WELLPOINT, INC
Form 10-Q
October 23, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the Quarterly Period ended September 30, 2013
OR

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

For the transition period from to
Commission file number: 001-16751
WELLPOINT, INC.
(Exact name of registrant as specified in its charter)

INDIANA (State or other jurisdiction of incorporation or organization)	35-2145715 (I.R.S. Employer Identification Number)
120 MONUMENT CIRCLE INDIANAPOLIS, INDIANA (Address of principal executive offices)	46204-4903 (Zip Code)

Registrant's telephone number, including area code: (317) 488-6000
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of Each Class	Outstanding at October 10, 2013
Common Stock, $0.01 par value	295,417,144 shares

WellPoint, Inc.
Quarterly Report on Form 10-Q
For the Period Ended September 30, 2013
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

WellPoint, Inc.
Consolidated Balance Sheets

(In millions, except share data)	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 2,185.7	$ 2,484.6
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $17,271.6 and $16,033.1)	17,538.0	16,912.9
Equity securities (cost of $1,023.5 and $869.9)	1,484.9	1,212.4
Other invested assets, current	15.0	14.8
Accrued investment income	175.4	162.2
Premium and self-funded receivables	4,014.0	3,687.4
Other receivables	1,018.3	928.8
Income taxes receivable	152.3	228.5
Securities lending collateral	837.6	564.6
Deferred tax assets, net	367.9	243.2
Other current assets	1,807.8	1,829.0
Total current assets	29,596.9	28,268.4
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $442.6 and $426.0)	437.8	431.5
Equity securities (cost of $27.0 and $27.1)	30.3	30.1
Other invested assets, long-term	1,516.8	1,387.7
Property and equipment, net	1,806.5	1,738.3
Goodwill	17,497.6	17,510.5
Other intangible assets	8,921.6	9,102.8
Other noncurrent assets	456.0	486.1
Total assets	$ 60,263.5	$ 58,955.4
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$ 6,117.3	$ 6,174.5
Reserves for future policy benefits	60.2	61.3
Other policyholder liabilities	2,322.6	2,345.7
Total policy liabilities	8,500.1	8,581.5
Unearned income	939.7	896.8
Accounts payable and accrued expenses	3,301.2	3,132.5
Security trades pending payable	284.8	69.3
Securities lending payable	837.7	564.7
Short-term borrowings	350.0	250.0
Current portion of long-term debt	0.1	557.1
Other current liabilities	1,828.8	1,785.0
Total current liabilities	16,042.4	15,836.9

Long-term debt, less current portion	14,514.0	14,170.8
Reserves for future policy benefits, noncurrent	701.9	750.8
Deferred tax liabilities, net	3,322.9	3,381.0
Other noncurrent liabilities	874.2	1,013.2
Total liabilities	35,455.4	35,152.7
Commitment and contingencies – Note 9		
Shareholders’ equity		
Preferred stock, without par value, shares authorized – 100,000,000; shares issued and outstanding – none	—	—
Common stock, par value $0.01, shares authorized – 900,000,000; shares issued and outstanding: 296,188,115 and 304,715,144	3.0	3.0
Additional paid-in capital	10,769.4	10,853.5
Retained earnings	14,040.5	12,647.1
Accumulated other comprehensive (loss) income	(4.8)	299.1
Total shareholders’ equity	24,808.1	23,802.7
Total liabilities and shareholders’ equity	$ 60,263.5	$ 58,955.4

See accompanying notes.

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WellPoint, Inc.
Consolidated Statements of Income
(Unaudited)

(In millions, except per share data)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Revenues				
Premiums	$16,580.9	$14,037.1	$49,509.5	$42,336.6
Administrative fees	1,027.8	955.6	3,006.4	2,928.9
Other revenue	124.3	141.0	360.6	191.7
Total operating revenue	17,733.0	15,133.7	52,876.5	45,457.2
Net investment income	167.6	168.6	482.8	507.0
Net realized gains on investments	95.4	54.6	166.4	232.0
Other-than-temporary impairment losses on investments:				
Total other-than-temporary impairment losses on investments	(27.1)	(3.8)	(74.0)	(24.0)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	0.9	—	0.9	3.4
Other-than-temporary impairment losses recognized in income	(26.2)	(3.8)	(73.1)	(20.6)
Total revenues	17,969.8	15,353.1	53,452.6	46,175.6
Expenses				
Benefit expense	14,075.0	11,984.8	41,656.3	35,849.8
Selling, general and administrative expense:				
Selling expense	377.3	390.2	1,139.9	1,176.5
General and administrative expense	2,202.7	1,688.4	6,275.6	5,149.6
Total selling, general and administrative expense	2,580.0	2,078.6	7,415.5	6,326.1
Cost of products	68.6	66.5	196.0	73.2
Interest expense	151.5	133.6	456.9	360.3
Amortization of other intangible assets	66.6	63.9	202.2	182.1
Loss on extinguishment of debt	145.3	—	145.3	—
Total expenses	17,087.0	14,327.4	50,072.2	42,791.5
Income before income tax expense	882.8	1,025.7	3,380.4	3,384.1
Income tax expense	226.6	334.5	1,038.9	1,192.8
Net income	$656.2	$691.2	$2,341.5	$2,191.3
Net income per share				
Basic	$2.21	$2.17	$7.81	$6.70
Diluted	$2.16	$2.15	$7.69	$6.63
Dividends per share	$0.3750	$0.2875	$1.1250	$0.8625

See accompanying notes.

WellPoint, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions)	2013	2012	2013	2012
Net income	$656.2	$691.2	$2,341.5	$2,191.3
Other comprehensive income (loss), net of tax:				
Change in net unrealized gains/losses on investments	16.3	168.3	(327.0)	248.5
Change in non-credit component of other-than-temporary impairment losses on investments	(0.6)	—	1.6	4.4
Change in net unrealized gains/losses on cash flow hedges	0.7	(1.0)	2.2	(0.6)
Change in net periodic pension and postretirement costs	4.8	6.9	18.6	19.9
Foreign currency translation adjustments	1.2	0.5	0.7	(0.2)
Other comprehensive income (loss)	22.4	174.7	(303.9)	272.0
Total comprehensive income	$678.6	$865.9	$2,037.6	$2,463.3

See accompanying notes.

WellPoint, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30	
(In millions)	2013	2012
Operating activities		
Net income	$2,341.5	$2,191.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	(166.4)	(232.0)
Other-than-temporary impairment losses recognized in income	73.1	20.6
Loss on extinguishment of debt	145.3	—
Loss on disposal of assets	5.1	1.6
Deferred income taxes	(12.0)	255.3
Amortization, net of accretion	592.7	474.8
Depreciation expense	78.4	72.8
Share-based compensation	103.7	123.7
Excess tax benefits from share-based compensation	(23.5)	(23.2)
Changes in operating assets and liabilities, net of effect of business combinations:		
Receivables, net	(368.0)	(133.2)
Other invested assets	1.7	(26.6)
Other assets	51.6	(33.3)
Policy liabilities	(130.3)	(16.8)
Unearned income	42.9	(102.8)
Accounts payable and accrued expenses	95.9	(446.7)
Other liabilities	(78.0)	(57.5)
Income taxes	87.5	(79.5)
Other, net	(61.7)	(3.7)
Net cash provided by operating activities	2,779.5	1,984.8
Investing activities		
Purchases of fixed maturity securities	(11,494.1)	(11,808.8)
Proceeds from fixed maturity securities:		
Sales	8,756.4	8,433.4
Maturities, calls and redemptions	1,490.0	1,347.8
Purchases of equity securities	(574.4)	(245.1)
Proceeds from sales of equity securities	575.2	312.3
Purchases of other invested assets	(207.9)	(153.7)
Proceeds from sales of other invested assets	53.0	25.4
Changes in securities lending collateral	(273.1)	171.5
Purchases of subsidiaries, net of cash acquired	—	(992.3)
Purchases of property and equipment	(408.1)	(375.1)
Proceeds from sales of property and equipment	—	0.4
Other, net	(3.8)	(0.9)
Net cash used in investing activities	(2,086.8)	(3,285.1)
Financing activities		
Net proceeds from commercial paper borrowings	224.1	30.1
Proceeds from long-term borrowings	1,250.0	4,935.2
Repayments of long-term borrowings	(1,801.9)	(1,251.2)
Proceeds from short-term borrowings	600.0	392.0
Repayments of short-term borrowings	(500.0)	(300.0)

Changes in securities lending payable	273.0	(171.5)
Changes in bank overdrafts	72.3	(94.6)
Repurchase and retirement of common stock	(1,170.4)	(1,828.8)
Cash dividends	(337.5)	(280.0)
Proceeds from issuance of common stock under employee stock plans	374.9	86.7
Excess tax benefits from share-based compensation	23.5	23.2
Net cash (used in) provided by financing activities	(992.0)	1,541.1
Effect of foreign exchange rates on cash and cash equivalents	0.4	(0.3)
Change in cash and cash equivalents	(298.9)	240.5
Cash and cash equivalents at beginning of period	2,484.6	2,201.6
Cash and cash equivalents at end of period	$2,185.7	$2,442.1

See accompanying notes.

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WellPoint, Inc.
Consolidated Statements of Shareholders' Equity
(Unaudited)

(In millions)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
January 1, 2013	304.7	$3.0	$10,853.5	$12,647.1	$ 299.1	$23,802.7
Net income	—	—	—	2,341.5	—	2,341.5
Other comprehensive loss	—	—	—	—	(303.9)	(303.9)
Repurchase and retirement of common stock	(15.6)	(0.1)	(566.2)	(607.4)	—	(1,173.7)
Convertible debenture tax adjustment	—	—	(3.3)	—	—	(3.3)
Dividends and dividend equivalents	—	—	—	(340.7)	—	(340.7)
Issuance of common stock under employee stock plans, net of related tax benefits	7.1	0.1	485.4	—	—	485.5
September 30, 2013	296.2	$3.0	$10,769.4	$14,040.5	$ (4.8)	$24,808.1
January 1, 2012	339.4	$3.4	$11,679.2	$11,490.7	$ 114.9	$23,288.2
Net income	—	—	—	2,191.3	—	2,191.3
Other comprehensive income	—	—	—	—	272.0	272.0
Repurchase and retirement of common stock	(28.6)	(0.3)	(986.4)	(842.1)	—	(1,828.8)
Dividends and dividend equivalents	—	—	—	(283.1)	—	(283.1)
Issuance of common stock under employee stock plans, net of related tax benefits	3.2	—	176.9	—	—	176.9
September 30, 2012	314.0	$3.1	$10,869.7	$12,556.8	$ 386.9	$23,816.5

See accompanying notes.

WellPoint, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2013
(In Millions, Except Per Share Data or As Otherwise Stated Herein)

1. Organization

References to the terms "we", "our", "us", "WellPoint" or the "Company" used throughout these Notes to Consolidated Financ Statements refer to WellPoint, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries.

We are one of the largest health benefits companies in the United States, serving 35.5 medical members through our affiliated health plans and approximately 67.4 individuals through all subsidiaries as of September 30, 2013. We offer a broad spectrum of network-based managed care plans to large and small employer, individual, Medicaid and Medicare markets. Our managed care plans include: preferred provider organizations, or PPOs; health maintenance organizations, or HMOs; point-of-service, or POS, plans; traditional indemnity plans and other hybrid plans, including consumer-driven health plans, or CDHPs; and hospital only and limited benefit products. In addition, we provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. We provide an array of specialty and other insurance products and services such as behavioral health benefit services, dental, vision, life and disability insurance benefits, radiology benefit management, analytics-driven personal health care guidance and long-term care insurance. We also provide services to the Federal Government in connection with the Federal Employee Program, or FEP, and various Medicare programs. Finally, we sell contact lenses, eyeglasses and other ocular products through our 1-800 CONTACTS, Inc., or 1-800 CONTACTS, business.

We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee for California; the Blue Cross and Blue Shield, or BCBS, licensee for Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as the BCBS licensee in 10 New York City metropolitan and surrounding counties and as the Blue Cross or BCBS licensee in selected upstate counties only), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.) and Wisconsin. In a majority of these service areas we do business as Anthem Blue Cross, Anthem Blue Cross and Blue Shield, Blue Cross and Blue Shield of Georgia, Empire Blue Cross Blue Shield, or Empire Blue Cross (in our New York service areas). Through our AMERIGROUP Corporation subsidiary, or Amerigroup, we conduct business in Florida, Georgia, Kansas, Louisiana, Maryland, Nevada, New Jersey, New Mexico, New York, Tennessee, Texas and Washington. Amerigroup also provided services to the state of Ohio through June 30, 2013. We also serve customers throughout the country as HealthLink, UniCare and in certain Arizona, California, Nevada, New York and Virginia markets through our CareMore Health Group, Inc., or CareMore, subsidiary. We are licensed to conduct insurance operations in all 50 states through our subsidiaries.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2012 Annual Report on Form 10-K, unless the information contained in those disclosures materially changed or is required by GAAP. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the consolidated financial statements as of and for the three and nine months ended September 30, 2013 and 2012 have been recorded. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2012 included in our 2012 Annual Report on Form 10-K.

Certain of our subsidiaries operate outside of the United States and have functional currencies other than the U.S. dollar, or USD. We translate the assets and liabilities of those subsidiaries to USD using the exchange rate in effect at the end of the period. We translate the revenues and expenses of those subsidiaries to USD using the average exchange rates in effect during the period. The net effect of these translation adjustments is included in “Foreign currency translation adjustments” in our consolidated statements of comprehensive income.

Certain prior period amounts have been reclassified to conform to the current period presentation, including the presentation of our segment disclosures.

3. Restructuring Activities

As a result of restructuring activities implemented during 2012 and 2011, we recorded liabilities for employee termination costs and lease and other contract exit costs. The restructuring activities are classified as components of general and administrative expenses in the consolidated statements of income for the respective period in which they occurred.

The 2012 restructuring activities were initiated primarily as a result of personnel changes, organizational realignment to create efficiencies in our business processes and certain integration activities associated with the Amerigroup acquisition. Activity related to these liabilities for the nine months ended September 30, 2013, by reportable segment, is as follows:

	Commercial and Specialty Business	Government Business	Other	Total
2012 Restructuring Activities				
Employee termination costs:				
Liability for employee termination costs at January 1, 2013	$60.0	$54.7	$2.9	$117.6
Payments	(30.2)	(32.4)	(1.5)	(64.1)
Liability released	(6.1)	(1.6)	(0.2)	(7.9)
Liability for employee termination costs at September 30, 2013	23.7	20.7	1.2	45.6
Lease and other contract exit costs:				
Liability for lease and other contract exit costs at January 1, 2013	8.8	2.9	0.1	11.8
Payments	(5.1)	(1.7)	(0.2)	(7.0)
Liability released	(0.6)	(0.2)	—	(0.8)
Liability for lease and other contract exit costs at September 30, 2013	3.1	1.0	(0.1)	4.0
Total liability for 2012 restructuring activities at September 30, 2013	$26.8	$21.7	$1.1	$49.6

The 2011 restructuring activities were initiated as a result of a change in strategic focus primarily in response to federal health care reform. At September 30, 2013, our total liability for 2011 restructuring activities was $18.8, of which $2.4 related to employee termination costs and $16.4 related to lease and other contract exit costs. We expect the remaining payments for employee termination costs to be substantially completed by the end of 2013. Payments for lease and other contract exit costs will continue to occur over the remaining terms of the related contracts.

4. Investments

We evaluate our investment securities for other-than-temporary declines based on qualitative and quantitative factors. Other-than-temporary impairment losses recognized in income totaled $26.2 and $3.8 for the three months ended September 30, 2013 and 2012, respectively. Other-than-temporary impairment losses recognized in income totaled $73.1 and $20.6 for the nine months ended September 30, 2013 and 2012, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three and nine months ended September 30, 2013 and 2012. We continue to review our investment portfolios under our impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairment losses on investments may be recorded in future periods.

A summary of current and long-term investments, available-for-sale, at September 30, 2013 and December 31, 2012 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less than 12 Months	Gross Unrealized Losses: 12 Months or Greater	Estimated Fair Value	Non-Credit Component of Other-Than-Temporary Impairments Recognized in AOCI
September 30, 2013:						
Fixed maturity securities:						
United States Government securities	$464.0	$4.1	$(1.4)	$—	$466.7	$ —
Government sponsored securities	195.2	0.9	(1.5)	—	194.6	—
States, municipalities and political subdivisions, tax-exempt	6,143.2	234.9	(93.6)	(1.2)	6,283.3	—
Corporate securities	7,780.3	212.0	(109.3)	(12.4)	7,870.6	(0.1)
Options embedded in convertible debt securities	81.0	—	—	—	81.0	—
Residential mortgage-backed securities	2,198.4	52.6	(29.4)	(3.3)	2,218.3	—
Commercial mortgage-backed securities	488.1	11.3	(3.4)	—	496.0	—
Other debt securities	364.0	5.8	(3.2)	(1.3)	365.3	(0.8)
Total fixed maturity securities	17,714.2	521.6	(241.8)	(18.2)	17,975.8	$ (0.9)
Equity securities	1,050.5	481.4	(16.7)	—	1,515.2	
Total investments, available-for-sale	$18,764.7	$1,003.0	$(258.5)	$(18.2)	$19,491.0	
December 31, 2012:						
Fixed maturity securities:						
United States Government securities	$330.3	$13.1	$(0.2)	$—	$343.2	$ —
Government sponsored securities	153.6	2.6	—	—	156.2	—
States, municipalities and political subdivisions, tax-exempt	5,501.3	388.2	(5.7)	(1.6)	5,882.2	—
Corporate securities	7,642.0	387.0	(17.0)	(8.0)	8,004.0	(1.7)
Options embedded in convertible debt securities	67.2	—	—	—	67.2	—
Residential mortgage-backed securities	2,204.7	103.1	(1.1)	(1.9)	2,304.8	(0.4)
Commercial mortgage-backed securities	323.2	22.5	—	—	345.7	—
Other debt securities	236.8	7.6	(0.2)	(3.1)	241.1	(1.3)
Total fixed maturity securities	16,459.1	924.1	(24.2)	(14.6)	17,344.4	$ (3.4)
Equity securities	897.0	358.0	(12.5)	—	1,242.5	
Total investments, available-for-sale	$17,356.1	$1,282.1	$(36.7)	$(14.6)	$18,586.9	

At September 30, 2013, we owned $2,714.3 of mortgage-backed securities and $341.8 of asset-backed securities out of a total available-for-sale investment portfolio of $19,491.0. These securities included sub-prime and Alt-A securities with fair values of $33.6 and $108.4, respectively. These sub-prime and Alt-A securities had accumulated net unrealized gains of $1.3 and $6.1, respectively. The average credit rating of the sub-prime and Alt-A securities was “BB” and “CCC”, respectively.

The following tables summarize for fixed maturity securities and equity securities in an unrealized loss position at September 30, 2013 and December 31, 2012, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

	Less than 12 Months			12 Months or Greater		
(Securities are whole amounts)	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss
September 30, 2013:						
Fixed maturity securities:						
United States Government securities	24	$119.9	$(1.4)	—	$—	$—
Government sponsored securities	23	56.6	(1.5)	—	—	—
States, municipalities and political subdivisions, tax-exempt	768	1,979.3	(93.6)	22	14.3	(1.2)
Corporate securities	1,700	3,075.0	(109.3)	57	53.0	(12.4)
Residential mortgage-backed securities	434	921.9	(29.4)	54	65.8	(3.3)
Commercial mortgage-backed securities	50	216.8	(3.4)	1	0.6	—
Other debt securities	52	145.7	(3.2)	17	17.7	(1.3)
Total fixed maturity securities	3,051	6,515.2	(241.8)	151	151.4	(18.2)
Equity securities	624	194.2	(16.7)	—	—	—
Total fixed maturity and equity securities	3,675	$6,709.4	$(258.5)	151	$151.4	$(18.2)
December 31, 2012:						
Fixed maturity securities:						
United States Government securities	17	$48.5	$(0.2)	—	$—	$—
States, municipalities and political subdivisions, tax-exempt	184	420.1	(5.7)	1	46.9	(1.6)
Corporate securities	457	1,066.5	(17.0)	74	52.6	(8.0)
Residential mortgage-backed securities	79	211.0	(1.1)	44	25.5	(1.9)
Commercial mortgage-backed securities	4	10.1	—	3	4.1	—
Other debt securities	7	5.4	(0.2)	21	28.9	(3.1)
Total fixed maturity securities	748	1,761.6	(24.2)	143	158.0	(14.6)
Equity securities	961	149.6	(12.5)	—	—	—
Total fixed maturity and equity securities	1,709	$1,911.2	$(36.7)	143	$158.0	$(14.6)

The amortized cost and fair value of fixed maturity securities at September 30, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$429.4	$448.2
Due after one year through five years	4,704.9	4,837.6
Due after five years through ten years	5,176.7	5,272.4
Due after ten years	4,716.7	4,703.3
Mortgage-backed securities	2,686.5	2,714.3
Total available-for-sale fixed maturity securities	$17,714.2	$17,975.8

Proceeds from fixed maturity and equity securities and the related gross realized gains and gross realized losses for the three and nine months ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Proceeds	$5,411.6	$3,492.3	$10,821.6	$10,093.5
Gross realized gains	160.4	109.0	339.3	364.1
Gross realized losses	(65.0)	(54.4)	(172.9)	(132.1)

In the ordinary course of business, we may sell securities at a loss for a number of reasons, including, but not limited to: (i) changes in the investment environment; (ii) expectation that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; or (v) changes in expected cash flow. All securities sold resulting in investment gains and losses are recorded on the trade date. Realized gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

5. Fair Value

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Financial Accounting Standards Board, or FASB, guidance for fair value measurements and disclosures, are as follows:

Level Input	Input Definition
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following methods, assumptions and inputs were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the consolidated balance sheets:

Cash equivalents: Cash equivalents primarily consist of highly rated money market funds with maturities of three months or less and are purchased daily at par value with specified yield rates. Due to the high ratings and short-term nature of the funds, we designate all cash equivalents as Level I.

Fixed maturity securities, available-for-sale: Fair values of available-for-sale fixed maturity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value to facilitate fair value measurements and disclosures. United States Government securities represent Level I securities, while Level II securities primarily include corporate securities, securities from states, municipalities and political subdivisions and mortgage-backed securities. For securities not actively traded, the third party pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. We have controls in place to review the third party pricing services' qualifications and procedures used to determine fair values. In addition, we periodically review the third party pricing services' pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. We also have certain fixed maturity securities, primarily corporate debt securities, that are designated Level III securities. For these securities, the valuation methodologies may incorporate broker quotes or discounted cash flow analyses using assumptions for inputs such as expected cash flows, benchmark yields and credit spreads that are not observable in the markets.

Equity securities, available-for-sale: Fair values of equity securities are generally designated as Level I and are based on quoted market prices. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. These securities are designated Level II. We also have certain equity securities, including private equity securities, for which the fair value is estimated based on each security's current condition and future cash flow projections. Such securities are designated Level III. The fair values of these private equity securities are generally based on either broker quotes or discounted cash flow projections

using assumptions for inputs such as the weighted average cost of capital, long-term revenue growth rates and earnings before interest, taxes, depreciation and amortization, or EBITDA, and/or revenue multiples that are not observable in the markets.

Other invested assets, current: Other invested assets, current include securities held in rabbi trusts that are classified as trading. Fair values are based on quoted market prices.

Securities lending collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value, to facilitate fair value measurements and disclosures.

Derivatives-interest rate swaps: Fair values are based on the quoted market prices by the financial institution that is the counterparty to the swap. We independently verify prices provided by the counterparties using valuation models that incorporate market observable inputs for similar interest rate swaps.

A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012 is as follows:

	Level I	Level II	Level III	Total
September 30, 2013:				
Assets:				
Cash equivalents	$774.5	$—	$—	$774.5
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	466.7	—	—	466.7
Government sponsored securities	—	194.6	—	194.6
States, municipalities and political subdivisions, tax-exempt	—	6,283.3	—	6,283.3
Corporate securities	—	7,736.3	134.3	7,870.6
Options embedded in convertible debt securities	—	81.0	—	81.0
Residential mortgage-backed securities	—	2,218.3	—	2,218.3
Commercial mortgage-backed securities	—	485.7	10.3	496.0
Other debt securities	24.3	326.3	14.7	365.3
Total fixed maturity securities	491.0	17,325.5	159.3	17,975.8
Equity securities	1,303.5	174.6	37.1	1,515.2
Other invested assets, current	15.0	—	—	15.0
Securities lending collateral	424.7	412.9	—	837.6
Derivatives excluding embedded options (reported with other assets)	—	40.3	—	40.3
Total assets	$3,008.7	$17,953.3	$196.4	$21,158.4
Liabilities:				
Derivatives excluding embedded options (reported with other liabilities)	$—	$(20.6)	$—	$(20.6)
Total liabilities	$—	$(20.6)	$—	$(20.6)
December 31, 2012:				
Assets:				
Cash equivalents	$728.3	$—	$—	$728.3
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	343.2	—	—	343.2
Government sponsored securities	—	156.2	—	156.2
States, municipalities and political subdivisions, tax-exempt	—	5,882.2	—	5,882.2
Corporate securities	—	7,882.9	121.1	8,004.0
Options embedded in convertible debt securities	—	67.2	—	67.2
Residential mortgage-backed securities	—	2,300.5	4.3	2,304.8
Commercial mortgage-backed securities	—	345.7	—	345.7
Other debt securities	33.8	203.4	3.9	241.1
Total fixed maturity securities	377.0	16,838.1	129.3	17,344.4
Equity securities	1,103.1	113.2	26.2	1,242.5
Other invested assets, current	14.8	—	—	14.8
Securities lending collateral	231.7	332.9	—	564.6
Derivatives excluding embedded options (reported with other assets)	—	58.6	—	58.6
Total assets	$2,454.9	$17,342.8	$155.5	$19,953.2
Liabilities:				
Derivatives excluding embedded options (reported with other liabilities)	$—	$(0.1)	$—	$(0.1)

Total liabilities	$—	$(0.1)	$—	$(0.1)

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the three months ended September 30, 2013 and 2012 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Securities	Equity Securities	Total
Three Months Ended September 30, 2013:						
Beginning balance at July 1, 2013	$139.2	$12.6	$—	$5.4	$35.8	$193.0
Total gains (losses):						
Recognized in net income	(14.9)	—	—	(0.1)	—	(15.0)
Recognized in accumulated other comprehensive income	4.9	—	—	0.1	(2.4)	2.6
Purchases	6.4	—	—	—	3.7	10.1
Sales	(1.6)	—	—	—	—	(1.6)
Issuances	—	—	—	—	—	—
Settlements	(2.7)	—	(2.3)	(0.2)	—	(5.2)
Transfers into Level III	3.0	—	12.6	9.8	—	25.4
Transfers out of Level III	—	(12.6)	—	(0.3)	—	(12.9)
Ending balance at September 30, 2013	$134.3	$—	$10.3	$14.7	$37.1	$196.4
Change in unrealized losses included in net income related to assets still held for the three months ended September 30, 2013	$(14.9)	$—	$—	$(0.1)	$—	$(15.0)
Three Months Ended September 30, 2012:						
Beginning balance at July 1, 2012	$127.7	$1.4	$5.3	$3.9	$28.8	$167.1
Total gains (losses):						
Recognized in net income	(0.2)	—	—	—	(0.2)	(0.4)
Recognized in accumulated other comprehensive income	2.0	—	0.1	0.6	(5.5)	(2.8)
Purchases	15.6	—	—	—	4.2	19.8
Sales	(21.2)	—	—	—	—	(21.2)
Issuances	—	—	—	—	—	—
Settlements	(5.7)	—	(0.1)	(0.2)	—	(6.0)
Transfers into Level III	—	—	—	10.0	—	10.0
Transfers out of Level III	(5.8)	—	—	—	—	(5.8)
Ending balance at September 30, 2012	$112.4	$1.4	$5.3	$14.3	$27.3	$160.7
Change in unrealized losses included in net income related to assets still held for the three months ended September 30, 2012	$—	$—	$—	$—	$(0.2)	$(0.2)

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the nine months ended September 30, 2013 and 2012 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Securities	Equity Securities	Total
Nine Months Ended September 30, 2013:						
Beginning balance at January 1, 2013	$121.1	$4.3	$—	$3.9	$26.2	$155.5
Total gains (losses):						
Recognized in net income	(16.0)	—	—	(0.1)	(1.0)	(17.1)
Recognized in accumulated other comprehensive income	1.8	—	—	0.4	4.8	7.0
Purchases	45.3	—	—	1.6	9.6	56.5
Sales	(1.6)	—	—	—	(2.5)	(4.1)
Issuances	—	—	—	—	—	—
Settlements	(12.6)	(1.9)	(2.3)	(0.6)	—	(17.4)
Transfers into Level III	3.0	13.1	12.6	9.8	—	38.5
Transfers out of Level III	(6.7)	(15.5)	—	(0.3)	—	(22.5)
Ending balance at September 30, 2013	$134.3	$—	$10.3	$14.7	$37.1	$196.4
Change in unrealized losses included in net income related to assets still held for the nine months ended September 30, 2013	$(16.5)	$—	$—	$(0.1)	$(3.0)	$(19.6)
Nine Months Ended September 30, 2012:						
Beginning balance at January 1, 2012	$195.1	$—	$6.3	$59.0	$24.4	$284.8
Total gains (losses):						
Recognized in net income	15.3	—	—	0.1	(0.5)	14.9
Recognized in accumulated other comprehensive income	(15.5)	—	0.1	0.8	(13.2)	(27.8)
Purchases	61.8	—	3.4	—	4.5	69.7
Sales	(26.3)	—	—	(6.6)	(0.4)	(33.3)
Issuances	—	—	—	—	—	—
Settlements	(64.5)	—	(0.1)	(1.0)	—	(65.6)
Transfers into Level III	1.7	1.4	1.9	12.0	12.5	29.5
Transfers out of Level III	(55.2)	—	(6.3)	(50.0)	—	(111.5)
Ending balance at September 30, 2012	$112.4	$1.4	$5.3	$14.3	$27.3	$160.7
Change in unrealized losses included in net income related to assets still held for the nine months ended September 30, 2012	$—	$—	$—	$—	$(0.6)	$(0.6)

Transfers between levels, if any, are recorded as of the beginning of the reporting period. There were no material transfers into or out of Level III during the nine months ended September 30, 2013 and no material transfers into Level III during the nine months ended September 30, 2012. During the nine months ended September 30, 2012, the transfers out of Level III of corporate securities were for certain sub-prime securities transferred from Level III to Level II as a result of inputs that were previously unobservable becoming observable due to increased volume and level of trading in active markets. In addition, the transfers out of Level III of other debt securities were for certain inverse floating rate securities transferred from Level III to Level II as a result of those securities' impending maturity and settlement and recent trading activity of similar securities in observable markets.

During the three and nine months ended September 30, 2013 and 2012, there were no transfers from Level I to Level II or from Level II to Level I.

There were no material assets or liabilities measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2013. During the nine months ended September 30, 2012 we recorded the fair value of net assets acquired and resulting goodwill and other intangible assets related to our 1-800 CONTACTS acquisition using Level III inputs. Other than the assets acquired and liabilities assumed in our acquisition of 1-800 CONTACTS, there were no material assets or liabilities measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2012.

Our valuation policy is determined by members of our treasury and accounting departments. Whenever possible, our policy is to obtain quoted market prices in active markets to estimate fair values for recognition and disclosure purposes. Where quoted market prices in active markets are not available, fair values are estimated using discounted cash flow analyses, broker quotes or other valuation techniques. These techniques are significantly affected by our assumptions, including discount rates and estimates of future cash flows. Potential taxes and other transaction costs are not considered in estimating fair values. Our valuation policy is generally to obtain only one quoted price for each security from third party pricing services, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. When broker quotes are used, we generally obtain only one broker quote per security. As we are responsible for the determination of fair value, we perform monthly analysis on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. This analysis is performed by our internal treasury personnel who are familiar with our investment portfolios, the third party pricing services engaged and the valuation techniques and inputs used. Our analysis includes a review of month-to-month price fluctuations. If unusual fluctuations are noted in this review, we may obtain additional information from other pricing services to validate the quoted price. There were no adjustments to quoted market prices obtained from third party pricing services during the three and nine months ended September 30, 2013 or 2012.

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB guidance also requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in the consolidated balance sheets.

Non-financial instruments such as real estate, property and equipment, other current assets, deferred income taxes, intangible assets and certain financial instruments, such as policy liabilities, are excluded from the fair value disclosures. Therefore, the fair value amounts cannot be aggregated to determine our underlying economic value.

The carrying amounts reported in the consolidated balance sheets for cash, accrued investment income, premium and self-funded receivables, other receivables, unearned income, accounts payable and accrued expenses, income taxes receivable/payable, security trades pending payable, securities lending payable and certain other current liabilities approximate fair value because of the short term nature of these items. These assets and liabilities are not listed in the table below.

The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument:

Other invested assets, long-term: Other invested assets, long-term include primarily our investments in limited partnerships, joint ventures and other non-controlled corporations, as well as the cash surrender value of corporate-owned life insurance policies. Investments in limited partnerships, joint ventures and other non-controlled corporations are carried at our share in the entities' undistributed earnings, which approximates fair value. The carrying value of corporate-owned life insurance policies represents the cash surrender value as reported by the respective insurer, which approximates fair value.

Short-term borrowings: The fair value of our short-term borrowings is based on quoted market prices for the same or similar debt, or, if no quoted market prices are available, on the current market interest rates available to us for debt of similar terms and remaining maturities.

Long-term debt – commercial paper: The carrying amount for commercial paper approximates fair value as the underlying instruments have variable interest rates at market value.

Long-term debt – notes: The fair values of our notes are based on quoted market prices in active markets for the same or similar debt, or, if no quoted market prices are available, on the current market observable rates estimated to be available to us for debt of similar terms and remaining maturities.

Long-term debt – convertible debentures: The fair value of our convertible debentures is based on the quoted market price in the active private market in which the convertible debentures trade.

A summary of the carrying values and fair values by level of financial instruments not recorded at fair value on our consolidated balance sheets at September 30, 2013 and December 31, 2012 are as follows:

	Carrying Value	Fair Value Level I	Level II	Level III	Total
September 30, 2013					
Assets:					
Other invested assets, long-term	$1,516.8	$—	$—	$1,516.8	$1,516.8
Liabilities:					
Debt:					
Short-term borrowings	350.0	—	350.0	—	350.0
Commercial paper	794.9	—	794.9	—	794.9
Notes	12,755.1	—	13,071.5	—	13,071.5
Convertible debentures	964.0	—	1,909.7	—	1,909.7
December 31, 2012					
Assets:					
Other invested assets, long-term	$1,387.7	$—	$—	$1,387.7	$1,387.7
Liabilities:					
Debt:					
Short-term borrowings	250.0	—	250.0	—	250.0
Commercial paper	570.9	—	570.9	—	570.9
Notes	13,198.9	—	14,407.1	—	14,407.1
Convertible debentures	958.1	—	1,613.4	—	1,613.4

6. Income Taxes

During the three months ended September 30, 2013 and 2012, we recognized income tax expense of $226.6 and $334.5, respectively, which represents effective tax rates of 25.7% and 32.6%, respectively. The decrease in income tax expense was due to a lower effective rate in 2013 as well as decreased income before income tax expense. The 2013 effective tax rate includes benefits resulting from a favorable tax election made subsequent to the Amerigroup acquisition. The 2012 effective tax rate reflects a benefit from the settlement with the Internal Revenue Service, or IRS, of a portion of our open tax issues related to taxes at certain of our acquired companies incurred prior to our acquisition of these companies. This benefit was partially offset by an increase in our state deferred tax asset valuation allowance attributable to the uncertainty associated with some of our state net operating loss carryforwards.

During the nine months ended September 30, 2013 and 2012, we recognized income tax expense of $1,038.9 and $1,192.8, respectively, which represents effective tax rates of 30.7% and 35.2%, respectively. The decrease in income tax expense was due to a lower effective rate in 2013. The 2013 effective tax rate includes benefits resulting from a favorable tax election made subsequent to the Amerigroup acquisition and from inclusion of Amerigroup in our state apportionment factors calculation, which produces a lower effective state tax rate. The 2012 effective tax rate reflects the non-tax deductibility of litigation settlement expenses associated with the settlement of a class action lawsuit in June 2012 and the increase in our state deferred tax asset valuation allowance. This was partially offset by the settlement with the IRS of a portion of our open tax issues related to certain of our acquired companies.

7. Retirement Benefits

The components of net periodic benefit (credit) cost included in the consolidated statements of income for the three months ended September 30, 2013 and 2012 are as follows:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Service cost	$3.5	$4.1	$1.6	$1.7
Interest cost	17.2	19.1	5.6	6.8
Expected return on assets	(33.2)	(33.7)	(5.5)	(5.2)
Recognized actuarial loss	6.1	7.6	2.8	3.5
Settlement loss	2.6	4.0	—	—
Amortization of prior service credit	(0.2)	(0.2)	(3.3)	(3.3)
Net periodic benefit (credit) cost	$(4.0)	$0.9	$1.2	$3.5

The components of net periodic benefit (credit) cost included in the consolidated statements of income for the nine months ended September 30, 2013 and 2012 are as follows:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Service cost	$10.8	$12.3	$5.0	$5.1
Interest cost	50.6	57.4	16.8	20.6
Expected return on assets	(99.8)	(101.0)	(16.5)	(15.7)
Recognized actuarial loss	23.2	22.8	8.4	10.6
Settlement loss	9.7	10.6	—	—
Amortization of prior service credit	(0.6)	(0.6)	(10.0)	(10.0)
Net periodic benefit (credit) cost	$(6.1)	$1.5	$3.7	$10.6

For the year ending December 31, 2013, no material contributions are expected to be necessary to meet the Employee Retirement Income Security Act, or ERISA, required funding levels; however, we may elect to make discretionary contributions up to the maximum amount deductible for income tax purposes. Contributions of $34.8 and $30.9 were made to our retirement benefit plans during the nine months ended September 30, 2013 and 2012, respectively.

8. Debt

The carrying value of long-term debt as of September 30, 2013 and December 31, 2012 consists of the following:

	September 30, 2013	December 31, 2012
Senior unsecured notes:		
6.000%, face amount of $400.0, due 2014	$—	$399.8
5.000%, face amount of $500.0, due 2014	527.6	535.9
1.250%, face amount of $625.0, due 2015	624.8	624.8
5.250%, face amount of $1,100.0, due 2016	1,109.6	1,114.0
2.375%, face amount of $400.0, due 2017	399.3	401.5
5.875%, face amount of $700.0, due 2017	545.0	697.4
1.875%, face amount of $625.0, due 2018	612.7	625.2
2.300%, face amount of $650.0, due 2018	647.3	—
7.500%, face amount of $475.0, due 2019	—	556.9
7.000%, face amount of $600.0, due 2019	452.8	599.3
4.350%, face amount of $700.0, due 2020	690.8	701.0
3.700%, face amount of $700.0, due 2021	699.3	699.3
3.125%, face amount of $850.0, due 2022	846.2	845.9
3.300%, face amount of $1,000.0, due 2023	996.9	996.7
5.950%, face amount of $500.0, due 2034	447.3	498.8
5.850%, face amount of $900.0, due 2036	775.6	895.7
6.375%, face amount of $800.0, due 2037	651.4	796.7
5.800%, face amount of $300.0, due 2040	216.2	296.8
4.625%, face amount of $900.0, due 2042	893.8	893.7
4.650%, face amount of $1,000.0, due 2043	994.3	994.2
5.100%, face amount of $600.0, due 2044	599.2	—
Senior convertible debentures:		
2.750%, face amount of $1,500.0, due 2042	964.0	958.1
Surplus notes:		
9.000%, face amount of $25.1, due 2027	25.0	25.0
Variable rate debt:		
Commercial paper program	794.9	570.9
Capital leases	0.1	0.3
Total long-term debt	14,514.1	14,727.9
Current portion of long-term debt	(0.1)	(557.1)
Long-term debt, less current portion	$14,514.0	$14,170.8

On September 5, 2013, we redeemed the $400.0 outstanding principal balance of our 6.000% senior unsecured notes due 2014, plus applicable premium for early redemption and accrued and unpaid interest up to but not including the redemption date, for cash totaling $411.0. We recognized a loss on extinguishment of debt of $10.0 for the redemption of these notes.

On July 30, 2013, we initiated a cash tender offer and consent solicitation to purchase up to $300.0 aggregate principal amount of our outstanding 5.875% Notes due 2017 and 7.000% Notes due 2019 (the "First Tranche Offer") and to purchase up to $300.0 aggregate principal amount of our outstanding 5.950% Notes due 2034, 5.850% Notes due 2036, 6.375% Notes due 2037 and 5.800% Notes due 2040 (the "Second Tranche Offer"), collectively, the "Tender Offers". The Tender Offers were each subject to increase up to an additional $100.0 at our election. On August 12, 2013, we increased the Second Tranche Offer to $400.0 and on August 13, 2013 we repurchased $300.0 of the First Tranche Notes and $400.0 of the Second Tranche Notes for cash totaling $837.7. Holders who tendered their notes prior to the early tender date received the principal amounts, applicable premium for early redemption and accrued and unpaid interest up to but not including the early tender offer settlement date. We recognized a loss on extinguishment of debt of $135.3 for the repurchase of these notes.

On July 30, 2013, we issued $650.0 of 2.300% notes due 2018 and $600.0 of 5.100% notes due 2044 under our shelf registration statement. We used the proceeds from this offering in part to fund the purchase price of the 6.000% senior unsecured notes and the Tender Offers, discussed above, and intend to use the remaining net proceeds from the offerings for general corporate purposes. Interest on the notes will be payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2014. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows the trustee or the holders of 25% of the principal amount of the notes to require us to repurchase the notes if an event of default occurs under the Indenture and has not been cured.

As a result of our acquisition of Amerigroup on December 24, 2012, the carrying amount of Amerigroup's $475.0 of 7.500% senior unsecured notes due 2019 was included in our consolidated balance sheet as of December 31, 2012. In accordance with FASB accounting guidance for business combinations, the notes were recorded at their estimated fair value of $556.9 on the date of acquisition. On January 25, 2013 we redeemed the outstanding principal balance of these notes, plus applicable premium for early redemption, for cash totaling $555.6. The weighted-average redemption price of the notes was approximately 117% of the principal amount outstanding.

We have a senior revolving credit facility, or the Facility, with certain lenders for general corporate purposes. The Facility, as amended, provides credit up to $2,000.0, and matures on September 29, 2016. There were no amounts outstanding under this Facility as of September 30, 2013 or at any time during the three and nine months then ended.

We have an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. At September 30, 2013, we had $794.9 outstanding under this program.

We have issued senior convertible debentures due 2042, or the Debentures, which are governed by an indenture between us and The Bank of New York Mellon Trust Company, N.A., as trustee. We have accounted for the Debentures in accordance with the FASB cash conversion guidance for debt with conversion and other options. As a result, the value of the embedded conversion option has been bifurcated from its debt host and recorded as a component of "additional paid-in capital" (net of deferred taxes and equity issuance costs) in our consolidated balance sheets. The following table summarizes at September 30, 2013 the related balances, conversion rate and conversion price of the Debentures:

Outstanding principal amount	$1,500.0
Unamortized debt discount	536.0
Net debt carrying amount	964.0
Equity component carrying amount	543.6
Conversion rate (shares of common stock per $1,000 of principal amount)	13.2790
Effective conversion price (per $1,000 of principal amount)	$75.3065

9. Commitments and Contingencies

Litigation

In the ordinary course of business, we are defendants in, or parties to, a number of pending or threatened legal actions or proceedings. To the extent a plaintiff or plaintiffs in the following cases have specified in their complaint or in other court filings the amount of damages being sought, we have noted those alleged damages in the descriptions below. With respect to the cases described below, we contest liability and/or the amount of damages in each matter and believe we have meritorious defenses.

In the Los Angeles County Superior Court, we defended a lawsuit filed by the Los Angeles City Attorney alleging the wrongful rescission of individual insurance policies and representations made concerning rescission practices and policies. The suit named WellPoint as well as Blue Cross of California, or BCC, and BC Life & Health Insurance Company, or BCL&H (which name changed to Anthem Blue Cross Life and Health Insurance Company in July 2007), both WellPoint subsidiaries. The lawsuit generally alleged unfair business practices and a purported practice of rescinding new individual members following the submission of large claims. The Los Angeles City Attorney filed an amended complaint in October 2010, adding claims of misrepresentation arising from several public statements made by the Company during 2010. The Los Angeles City Attorney requested two thousand five hundred dollars ($2,500) per alleged violation of the California Business and Professions Code. The lawsuit was recently settled for $6.0. The court entered final approval of the settlement and judgment on July 10, 2013.

We are defending a certified class action filed as a result of the 2001 demutualization of Anthem Insurance Companies, Inc., or AICI. The lawsuit names AICI as well as Anthem, Inc., or Anthem, n/k/a WellPoint, Inc., and is captioned Ronald Gold, et al. v. Anthem, Inc. et al. AICI's 2001 Plan of Conversion, or the Plan, provided for the conversion of AICI from a mutual insurance company into a stock insurance company pursuant to Indiana law. Under the Plan, AICI distributed the fair value of the company at the time of conversion to its Eligible Statutory Members, or ESMs, in the form of cash or Anthem common stock in exchange for their membership interests in the mutual company. Plaintiffs in Gold allege that AICI distributed value to the wrong ESMs. Cross motions for summary judgment were granted in part and denied in part on July 26, 2006 with regard to the issue of sovereign immunity asserted by co-defendant, the state of Connecticut, or the State. The court also denied our motion for summary judgment as to plaintiffs' claims on January 10, 2005. The State appealed the denial of its motion to the Connecticut Supreme Court. We filed a cross-appeal on the sovereign immunity issue. On May 11, 2010, the Court reversed the judgment of the trial court denying the State's motion to dismiss the plaintiff's claims under sovereign immunity and dismissed our cross-appeal. The case was remanded to the trial court for further proceedings. Plaintiffs' motion for class certification was granted on December 15, 2011. We and the plaintiffs filed renewed cross-motions for summary judgment on January 24, 2013. Argument on the renewed motions was held on April 19, 2013. On August 19, 2013, the court denied plaintiffs' motion for summary judgment. The court deferred a final ruling on our motion for summary judgment, instead requesting supplemental argument which is scheduled to occur on November 7, 2013. We intend to vigorously defend the Gold lawsuit; however, its ultimate outcome cannot be presently determined.

We are currently a defendant in eleven putative class actions relating to out-of-network, or OON, reimbursement that were consolidated into a single multi-district lawsuit called In re WellPoint, Inc. Out-of-Network "UCR" Rates Litigation that is pending in the United States District Court for the Central District of California. The lawsuits were filed in 2009. The plaintiffs include current and former members on behalf of a putative class of members who received OON services for which the defendants paid less than billed charges, the American Medical Association, four state medical associations, OON physicians, chiropractors, clinical psychologists, podiatrists, psychotherapists, the American Podiatric Association, California Chiropractic Association and the California Psychological Association on behalf of a putative class of all physicians and all non-physician health care providers. In the consolidated complaint, the plaintiffs allege that the defendants violated the Racketeer Influenced and Corrupt Organizations Act, or RICO, the Sherman Antitrust Act, ERISA, federal regulations, and state law by relying on databases provided by Ingenix in determining OON reimbursement. A consolidated amended complaint was filed to add allegations in the lawsuit that OON reimbursement was calculated improperly by methodologies other than the Ingenix databases. We filed a motion to dismiss the amended consolidated complaint, which motion was granted in part and denied in part. The court gave the plaintiffs permission to replead many of those claims that were dismissed. The plaintiffs then filed a third amended consolidated complaint repleading some of the claims that had been dismissed without prejudice and adding additional statements in an attempt to bolster other claims. We filed a motion to dismiss most of the claims in the third amended consolidated complaint, which was granted in part and denied in part. The plaintiffs then filed a fourth amended consolidated complaint and we filed a motion to dismiss most of the claims asserted in the fourth amended consolidated complaint. In July 2013 the court issued an order granting in part and denying in part our motion. The court held that the state and federal anti-trust claims along with the RICO claims should be dismissed in their entirety with prejudice. The court further found that the ERISA claims, to the extent they involved non-Ingenix methodologies, along with those that involved our alleged non-disclosures should be dismissed with prejudice. The court also dismissed most of the plaintiffs' state law claims with prejudice. The only claims that remain after the court's decision are an ERISA benefits claim relating to claims priced based on Ingenix, a breach of contract claim on behalf of one subscriber plaintiff, a breach of implied covenant claim on behalf of one plaintiff, and one subscriber plaintiff's claim under the California Unfair Competition Law. The plaintiffs filed a motion for reconsideration of the motion to dismiss order, which the court granted in part and denied in part. The court ruled that the plaintiffs adequately allege that one Georgia provider plaintiff is deemed to have exhausted administrative remedies regarding non-Ingenix methodologies based on the facts alleged regarding that plaintiff. Fact discovery is complete. Earlier in the case, in 2009, we filed a motion in the United States District Court for the Southern District of Florida, or the Florida Court, to enjoin the claims brought by the medical doctors and doctors of osteopathy and certain medical associations based on prior litigation releases, which was granted in 2011. The Florida Court ordered the plaintiffs to dismiss their claims that are barred by the release. The plaintiffs then filed a petition for declaratory judgment asking the court to find that these claims are not barred by the releases from the prior litigation. We filed a motion to dismiss the declaratory judgment action, which was granted. The plaintiffs appealed the dismissal of the declaratory judgment to the United States Court of Appeals for the Eleventh Circuit, but the dismissal was upheld. The enjoined physicians have not yet dismissed their claims. The Florida Court found the enjoined physicians in contempt and sanctioned them in July 2012. The barred physicians are paying the sanctions and have appealed the Florida Court's sanctions order to the United States Court of Appeals for the Eleventh Circuit. Oral argument on that appeal is scheduled for October 2013. We intend to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

Where available information indicates that it is probable that a loss has been incurred as of the date of the consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income. In many proceedings, however, it is difficult to determine whether any loss is probable or reasonably possible. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously identified loss contingency, it is not always possible to reasonably estimate the amount of the possible loss or range of loss.

With respect to many of the proceedings to which we are a party, we cannot provide an estimate of the possible losses, or the range of possible losses in excess of the amount, if any, accrued, for various reasons, including but not limited to some or all of the following: (i) there are novel or unsettled legal issues presented, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or decertified or the ultimate size and scope of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) in many cases, the plaintiffs have not specified damages in their complaint or in court filings. For those legal proceedings where a loss is probable, or reasonably possible, and for which it is possible to reasonably estimate the amount of the possible loss or range of losses, we currently believe that the range of possible losses, in excess of established reserves, for all of those proceedings is from $0 to approximately $350.0 at September 30, 2013. This estimated aggregate range of reasonably possible losses is based upon currently available information taking into account our best estimate of such losses for which such an estimate can be made.

Other Contingencies

From time to time, we and certain of our subsidiaries are parties to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. We, like HMOs and health insurers generally, exclude certain health care and other services from coverage under our HMO, PPO and other plans. We are, in the ordinary course of business, subject to the claims of our enrollees arising out of decisions to restrict or deny reimbursement for uncovered services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on us. In addition, the risk of potential liability under punitive damage theories may increase significantly the difficulty of obtaining reasonable settlements of coverage claims.

In addition to the lawsuits described above, we are also involved in other pending and threatened litigation of the character incidental to our business, and are from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits, reviews and administrative proceedings include routine and special inquiries by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on our business operations. Any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on our consolidated financial position or results of operations.

The National Organization of Life & Health Insurance Guaranty Associations, or NOLHGA, is a voluntary organization consisting of the state life and health insurance guaranty associations located throughout the U.S. State life and health insurance guaranty associations, working together with NOLHGA, provide a safety net for their state's policyholders, ensuring that they continue to receive coverage even if their insurer is declared insolvent. We are aware that the Pennsylvania Insurance Commissioner, or Insurance Commissioner, has placed Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company, or collectively Penn Treaty, in rehabilitation, an intermediate action before insolvency. The state court denied the Insurance Commissioner's petition for the liquidation of Penn Treaty and ordered the Insurance Commissioner to file an updated plan of rehabilitation, which proposed plan was filed on April 30, 2013. The state court has ordered a hearing on the proposed plan for which a date has not yet been set. The Insurance Commissioner has filed a Notice of Appeal asking the Pennsylvania Supreme Court to reverse the order denying the liquidation petition. The Supreme Court has probable jurisdiction over the appeal and issued a schedule for filing briefs. In the event rehabilitation of Penn Treaty is unsuccessful and Penn Treaty is declared insolvent and placed in liquidation, we and other insurers may be required to pay a portion of their policyholder claims through state guaranty association assessments in future periods. Given the uncertainty around whether Penn Treaty will ultimately be declared insolvent and, if so, the amount of the insolvency, the amount and timing of any associated future guaranty fund assessments and the availability and amount of any potential premium tax and other offsets, we currently cannot estimate our net exposure, if any, to this potential insolvency. We will continue to monitor the situation and may record a liability and expense in future reporting periods, which could be material to our cash flows and results of operations.

Contractual Obligations and Commitments

We are a party to an agreement with Express Scripts, Inc., or Express Scripts, to provide pharmacy benefit management, or PBM, services for our plans, excluding Amerigroup and certain self-insured members, which have exclusive agreements with different PBM services providers. The initial term of this agreement expires on December 31, 2019. Under this agreement, Express Scripts is the exclusive provider of certain specified PBM services, such as pharmacy network management, home delivery, pharmacy customer service, claims processing, rebate management, drug utilization and specialty pharmaceutical management services. Accordingly, the agreement contains certain financial and operational requirements obligating both Express Scripts and us. Express Scripts' primary obligations relate to the performance of such services and meeting certain pricing guarantees and performance standards. Our primary obligations relate to oversight, provision of data, payment for services and certain minimum volume requirements. The failure by either party to meet the respective requirements could potentially serve as a basis for financial penalties or early termination of the contract. We believe we have appropriately recognized all rights and obligations under this contract at September 30, 2013.

During the first quarter of 2010, we entered into a new agreement with International Business Machines Corporation to provide information technology infrastructure services. This new agreement supersedes certain prior agreements and also includes provisions for additional services. Our remaining commitment under this agreement at September 30, 2013 was $296.7 through March 31, 2015. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

On March 31, 2009, we entered into an agreement with Affiliated Computer Services, Inc. to provide certain print and mailroom services that were previously performed in-house. Our remaining commitment under this agreement at September 30, 2013 was $157.1 through March 31, 2016. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

10. Capital Stock

Use of Capital – Dividends and Stock Repurchase Program

We regularly review the appropriate use of capital, including common stock repurchases, repurchases of debt and dividends to shareholders. The declaration and payment of any dividends or repurchases of our common stock or debt securities are at the discretion of our Board of Directors and depend upon our financial condition, results of operations, future liquidity needs, regulatory and capital requirements and other factors deemed relevant by our Board of Directors.

A summary of the cash dividend activity for the nine months ended September 30, 2013 and 2012 is as follows:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
Nine Months Ended September 30, 2013				
February 20, 2013	March 8, 2013	March 25, 2013	$0.3750	$113.4
May 15, 2013	June 10, 2013	June 25, 2013	0.3750	112.7
July 23, 2013	September 10, 2013	September 25, 2013	0.3750	111.4
Nine Months Ended September 30, 2012				
January 24, 2012	March 9, 2012	March 23, 2012	$0.2875	$95.8
May 16, 2012	June 8, 2012	June 25, 2012	0.2875	93.5
July 24, 2012	September 10, 2012	September 25, 2012	0.2875	90.7

Under our Board of Directors' authorization, we maintain a common stock repurchase program. On September 25, 2013, the Board of Directors authorized a $3,500.0 increase to the common stock repurchase program. Repurchases may be made from time to time at prevailing market prices, subject to certain restrictions on volume, pricing and timing. The repurchases are effected from time to time in the open market, through negotiated transactions, including options and accelerated share repurchase agreements, and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Our common stock repurchase program is discretionary as we are under no obligation to repurchase shares. We repurchase shares under the program when we believe it is a prudent use of capital. The excess cost of repurchased shares over par value is charged on a pro rata basis to additional paid-in capital and retained earnings.

A summary of share repurchases for the period October 1, 2013 through October 10, 2013 (subsequent to September 30, 2013) and for the nine months ended September 30, 2013 and 2012 is as follows:

	October 1, 2013 Through October 10, 2013	Nine Months Ended September 30 2013	2012
Shares repurchased	0.9	15.6	28.6
Average price per share	$ 85.28	$74.86	$63.85
Aggregate cost	$ 72.7	$1,170.4	$1,828.8
Authorization remaining at the end of each period	$ 4,093.8	$4,166.5	$2,504.9

Stock Incentive Plans

A summary of stock option activity for the nine months ended September 30, 2013 is as follows:

	Number of Shares	Weighted-Average Option Price per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	17.8	$64.67		
Granted	2.0	62.37		
Exercised	(6.2)	60.28		
Forfeited or expired	(1.3)	70.88		
Outstanding at September 30, 2013	12.3	$65.85	3.4	$217.5
Exercisable at September 30, 2013	9.7	$66.54	2.8	$166.5

A summary of the status of nonvested restricted stock activity, including restricted stock units, for the nine months ended September 30, 2013 is as follows:

	Restricted Stock Shares and Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at January 1, 2013	2.6	$63.87
Granted	2.4	62.69
Vested	(0.4)	59.64
Forfeited	(0.5)	64.61
Nonvested at September 30, 2013	4.1	$63.50

Fair Value

We use a binomial lattice valuation model to estimate the fair value of all stock options granted. For a more detailed discussion of our stock incentive plan fair value methodology, see Note 15, “Capital Stock,” to our audited consolidated financial statements as of and for the year ended December 31, 2012 included in our 2012 Annual Report on Form 10-K.

The following weighted-average assumptions were used to estimate the fair values of options granted during the nine months ended September 30, 2013 and 2012:

	2013	2012
Risk-free interest rate	1.25 %	1.41 %
Volatility factor	35.00 %	34.00 %
Quarterly dividend yield	0.600 %	0.400 %
Weighted-average expected life (years)	4.0	4.1

The following weighted-average fair values were determined for the nine months ended September 30, 2013 and 2012:

	2013	2012
Options granted during the period	$14.60	$16.51

11. Accumulated Other Comprehensive Income (Loss)

A reconciliation of the components of accumulated other comprehensive income (loss) at September 30, 2013 and 2012 is as follows:

	2013	2012
Investments:		
Gross unrealized gains	$1,003.0	$1,373.9
Gross unrealized losses	(276.7)	(46.7)
Net pre-tax unrealized gains	726.3	1,327.2
Deferred tax liability	(249.7)	(465.0)
Net unrealized gains on investments	476.6	862.2
Non-credit components of other-than-temporary impairments on investments:		
Unrealized losses	(0.9)	(3.4)
Deferred tax asset	0.3	1.2
Net unrealized non-credit component of other-than-temporary impairments on investments	(0.6)	(2.2)
Cash flow hedges:		
Gross unrealized losses	(50.8)	(55.4)
Deferred tax asset	17.8	19.4
Net unrealized losses on cash flow hedges	(33.0)	(36.0)
Defined benefit pension plans:		
Deferred net actuarial loss	(654.0)	(620.3)
Deferred prior service credits	3.3	4.1
Deferred tax asset	256.4	249.6
Net unrecognized periodic benefit costs for defined benefit pension plans	(394.3)	(366.6)
Postretirement benefit plans:		
Deferred net actuarial loss	(182.7)	(224.0)
Deferred prior service credits	93.2	106.5
Deferred tax asset	35.2	47.6
Net unrecognized periodic benefit costs for postretirement benefit plans	(54.3)	(69.9)
Foreign currency translation adjustments:		
Gross unrealized gains (losses)	1.3	(0.9)
Deferred tax (liability) asset	(0.5)	0.3
Net unrealized gains (losses) on foreign currency translation adjustments	0.8	(0.6)
Accumulated other comprehensive (loss) income	$(4.8)	$386.9

Other comprehensive income (loss) reclassification adjustments for the three months ended September 30, 2013 and 2012 are as follows:

	2013	2012
Investments:		
Net holding (loss) gain on investment securities arising during the period, net of tax (benefit) expense of $(9.4) and $73.4, respectively	$(15.0)	$135.3
Reclassification adjustment for net realized gain on investment securities, net of tax expense of $16.9 and $17.8, respectively	31.3	33.0
Total reclassification adjustment on investments	16.3	168.3
Non-credit component of other-than-temporary impairments on investments:		
Non-credit component of other-than-temporary impairments on investments, net of tax benefit of $0.3 and $0.0, respectively	(0.6)	—
Cash flow hedges:		
Holding gain (loss), net of tax expense (benefit) of $0.4 and $(0.6), respectively	0.7	(1.0)
Other:		
Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of $3.2 and $4.7, respectively	4.8	6.9
Foreign currency translation adjustment, net of tax expense of $0.6 and $0.3, respectively	1.2	0.5
Net gain recognized in other comprehensive income (loss), net of tax expense of $11.4 and $95.6, respectively	$22.4	$174.7

Other comprehensive income (loss) reclassification adjustments for the nine months ended September 30, 2013 and 2012 are as follows:

	2013	2012
Investments:		
Net holding (loss) gain on investment securities arising during the period, net of tax (benefit) expense of $(213.6) and $59.1, respectively	$(390.1)	$111.1
Reclassification adjustment for net realized gain on investment securities, net of tax expense of $34.0 and $74.0, respectively	63.1	137.4
Total reclassification adjustment on investments	(327.0)	248.5
Non-credit component of other-than-temporary impairments on investments:		
Non-credit component of other-than-temporary impairments on investments, net of tax expense of $0.9 and $2.4, respectively	1.6	4.4
Cash flow hedges:		
Holding gain (loss), net of tax expense (benefit) of $1.2 and $(0.3), respectively	2.2	(0.6)
Other:		
Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of $12.1 and $13.5, respectively	18.6	19.9
Foreign currency translation adjustment, net of tax expense (benefit) of $0.4 and $(0.1), respectively	0.7	(0.2)
Net (loss) gain recognized in other comprehensive income (loss), net of tax (benefit) expense of $(165.0) and $148.6, respectively	$(303.9)	$272.0

12. Earnings per Share

The denominator for basic and diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Denominator for basic earnings per share – weighted average shares	297.4	318.9	300.0	327.2
Effect of dilutive securities – employee stock options, non-vested restricted stock awards and convertible debentures	7.1	3.0	4.5	3.5
Denominator for diluted earnings per share	304.5	321.9	304.5	330.7

During the three months ended September 30, 2013 and 2012, weighted average shares related to certain stock options of