WELLPOINT, INC
Form 10-Q
April 30, 2014

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 March 31, 2014

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 April 15, 2014
Common Stock, $0.01 par value	279,672,290 shares

WellPoint, Inc.
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2014
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

WellPoint, Inc.
Consolidated Balance Sheets

(In millions, except share data)	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$1,971.2	$1,582.1
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $17,600.8 and $16,826.7)	18,004.0	17,038.2
Equity securities (cost of $1,374.0 and $1,168.5)	1,963.5	1,735.5
Other invested assets, current	25.9	16.3
Accrued investment income	173.6	168.8
Premium and self-funded receivables	4,457.5	3,968.7
Other receivables	1,234.0	1,063.3
Income taxes receivable	—	235.7
Securities lending collateral	1,325.0	969.8
Deferred tax assets, net	234.5	383.0
Other current assets	2,417.6	1,677.5
Assets held for sale	—	906.9
Total current assets	31,806.8	29,745.8
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $504.6 and $455.9)	502.4	449.9
Equity securities (cost of $26.8 and $27.4)	31.0	31.3
Other invested assets, long-term	1,593.8	1,542.6
Property and equipment, net	1,811.7	1,801.5
Goodwill	16,916.7	16,917.2
Other intangible assets	8,387.3	8,441.0
Other noncurrent assets	635.8	645.2
Total assets	$61,685.5	$59,574.5
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$6,707.1	$6,127.2
Reserves for future policy benefits	65.7	63.1
Other policyholder liabilities	2,020.4	2,073.2
Total policy liabilities	8,793.2	8,263.5
Unearned income	1,073.0	822.7
Accounts payable and accrued expenses	4,113.1	3,426.3
Income taxes payable	97.7	—
Security trades pending payable	177.5	95.2
Securities lending payable	1,324.6	969.7
Short-term borrowings	590.0	400.0
Current portion of long-term debt	518.7	518.0

Other current liabilities	1,805.9	1,674.7
Liabilities held for sale	—	181.4
Total current liabilities	18,493.7	16,351.5
Long-term debt, less current portion	13,932.1	13,573.6
Reserves for future policy benefits, noncurrent	738.9	723.0
Deferred tax liabilities, net	3,343.1	3,325.2
Other noncurrent liabilities	832.4	836.0
Total liabilities	37,340.2	34,809.3
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 – 281,912,262 and 293,273,830	2.9	2.9
Additional paid-in capital	10,003.5	10,765.2
Retained earnings	14,011.5	13,813.9
Accumulated other comprehensive income	327.4	183.2
Total shareholders' equity	24,345.3	24,765.2
Total liabilities and shareholders' equity	$61,685.5	$59,574.5

See accompanying notes.

WellPoint, Inc.
Consolidated Statements of Income
(Unaudited)

(In millions, except per share data)	Three Months Ended March 31 2014	2013
Revenues		
Premiums	$16,517.0	$16,435.6
Administrative fees	1,118.3	990.1
Other revenue	9.5	9.4
Total operating revenue	17,644.8	17,435.1
Net investment income	183.7	162.0
Net realized gains on investments	41.7	16.8
Other-than-temporary impairment losses on investments:		
Total other-than-temporary impairment losses on investments	(10.8)	(37.9)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	—	—
Other-than-temporary impairment losses recognized in income	(10.8)	(37.9)
Total revenues	17,859.4	17,576.0
Expenses		
Benefit expense	13,664.6	13,748.7
Selling, general and administrative expense:		
Selling expense	370.8	385.9
General and administrative expense	2,490.7	1,943.2
Total selling, general and administrative expense	2,861.5	2,329.1
Interest expense	146.2	153.5
Amortization of other intangible assets	54.0	62.2
Loss on extinguishment of debt	3.0	—
Total expenses	16,729.3	16,293.5
Income from continuing operations before income tax expense	1,130.1	1,282.5
Income tax expense	438.7	410.2
Income from continuing operations	691.4	872.3
Income from discontinued operations, net of tax	9.6	12.9
Net income	$701.0	$885.2
Basic net income per share:		
Basic - continuing operations	$2.43	$2.88
Basic - discontinued operations	0.03	0.04
Basic net income per share	$2.46	$2.92
Diluted net income per share:		
Diluted - continuing operations	$2.37	$2.85
Diluted - discontinued operations	0.03	0.04
Diluted net income per share	$2.40	$2.89
Dividends per share	$0.4375	$0.3750

See accompanying notes.

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

	Three Months Ended March 31	
(In millions)	2014	2013
Net income	$701.0	$885.2
Other comprehensive income, net of tax:		
Change in net unrealized gains/losses on investments	140.3	34.5
Change in non-credit component of other-than-temporary impairment losses on investments	0.5	2.2
Change in net unrealized gains/losses on cash flow hedges	0.7	0.7
Change in net periodic pension and postretirement costs	2.9	6.8
Foreign currency translation adjustments	(0.2)	(0.8)
Other comprehensive income	144.2	43.4
Total comprehensive income	$845.2	$928.6

See accompanying notes.

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

	Three Months Ended March 31	
(In millions)	2014	2013
Operating activities		
Net income	$701.0	$885.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	(41.7)	(16.8)
Other-than-temporary impairment losses recognized in income	10.8	37.9
Loss on extinguishment of debt	3.0	—
Gain on disposal from discontinued operations	(3.2)	—
Loss on disposal of assets	0.1	0.7
Deferred income taxes	85.2	9.1
Amortization, net of accretion	190.3	186.7
Depreciation expense	26.4	25.3
Impairment of property and equipment	2.1	—
Share-based compensation	38.8	21.5
Excess tax benefits from share-based compensation	(22.4)	(4.2)
Changes in operating assets and liabilities:		
Receivables, net	(616.0)	(397.7)
Other invested assets	(14.6)	(8.2)
Other assets	(69.5)	(58.6)
Policy liabilities	545.6	70.9
Unearned income	250.0	(31.1)
Accounts payable and accrued expenses	(137.3)	(224.0)
Other liabilities	107.4	35.1
Income taxes	356.0	435.6
Other, net	(24.5)	(10.5)
Net cash provided by operating activities	1,387.5	956.9
Investing activities		
Purchases of fixed maturity securities	(3,084.8)	(3,955.5)
Proceeds from fixed maturity securities:		
Sales	2,061.2	2,531.8
Maturities, calls and redemptions	284.3	490.8
Purchases of equity securities	(228.6)	(29.2)
Proceeds from sales of equity securities	30.3	87.4
Purchases of other invested assets	(35.4)	(127.5)
Proceeds from sales of other invested assets	25.6	7.6
Settlement of non-hedging derivatives	(46.2)	(80.6)
Changes in securities lending collateral	(354.9)	(12.9)
Proceeds from sale of subsidiary, net of cash sold	740.0	—
Purchases of property and equipment	(135.7)	(107.5)
Other, net	(0.1)	—
Net cash used in investing activities	(744.3)	(1,195.6)
Financing activities		
Net proceeds from commercial paper borrowings	379.4	260.3
Repayments of long-term borrowings	(24.2)	(556.9)
Proceeds from short-term borrowings	970.0	100.0

Repayments of short-term borrowings	(780.0)	—
Changes in securities lending payable	354.9	12.8
Changes in bank overdrafts	75.0	30.4
Repurchase and retirement of common stock	(1,262.8)	(340.2)
Cash dividends	(123.4)	(113.4)
Proceeds from issuance of common stock under employee stock plans	130.1	23.7
Excess tax benefits from share-based compensation	22.4	4.2
Net cash used in financing activities	(258.6)	(579.1)
Effect of foreign exchange rates on cash and cash equivalents	(0.3)	(1.5)
Change in cash and cash equivalents	384.3	(819.3)
Cash and cash equivalents at beginning of period	1,586.9	2,484.6
Cash and cash equivalents at end of period	1,971.2	1,665.3
Less cash and cash equivalents of discontinued operations at end of period	—	(5.7)
Cash and cash equivalents of continuing operations at end of period	$1,971.2	$1,659.6

See accompanying notes.

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	Total Shareholders' Equity
January 1, 2014	293.3	$2.9	$10,765.2	$13,813.9	$ 183.2	$24,765.2
Net income	—	—	—	701.0	—	701.0
Other comprehensive income	—	—	—	—	144.2	144.2
Settlement of equity options	—	—	(19.4)	—	—	(19.4)
Repurchase and retirement of common stock	(14.3)	—	(884.3)	(378.5)	—	(1,262.8)
Dividends and dividend equivalents	—	—	—	(124.9)	—	(124.9)
Issuance of common stock under employee stock plans, net of related tax benefits	2.9	—	142.0	—	—	142.0
March 31, 2014	281.9	$2.9	$10,003.5	$14,011.5	$ 327.4	$24,345.3
January 1, 2013	304.7	$3.0	$10,853.5	$12,647.1	$ 299.1	$23,802.7
Net income	—	—	—	885.2	—	885.2
Other comprehensive income	—	—	—	—	43.4	43.4
Repurchase and retirement of common stock	(5.5)	—	(200.5)	(143.0)	—	(343.5)
Convertible debenture tax adjustment	—	—	(4.0)	—	—	(4.0)
Dividends and dividend equivalents	—	—	—	(114.2)	—	(114.2)
Issuance of common stock under employee stock plans, net of related tax benefits	1.5	—	48.4	—	—	48.4
March 31, 2013	300.7	$3.0	$10,697.4	$13,275.1	$ 342.5	$24,318.0

See accompanying notes.

WellPoint, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2014
(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 terms of medical membership in the United States, serving 36.9 medical members through our affiliated health plans and approximately 66.8 individuals through our subsidiaries as of March 31, 2014. 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. We also sold contact lenses, eyeglasses and other ocular products through our 1-800 CONTACTS, Inc., or 1-800 CONTACTS, business, which was divested on January 31, 2014.

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 and as 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 BCBS in 10 New York City metropolitan and surrounding counties, and as Blue Cross or BCBS 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, and Empire Blue Cross Blue Shield, or Empire Blue Cross (in our New York service areas). We also conduct business through our AMERIGROUP Corporation, or Amerigroup, subsidiary in Florida, Georgia, Kansas, Louisiana, Maryland, Nevada, New Jersey, New York, Tennessee, Texas and Washington. 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 and Significant Accounting Policies

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 2013 Annual Report on Form 10-K, unless the information contained in those disclosures materially changed or is required by GAAP. Unless otherwise specified, all financial information presented in the accompanying consolidated financial statements and in the notes to consolidated financial statements relates only to our continuing operations, other than cash flows presented on the consolidated statements of cash flows. 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 months ended March 31, 2014 and 2013 have been recorded. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013 included in our 2013 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.

Revenue Recognition: Premiums for fully-insured contracts are recognized as revenue over the period insurance coverage is provided, net of amounts recognized for minimum medical loss ratio rebates, if applicable, and the risk adjustment, reinsurance, and risk corridor premium stabilization programs of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Premiums related to the unexpired contractual coverage periods are reflected in the accompanying consolidated balance sheets as unearned income. Premiums include revenue from retrospectively rated contracts where revenue is based on the estimated ultimate loss experience of the contract. Premium revenue includes an adjustment for retrospectively rated refunds based on an estimate of incurred claims. Premium rates for certain lines of business are subject to approval by the Department of Insurance of each respective state.

Administrative fees include revenue from certain group contracts that provide for the group to be at risk for all or, with supplemental insurance arrangements, a portion of their claims experience. We charge these self-funded groups an administrative fee, which is based on the number of members in a group or the group’s claim experience. In addition, administrative fees include amounts received for the administration of Medicare or certain other government programs. Under our self-funded arrangements, revenue is recognized as administrative services are performed. All benefit payments under these programs are excluded from benefit expense.

Adoption of New Accounting Pronouncement: Effective January 1, 2014, we adopted the provisions of Accounting Standards Update No. 2011-06, Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force), or ASU 2011-06. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, or collectively, Health Care Reform, imposes a mandatory annual Health Insurance Provider Fee, or HIP Fee, on health insurers that write certain types of health insurance on U.S. risks. The annual HIP Fee is allocated to health insurers based on the ratio of the amount of an insurer's net premium revenues written during the preceding calendar year to the amount of health insurance for all U.S. health risk for those certain lines of business written during the preceding calendar year. This fee is non-deductible for federal income tax purposes. The total amount to be collected from allocations to health insurers in 2014 is $8,000.0, and we estimate our portion of the fee for 2014 to be approximately $920.0. ASU 2011-06 addresses how this fee should be recognized and classified in the financial statements of health insurers. In accordance with ASU 2011-06, we recorded our estimated liability for the fee in full at the beginning of the year with a corresponding deferred cost that is being amortized to expense on a straight-line basis, and we recognized $230.0 as general and administrative expense related to the fee for the three months ended March 31, 2014. The final calculation and payment of the fee will occur in the third quarter of 2014.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.

3. Business Divestiture

In December 2013, we entered into a definitive agreement to sell our 1-800 CONTACTS business to the private equity firm Thomas H. Lee Partners, L.P. Additionally, we entered into an asset purchase agreement with Luxottica Group to sell our glasses.com related assets (collectively, 1-800 CONTACTS). The operating results for 1-800 CONTACTS are reported as discontinued operations in the accompanying consolidated statements of income. These results were previously reported in the Commercial and Specialty Business segment. Additionally, the assets and liabilities of 1-800-CONTACTS are reported as held for sale in the accompanying consolidated balance sheets as of December 31, 2013. The sale was completed on January 31, 2014 and did not result in any material difference to the loss on disposal from discontinued operations recorded during the year ended December 31, 2013.

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 $10.8 and $37.9 for the three months ended March 31, 2014 and 2013, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three months ended March 31, 2014 and 2013. 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 March 31, 2014 and December 31, 2013 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Non-Credit Component of Other-Than-Temporary Impairments Recognized in AOCI
			Less than 12 Months	12 Months or Greater		
March 31, 2014:						
Fixed maturity securities:						
United States Government securities	$460.2	$2.7	$(1.3)	$—	$461.6	$—
Government sponsored securities	168.6	0.6	(0.5)	(0.5)	168.2	—
States, municipalities and political subdivisions, tax-exempt	5,801.9	244.4	(33.3)	(9.5)	6,003.5	—
Corporate securities	8,338.4	232.4	(54.8)	(14.1)	8,501.9	—
Options embedded in convertible securities	97.6	—	—	—	97.6	—
Residential mortgage-backed securities	2,160.0	53.9	(26.8)	(5.5)	2,181.6	—
Commercial mortgage-backed securities	509.4	11.1	(1.1)	(0.2)	519.2	—
Other debt securities	569.3	7.1	(2.8)	(0.8)	572.8	—
Total fixed maturity securities	18,105.4	552.2	(120.6)	(30.6)	18,506.4	$—
Equity securities	1,400.8	604.3	(10.6)	—	1,994.5	
Total investments, available-for-sale	$19,506.2	$1,156.5	$(131.2)	$(30.6)	$20,500.9	
December 31, 2013:						
Fixed maturity securities:						
United States Government securities	$300.8	$2.5	$(3.4)	$—	$299.9	$—
Government sponsored securities	174.4	0.4	(1.3)	—	173.5	—
States, municipalities and political subdivisions, tax-exempt	5,899.5	202.9	(90.1)	(9.6)	6,002.7	(0.6)
Corporate securities	7,614.1	205.2	(95.2)	(15.5)	7,708.6	(0.1)
Options embedded in convertible securities	89.2	—	—	—	89.2	—
Residential mortgage-backed securities	2,269.4	48.0	(41.4)	(7.1)	2,268.9	—
Commercial mortgage-backed securities	479.0	10.5	(2.6)	(0.3)	486.6	—
Other debt securities	456.2	5.8	(2.5)	(0.8)	458.7	(0.1)
Total fixed maturity securities	17,282.6	475.3	(236.5)	(33.3)	17,488.1	$(0.8)
Equity securities	1,195.9	578.9	(8.0)	—	1,766.8	
Total investments, available-for-sale	$18,478.5	$1,054.2	$(244.5)	$(33.3)	$19,254.9	

At March 31, 2014, we owned $2,700.8 of mortgage-backed securities and $501.5 of asset-backed securities out of a total available-for-sale investment portfolio of $20,500.9. These securities included sub-prime and Alt-A securities with fair values of $30.0 and $98.8, respectively. These sub-prime and Alt-A securities had accumulated net unrealized gains of $1.3 and $7.1, 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 March 31, 2014 and December 31, 2013, 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
March 31, 2014:						
Fixed maturity securities:						
United States Government securities	26	$300.2	$(1.3)	—	$—	$—
Government sponsored securities	15	28.8	(0.5)	5	17.0	(0.5)
States, municipalities and political subdivisions, tax-exempt	496	1,351.0	(33.3)	73	168.0	(9.5)
Corporate securities	1,215	2,198.9	(54.8)	102	127.9	(14.1)
Residential mortgage-backed securities	490	985.9	(26.8)	74	115.1	(5.5)
Commercial mortgage-backed securities	37	112.4	(1.1)	4	4.8	(0.2)
Other debt securities	61	177.7	(2.8)	19	17.1	(0.8)
Total fixed maturity securities	2,340	5,154.9	(120.6)	277	449.9	(30.6)
Equity securities	505	131.8	(10.6)	—	—	—
Total fixed maturity and equity securities	2,845	$5,286.7	$(131.2)	277	$449.9	$(30.6)
December 31, 2013:						
Fixed maturity securities:						
United States Government securities	27	$179.2	$(3.4)	—	$—	$—
Government sponsored securities	22	73.4	(1.3)	—	—	—
States, municipalities and political subdivisions, tax-exempt	806	2,070.9	(90.1)	42	82.4	(9.6)
Corporate securities	1,448	2,586.6	(95.2)	107	81.3	(15.5)
Residential mortgage-backed securities	605	1,243.0	(41.4)	80	116.2	(7.1)
Commercial mortgage-backed securities	52	177.7	(2.6)	4	5.6	(0.3)
Other debt securities	65	185.3	(2.5)	17	16.2	(0.8)
Total fixed maturity securities	3,025	6,516.1	(236.5)	250	301.7	(33.3)
Equity securities	426	120.8	(8.0)	—	—	—
Total fixed maturity and equity securities	3,451	$6,636.9	$(244.5)	250	$301.7	$(33.3)

The amortized cost and fair value of fixed maturity securities at March 31, 2014, 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	$444.0	$447.4
Due after one year through five years	4,580.9	4,714.9
Due after five years through ten years	5,077.6	5,230.7
Due after ten years	5,333.5	5,412.6
Mortgage-backed securities	2,669.4	2,700.8
Total available-for-sale fixed maturity securities	$18,105.4	$18,506.4

Proceeds from fixed maturity securities, equity securities and other invested assets and the related gross realized gains and gross realized losses for the three months ended March 31, 2014 and 2013 are as follows:

	Three Months Ended March 31	
	2014	2013
Proceeds	$2,401.4	$3,117.6
Gross realized gains	82.9	107.0
Gross realized losses	41.2	90.2

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, credit spreads, default rates and prepayment speeds 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: Fair values are based on the quoted market prices by the financial institution that is the counterparty to the derivative transaction. We independently verify prices provided by the counterparties using valuation models that incorporate market observable inputs for similar derivative transactions.

Long-term receivable: Fair value is estimated based on discounted cash flow analysis using assumptions for inputs such as expected cash flow and discount rates that are not observable in the markets.

A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis at March 31, 2014 and December 31, 2013 is as follows:

	Level I	Level II	Level III	Total
March 31, 2014:				
Assets:				
Cash equivalents	$612.4	$—	$—	$612.4
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	461.6	—	—	461.6
Government sponsored securities	—	168.2	—	168.2
States, municipalities and political subdivisions, tax-exempt	—	6,003.5	—	6,003.5
Corporate securities	12.0	8,375.9	114.0	8,501.9
Options embedded in convertible debt securities	—	97.6	—	97.6
Residential mortgage-backed securities	—	2,181.6	—	2,181.6
Commercial mortgage-backed securities	—	516.1	3.1	519.2
Other debt securities	71.3	486.7	14.8	572.8
Total fixed maturity securities	544.9	17,829.6	131.9	18,506.4
Equity securities	1,766.2	185.1	43.2	1,994.5
Other invested assets, current	25.9	—	—	25.9
Securities lending collateral	532.0	793.0	—	1,325.0
Derivatives excluding embedded options (reported with other assets)	—	29.0	—	29.0
Long-term receivable (reported with other assets)	—	—	21.6	21.6
Total assets	$3,481.4	$18,836.7	$196.7	$22,514.8
Liabilities:				
Derivatives excluding embedded options (reported with other liabilities)	$—	$(20.9)	$—	$(20.9)
Total liabilities	$—	$(20.9)	$—	$(20.9)
December 31, 2013:				
Assets:				
Cash equivalents	$632.3	$—	$—	$632.3
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	299.9	—	—	299.9
Government sponsored securities	—	173.5	—	173.5
States, municipalities and political subdivisions, tax-exempt	—	6,002.7	—	6,002.7
Corporate securities	—	7,593.4	115.2	7,708.6
Options embedded in convertible securities	—	89.2	—	89.2
Residential mortgage-backed securities	—	2,268.9	—	2,268.9
Commercial mortgage-backed securities	—	480.1	6.5	486.6
Other debt securities	35.6	408.3	14.8	458.7
Total fixed maturity securities	335.5	17,016.1	136.5	17,488.1
Equity securities	1,475.7	249.7	41.4	1,766.8
Other invested assets, current	16.3	—	—	16.3
Securities lending collateral	408.5	561.3	—	969.8
Derivatives excluding embedded options (reported with other assets)	—	58.4	—	58.4
Total assets	$2,868.3	$17,885.5	$177.9	$20,931.7
Liabilities:				
Derivatives excluding embedded options (reported with other liabilities)	$—	$(20.7)	$—	$(20.7)
Total liabilities	$—	$(20.7)	$—	$(20.7)

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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 March 31, 2014 and 2013 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Securities	Equity Securities	Long-term Receivable	Total
Three Months Ended March 31, 2014:							
Beginning balance at January 1, 2014	$115.2	$—	$6.5	$14.8	$41.4	$—	$177.9
Total gains (losses):							
Recognized in net income	(3.3)	—	—	—	(0.3)	21.6	18.0
Recognized in accumulated other comprehensive income	3.1	—	—	0.2	(5.8)	—	(2.5)
Purchases	9.3	—	—	—	9.0	—	18.3
Sales	(1.7)	—	—	—	(1.1)	—	(2.8)
Settlements	(2.1)	—	(3.4)	(0.2)	—	—	(5.7)
Transfers into Level III	—	—	—	—	—	—	—
Transfers out of Level III	(6.5)	—	—	—	—	—	(6.5)
Ending balance at March 31, 2014	$114.0	$—	$3.1	$14.8	$43.2	$21.6	$196.7
Change in unrealized losses included in net income related to assets still held for the three months ended March 31, 2014	$(4.0)	$—	$—	$—	$(0.3)	$—	$(4.3)
Three Months Ended March 31, 2013:							
Beginning balance at January 1, 2013	$121.1	$4.3	$—	$3.9	$26.2	$—	$155.5
Total gains (losses):							
Recognized in net income	0.3	—	—	—	0.6	—	0.9
Recognized in accumulated other comprehensive income	(0.6)	—	—	0.2	(0.9)	—	(1.3)
Purchases	9.6	—	—	—	0.4	—	10.0
Sales	—	—	—	—	(2.5)	—	(2.5)
Settlements	(9.1)	(1.6)	—	(0.2)	—	—	(10.9)
Transfers into Level III	—	13.1	—	—	—	—	13.1
Transfers out of Level III	—	(2.9)	—	—	—	—	(2.9)
Ending balance at March 31, 2013	$121.3	$12.9	$—	$3.9	$23.8	$—	$161.9
Change in unrealized losses included in net income related to assets still held for the three months ended March 31, 2013	$—	$—	$—	$—	$(1.4)	$—	$(1.4)

Transfers between levels, if any, are recorded as of the beginning of the reporting period. There were no material transfers between levels during the three months ended March 31, 2014 or 2013.

There were no material assets or liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 2014 or 2013.

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 months ended March 31, 2014 or 2013.

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 that is recorded at its carrying value on the consolidated balance sheets:

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 were 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 estimated fair values by level of each class of financial instrument that is recorded at its carrying value on our consolidated balance sheets at March 31, 2014 and December 31, 2013 are as follows:

	Carrying Value	Fair Value Level I	Level II	Level III	Total
March 31, 2014					
Assets:					
Other invested assets, long-term	$1,593.8	$—	$—	$1,593.8	$1,593.8
Liabilities:					
Debt:					
Short-term borrowings	590.0	—	590.0	—	590.0
Commercial paper	758.6	—	758.6	—	758.6
Notes	12,724.1	—	13,285.1	—	13,285.1
Convertible debentures	968.1	—	2,192.8	—	2,192.8
December 31, 2013					
Assets:					
Other invested assets, long-term	$1,542.6	$—	$—	$1,542.6	$1,542.6
Liabilities:					
Debt:					
Short-term borrowings	400.0	—	400.0	—	400.0
Commercial paper	379.2	—	379.2	—	379.2
Notes	12,746.4	—	13,014.3	—	13,014.3
Convertible debentures	966.0	—	2,030.6	—	2,030.6

6. Income Taxes

During the three months ended March 31, 2014 and 2013, we recognized income tax expense of $438.7 and $410.2, respectively, which represents effective tax rates of 38.8% and 32.0%, respectively. The increase in income tax expense and the effective tax rate in 2014 was primarily due to the non-tax deductible HIP Fee effective January 1, 2014 resulting in additional expense of $80.5, partially offset by lower income before income taxes, favorable discrete tax adjustments related to state income tax audits including refund claims filed, and adjustments to state deferred tax liabilities resulting from a decrease in the Indiana statutory income tax rate. The lower effective rate in the three months ended March 31, 2013 resulted primarily from the inclusion of Amerigroup in our state apportionment calculations, which produced a lower effective state tax rate.

7. Retirement Benefits

The components of net periodic (credit) benefit cost included in the consolidated statements of income for the three months ended March 31, 2014 and 2013 are as follows:

	Pension Benefits 2014	2013	Other Benefits 2014	2013
Service cost	$3.3	$3.6	$0.8	$1.6
Interest cost	18.5	16.7	6.6	5.6
Expected return on assets	(34.4)	(33.3)	(5.8)	(5.5)
Recognized actuarial loss	5.3	8.6	2.3	2.8
Settlement loss	1.1	3.4	—	—
Amortization of prior service credit	(0.2)	(0.2)	(3.6)	(3.3)
Net periodic (credit) benefit cost	$(6.4)	$(1.2)	$0.3	$1.2

For the year ending December 31, 2014, 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. No contributions were made to our retirement benefit plans during the three months ended March 31, 2014 or 2013.

8. Debt

We generally issue senior unsecured notes for long-term borrowing purposes. At March 31, 2014, we had $12,699.2 outstanding under these notes. During the three months ended March 31, 2014, we repurchased $21.2 of outstanding principal balance of certain senior unsecured notes, plus applicable premium for early redemption plus accrued and unpaid interest, for cash totaling $24.2. We recognized a loss on extinguishment of debt of $3.0 for the repurchase of these notes.

We have an unsecured surplus note with an outstanding principal balance of $24.9 at March 31, 2014.

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 March 31, 2014 or at any time during the three 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 March 31, 2014, we had $758.6 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 cash conversion guidance in FASB 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 March 31, 2014 the related balances, conversion rate and conversion price of the Debentures:

Outstanding principal amount	$1,500.0
Unamortized debt discount	531.9
Net debt carrying amount	968.1
Equity component carrying amount	543.6
Conversion rate (shares of common stock per $1,000 of principal amount)	13.3135
Effective conversion price (per $1,000 of principal amount)	$75.1113

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.

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 trial 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 trial court denied plaintiffs' motion for summary judgment. The trial court deferred a final ruling on our motion for summary judgment, instead requesting supplemental argument which occurred on November 7, 2013. On March 6, 2014, the trial court denied our motion for summary judgment finding that an issue of material fact existed. Trial has been scheduled to commence on October 14, 2014. 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. The plaintiffs have filed several amended complaints alleging that the defendants violated the Racketeer Influenced and Corrupt Organizations Act, or RICO, the Sherman Antitrust Act, ERISA, federal regulations, and state law by using an OON reimbursement database called Ingenix and in our use of non-Ingenix OON reimbursement methodologies. We have filed motions to dismiss in response to each of those amended complaints. Our motions to dismiss have been granted in part and denied in part by the court. The most recent pleading filed by the plaintiffs is a Fourth Amended Complaint to which we filed a motion to dismiss most, but not all, of the claims. 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 so those claims are back in the case. Fact discovery is complete. The plaintiffs filed a motion for class certification in November 2013. The plaintiffs seek the following classes: (1) a subscriber ERISA class as to OON claims processed using the Ingenix database as the pricing methodology; (2) a physician provider class as to OON claims processed using Ingenix; (3) a non-physician provider class as to OON claims processed using Ingenix; (4) a provider ERISA class as to OON claims processed using non-Ingenix pricing methodologies; (5) a California subscriber breach of contract/unfair competition class; and (6) a subscriber breach of implied covenant class for all WellPoint states except California. We deposed all of the plaintiffs' class certification experts. In March 2014, we filed a response in opposition to class certification, along with a supporting expert report, and motions to exclude the plaintiffs' class certification experts. A hearing on our motions to exclude plaintiffs' class certification experts is set for June 2014. 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 occurred in 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 $0.0 to approximately $250.0 at March 31, 2014. 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; provided however that Amerigroup will be transitioning to the Express Scripts agreement during 2014. 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 March 31, 2014.

During the first quarter of 2010, we entered into an 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 March 31, 2014 was $214.7 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 March 31, 2014 was $125.7 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 and debt security repurchases and dividends to shareholders. The declaration and payment of any dividends or repurchases of our common stock or debt 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 three months ended March 31, 2014 and 2013 is as follows:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
Three Months Ended March 31, 2014				
January 28, 2014	March 10, 2014	March 25, 2014	$0.4375	$123.4
Three Months Ended March 31, 2013				
February 20, 2013	March 8, 2013	March 25, 2013	$0.3750	$113.4

Under our Board of Directors' authorization, we maintain a 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 accelerated share repurchase agreements, and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Our 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 the repurchased shares over par value is charged on a pro rata basis to additional paid-in capital and retained earnings.

A summary of common stock repurchases for the period April 1, 2014 through April 15, 2014 (subsequent to March 31, 2014) and for the three months ended March 31, 2014 and 2013 is as follows:

	April 1, 2014 Through April 15, 2014	Three Months Ended March 31 2014	2013
Shares repurchased	2.3	14.3	5.5
Average price per share	$98.03	$88.14	$62.41
Aggregate cost	$220.8	$1,262.8	$340.2
Authorization remaining at the end of each period	$2,207.4	$2,428.2	$1,496.6

Under the common stock repurchase program authorized by our Board of Directors, on February 4, 2014, we entered into an accelerated share repurchase agreement with a counterparty. The agreement provided for the repurchase of a number of our shares, equal to $600.0, as determined by the volume weighted-average price of our shares during the term of the agreement. During the three months ended March 31, 2014 we repurchased 6.6 shares under the agreement. The shares repurchased under the agreement are included in the amount disclosed above as shares repurchased during the three months ended March 31, 2014.

Stock Incentive Plans

A summary of stock option activity for the three months ended March 31, 2014 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, 2014	10.0	$65.38		
Granted	1.7	89.44		
Exercised	(2.0)	66.39		
Forfeited or expired	(0.1)	62.71		
Outstanding at March 31, 2014	9.6	69.46	3.9	$289.6
Exercisable at March 31, 2014	6.3	65.72	2.6	$212.6

A summary of the status of nonvested restricted stock activity, including restricted stock units, for the three months ended March 31, 2014 is as follows:

	Restricted Stock Shares and Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at January 1, 2014	4.2	$63.83
Granted	1.3	89.43
Vested	(1.5)	64.15
Forfeited	(0.3)	63.33
Nonvested at March 31, 2014	3.7	72.51

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, 2013 included in our 2013 Annual Report on Form 10-K.

The following weighted-average assumptions were used to estimate the fair values of options granted during the three months ended March 31, 2014 and 2013:

	2014	2013
Risk-free interest rate	2.16 %	1.25 %
Volatility factor	35.00 %	35.00 %
Quarterly dividend yield	0.50 %	0.60 %
Weighted-average expected life (years)	3.75	4.00

The following weighted-average fair values were determined for the three months ended March 31, 2014 and 2013:

	2014	2013
Options granted during the period	$22.20	$14.51
Restricted stock awards granted during the period	89.43	61.81

11. Accumulated Other Comprehensive Income

A reconciliation of the components of accumulated other comprehensive income at March 31, 2014 and 2013 is as follows:

	2014	2013
Investments:		
Gross unrealized gains	$1,156.5	$1,324.3
Gross unrealized losses	(161.8)	(53.1)
Net pre-tax unrealized gains	994.7	1,271.2
Deferred tax liability	(345.4)	(433.2)
Net unrealized gains on investments	649.3	838.0
Cash flow hedges:		
Gross unrealized losses	(48.6)	(53.0)
Deferred tax asset	17.0	18.6
Net unrealized losses on cash flow hedges	(31.6)	(34.4)
Defined benefit pension plans:		
Deferred net actuarial loss	(426.4)	(674.8)
Deferred prior service credits	8.4	3.7
Deferred tax asset	167.5	264.4
Net unrecognized periodic benefit costs for defined benefit pension plans	(250.5)	(406.7)
Postretirement benefit plans:		
Deferred net actuarial loss	(154.7)	(188.3)
Deferred prior service credits	86.2	99.8
Deferred tax asset	27.4	34.8
Net unrecognized periodic benefit costs for postretirement benefit plans	(41.1)	(53.7)
Foreign currency translation adjustments:		
Gross unrealized gains (losses)	2.0	(1.1)
Deferred tax (liability) asset	(0.7)	0.4
Net unrealized gains (losses) on foreign currency translation adjustments	1.3	(0.7)
Accumulated other comprehensive income	$327.4	$342.5

Other comprehensive income (loss) reclassification adjustments for the three months ended March 31, 2014 and 2013 are as follows:

	2014	2013
Investments:		
Net holding gain on investment securities arising during the period, net of tax expense of ($67.5) and ($2.4), respectively	$120.2	$29.7
Reclassification adjustment for net realized gain on investment securities, net of tax expense of ($10.8) and ($2.6), respectively	20.1	4.8
Total reclassification adjustment on investments	140.3	34.5
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 ($0.3) and ($1.2), respectively	0.5	2.2
Cash flow hedges:		
Holding gain, net of tax expense of ($0.4) and ($0.4), respectively	0.7	0.7
Other:		
Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of ($1.9) and ($4.4), respectively	2.9	6.8
Foreign currency translation adjustment, net of tax benefit of $0.0 and $0.5, respectively	(0.2)	(0.8)
Net gain recognized in other comprehensive income, net of tax expense of ($80.9) and ($10.5), respectively	$144.2	$43.4

12. Earnings per Share

The denominator for basic and diluted earnings per share for the three months ended March 31, 2014 and 2013 is as follows:

	Three Months Ended March 31	
	2014	2013
Denominator for basic earnings per share – weighted-average shares	284.9	303.2
Effect of dilutive securities – employee stock options, non-vested restricted stock awards and convertible debentures	7.7	2.7
Denominator for diluted earnings per share	292.6	305.9

During the three months ended March 31, 2014 and 2013, weighted-average shares related to certain stock options of 0.6 and 11.5, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

During the three months ended March 31, 2014, we issued approximately 1.3 restricted stock units under our stock incentive plans, 0.7 of which vesting is contingent upon us meeting specified annual operating gain targets for 2014. The contingent restricted stock units have been excluded from the denominator for diluted earnings per share and will be included only if and when the contingency is met.

13. Segment Information

The results of our operations are described through three reportable segments: Commercial and Specialty Business, Government Business and Other, as further described in Note 20, “Segment Information,” to our audited consolidated financial statements as of and for the year ended December 31, 2013 included in our 2013 Annual Report on Form 10-K.

Effective January 1, 2014, our Employer Group Medicare Advantage members are being reported within Local Group and National Accounts in our Commercial and Specialty Business segment and prior period segment amounts have been reclassified to conform to the new presentation. These members were previously reported with our Medicare membership within our Government Business segment. The Employer Group Medicare Advantage members are retired members who have selected a Medicare Advantage product through our Local Group and National Accounts. Financial data by reportable segment for the three months ended March 31, 2014 and 2013 is as follows (amounts reported for prior periods have been reclassified to conform to our new segment reporting structure):

	Commercial and Specialty Business	Government Business	Other	Total
Three Months Ended March 31, 2014:				
Operating revenue	$9,697.5	$7,941.3	$6.0	$17,644.8
Operating gain (loss)	886.1	239.6	(7.0)	1,118.7
Three Months Ended March 31, 2013:				
Operating revenue	$9,859.4	$7,569.4	$6.3	$17,435.1
Operating gain (loss)	1,262.1	102.6	(7.4)	1,357.3

A reconciliation of reportable segment operating revenues to the amounts of total revenues included in the consolidated statements of income for the three months ended March 31, 2014 and 2013 is as follows:

	Three Months Ended March 31	
	2014	2013
Reportable segments operating revenues	$17,644.8	$17,435.1
Net investment income	183.7	162.0
Net realized gains on investments	41.7	16.8
Other-than-temporary impairment losses recognized in income	(10.8)	(37.9)
Total revenues	$17,859.4	$17,576.0

A reconciliation of reportable segment operating gain to income from continuing operations before income taxes included in the consolidated statements of income for the three months ended