Most of these commitments are to purchase unsecured investment grade bonds, bearing interest at a fixed market rate. These bond commitments are diversified by issuer and maturity date. CIGNA expects to disburse approximately 80% of the committed amount in 2000.

B. Mortgage Loans and Real Estate

CIGNA's mortgage loans and real estate investments are diversified by property type and location. Mortgage loans are also diversified by borrower. These loans, which are secured by the related property, are generally made at less than 75% of the property's value.

At December 31, the carrying values of mortgage loans and real estate investments, including policyholder share, were as follows:

(In millions)	1999	1998
Mortgage loans	$ 9,737	$ 9,599
Real estate:		
Held for sale	312	343
Held to produce income	477	390
Total real estate	789	733
Total	$ 10,526	$ 10,332

At December 31, mortgage loans and real estate investments comprised the following property types and geographic regions:

(In millions)	1999	1998
Property type:		
Retail facilities	$ 3,290	$ 3,412
Office buildings	4,351	4,049
Apartment buildings	1,327	1,434
Industrial	789	692
Hotels	510	468
Other	259	277
Total	$ 10,526	$ 10,332
Geographic region:		
Central	$ 2,914	$ 3,279
Pacific	2,525	2,273
Middle Atlantic	1,753	1,590
South Atlantic	1,711	1,516
New England	973	1,065
Other	650	609
Total	$ 10,526	$ 10,332

Mortgage loans. At December 31, 1999, scheduled mortgage loan maturities were as follows (in billions): $1.1 in 2000, $0.9 in 2001, $1.2 in 2002, $1.7 in 2003, $1.3 in 2004, and $3.5 thereafter.

Actual maturities could differ from contractual maturities for several reasons. Borrowers may have the right to prepay obligations, with or without prepayment penalties; the maturity date may be extended; and loans may be refinanced.

At December 31, 1999, CIGNA had commitments to extend credit under commercial mortgage loan agreements of approximately $122 million, most of which were at a fixed market rate of interest. These loan commitments are diversified by property type and geographic region. CIGNA expects to disburse the committed amounts in 2000.

At December 31, impaired mortgage loans and valuation reserves were as follows:

(In millions)	1999	1998
Impaired loans with no valuation reserves	$ 188	$ 133
Impaired loans with valuation reserves	57	26
Total impaired loans	245	159
Less valuation reserves	(11)	(6)
Net impaired loans	$ 234	$ 153

During the year ended December 31, changes in reserves for impaired mortgage loans, including policyholder share, were as follows:

(In millions)	1999	1998
Reserve balance – January 1	$ 6	$ 50
Transfers to foreclosed real estate	—	(26)
Charge-offs upon sales	—	(9)
Net change in valuation reserves	5	(9)
Reserve balance – December 31	$ 11	$ 6

Impaired mortgage loans, before valuation reserves, averaged approximately $187 million in 1999, and $294 million in 1998. Interest income recorded and cash received on impaired loans were approximately $20 million in 1999 and $12 million in 1998.

During 1999, CIGNA refinanced approximately $99 million of its mortgage loans at current market rates for borrowers unable to obtain alternative financing, compared to $135 million in 1998.

Real estate. During 1999, non-cash investing activities included $13 million of real estate acquired through foreclosure of mortgage loans, compared to $37 million for 1998 and $85 million for 1997. The total of valuation reserves and cumulative write-downs related to real estate, including policyholder share, was $184 million at the end of 1999, compared to $213 million at the end of 1998. Net investment income from real estate held for sale was $11 million for 1999 and $9 million for 1998. Write-downs upon foreclosure and changes in valuation reserves were not material for 1999 or 1998.

C. Short-Term Investments and Cash Equivalents

Short-term investments and cash equivalents were primarily debt securities—principally federal government bonds of $1.1 billion and corporate securities of $1.3 billion at December 31, 1999. CIGNA held $314 million in federal government bonds and $1.2 billion in corporate securities at December 31, 1998.

D. Net Unrealized Appreciation (Depreciation) on Investments

Unrealized appreciation (depreciation) on investments carried at fair value at December 31 was as follows:

(In millions)	1999	1998
Unrealized appreciation:		
Fixed maturities	$ 617	$ 1,863
Equity securities	310	241
	927	2,104
Unrealized depreciation:		
Fixed maturities	(784)	(256)
Equity securities	(11)	(13)
	(795)	(269)
	132	1,835
Less policyholder-related amounts	(93)	897
Shareholder net unrealized appreciation	225	938
Less deferred income taxes	77	327
Net unrealized appreciation of continuing operations	148	611
Net unrealized appreciation included in net assets of discontinued operations	—	345
Net unrealized appreciation	$ 148	$ 956

Changes in net unrealized appreciation (depreciation) on investments, including discontinued operations, for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Unrealized appreciation (depreciation) on investments held	$ (916)	$ 366	$ 495
Less taxes (benefits)	(321)	129	176
Unrealized appreciation (depreciation), net of taxes	(595)	237	319
Gains realized in net income	305	254	95
Less taxes	92	89	33
Gains realized in net income, net of taxes	213	165	62
Changes in net unrealized appreciation (depreciation)	$ (808)	$ 72	$ 257

E. Non-Income Producing Investments

At December 31, the carrying values of investments, including policyholder share, that were non-income producing during the preceding 12 months were as follows:

(In millions)	1999	1998
Fixed maturities	$ 9	$ 23
Mortgage loans	1	2
Real estate	76	68
Other long-term investments	31	6
Total	$ 117	$ 99

F. Derivative Financial Instruments

CIGNA's investment strategy is to manage the characteristics of investment assets—such as duration, yield, currency, and liquidity—to reflect the varying characteristics of the related insurance and contractholder liabilities. In implementing its investment strategy, CIGNA substantially limits its use of derivative instruments to hedging applications designed to minimize interest rate, foreign currency and equity price risks. The effects of derivatives were not material for 1999, 1998 or 1997.

Hedge accounting treatment. Accounting rules provide that companies may only use hedge accounting when it is probable that there will be a high correlation between the changes in fair value or cash flow of a derivative instrument and the changes in fair value or cash flow of the related hedged asset or liability. These changes are recognized together in net income and generally offset each other.

When hedge accounting treatment does not apply, CIGNA records the derivative at fair value. Changes in fair value are then recognized in net income, or in contractholder liabilities for certain derivatives associated with experience-rated pension policyholders.

Credit risk. CIGNA routinely monitors exposure to credit risk associated with swap and option contracts, and diversifies the portfolio among approved dealers of high credit quality to minimize risk.

Derivative instruments used. The table below presents information about the nature and accounting treatment of CIGNA's derivative financial instruments, and includes their underlying notional amounts (in millions) at December 31:

Instrument	Risk Hedged	Purpose	Cash Flows	Accounting Policy	Notional Amounts 1999 / 1998
Swaps	Interest rate and foreign currency risk	CIGNA hedges the interest or foreign currency cash flows of fixed maturities to match associated liabilities (currency swaps are primarily Canadian dollars, pounds sterling, Swiss francs and euros).	CIGNA periodically exchanges cash flow differences between variable and fixed interest rates or between two currencies for both principal and interest.	Fair value is reported currently in fixed maturities and net interest cash flows are reported in net investment income.	$359 $368
Forward Swaps	Interest rate risk	CIGNA hedges fair value changes of fixed maturity and mortgage loan investments held primarily for experience-rated pension policyholders.	CIGNA periodically exchanges the difference between variable and fixed rate asset cash flows, beginning at a future date.	Fair value is reported currently in long-term investments, with changes in contractholder deposit funds.	$1,793 —
		CIGNA hedges fair value changes of fixed maturity and mortgage loan investments to be purchased.	CIGNA terminates the swap and receives or pays the resulting gain or loss when investments are purchased.	Fair value is recorded in investments purchased when swaps are terminated, and is amortized to net investment income or reported in full as realized gains or losses if investments are sold.	$288 —
Written and Purchased Options	Primarily equity risk	CIGNA writes reinsurance contracts to minimize customers' market risks and purchases reinsurance contracts to minimize the market risks assumed. These contracts are accounted for as written and purchased options.	CIGNA receives (pays) an up-front fee and will periodically pay (receive) unfavorable changes in variable annuity account values based on underlying mutual funds when account holders elect to receive minimum income payments.	Fair values are reported currently in other liabilities and other assets, with changes reported in other revenues or other operating expenses.	Written $2,275 $1,087 Purchased $1,822 $872

G. Other

As of December 31, 1999 and 1998, CIGNA did not have a concentration of investments in a single issuer or borrower exceeding 10% of shareholders' equity.

Note 5 — Investment Income and Gains and Losses

A. Net Investment Income

The components of net investment income, including policyholder share, for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Fixed maturities	$ 1,687	$ 1,695	$ 1,949
Equity securities	9	8	14
Mortgage loans	813	800	948
Policy loans	260	466	542
Real estate	152	159	213
Other long-term investments	44	34	21
Short-term investments	145	91	95
	3,110	3,253	3,782
Less investment expenses	151	138	184
Net investment income	$ 2,959	$ 3,115	$ 3,598

Net investment income attributable to policyholder contracts, which is included in CIGNA's revenues and is primarily offset by amounts included in benefits, losses and settlement expenses, was approximately $1.4 billion for 1999, $1.6 billion for 1998, and $1.7 billion for 1997. Net investment income for separate accounts, which is not reflected in CIGNA's revenues, was $1.7 billion for 1999, $1.5 billion for 1998 and $1.4 billion for 1997.

Fixed maturities and mortgage loans on non-accrual status, including policyholder share, were as follows at December 31:

(In millions)	1999	1998
Restructured	$ 187	$ 181
Delinquent	12	28
Total non-accrual investments	$ 199	$ 209

In 1999, net investment income was $9 million higher than it would have been under the original terms of these investments, reflecting collections of unrecognized interest income. For 1998 and 1997, net investment income would have been higher by $4 million and $8 million in those years if interest on these non-accrued investments had been recognized in accordance with their original terms.

B. Realized Investment Gains and Losses

Realized gains and losses on investments, excluding policyholder share, for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Fixed maturities	$ (17)	$ 48	$ 10
Equity securities	19	33	5
Mortgage loans	(1)	14	(15)
Real estate	3	13	73
Other	4	26	20
	8	134	93
Less income taxes	4	46	24
Net realized investment gains	$ 4	$ 88	$ 69

Realized investment gains and losses included impairments in the value of investments, net of recoveries, of $27 million in 1999 and $33 million in 1997. In 1998, realized investment gains and losses included recoveries in the value of investments, net of impairments, of $5 million.

Realized investment gains that are not reflected in CIGNA's revenues for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Separate accounts	$ 2,285	$ 493	$ 484
Policyholder contracts	$ 5	$ 98	$ 45

Sales of available-for-sale fixed maturities and equity securities, including policyholder share, for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Proceeds from sales	$ 3,140	$ 3,532	$ 2,044
Gross gains on sales	$ 89	$ 230	$ 78
Gross losses on sales	$ (44)	$ (50)	$ (98)

Note 6 — Debt

Short-term and long-term debt consisted of the following at December 31:

(In millions)	1999	1998
Short-term		
Commercial paper	$ —	$ 257
Current maturities of long-term debt	57	15
Total short-term debt	$ 57	$ 272
Long-term		
Unsecured debt:		
8.16% Notes due 2000	$ —	$ 25
8 3/4% Notes due 2001	100	100
7.17% Notes due 2002	25	25
7.4% Notes due 2003	100	100
6 3/8% Notes due 2006	100	100
7.4% Notes due 2007	300	300
8 1/4% Notes due 2007	100	100
7.65% Notes due 2023	100	100
8.3% Notes due 2023	17	17
7 7/8% Debentures due 2027	300	300
8.3% Step Down Notes due 2033	83	83
Medium-term Notes	83	111
Secured debt (principally by real estate)	51	67
Total long-term debt	$ 1,359	$ 1,428

CIGNA issues commercial paper primarily to manage imbalances between operating cash flows and existing commitments, to meet working capital needs, and to take advantage of current investment opportunities. Commercial paper borrowing arrangements are supported by various lines of credit. There was no commercial paper outstanding as of December 31, 1999. As of December 31, 1998, the weighted average interest rate on CIGNA's commercial paper was 5.5%.

CIGNA's medium-term notes have original maturity dates ranging from approximately five to ten years, and interest rates ranging from 6% to 9%. The weighted average interest rate on CIGNA's outstanding medium-term notes was 8.1% at December 31, 1999 and 8.2% at December 31, 1998.

In July 1998, CIGNA completed an offer to exchange its 8.3% Notes due 2023 with 8.3% Step Down Notes due 2033. Holders of approximately $83 million of the Notes due 2023 accepted the offer and tendered their Notes. CIGNA may redeem these Notes at any time before 2033, at par plus a possible additional redemption payment. Expenses incurred in connection with the exchange were not material.

In 1997, CIGNA issued $300 million of unsecured 7.4% Notes due in 2007 and $300 million of unsecured 7 7/8% Debentures due in 2027. The proceeds from these issues were used for the purchase of Healthsource.

As of December 31, 1999, CIGNA had available approximately $435 million in committed and uncommitted lines of credit provided by U.S. and foreign banks. These lines of credit generally have terms ranging from one to three years, and are paid for with a combination of fees and bank balances. Interest that CIGNA would be charged for using these lines of credit is negotiated for each individual transaction.

At December 31, 1999, CIGNA had $1 billion remaining under effective shelf registration statements filed with the Securities and Exchange Commission, which may be issued as debt securities, equity securities or both.

Maturities of long-term debt for each of the next five years are as follows (in millions): $57 in 2000, $148 in 2001, $39 in 2002, $129 in 2003 and $3 in 2004. Interest expense was $116 million in 1999, $126 million in 1998 and $127 million in 1997.

Note 7 — Common and Preferred Stock

On April 22, 1998, CIGNA's shareholders approved a three-for-one common stock split, an increase in the number of common shares authorized for issuance from 200 million to 600 million and a decrease in the par value of common stock from $1 per share to $0.25 per share. Share and per share data throughout the financial statements and notes have been retroactively adjusted for the stock split as though it had occurred at the beginning of 1997.

(Shares in thousands)	1999	1998	1997
Common: Par value $0.25			
600,000 shares authorized			
Outstanding—January 1	205,650	216,996	222,594
Issued for stock option and other benefit plans	739	1,055	687
Repurchase of common stock	(36,692)	(12,401)	(6,285)
Outstanding—December 31	169,697	205,650	216,996
Treasury shares	97,149	59,530	46,875
Issued—December 31	266,846	265,180	263,871

In 1997, CIGNA's Board of Directors adopted a shareholder rights plan, which will expire on August 4, 2007. The rights attach to all outstanding shares of common stock, and will become exercisable if a third party acquires (or announces that it will acquire) 10% or more of CIGNA's outstanding common stock unless CIGNA's Board of Directors approves the acquisition. When exercisable, each right entitles its holder to purchase CIGNA securities at a substantial discount or, at the discretion of the Board of Directors, to exchange the rights for CIGNA common stock on a one-for-one basis. In some cases, a right also entitles its holder to purchase securities of an acquirer at a substantial discount. CIGNA's Board of Directors may authorize the redemption of the rights for $.0033 each before a third party acquires 10% or more of CIGNA's common stock, and thereafter under certain circumstances.

CIGNA has authorized a total of 25 million shares of $1 par value preferred stock. No shares of preferred stock were outstanding at December 31, 1999, 1998 or 1997.

Note 8 — Shareholders' Equity and Dividend Restrictions

State insurance departments that regulate CIGNA's insurance subsidiaries prescribe accounting practices (which differ in some respects from generally accepted accounting principles) to determine statutory net income and surplus (shareholders' equity).

CIGNA's life insurance subsidiaries' statutory net income for the year ended, and surplus as of, December 31 were as follows:

(In millions)	1999	1998	1997
Net income	$ 937	$ 947	$ 634
Surplus	$ 3,166	$ 2,858	$ 3,021

CIGNA's insurance subsidiaries are subject to various restrictions that limit the amount of annual dividends or other distributions (such as loans or cash advances) available to their shareholders without prior approval of regulatory authorities. The maximum dividend distribution that CIGNA's insurance subsidiaries may make during 2000 without prior approval is approximately $830 million. The amount of restricted net assets as of December 31, 1999 was approximately $5.0 billion.

Note 9 — Income Taxes

CIGNA's net deferred tax assets of $1.2 billion as of December 31, 1999, and $1.0 billion as of December 31, 1998, reflect management's belief that CIGNA's taxable income in future years will be sufficient to realize the net deferred tax assets. This determination is based on CIGNA's earnings history and future expectations.

The valuation allowance reflects management's assessment as to the future realizability of deferred tax assets. During 1999, the net increase in the valuation allowance was $86 million relating primarily to certain foreign operations.

Through 1983, a portion of CIGNA's life insurance companies' statutory income was not subject to current income taxation, but was accumulated in a designated policyholders' surplus account. Additions to the account were no longer permitted beginning in 1984. CIGNA's existing account balance of $450 million would result in a $158 million tax liability only if it were distributed to shareholders or exceeded a prescribed amount. Accordingly, CIGNA has not provided taxes on this amount, as management believes it remote that these conditions will be met. However, see Note 17 for further information regarding this matter.

CIGNA's federal income tax returns are routinely audited by the Internal Revenue Service (IRS). In management's opinion, adequate tax liabilities have been established for all years. The IRS has completed audits for the years 1982 through 1993, and challenged CIGNA on one issue related to pre-1989 years. In April 1999, the U.S. Court of Appeals affirmed the Tax Court's ruling in favor of the IRS. The decision did not affect net income as liabilities had been previously established. CIGNA made tax payments of approximately $115 million in 1998 and $250 million during 1997 in connection with this issue.

The tax effect of temporary differences which give rise to deferred income tax assets and liabilities as of December 31 were as follows:

(In millions)	1999	1998
Deferred tax assets:		
Employee and retiree benefit plans	$ 430	$ 463
Investments, net	317	273
Other insurance and contractholder liabilities	312	273
Deferred gain on sale of business	235	290
Policy acquisition expenses	175	183
Bad debt expense	22	26
Other	4	35
Deferred tax assets before valuation allowance	1,495	1,543
Valuation allowance for deferred tax assets	(92)	(6)
Deferred tax assets, net of valuation allowance	1,403	1,537
Deferred tax liabilities:		
Depreciation and amortization	169	176
Unrealized appreciation on investments	77	327
Other	1	—
Total deferred tax liabilities	247	503
Net deferred income tax assets	$ 1,156	$ 1,034

Current income taxes payable were $22 million as of December 31, 1999 and $27 million as of December 31, 1998.

The components of income taxes for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Current taxes:			
U.S. income	$ 418	$ 772	$ 453
Foreign income	24	27	9
State income	31	40	—
	473	839	462
Deferred taxes (benefits):			
U.S. income	51	(145)	(51)
Foreign income	—	(11)	5
State income	(4)	(11)	—
	47	(167)	(46)
Total income taxes	$ 520	$ 672	$ 416

State income taxes were not material in 1997.

Total income taxes for the year ended December 31 were different from the amount computed using the nominal federal income tax rate of 35% for the following reasons:

(In millions)	1999	1998	1997
Tax expense at nominal rate	$ 427	$ 650	$ 430
Tax-exempt interest income	(17)	(14)	(11)
Dividends received deduction	(11)	(12)	(8)
Amortization of goodwill	18	17	14
State income tax (net of federal income tax benefit)	17	18	—
Change in valuation allowance	86	—	6
Resolved federal tax audit issues	(7)	—	(21)
Other	7	13	6
Total income taxes	$ 520	$ 672	$ 416

Note 10 — Pension and Other Postretirement Benefit Plans

A. Pension and Other Postretirement Benefit Plans

CIGNA and certain of its subsidiaries provide pension and certain health care and life insurance benefits to eligible retired employees, spouses and other eligible dependents through various plans.

The following table summarizes the obligations and assets related to these plans as of and for the years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	1999	1998	1999	1998
Change in benefit obligation				
Benefit obligation, January 1	$ 3,086	$ 2,925	$ 469	$ 478
Service cost	93	106	5	4
Interest cost	195	191	33	31
(Gain) loss from past experience	(353)	32	34	(7)
Benefits paid from plan assets	(185)	(137)	(16)	(1)
Benefits paid—other	(22)	(20)	(27)	(32)
Divestiture	(305)	—	(21)	—
Amendments	—	—	(26)	—
Other	(25)	(11)	—	(4)
Benefit obligation, December 31	2,484	3,086	451	469
Change in plan assets				
Fair value of plan assets, January 1	2,922	2,631	64	59
Actual return on plan assets	653	361	—	6
Employer contributions	10	67	—	—
Benefits paid	(185)	(137)	(16)	(1)
Divestiture	(130)	—	—	—
Other	(3)	—	—	—
Fair value of plan assets, December 31	3,267	2,922	48	64
Net benefit obligation (asset)	(783)	164	403	405
Unrecognized net gain from past experience	880	67	167	214
Unrecognized prior service cost	—	(23)	198	213
Unamortized SFAS 87 transition asset	10	24	—	—
Net amount recognized in the balance sheet	$ 107	$ 232	$ 768	$ 832
Prepaid benefit cost	$ —	$ (14)	$ —	$ —
Accrued benefit liability	144	290	768	832
Intangible asset	(37)	(44)	—	—
Net amount recognized in the balance sheet	$ 107	$ 232	$ 768	$ 832

The sale of the property and casualty business resulted in $150 million of gain from pension benefits and $46 million of gain from other postretirement benefits, which were reported as part of the gain on sale.

At December 31, 1999, pension plans with accumulated benefits exceeding assets had projected benefit obligations of $181 million and related assets at fair value of $16 million. At December 31, 1998, such plans had projected benefit obligations of $318 million and related assets at fair value of $29 million. The accumulated benefit obligation related to these plans was $142 million at December 31, 1999 and $238 million at December 31, 1998.

CIGNA funds the pension plans at least at the minimum amount required by the Employee Retirement Income Security Act of 1974 (ERISA). Substantially all pension plan assets are invested in the separate accounts of Connecticut General Life Insurance Company (CGLIC) and Life Insurance Company of North America, which are CIGNA subsidiaries, or immediate participation guaranteed investment contracts issued by CGLIC. Plan assets also include 292,500 shares of CIGNA common stock, with a market value of $24 million at December 31, 1999 and $23 million at December 31, 1998.

Components of net pension cost, excluding the amount recognized as part of the gain on sale noted above, for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Service cost	$ 93	$ 106	$ 96
Interest cost	195	191	188
Expected return on plan assets	(213)	(208)	(185)
Gain on curtailments	—	—	(3)
Amortization of:			
Net loss from past experience	8	4	3
Prior service cost	2	4	7
SFAS 87 transition asset	(10)	(10)	(10)
Net pension cost	$ 75	$ 87	$ 96

Unfunded retiree health benefit plans had accumulated benefit obligations of $333 million at December 31, 1999 and $327 million at December 31, 1998. At the end of 1999 retiree life insurance plans with accumulated benefit obligations of $118 million were partially funded with plan assets of $48 million, compared with accumulated benefit obligations of $142 million (partially funded with plan assets of $64 million) at the end of 1998. These plan assets were invested in the general account of CGLIC.

Components of net other postretirement benefit cost, excluding the amount recognized as part of the gain on sale noted above, for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Service cost	$ 5	$ 4	$ 6
Interest cost	33	31	32
Expected return on plan assets	(4)	(4)	(4)
Amortization of:			
Net gain from past experience	(9)	(10)	(11)
Prior service cost	(15)	(17)	(17)
Net other postretirement benefit cost	$ 10	$ 4	$ 6

The estimated rate of future increases in the per capita cost of health care benefits was 9%, decreasing to 5.5% over seven years. This estimate reflects CIGNA's current claim experience and management's estimate that rates of growth will decline in the future. A 1% increase or decrease in the estimated rate would change 1999 reported amounts as follows:

(In millions)	Increase	Decrease
Effect on total service and interest cost	$ 2	$ (2)
Effect on postretirement benefit obligation	$ 22	$ (20)

Management determined the projected pension benefit obligation and the accumulated other postretirement benefit obligation based on the following weighted average assumptions at December 31:

	1999	1998	1997
Discount rate	8%	6.75%	7%
Expected return on plan assets:			
Projected pension benefit obligation	9%	9%	9%
Accumulated other postretirement benefit obligation	7%	7%	7%
Expected rate of compensation increase:			
Projected pension benefit obligation	5.1%	5.1%	5.1%
Accumulated other postretirement benefit obligation	4.5%	4.5%	4.5%

B. 401(k) Plans

CIGNA sponsors various 401(k) plans in which CIGNA matches a portion of employees' pre-tax contributions. Employees may invest in one or more of the following funds: CIGNA common stock fund, several diversified stock funds, a bond fund and a fixed-income fund.

CIGNA may elect to increase its matching contributions if CIGNA's annual performance meets certain targets. A substantial amount of CIGNA's matching contributions are invested in the CIGNA common stock fund. CIGNA's expense for these plans was $45 million for 1999, $51 million for 1998 and $42 million for 1997.

Note 11 — Employee Incentive Plans

The People Resources Committee of the Board of Directors awards stock options and restricted stock to employees. Other authorized types of stock-based awards, which have been used to a very limited extent, include common stock issued instead of cash compensation and stock appreciation rights issued with stock options. Dividend equivalent rights are also authorized, but have not been issued.

CIGNA had the following number of shares of common stock available for award at December 31: 10.4 million in 1999, 12.7 million in 1998 and 15.3 million in 1997.

Stock options. CIGNA awards options to purchase CIGNA common stock at the market price of the stock on the grant date. Options vest over periods ranging from one to five years, and expire no later than 10 years after the grant date.

When senior executive employees use shares of stock in lieu of cash to exercise certain outstanding options, CIGNA issues replacement options equal to the number of shares used. Like ordinary options, replacement options are exercisable at the market price of CIGNA common stock on their grant date. Replacement options vest six months after the grant date, and expire on the expiration date of the original option.

The table below shows the status of and changes in common stock options during the last three years, including approximately 3 million options granted in the 1997 Healthsource acquisition:

(Shares in thousands)	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding—January 1	10,979	$ 56.70	10,035	$ 50.70	4,884	$ 32.42
Granted	5,115	83.28	4,213	64.01	8,410	54.83
Exercised	(3,247)	52.65	(2,939)	46.12	(3,204)	33.87
Expired or canceled	(2,084)	67.99	(330)	61.80	(55)	39.14
Outstanding—December 31	10,763	68.37	10,979	56.70	10,035	50.70
Options exercisable at year-end	4,721	$ 63.91	4,397	$ 53.35	4,370	$ 46.41

The increase in expired or canceled options in 1999 is due to the sale of the property and casualty business. The following table summarizes the range of exercise prices for outstanding common stock options at December 31, 1999:

	Range of Exercise Prices	
(Shares in thousands)	$ 16.73 to $ 79.53	$ 80.00 to $ 106.11
Options outstanding	6,290	4,473
Weighted average remaining contractual life	6.7 years	8.0 years
Weighted average exercise price	$ 56.22	$ 85.45
Options exercisable	3,492	1,229
Weighted average exercise price	$ 53.57	$ 93.30

The weighted average fair value of options granted under employee incentive plans was $17.54 for 1999, $13.87 for 1998 and $12.94 for 1997, using the Black-Scholes option-pricing model and the following assumptions:

	1999	1998	1997
Dividend yield	1.6%	1.7%	2.4%
Expected volatility	26.0%	25.9%	23.7%
Risk-free interest rate	4.9%	5.5%	6.1%
Expected option life	3 years	3 years	4 years

CIGNA does not record compensation expense related to stock options because their exercise price is equal to the market price of CIGNA common stock at the grant date. If CIGNA had recorded compensation expense for stock options based on their fair value at the grant date using the Black-Scholes option-pricing model, net income would have been reduced by $39 million in 1999, $30 million in 1998 and $22 million in 1997. Diluted earnings per share would have been reduced by $0.17 in 1999, $0.14 in 1998 and $0.10 in 1997.

Restricted stock. CIGNA makes restricted stock grants with vesting periods ranging from three to five years. Recipients are entitled to receive dividends and to vote during the vesting period, but forfeit their awards if their employment is terminated before the vesting date. Grants of restricted shares of CIGNA common stock were as follows:

(Shares in thousands) Year	Shares Granted	Weighted Average Fair Value Per Share
1999	403	$ 80.51
1998	457	$ 62.91
1997	428	$ 52.34

Compensation cost related to these grants was $17 million in 1999, $14 million in 1998 and $12 million in 1997. At the end of 1999, approximately 2,100 employees held 1.2 million restricted shares.

Note 12 — Earnings Per Share

Basic and diluted earnings per share (EPS) for income from continuing operations are computed as follows for the year ended December 31:

(Dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
1999			
Income from continuing operations	$ 699	$ —	$ 699
Shares *(in thousands):*			
Weighted average	194,609	—	194,609
Options and restricted stock grants		2,639	2,639
Total shares	194,609	2,639	197,248
EPS	$ 3.59	$ (0.05)	$ 3.54
1998			
Income from continuing operations	$ 1,186	$ —	$ 1,186
Shares *(in thousands):*			
Weighted average	210,948	—	210,948
Options and restricted stock grants		2,499	2,499
Total shares	210,948	2,499	213,447
EPS	$ 5.62	$ (0.06)	$ 5.56
1997			
Income from continuing operations	$ 812	$ —	$ 812
Shares *(in thousands):*			
Weighted average	220,263	—	220,263
Options and restricted stock grants		2,250	2,250
Total shares	220,263	2,250	222,513
EPS	$ 3.69	$ (0.04)	$ 3.65

Note 13 — Reinsurance

In the normal course of business, CIGNA's insurance subsidiaries enter into agreements with other insurance companies to assume and cede reinsurance. Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct losses. Reinsurance does not relieve the originating insurer of liability. CIGNA evaluates the financial condition of its reinsurers and monitors their concentrations of credit risk (arising from similar geographic regions, activities or economic characteristics).

At December 31, 1999, CIGNA had a reinsurance recoverable of $6.0 billion from Lincoln National Corporation that arose from the sale of CIGNA's individual life insurance and annuity business to Lincoln through an indemnity reinsurance transaction. See Note 3 for information about this sale.

Failure of reinsurers to indemnify CIGNA, whether because of reinsurer insolvencies or contract disputes, could result in losses. However, management does not expect charges for unrecoverable reinsurance to have a material effect on CIGNA's results of operations, liquidity or financial condition.

In CIGNA's consolidated income statements, premiums and fees were net of ceded premiums, and benefits, losses and settlement expenses were net of reinsurance recoveries, in the following amounts:

(In millions)	1999	1998	1997
Short-duration contracts			
Premiums and fees:			
Direct	$ 12,124	$ 10,706	$ 8,509
Assumed	566	492	613
Ceded	(312)	(349)	(338)
Net earned premiums and fees	$ 12,378	$ 10,849	$ 8,784
Long-duration contracts			
Premiums and fees:			
Direct	$ 2,665	$ 2,736	$ 2,707
Assumed	654	594	544
Ceded:			
Individual life insurance and annuity business sold	(462)	(557)	—
Other	(156)	(166)	(254)
Net earned premiums and fees	$ 2,701	$ 2,607	$ 2,997
Reinsurance recoveries			
Individual life insurance and annuity business sold	$ 362	$ 424	$ —
Other	323	325	437
Total	$ 685	$ 749	$ 437

The effects of reinsurance on written premiums and fees for short-duration contracts were not materially different from the amounts shown in the above table.

Note 14 — Leases and Rentals

Rental expenses for operating leases, principally for office space, amounted to $143 million in 1999, $125 million in 1998 and $164 million in 1997.

As of December 31, 1999, future net minimum rental payments under non-cancelable operating leases were approximately $549 million, payable as follows (in millions): $107 in 2000, $98 in 2001, $85 in 2002, $73 in 2003, $60 in 2004 and $126 thereafter.

Note 15 — Segment Information

Operating segments are based on CIGNA's internal reporting structure. Segments generally reflect groups of related products, but the International Life, Health and Employee Benefits segment is based on geography. CIGNA presents segment information as follows:

Employee Health Care, Life and Disability Benefits, which combines CIGNA's Health Care and Group Insurance segments, offers a range of indemnity group health and managed care products and services through guaranteed cost, experience-rated and alternative funding arrangements such as administrative services only and minimum premium plans. This segment also offers group life and disability coverages.

Employee Retirement Benefits and Investment Services provides investment products and professional services primarily to sponsors of qualified pension, profit sharing and retirement savings plans. This segment also provides certain corporate and variable life insurance products.

International Life, Health and Employee Benefits provides life, accident, health and employee benefits (group life, health and pensions) coverages and services, primarily outside the United States.

CIGNA also reports results in two other categories:

Other Operations includes the deferred gain recognized from the 1998 sale of the individual life insurance and annuity business, corporate life insurance on which policy loans are outstanding (leveraged corporate life insurance), life, accident and health reinsurance operations, settlement annuity business and certain new business initiatives.

Corporate reflects amounts not allocated to segments, such as interest expense on corporate debt, net investment income on unallocated investments, intersegment eliminations and certain corporate overhead expenses (including overhead expenses previously allocated to the property and casualty business which have been reclassified to Corporate).

CIGNA measures the financial results of its segments using operating income (net income excluding after-tax realized investment results, results of discontinued operations and, in 1999, the cumulative effect of an accounting change). CIGNA determines operating income for each segment consistent with the accounting policies for the consolidated financial statements, except that amounts included in Corporate as discussed above are not allocated to segments. CIGNA allocates other corporate general, administrative and systems expenses on systematic bases. Income taxes are generally computed as if each segment were filing separate income tax returns.

CIGNA's operations are not materially dependent on one or a few customers, brokers or agents.

Summarized segment financial information for the year ended and as of December 31 was as follows:

(In millions)	1999	1998	1997
Employee Health Care, Life and Disability Benefits			
Premiums and fees and other revenues	$ 13,135	$ 11,963	$ 10,000
Net investment income	571	589	563
Segment revenues	$ 13,706	$ 12,552	$ 10,563
Income tax expense	$ 395	$ 361	$ 232
Operating income	$ 728	$ 617	$ 425
Assets under management:			
Invested assets	$ 7,864	$ 8,388	$ 8,060
Separate account assets	2,038	1,702	1,440
Total	$ 9,902	$ 10,090	$ 9,500
Employee Retirement Benefits and Investment Services			
Premiums and fees and other revenues	$ 273	$ 257	$ 221
Net investment income	1,605	1,613	1,655
Segment revenues	$ 1,878	$ 1,870	$ 1,876
Income tax expense	$ 128	$ 117	$ 101
Operating income	$ 265	$ 248	$ 230
Assets under management:			
Invested assets	$ 19,751	$ 20,543	$ 21,426
Separate account assets	34,662	30,718	25,934
Total	$ 54,413	$ 51,261	$ 47,360
International Life, Health and Employee Benefits			
Premiums and fees and other revenues	$ 1,713	$ 1,231	$ 1,078
Net investment income	124	115	122
Segment revenues	$ 1,837	$ 1,346	$ 1,200
Income tax expense (benefit)	$ (37)	$ 20	$ 12
Equity in net loss of investees	$ (360)	$ (18)	$ —
Operating income (loss)	$ (342)	$ 17	$ 21
Assets under management:			
Invested assets	$ 3,422	$ 2,774	$ 2,279
Separate account assets	142	93	67
Total	$ 3,564	$ 2,867	$ 2,346
Other Operations			
Premiums and fees and other revenues	$ 854	$ 1,065	$ 1,089
Net investment income	581	771	1,235
Segment revenues	$ 1,435	$ 1,836	$ 2,324
Income tax expense	$ 63	$ 167	$ 88
Operating income	$ 122	$ 313	$ 180
Assets under management:			
Invested assets	$ 6,526	$ 9,968	$ 15,541
Separate account assets	2,951	2,295	1,907
Total	$ 9,477	$ 12,263	$ 17,448

(In millions)	1999	1998	1997
Corporate			
Premiums and fees, other revenues and eliminations	$ (161)	$ (114)	$ (124)
Net investment income	78	27	23
Segment revenues	$ (83)	$ (87)	$ (101)
Income tax benefit	$ (33)	$ (39)	$ (41)
Operating loss	$ (78)	$ (97)	$ (113)
Invested assets	$ 732	$ 3	$ 2
Realized Investment Gains			
Realized investment gains	$ 8	$ 134	$ 93
Income tax expense	4	46	24
Realized investment gains, net of taxes	$ 4	$ 88	$ 69
Total			
Premiums and fees and other revenues	$ 15,814	$ 14,402	$ 12,264
Net investment income	2,959	3,115	3,598
Realized investment gains	8	134	93
Total revenues	$ 18,781	$ 17,651	$ 15,955
Income tax expense	$ 520	$ 672	$ 416
Operating income from continuing operations	$ 695	$ 1,098	$ 743
Realized investment gains, net of taxes	4	88	69
Income from continuing operations	$ 699	$ 1,186	$ 812
Assets under management			
Invested assets	$ 38,295	$ 41,676	$ 47,308
Separate account assets	39,793	34,808	29,348
Total	$ 78,088	$ 76,484	$ 76,656

Premiums and fees and other revenues by product type were as follows for the year ended December 31:

(In millions)	1999	1998	1997
Health Maintenance Organizations	$ 6,393	$ 5,971	$ 4,451
Medical and Dental Indemnity	3,824	3,195	2,729
Group Life	1,861	1,813	1,797
Other	3,736	3,423	3,287
Total	$ 15,814	$ 14,402	$ 12,264

Note 16 — Foreign Operations

CIGNA provides international life, accident, health and employee benefits insurance coverages on a direct and reinsured basis, primarily through the International Life, Health and Employee Benefits segment (see page 44) in Japan, Latin America, the Pacific region and Europe.

In 1999, the net translation of foreign currencies included in accumulated other comprehensive income increased by $132 million (including a tax benefit of $75 million), compared to an increase of $12 million (including taxes of $7 million) in 1998 and a decrease of $81 million (including a tax benefit of $43 million) in 1997.

Premiums and fees and other revenues by geographic region for the year ended December 31 were as follows:

(In millions)	1999	1998	1997
Domestic	$ 14,091	$ 13,105	$ 11,139
Foreign	1,723	1,297	1,125
Total	$ 15,814	$ 14,402	$ 12,264

CIGNA's aggregate foreign exchange transaction losses and foreign long-lived assets for the year ended and as of December 31, 1999, 1998 and 1997 were not material.

Note 17 — Contingencies

A. Financial Guarantees

CIGNA, through its subsidiaries, is contingently liable for various financial guarantees provided in the ordinary course of business. CIGNA also secures reinsurance to recover a portion of amounts paid in connection with a financial guarantee.

Specialty life reinsurance contracts. CIGNA has entered into specialty life reinsurance contracts that contain certain guarantees for variable annuities. One type of reinsurance contract guarantees minimum income benefits based on unfavorable changes in account values. The other type guarantees a minimum death benefit, also based on unfavorable changes in account values. The variable annuity account values are based on underlying domestic equity and bond mutual fund investments.

Those reinsurance contracts that guarantee minimum income benefits are accounted for as written options. CIGNA has purchased reinsurance from third parties, which substantially reduces the risk of these contracts. See Note 4(F) for additional information.

For those reinsurance contracts that guarantee a minimum death benefit, reserves are established in amounts adequate to meet the estimated future obligations. These estimates are based on various assumptions as to equity market conditions and premiums, as well as interest, mortality and lapse rates, allowing for adverse deviation. As of December 31, 1999, the amount of recorded liabilities was $83 million, compared to recorded liabilities of $52 million as of December 31, 1998.

Management is reviewing alternatives to manage the associated equity market and interest rate risks for contracts that guarantee a minimum death benefit. As part of this review, CIGNA is considering whether to modify certain reserve assumptions for the liabilities associated with the minimum death benefit contracts. The guarantees under these contracts and changes that could result from this review could adversely affect CIGNA's consolidated results of operations in future periods. However, management does not expect them to have a material adverse effect on CIGNA's liquidity or financial condition.

Separate account contracts. CIGNA guarantees a minimum level of benefits for certain separate account contracts. If assets in these separate accounts are insufficient to fund minimum policy benefits, CIGNA is obligated to pay the difference.

As of December 31, 1999, CIGNA guaranteed minimum benefits of $4.9 billion for separate account contracts, compared to $5.4 billion at the end of 1998.

The management fee that CIGNA charges to separate accounts includes a guarantee fee. These fees are recognized in income as earned.

CIGNA establishes a liability if management believes that CIGNA will be required to make a payment under a separate account contract guarantee. No such liabilities were required as of December 31, 1999 or 1998. If CIGNA becomes obligated to make payments as a result of these guarantees, those obligations may adversely affect CIGNA's results of operations in future periods. However, management does not expect these guarantee obligations to have a material adverse effect on CIGNA's liquidity or financial condition.

Industrial revenue bonds. As of December 31, 1999 and 1998, CIGNA guaranteed $85 million of industrial revenue bond issues. These bond issues will be outstanding for up to 16 more years. If the issuers default, CIGNA will be required to make periodic payments based on the original terms of the bonds. Unlike many debt obligations, an event of default under these bonds will not cause all scheduled principal and interest payments to be due immediately.

CIGNA limits its exposure to credit risk due to default by the primary borrower by reviewing the creditworthiness of guaranteed parties and by monitoring credit conditions regularly. CIGNA establishes a reserve if management believes that CIGNA will be required to make a payment under a financial guarantee.

B. Regulatory and Industry Developments

CIGNA's businesses are subject to a changing social, economic, legal, legislative and regulatory environment. Some of the more significant current issues that may affect CIGNA's businesses include:

- efforts to expand tort liability of health plans;
- proposed class action lawsuits targeting certain health care companies, including CIGNA;
- initiatives to increase health care regulation;
- initiatives to restrict insurance pricing and the application of underwriting standards; and
- efforts to revise federal tax laws.

Health care regulation. Efforts are underway in the federal and state legislatures and in the courts to increase regulation of the health care industry and change its operational practices. Regulatory and operational changes could have an adverse effect on CIGNA's health care operations if they reduce marketplace competition and innovation or result in increased medical or administrative costs without improving the quality of care.

Pending initiatives to increase health care regulation at the federal level include "managed care reform" and "patients' bill of rights" legislation. A bill that recently passed the House of Representatives would expand tort liability for health plans and undermine the ability of health plans to limit coverage to medically necessary care. A corresponding bill that recently passed the Senate does not include such provisions. Given these differences between the House and Senate bills and the general uncertainty of the political process, it is not possible to determine what legislation will be enacted, if any, or what the effect of any such legislation would be on CIGNA.

Other regulatory changes that have been under consideration and that could have an adverse effect on CIGNA's health care operations include:

- mandated benefits or services that increase costs without improving the quality of care;
- loss of the ERISA preemption of state tort laws through legislative actions and court decisions;
- changes in ERISA regulations imposing increased administrative burdens and costs;
- restrictions on the use of prescription drug formularies; and
- privacy legislation that interferes with the ability to properly use medical information for research, coordination of medical care and disease management.

Federal budget proposals. The Administration's proposed budget for fiscal year 2001 would tax amounts previously accumulated in a policyholders' surplus account. If enacted, CIGNA will record additional income tax expense of $158 million (see Note 9 for more information).

The proposed budget also would restrict the tax benefits for corporations owning non-leveraged corporate life insurance policies. If enacted as proposed, CIGNA does not anticipate that this provision will have a material effect on its consolidated results of operations, liquidity or financial condition, but it could have a material adverse effect on the results of operations of the Employee Retirement Benefits and Investment Services segment.

Tax benefits for corporate life insurance. In 1996, Congress passed legislation implementing a three-year phase-out period for tax deductibility of policy loan interest for most leveraged corporate life insurance products. As a result, management expects revenues and operating income associated with these products to continue to decline. In 1999, revenues of $350 million and operating income of $32 million were from products affected by this legislation.

Risk-based capital guidelines. In 1998, the National Association of Insurance Commissioners (NAIC) adopted risk-based capital guidelines for health maintenance organizations (HMOs), and states in which CIGNA's HMO subsidiaries are domiciled have begun to implement these guidelines. CIGNA expects its HMO subsidiaries to continue to be adequately capitalized under these guidelines.

Statutory accounting principles. In 1998, the NAIC adopted standardized statutory accounting principles. Although many states have indicated their intent to adopt these principles, certain states in which CIGNA's primary insurance subsidiaries are domiciled have not formally adopted them. As a result, CIGNA has not determined the timing or effect of implementing these principles.

Insolvency funds. Various states maintain funds to pay the obligations of insolvent insurance companies. These funds are financed with assessments against all insurance companies. In some states, insurance companies can recover a portion of these assessments through a reduction in future premium taxes. CIGNA's insurance and HMO subsidiaries recorded pre-tax charges for continuing operations of $8 million for 1999, $18 million for 1998 and $28 million for 1997 for insolvency fund and other insurance-related assessments that can be reasonably estimated, before giving effect to future premium tax recoveries.

In addition, as discussed in Note 2(B) under "Recent Accounting Pronouncements", CIGNA recorded a $91 million reduction of net income in the first quarter of 1999 to reflect the effect of implementing SOP 97-3 for insurance-related assessments. Most of this charge related to the property and casualty business, which CIGNA sold and reports as discontinued operations.

Although future assessments and payments may adversely affect results of operations in future periods, management does not expect these amounts to have a material adverse effect on CIGNA's liquidity or financial condition.

C. Class Action Lawsuits and Other Litigation

CIGNA and several health care industry competitors have had proposed class action lawsuits filed against them by a coalition of plaintiffs' attorneys. These lawsuits allege violations under RICO and ERISA. CIGNA is routinely involved in numerous other lawsuits arising, for the most part, in the ordinary course of the business of administering and insuring employee benefit programs. Although the outcome of litigation is always uncertain, CIGNA does not believe that any litigation currently threatened or pending involving CIGNA will result in losses that would be material to results of operations, liquidity or financial condition.

Report of Management

The management of CIGNA is responsible for the consolidated financial statements and all other information presented in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles, determined by management to be appropriate, and include amounts based on management's informed estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the financial statements. The appropriateness of data underlying such financial information is monitored through internal accounting controls, internal auditors, independent accountants and the Board of Directors acting through an Audit Committee.

CIGNA maintains a system of internal accounting controls designed to reasonably assure the integrity and reliability of financial reporting and to provide reasonable assurance to management and the Board of Directors that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly. The system of internal accounting controls is supported by the selection and training of qualified personnel, by the appropriate division of responsibilities and by the company-wide communication of written policies and procedures.

In its corporate policy addressing business ethics, CIGNA has stated its intent to achieve the highest level of legal and ethical standards in the conduct of its business activities. Management provides employees with a copy of this policy. Signed statements are obtained annually from officers, certain other employees and directors attesting to their review of, and compliance with, CIGNA's business ethics policy.

The Audit Committee of the Board of Directors reviews and reports to the full Board on the appropriateness of CIGNA's accounting policies, the adequacy of its financial controls and the reliability of financial information reported to the public. The Committee is composed solely of outside directors. Ongoing Committee activities include reviewing reports of management, internal auditors and the independent accountants regarding accounting policies and practices, audit results and internal accounting controls and assessing CIGNA's relationship with its independent accountants. The Committee has direct access to the internal auditors and independent accountants and meets with them without management present.

The consolidated financial statements have been audited by CIGNA's independent accountants, PricewaterhouseCoopers LLP, in accordance with generally accepted auditing standards and have been reviewed by the Audit Committee of the Board of Directors. This audit by PricewaterhouseCoopers LLP included an evaluation of the internal accounting control structure to the extent necessary to determine the audit procedures required to express their opinion on the consolidated financial statements.

Management reviews recommendations of the internal auditors and independent accountants concerning the system of internal accounting controls and responds to such recommendations with corrective actions, as appropriate. Management believes that, as of December 31, 1999, the system of internal accounting controls is adequate to provide the reasonable assurances discussed herein and that there are no material deficiencies in the design or operation of the system of internal accounting controls.

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

TO THE BOARD OF DIRECTORS
AND SHAREHOLDERS OF CIGNA CORPORATION

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income and changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of CIGNA Corporation and its subsidiaries (the Company) at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 8, 2000

Quarterly Financial Data *(unaudited)*

The following unaudited quarterly financial data are presented on a consolidated basis for each of the years ended December 31, 1999 and 1998.

Quarterly financial results necessarily rely heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the insurance business, require caution in drawing specific conclusions from quarterly consolidated results.

(In millions, except per share amounts)	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Consolidated Results				
1999*				
Total revenues from continuing operations	$ 4,497	$ 4,697	$ 4,689	$ 4,898
Income (loss) from continuing operations before income taxes	368	469	(63)	445
Income (loss) from continuing operations	236	303	(132)	292
Income (loss) from discontinued operations	43	(71)	1,194	—
Income before cumulative effect of accounting change	279	232	1,062	292
Cumulative effect of accounting change	(91)	—	—	—
Net income	188	232	1,062	292
Earnings per share from income before cumulative effect of accounting change:				
Basic	1.36	1.15	5.44	1.65
Diluted	1.34	1.13	5.44	1.63
1998**				
Total revenues from continuing operations	$ 4,512	$ 4,350	$ 4,302	$ 4,487
Income from continuing operations before income taxes	683	385	412	378
Income from continuing operations	439	249	264	234
Income (loss) from discontinued operations	56	59	(13)	4
Net income	495	308	251	238
Net income per share:				
Basic	2.30	1.44	1.20	1.16
Diluted	2.27	1.42	1.19	1.14
Stock and Dividend Data				
1999				
Price range of common stock—high	$ 86.50	$ 98.63	$ 94.38	$ 87.25
—low	$ 73.56	$ 81.25	$ 74.50	$ 63.44
Dividends declared per common share	$ .30	$ .30	$ .30	$ .30
1998				
Price range of common stock—high	$ 69.33	$ 71.75	$ 74.50	$ 82.38
—low	$ 56.00	$ 67.25	$ 57.19	$ 62.00
Dividends declared per common share	$ .29	$ .29	$ .29	$ .29

* *The third quarter of 1999 includes an after-tax gain of $1.2 billion from the sale of the property and casualty business, an after-tax charge of $400 million attributable to certain Brazilian investments and an after-tax charge of $10 million for restructuring costs. The second quarter of 1999 includes an after-tax gain of $43 million from the sale of a partial interest in CIGNA's Japanese life insurance operation.*

** *The fourth quarter of 1998 includes after-tax charges of $19 million for restructuring activities (principally associated with the property and casualty operations); the first quarter of 1998 includes an after-tax gain of $202 million recognized as of January 1, 1998, from the sale of the individual life insurance and annuity business.*

(In millions)			
For the years ended December 31,	1999	1998	1997
Revenues from Continuing Operations			
Employee Health Care, Life and Disability Benefits			
Premiums and fees:			
Prepaid health and dental	$ 6,313	$ 5,942	$ 4,451
Medical	3,103	2,563	2,161
Life	1,800	1,755	1,750
Other	1,289	1,161	1,184
Total premiums and fees	12,505	11,421	9,546
Net investment income	571	589	563
Other revenues	630	542	454
Realized investment gains (losses)	(2)	83	12
Total	13,704	12,635	10,575
Employee Retirement Benefits and Investment Services			
Premiums and fees	273	257	221
Net investment income	1,605	1,613	1,655
Realized investment gains	11	38	23
Total	1,889	1,908	1,899
International Life, Health and Employee Benefits			
Premiums and fees	1,642	1,227	1,076
Net investment income	124	115	122
Other revenues	71	4	2
Realized investment gains (losses)	(2)	—	3
Total	1,835	1,346	1,203
Other Operations			
Premiums and fees	659	551	938
Net investment income	581	771	1,235
Other revenues	195	514	151
Realized investment gains	1	14	55
Total	1,436	1,850	2,379
Corporate			
Net investment income	78	27	23
Other revenues and eliminations	(161)	(114)	(124)
Realized investment losses	—	(1)	—
Total	(83)	(88)	(101)
Total Consolidated Revenues from Continuing Operations			
Premiums and fees	15,079	13,456	11,781
Net investment income	2,959	3,115	3,598
Other revenues	735	946	483
Realized investment gains	8	134	93
Total	$ 18,781	$ 17,651	$ 15,955

(In millions)			
For the years ended December 31,	1999	1998	1997
Operating Income (Loss)[1]			
Employee Health Care, Life and Disability Benefits:			
Indemnity operations	$ 327	$ 314	$ 297
HMO operations	401	303	128
Total Employee Health Care, Life and Disability Benefits	728	617	425
Employee Retirement Benefits and Investment Services	265	248	230
International Life, Health and Employee Benefits	(342)	17	21
Other Operations	122	313	180
Corporate	(78)	(97)	(113)
Total	$ 695	$ 1,098	$ 743
Income (Loss) from Continuing Operations			
Employee Health Care, Life and Disability Benefits	$ 726	$ 671	$ 442
Employee Retirement Benefits and Investment Services	272	273	245
International Life, Health and Employee Benefits	(343)	17	23
Other Operations	122	322	215
Corporate	(78)	(97)	(113)
Total	$ 699	$ 1,186	$ 812
Segment Statistics			
Employee Health Care, Life and Disability Benefits			
Adjusted premiums and fees	$ 27,890	$ 24,460	$ 20,353
Prepaid medical enrollees (in thousands)	6,740	6,484	5,861
Prepaid dental enrollees (in thousands)	2,898	2,900	2,717
Employee Retirement Benefits and Investment Services			
Deposits	$ 8,506	$ 8,015	$ 7,770
Assets under management:[2]			
Defined contribution	$ 30,576	$ 28,176	$ 24,482
Defined benefit	19,294	19,378	19,051
Corporate life insurance	2,960	2,573	2,157
Other, including guaranteed investment contracts	2,924	2,802	2,541
Total	$ 55,754	$ 52,929	$ 48,231

[1] *Operating income (loss) is defined as net income (loss) excluding after-tax realized investment results, the results of discontinued operations and, in 1999, the cumulative effect of adopting SOP 97-3 (see Note 2(B) to the Financial Statements).*

[2] *Assets under management include investment advisory accounts.*

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Retired Chief Executive Officer, SmithKline Beecham plc, a manufacturer of pharmaceutical and health care products

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Chairman and Chief Executive Officer, Sunoco, Inc., a domestic refiner and marketer of petroleum products

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Retired Chairman of the Board and Chief Executive Officer, Texaco Inc., an integrated oil, gas and chemical manufacturer

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JOSEPH NEUBAUER
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Chairman, President and Chief Executive Officer, Bestfoods, a consumer foods company

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President, Morehouse School of Medicine

HAROLD A. WAGNER
Chairman and Chief Executive Officer, Air Products and Chemicals, Inc., a supplier of industrial gases and related equipment and selected chemicals

CAROL COX WAIT
President and Chief Executive Officer, Committee for a Responsible Federal Budget, a bipartisan, non-profit organization

MARILYN WARE
Chairman, American Water Works Company, Inc., an investor-owned water supplier

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ALFRED C. DeCRANE, JR.
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CHARLES R. SHOEMATE

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JOSEPH NEUBAUER
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CAROL COX WAIT

People Resources Committee

LOUIS W. SULLIVAN, M.D., *Chairman*
ROBERT P. BAUMAN
CHARLES R. SHOEMATE
HAROLD A. WAGNER
MARILYN WARE

Annual Meeting

The 2000 annual meeting of shareholders will be held on Wednesday, April 26, at 1:00 p.m., at The Conference Center at Eagle Lodge, Ridge Pike and Manor Road, Lafayette Hill, PA.

Proxies and proxy statements are being mailed to shareholders of record as of February 28, 2000. At December 31, 1999, there were 11,716 common shareholders of record.

Financial Information

CIGNA's Form 10-K, to be filed with the Securities and Exchange Commission by March 30, 2000, is available on the Internet at http://www.cigna.com. If you would like a printed copy of the Form 10-K, please contact:

CIGNA Corporation
Shareholder Services Department
Two Liberty Place
1601 Chestnut Street
P.O. Box 7716
Philadelphia, PA 19192-2378
215.761.3516

To receive a copy of CIGNA's quarterly earnings news release, please contact CIGNA's fax service at 1.800.758.5804, extension 165050. Or you can access this information on the Internet at http://www.cigna.com. If you would prefer a printed copy of the news release, please contact Shareholder Services at the above address or phone number.

The tentative release dates for CIGNA's 2000 earnings are:

1st Quarter	May 1, 2000
2nd Quarter	August 1, 2000
3rd Quarter	November 1, 2000
Full Year	February 8, 2001

CIGNA Political Action Committee

For information regarding CIGNA's Political Action Committee, please write to:

CIGNA PAC
One Liberty Place
1650 Market Street
P.O. Box 7716
Philadelphia, PA 19192-1570

Primary Offices

CIGNA Corporation
One Liberty Place
1650 Market Street
Philadelphia, PA 19192-1550
215.761.1000

Connecticut General Life
Insurance Company
900 Cottage Grove Road
Hartford, CT 06152
860.726.6000

Dividend Reinvestment and Stock Purchase Plan

A dividend reinvestment and stock purchase service is available to shareholders of CIGNA Corporation. Shareholders can reinvest their quarterly dividends automatically and make optional cash purchases of additional common shares. For information on the service, please contact:

First Chicago Trust Company,
a Division of EquiServe
Dividend Reinvestment Plans
P.O. Box 2598
Jersey City, NJ 07303-2598
1.800.317.4445

Internet Account Access

You can access your CIGNA shareholder account on the Internet through EquiServe's First Chicago Division Web site. You will need your account number and password for access to your account at http://gateway.equiserve.com.

Direct Deposit of Dividends

Direct deposit of dividends provides a prompt, efficient way to have your dividends electronically deposited in your checking or savings account. It avoids the possibility of lost or delayed dividend checks. The deposit is made electronically on the payment date. For more information and an enrollment authorization form, contact EquiServe's First Chicago Division at 1.800.870.2340.

Stock Listing

CIGNA's common shares are listed on the New York, Pacific and Philadelphia stock exchanges. The ticker symbol is CI.

Transfer Agent

First Chicago Trust Company,
a Division of EquiServe
Shareholder Relations
P.O. Box 2500
Jersey City, NJ 07303-2500
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E-mail: fctc@em.fcnbd.com
Web site: http://www.equiserve.com

CIGNA Online

To access information about CIGNA and our products and services, visit our Web site at http://www.cigna.com.

Annual Report Audio Tape

An audio tape summarizing key elements of this report is available for those with sight disabilities and can be obtained by contacting:

CIGNA Corporation
Corporate Relations
One Liberty Place
1650 Market Street
P.O. Box 7716
Philadelphia, PA 19192-1540
215.761.6132

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