Anthem, Inc.
Form 10-Q
April 25, 2018

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, 2018
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
ANTHEM, INC.
(Exact name of registrant as specified in its charter)

INDIANA	35-2145715
(State or other jurisdiction of incorporation or organization)	(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: (800) 331-1476
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.¨
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 12, 2018
Common Stock, $0.01 par value	255,199,261 shares

Anthem, Inc.
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2018
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Anthem, Inc.
Consolidated Balance Sheets

(In millions, except share data)	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$4,630.6	$ 3,608.9
Fixed maturity securities, current (amortized cost of $17,070.2 and $17,054.5)	17,091.5	17,377.3
Equity securities, current	2,341.9	3,599.2
Other invested assets, current	24.3	17.2
Accrued investment income	160.2	162.5
Premium and self-funded receivables	6,255.9	6,184.9
Other receivables	2,305.2	2,266.5
Income taxes receivable	—	341.9
Securities lending collateral	612.2	455.1
Other current assets	3,552.3	2,249.3
Total current assets	36,974.1	36,262.8
Long-term investments:		
Fixed maturity securities (amortized cost of $504.1 and $556.0)	501.5	560.8
Equity securities	32.9	32.8
Other invested assets	3,460.8	3,343.8
Property and equipment, net	2,237.6	2,174.9
Goodwill	20,185.5	19,231.2
Other intangible assets	9,076.0	8,368.4
Other noncurrent assets	832.0	565.3
Total assets	$73,300.4	$ 70,540.0
Liabilities and shareholders’ equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$7,640.3	$ 7,991.5
Reserves for future policy benefits	71.5	69.9
Other policyholder liabilities	2,918.8	2,950.3
Total policy liabilities	10,630.6	11,011.7
Unearned income	2,115.9	860.3
Accounts payable and accrued expenses	5,816.7	5,024.4
Income taxes payable	194.9	—
Security trades pending payable	134.7	112.6
Securities lending payable	611.8	454.4
Short-term borrowings	1,125.0	1,275.0
Current portion of long-term debt	650.8	1,274.6
Other current liabilities	3,475.5	3,343.0
Total current liabilities	24,755.9	23,356.0
Long-term debt, less current portion	18,110.1	17,382.2
Reserves for future policy benefits, noncurrent	666.8	647.3

Deferred tax liabilities, net	1,812.9	1,726.5
Other noncurrent liabilities	942.3	925.1
Total liabilities	46,288.0	44,037.1
Commitment and contingencies – Note 11		
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 – 255,544,728 and 256,084,913	2.6	2.6
Additional paid-in capital	8,489.3	8,547.4
Retained earnings	19,241.1	18,054.4
Accumulated other comprehensive loss	(720.6)	(101.5)
Total shareholders’ equity	27,012.4	26,502.9
Total liabilities and shareholders’ equity	$ 73,300.4	$ 70,540.0

See accompanying notes.

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Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31	
(In millions, except per share data)	2018	2017
Revenues		
Premiums	$20,902.8	$20,951.3
Administrative fees	1,408.8	1,363.2
Other revenue	30.7	5.0
Total operating revenue	22,342.3	22,319.5
Net investment income	229.2	207.2
Net realized (losses) gains on financial instruments	(26.1)	7.3
Other-than-temporary impairment losses on investments:		
Total other-than-temporary impairment losses on investments	(7.9)	(9.6)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	—	1.5
Other-than-temporary impairment losses recognized in income	(7.9)	(8.1)
Total revenues	22,537.5	22,525.9
Expenses		
Benefit expense	17,045.9	17,542.8
Selling, general and administrative and expense:		
Selling expense	318.2	348.6
General and administrative expense	3,110.3	2,842.7
Total selling, general and administrative expense	3,428.5	3,191.3
Interest expense	184.2	235.0
Amortization of other intangible assets	79.5	41.8
Loss on extinguishment of debt	19.1	—
Total expenses	20,757.2	21,010.9
Income before income tax expense	1,780.3	1,515.0
Income tax expense	467.8	505.1
Net income	$1,312.5	$1,009.9
Net income per share		
Basic	$5.13	$3.82
Diluted	$4.99	$3.73
Dividends per share	$0.75	$0.65

See accompanying notes.

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

(In millions)	Three Months Ended March 31 2018	2017
Net income	$1,312.5	$1,009.9
Other comprehensive (loss) income, net of tax:		
Change in net unrealized gains/losses on investments	(244.7)	80.2
Change in non-credit component of other-than-temporary impairment losses on investments	0.2	3.6
Change in net unrealized losses on cash flow hedges	28.8	17.0
Change in net periodic pension and postretirement costs	7.7	3.9
Foreign currency translation adjustments	0.4	1.4
Other comprehensive (loss) income	(207.6)	106.1
Total comprehensive income	$1,104.9	$1,116.0

See accompanying notes.

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

	Three Months Ended March 31					
(In millions)	2018			2017		
Operating activities						
Net income	$	1,312.5		$	1,009.9	
Adjustments to reconcile net income to net cash provided by operating activities:						
Net realized losses (gains) on financial instruments	26.1			(7.3		)
Other-than-temporary impairment losses recognized in income	7.9			8.1		
Loss on extinguishment of debt	19.1			—		
Loss on disposal of assets	—			0.7		
Deferred income taxes	(51.5		)	(157.2		)
Amortization, net of accretion	239.7			193.4		
Depreciation expense	30.0			27.3		
Share-based compensation	42.2			42.7		
Changes in operating assets and liabilities:						
Receivables, net	36.7			276.3		
Other invested assets	(6.8		)	(14.8		)
Other assets	(391.8		)	(205.2		)
Policy liabilities	(560.8		)	130.1		
Unearned income	1,182.2			954.2		
Accounts payable and accrued expenses	(300.4		)	(223.8		)
Other liabilities	147.4			40.3		
Income taxes	536.8			659.7		
Other, net	(54.4		)	(46.2		)
Net cash provided by operating activities	2,214.9			2,688.2		
Investing activities						
Purchases of fixed maturity securities	(2,235.4		)	(4,030.1		)
Proceeds from fixed maturity securities:						
Sales	1,864.4			2,851.8		
Maturities, calls and redemptions	362.9			522.7		
Purchases of equity securities	(566.3		)	(367.0		)
Proceeds from sales of equity securities	1,775.8			63.0		
	(72.3		)	(73.7		)

Purchases of other invested assets				
Proceeds from sales of other invested assets	23.1		76.5	
Change in collateral and settlements of non-hedging derivatives	—		0.4	
Changes in securities lending collateral	(157.4	)	(154.5	)
Purchases of subsidiaries, net of cash acquired	(1,346.1	)	—	
Purchases of property and equipment	(218.2	)	(127.9	)
Other, net	3.6		11.8	
Net cash used in investing activities	(565.9	)	(1,227.0	)
Financing activities				
Net (repayments of) proceeds from commercial paper borrowings	(108.0	)	1,719.1	
Proceeds from long-term borrowings	836.0		—	
Repayments of long-term borrowings	(662.7	)	(401.1	)
Proceeds from short-term borrowings	1,505.0		1,170.0	
Repayments of short-term borrowings	(1,655.0	)	(1,070.0	)
Changes in securities lending payable	157.4		154.5	
Changes in bank overdrafts	(124.4	)	(168.9	)
Proceeds from sale of put options	0.3		—	
Repurchase and retirement of common stock	(394.7	)	(50.7	)
Change in collateral and settlements of debt-related derivatives	24.1		(8.0	)
Cash dividends	(191.9	)	(172.2	)
Proceeds from issuance of common stock under employee stock plans	59.4		103.5	
Taxes paid through withholding of common stock under employee stock plans	(73.2	)	(41.9	)
Net cash (used in) provided by financing activities	(627.7	)	1,234.3	
Effect of foreign exchange rates on cash and cash equivalents	0.4		1.6	

Change in cash and cash equivalents	1,021.7		2,697.1	
Cash and cash equivalents at beginning of period	3,608.9		4,075.3	
Cash and cash equivalents at end of period	$	4,630.6	$	6,772.4

See accompanying notes.

Anthem, 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 Loss	Total Shareholders' Equity
December 31, 2017 (audited)	256.1	$ 2.6	$ 8,547.4	$ 18,054.4	$ (101.5)	$ 26,502.9
Adoption of Accounting Standards Update No 2016-01 (Note 2)	—	—	—	320.2	(320.2)	—
January 1, 2018	256.1	2.6	8,547.4	18,374.6	(421.7)	26,502.9
Net income	—	—	—	1,312.5	—	1,312.5
Other comprehensive loss	—	—	—	—	(207.6)	(207.6)
Premiums for and settlement of equity options	—	—	0.3	—	—	0.3
Repurchase and retirement of common stock	(1.7)	—	(56.5)	(338.2)	—	(394.7)
Dividends and dividend equivalents	—	—	—	(199.1)	—	(199.1)
Issuance of common stock under employee stock plans, net of related tax benefits	1.1	—	28.4	—	—	28.4
Convertible debenture repurchases and conversions	—	—	(30.3)	—	—	(30.3)
Adoption of Accounting Standards Update No 2018-02 (Note 2)	—	—	—	91.3	(91.3)	—
March 31, 2018	255.5	$ 2.6	$ 8,489.3	$ 19,241.1	$ (720.6)	$ 27,012.4
January 1, 2017	263.7	$ 2.6	$ 8,805.1	$ 16,560.6	$ (267.9)	$ 25,100.4
Net income	—	—	—	1,009.9	—	1,009.9
Other comprehensive income	—	—	—	—	106.1	106.1
Repurchase and retirement of common stock	(0.3)	—	(10.5)	(40.2)	—	(50.7)
Dividends and dividend equivalents	—	—	—	(172.6)	—	(172.6)
Issuance of common stock under employee stock plans, net of related tax benefits	1.7	—	99.9	—	—	99.9
Convertible debenture repurchases and conversions	—	—	(1.1)	—	—	(1.1)
March 31, 2017	265.1	$ 2.6	$ 8,893.4	$ 17,357.7	$ (161.8)	$ 26,091.9

See accompanying notes.

Anthem, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2018
(In Millions, Except Per Share Data or As Otherwise Stated Herein)

1. Organization

References to the terms “we,” “our,” “us” or “Anthem” used throughout these Notes to Consolidated Financial Statements refer to Anthem, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries. References to the “states” include the District of Columbia, unless the context otherwise requires.

We are one of the largest health benefits companies in the United States in terms of medical membership, serving 39.6 medical members through our affiliated health plans as of March 31, 2018. We offer a broad spectrum of network-based managed care plans to Large Group, Small Group, 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 dental, vision, life and disability insurance benefits, radiology benefit management and analytics-driven personal health care. We also provide services to the federal government in connection with the Federal Employee Program®.

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 (in varying counties as BCBS, Blue Cross or Empire BlueCross BlueShield HealthPlus), 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 arrangements with other BCBS licensees in Louisiana, South Carolina and western New York. Through our subsidiaries, we also serve customers in over 15 states across the country as America’s 1st Choice, Amerigroup, CareMore, Freedom Health, HealthLink, HealthSun, Optimum HealthCare, Simply Healthcare, and/or Unicare. We are licensed to conduct insurance operations in all 50 states and the District of Columbia 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 2017 Annual Report on Form 10-K, unless the information contained in those disclosures materially changed or is required by GAAP. Certain prior year amounts have been reclassified to conform to the current year presentation. 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, 2018 and 2017 have been recorded. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2017 included in our 2017 Annual Report on Form 10-K.

Cash and Cash Equivalents: 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. Additionally, we control a number of bank accounts that are used exclusively to hold customer funds for the administration of customer benefits and have cash and cash equivalents on deposit to meet certain regulatory requirements. These amounts totaled $230.5 and $182.3 at March 31, 2018 and December 31, 2017, respectively and are included in the cash and cash equivalents line on our consolidated balance sheets.

Revenue Recognition: Premiums for fully-insured contracts are recognized as revenue over the period insurance coverage is provided, and, if applicable, net of amounts recognized for the minimum medical loss ratio rebates, risk adjustment, reinsurance, risk corridor or contractual or government-mandated premium stabilization programs. 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. Under our self-funded arrangements, revenue is recognized as administrative services are performed, and benefit payments under these programs are excluded from benefit expense. For additional information about our revenues, see Note 2, "Basis of Presentation and Significant Accounting Policies" and Note 19, "Segment Information," to our audited consolidated financial statements as of and for the year ended December 31, 2017 included in our 2017 Annual Report on Form 10-K. In addition, see Note 15, "Segment Information," herein, for the disaggregation of revenues by segments and products.

Premium and self-funded receivables include the uncollected amounts from fully-insured and self-funded groups, individuals and government programs. At March 31, 2018, premium and self-funded receivables were $3,797.4 and $2,458.5, respectively. At December 31, 2017, premium and self-funded receivables were $3,605.2 and $2,579.7, respectively. Premium and self-funded receivables are reported net of an allowance for doubtful accounts of $369.8 and $455.3 at March 31, 2018 and December 31, 2017, respectively.

For our non-fully-insured contracts, we had no material contract assets, contract liabilities or deferred contract costs recorded on our consolidated balance sheet at March 31, 2018. For the three months ended March 31, 2018, revenue recognized from performance obligations related to prior periods, such as due to changes in transaction price, was not material. For contracts that have an original expected duration of greater than one year, revenue expected to be recognized in future periods related to unfulfilled contractual performance obligations and contracts with variable consideration related to undelivered performance obligations is not material.

Recently Adopted Accounting Guidance: In February 2018, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, or ASU 2018-02. On December 22, 2017, the federal government enacted a tax bill, H.R.1, An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, or the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act contains significant changes to corporate taxation, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35% to 21% and modifying or limiting many business deductions. Current FASB guidance requires adjustments of deferred taxes due to a change in the federal corporate income tax rate to be included in income from operations. As a result, the tax effects of items within accumulated other comprehensive loss did not reflect the appropriate tax rate. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the change in the federal corporate income tax rate. We adopted the amendments in ASU 2018-02 for our interim and annual reporting periods beginning on January 1, 2018 and reclassified $91.3 of stranded tax effects from accumulated other comprehensive loss to retained earnings on our consolidated balance sheets. The adoption of ASU 2018-02 did not have any impact on our results of operations or cash flows.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, or ASU 2017-09. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. We adopted ASU 2017-09 on January 1, 2018. The guidance has been and will be applied prospectively to awards modified on or after the adoption date. The adoption of ASU 2017-09 did not have any impact on our consolidated financial position, results of operations or cash flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, or ASU 2017-07. This amendment requires entities to disaggregate the service cost component from the other components of the benefit cost and present the service cost component in the same income statement line item as other employee compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Certain of our defined benefit plans have previously been frozen, resulting in no annual service costs, and the remaining service costs for our non-frozen plan are not material. We adopted ASU 2017-07 on January 1, 2018 and it did not have a material impact on our results of operations, cash flows or consolidated financial position.

In December 2016, the FASB issued Accounting Standards Update No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, or ASU 2016-20. In May 2016, the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, or ASU 2016-12. In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, or ASU 2016-10. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross verses Net), or ASU 2016-08. These updates provide additional clarification and implementation guidance on the previously issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09. Collectively, these updates require a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. These updates supersede almost all existing revenue recognition guidance under GAAP, with certain exceptions, including an exception for our premium revenues, recorded on the Premiums line item on our consolidated statements of income, which will continue to be accounted for in accordance with the provisions of Accounting Standards Codification, or ASC, Topic 944, Financial Services - Insurance. Our administrative service and other contracts that are subject to these Accounting Standards Updates are recorded in the Administrative fees and Other revenue line items on our consolidated statements of income and represent approximately 6.0% of our consolidated total operating revenue. We adopted these standards on January 1, 2018 using the modified retrospective approach. The adoption of these standards did not have a material impact on our beginning retained earnings, results of operations, cash flows or consolidated financial position.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, or ASU 2016-18. This update amends ASC Topic 230 to add and clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018 using a retrospective approach. The adoption of ASU 2016-18 did not have a material impact on our consolidated statements of cash flows and did not impact our results of operations or consolidated financial position.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, or ASU 2016-15. This update addresses the presentation and classification on the statement of cash flows for eight specific items, with the objective of reducing existing diversity in practice in how certain cash receipts and cash payments are presented and classified. We adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our consolidated statements of cash flows, results of operations or consolidated financial position.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01. The amendments in ASU 2016-01 change the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. We adopted ASU 2016-01 on January 1, 2018 as a cumulative-effect adjustment and reclassified $320.2 of unrealized gains on equity investments, net of tax, from accumulated other comprehensive loss to retained earnings on our consolidated balance sheet. Effective January 1, 2018, our results of operations include the changes in fair value of these financial instruments.

Recent Accounting Guidance Not Yet Adopted: In February 2018, the FASB issued Accounting Standards Update No. 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2018-03. This amendment clarifies certain aspects of the new guidance (ASU 2016-01) on recognizing and measuring financial instruments and presentation requirements for certain fair value option liabilities. ASU 2018-03 is effective for interim periods beginning after June 15, 2018 and will be effective for our 2018 annual reporting period. The standard requires entities to record a cumulative-effect adjustment to the statement of financial position at the beginning of the fiscal year in which the amendments are adopted. We are currently evaluating the effects the adoption of ASU 2018-03 will have on our consolidated financial position and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842), or ASU 2016-02. Upon the effective date, ASU 2016-02 will supersede the current lease guidance in Topic 840, Leases. Under the new guidance, lessees will be required to recognize for all leases, with the exception of short-term leases, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. Concurrently, lessees will be required to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The guidance is required to be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative periods presented in the financial statements. We are currently evaluating the effects the adoption of ASU 2016-02 will have on our consolidated financial statements, results of operations and cash flows.

There were no other new accounting pronouncements that were issued or became effective since the issuance of our 2017 Annual Report on Form 10-K that had, or are expected to have, a material impact on our consolidated financial position, results of operations or cash flows.

3. Business Acquisitions

Acquisition of America's 1st Choice

On February 15, 2018, we completed our acquisition of Freedom Health, Inc., Optimum HealthCare, Inc., America's 1st Choice of South Carolina, Inc. and related entities, or collectively, America's 1st Choice, a Medicare Advantage organization that offers HMO products, including Chronic Special Needs Plans and Dual-Eligible Special Needs Plans under its Freedom Health and Optimum HealthCare brands in Florida and its America's 1st Choice of South Carolina brand in South Carolina. Through its Medicare Advantage plans, America's 1st Choice currently serves approximately one hundred and thirty five thousand members in twenty-five Florida and three South Carolina counties. This acquisition aligns with our plans for continued growth in the Medicare Advantage and Special Needs populations.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the preliminary fair value of America's 1st Choice's assets acquired and liabilities assumed, including identifiable intangible assets. The excess of the consideration transferred over the preliminary fair value of net assets acquired resulted in preliminary goodwill of $989.7 at March 31, 2018, all of which was allocated to our Government Business segment. Preliminary goodwill recognized from the acquisition of America's 1st Choice primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions to strengthen our position and expand operations in the government sector to service Medicare Advantage and Special Needs populations. Any additional payments or receipts of cash resulting from contractual purchase price adjustments or any subsequent adjustments made to the assets acquired or liabilities assumed during the measurement period will be recorded as an adjustment to goodwill.

The preliminary fair value of the net assets acquired from America's 1st Choice includes $722.0 of other intangible assets, which primarily consist of finite-lived customer relationships and provider networks with amortization periods ranging from 8 to 20 years. The results of operations of America's 1st Choice are included in our consolidated financial statements within our Government Business segment for the period following February 15, 2018. The pro forma effects of this acquisition for prior periods were not material to our consolidated results of operations.

Acquisition of HealthSun

On December 21, 2017, we completed our acquisition of HealthSun, which serves approximately forty thousand members in the state of Florida through its Medicare Advantage plans, which received a five-star rating from the Centers for Medicare & Medicaid Services. This acquisition aligns with our plans for continued growth in the Medicare Advantage and dual-eligible populations.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the preliminary fair value of HealthSun's assets acquired and liabilities assumed, including identifiable intangible assets. The excess of the consideration transferred over the preliminary fair value of net assets acquired resulted in preliminary goodwill of $1,607.2 at March 31, 2018, all of which was allocated to our Government Business segment. Preliminary goodwill recognized from the acquisition of HealthSun primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions to strengthen our position and expand operations in the government sector to service Medicare Advantage and dual-eligible enrollees. As of March 31, 2018, the initial accounting for the acquisition has not been finalized. Any subsequent adjustments made to the assets acquired or liabilities assumed during the measurement period will be recorded as an adjustment to goodwill. During the three months ended March 31, 2018, we reduced preliminary goodwill by $36.2 due to adjustments made to acquired intangible assets.

The preliminary fair value of the net assets acquired from HealthSun includes $637.0 of other intangible assets, which primarily consist of finite-lived customer relationships with amortization periods ranging from 7 to 20 years. The results of operations of HealthSun are included in our consolidated financial statements within our Government Business segment for the period following December 21, 2017. The pro forma effects of this acquisition for prior periods were not material to our consolidated results of operations.

4. Investments

Fixed Maturity Securities

We evaluate our available-for-sale fixed maturity securities for other-than-temporary declines based on qualitative and quantitative factors. Other-than-temporary impairment losses recognized in income totaled $7.9 and $8.1 for the three months ended March 31, 2018 and 2017, respectively. There were no individually significant other-than-temporary impairment losses on investments during the three months ended March 31, 2018 and 2017. We continue to review our investment portfolios under our impairment review policy. Given the inherent uncertainty of changes in 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 fixed maturity securities, available-for-sale, at March 31, 2018 and December 31, 2017 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 Accumulated Other Comprehensive Loss
March 31, 2018						
Fixed maturity securities:						
United States Government securities	$589.0	$ 2.3	$ (6.9)	$ (0.9)	$583.5	$ —
Government sponsored securities	105.6	0.2	(0.5)	(0.5)	104.8	—
States, municipalities and political subdivisions, tax-exempt	5,312.3	102.1	(23.3)	(11.5)	5,379.6	—
Corporate securities	7,651.6	85.9	(97.0)	(18.2)	7,622.3	—
Residential mortgage-backed securities	2,786.1	32.2	(32.7)	(20.0)	2,765.6	—
Commercial mortgage-backed securities	78.0	0.3	(0.4)	(2.2)	75.7	—
Other securities	1,051.7	16.1	(5.3)	(1.0)	1,061.5	—
Total fixed maturity securities	$17,574.3	$ 239.1	$ (166.1)	$ (54.3)	$17,593.0	$ —
December 31, 2017						
Fixed maturity securities:						
United States Government securities	$649.0	$ 2.2	$ (5.0)	$ (0.7)	$645.5	$ —
Government sponsored securities	90.3	0.3	(0.1)	(0.4)	90.1	—
States, municipalities and political subdivisions, tax-exempt	5,854.6	192.6	(5.0)	(7.3)	6,034.9	—
Corporate securities	7,362.8	165.8	(30.2)	(12.6)	7,485.8	(0.3)
Residential mortgage-backed securities	2,520.0	38.5	(8.0)	(11.6)	2,538.9	—
Commercial mortgage-backed securities	80.1	0.7	(0.1)	(2.0)	78.7	—
Other securities	1,053.7	14.4	(2.4)	(1.5)	1,064.2	—
Total fixed maturity securities	$17,610.5	$ 414.5	$ (50.8)	$ (36.1)	$17,938.1	$ (0.3)

For fixed maturity securities in an unrealized loss position at March 31, 2018 and December 31, 2017, the following table summarizes the aggregate fair values and gross unrealized losses by length of time those securities have continuously been in an unrealized loss position:

(Securities are whole amounts)	Less than 12 Months			12 Months or Greater		
	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss
March 31, 2018						
Fixed maturity securities:						
United States Government securities	36	$ 291.9	$ (6.9)	13	$ 82.8	$ (0.9)
Government sponsored securities	19	28.4	(0.5)	16	14.0	(0.5)
States, municipalities and political subdivisions, tax-exempt	848	1,638.9	(23.3)	167	277.5	(11.5)
Corporate securities	2,023	4,225.6	(97.0)	262	304.5	(18.2)
Residential mortgage-backed securities	712	1,572.8	(32.7)	287	470.8	(20.0)
Commercial mortgage-backed securities	15	26.2	(0.4)	12	25.5	(2.2)
Other securities	172	528.7	(5.3)	17	23.4	(1.0)
Total fixed maturity securities	3,825	$ 8,312.5	$ (166.1)	774	$ 1,198.5	$ (54.3)
December 31, 2017						
Fixed maturity securities:						
United States Government securities	36	$ 450.4	$ (5.0)	11	$ 56.1	$ (0.7)
Government sponsored securities	12	16.3	(0.1)	16	14.8	(0.4)
States, municipalities and political subdivisions, tax-exempt	414	641.4	(5.0)	189	355.5	(7.3)
Corporate securities	1,081	2,200.1	(30.2)	279	329.7	(12.6)
Residential mortgage-backed securities	445	1,050.3	(8.0)	287	478.0	(11.6)
Commercial mortgage-backed securities	7	13.7	(0.1)	12	27.2	(2.0)
Other securities	132	406.1	(2.4)	20	35.8	(1.5)
Total fixed maturity securities	2,127	$ 4,778.3	$ (50.8)	814	$ 1,297.1	$ (36.1)

The amortized cost and fair value of fixed maturity securities at March 31, 2018, 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	$ 526.5	$ 526.3
Due after one year through five years	4,969.7	4,973.8
Due after five years through ten years	5,322.5	5,313.4
Due after ten years	3,891.5	3,938.2
Mortgage-backed securities	2,864.1	2,841.3
Total fixed maturity securities	$ 17,574.3	$ 17,593.0

Proceeds from sales, maturities, calls or redemptions of fixed maturity securities and the related gross realized gains and gross realized losses for the three months ended March 31, 2018 and 2017 are as follows:

	Three Months Ended March 31	
	2018	2017
Proceeds	$2,227.3	$3,374.5
Gross realized gains	29.7	45.5
Gross realized losses	(36.4)	(23.7)

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.

Equity Securities

A summary of current and long-term equity securities, at March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018	December 31, 2017
Equity securities:		
Exchange traded funds	$510.6	$1,300.3
Fixed maturity mutual funds	656.4	790.6
Common equity securities	904.4	1,253.7
Private equity securities	303.4	287.4
Total	$2,374.8	$3,632.0

The gross losses and gains related to equity securities for the three months ended March 31, 2018 is as follows:

	Three Months Ended March 31, 2018
Gross realized gains recognized on securities sold during the period	$172.9
Gross unrealized losses recognized on securities still held at March 31, 2018	(215.9)
Net realized losses recognized	$(43.0)

The gross gains and losses recognized on sales of equity securities were $14.2 and $2.0, respectively, for the three months ended March 31, 2017.

Securities Lending Programs

We participate in securities lending programs whereby marketable securities in our investment portfolio are transferred to independent brokers or dealers in exchange for cash and securities collateral. The fair value of the collateral received at the time of the transactions amounted to $611.8 and $454.4 at March 31, 2018 and December 31, 2017, respectively. The value of the collateral represented 102% and 104% of the market value of the securities on loan at March 31, 2018 and December 31, 2017, respectively. We recognize the collateral as an asset under the caption “Securities lending collateral” on our consolidated balance sheets and we recognize a corresponding liability for the obligation to return the collateral to the borrower under the caption “Securities lending payable.” The securities on loan are reported in the applicable investment category on our consolidated balance sheets.

The remaining contractual maturity of our securities lending agreements at March 31, 2018 is as follows:

	Overnight and Continuous
Securities lending transactions	
United States Government securities	$ 20.8
Corporate securities	447.2
Equity securities	143.8
Total	$ 611.8

The market value of loaned securities and that of the collateral pledged can fluctuate in non-synchronized fashions. To the extent the loaned securities' value appreciates faster or depreciates slower than the value of the collateral pledged, we are exposed to the risk of the shortfall. As a primary mitigating mechanism, the loaned securities and collateral pledged are marked to market on a daily basis and the shortfall, if any, is collected accordingly. Secondarily, the collateral level is set at 102% of the value of the loaned securities, which provides a cushion before any shortfall arises. The investment of the cash collateral is subject to market risk, which is managed by limiting the investments to higher quality and shorter duration instruments.

5. Derivative Financial Instruments

We primarily invest in the following types of derivative financial instruments: interest rate swaps, futures, forward contracts, put and call options, swaptions, embedded derivatives and warrants. We also enter into master netting agreements which reduce credit risk by permitting net settlement of transactions. We had posted collateral of $5.9 and $11.5 related to our derivative financial instruments at March 31, 2018 and December 31, 2017, respectively.

A summary of the aggregate contractual or notional amounts and estimated fair values related to derivative financial instruments at March 31, 2018 and December 31, 2017 is as follows:

	Contractual/ Notional Amount	Balance Sheet Location	Estimated Fair Value Asset	Estimated Fair Value (Liability)
March 31, 2018				
Hedging instruments				
Interest rate swaps - fixed to floating	$ 1,000.0	Other assets/other liabilities	$1.1	$ (11.7)
Non-hedging instruments				
Interest rate swaps	253.3	Equity securities	1.4	(7.8)
Futures	264.2	Equity securities	1.0	(5.1)
Subtotal non-hedging	517.5	Subtotal non-hedging	2.4	(12.9)
Total derivatives	$ 1,517.5	Total derivatives	3.5	(24.6)
		Amounts netted	(2.9)	2.9
		Net derivatives	$0.6	$ (21.7)
December 31, 2017				
Hedging instruments				
Interest rate swaps - fixed to floating	$ 1,235.0	Other assets/other liabilities	$2.0	$ (5.3)
Interest rate swaps - forward starting pay fixed	425.0	Other assets/other liabilities	—	(8.9)
Subtotal hedging	1,660.0	Subtotal hedging	2.0	(14.2)
Non-hedging instruments				
Interest rate swaps	171.3	Equity securities	1.0	(4.7)
Options	100.0	Other assets/other liabilities	—	(0.1)
Futures	116.8	Equity securities	0.1	(2.5)
Subtotal non-hedging	388.1	Subtotal non-hedging	1.1	(7.3)
Total derivatives	$ 2,048.1	Total derivatives	3.1	(21.5)
		Amounts netted	(1.6)	1.6
		Net derivatives	$1.5	$ (19.9)

Fair Value Hedges

We have entered into various interest rate swap contracts to convert a portion of our interest rate exposure on our long-term debt from fixed rates to floating rates. The floating rates payable on all of our fair value hedges are benchmarked to LIBOR. A summary of our outstanding fair value hedges at March 31, 2018 and December 31, 2017 is as follows:

Type of Fair Value Hedges	Year Entered Into	Outstanding Notional Amount March 31, 2018	December 31, 2017	Interest Rate Received	Expiration Date
Interest rate swap	2018	$ 300.0	$ —	3.300 %	January 15, 2023
Interest rate swap	2018	90.0	—	4.350	August 15, 2020
Interest rate swap	2017	50.0	50.0	4.350	August 15, 2020
Interest rate swap	2015	200.0	200.0	4.350	August 15, 2020
Interest rate swap	2014	150.0	150.0	4.350	August 15, 2020
Interest rate swap	2013	10.0	10.0	4.350	August 15, 2020
Interest rate swap	2012	200.0	200.0	4.350	August 15, 2020
Interest rate swap	2012	—	625.0	1.875	January 15, 2018
Total notional amount outstanding		$ 1,000.0	$ 1,235.0		

The following amounts were recorded on our consolidated balance sheets related to cumulative basis adjustments for fair value hedges at March 31, 2018 and December 31, 2017:

Balance Sheet Classification in Which Hedged Item is Included	Carrying Amount of Hedged Liability		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Liability	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Current portion of long term-debt	$650.8	$ 1,274.6	$1.1	$ 2.0
Long-term debt	18,110.1	17,382.2	(11.7)	(5.3)

Cash Flow Hedges

We have entered into a series of forward starting pay fixed interest rate swaps with the objective of eliminating the variability of cash flows in the interest payments on anticipated future financings. We had $425.0 in notional amounts outstanding under forward starting pay fixed interest rate swaps at December 31, 2017. During the three months ended March 31, 2018, swaps in the notional amount of $425.0 were terminated. We received an aggregate of $24.4 from the swap counter parties upon termination.

The unrecognized loss for all outstanding, expired and terminated cash flow hedges included in accumulated other comprehensive loss, net of tax, was $254.4 and $233.0 at March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, the total amount of amortization over the next twelve months for all cash flow hedges is estimated to increase interest expense by approximately $14.0. No amounts were excluded from effectiveness testing.

A summary of the effect of cash flow hedges in accumulated other comprehensive loss for the three months ended March 31, 2018 and 2017 is as follows:

Type of Cash Flow Hedge	Hedge Income Recognized in Other Comprehensive (Loss) Income	Income Statement Location of Loss Reclassification from Accumulated Other Comprehensive Loss	Hedge Loss Reclassified from Accumulated Other Comprehensive Loss
Three months ended March 31, 2018			
Forward starting pay fixed swaps	$ 33.3	Interest expense	$ (3.2)
Three months ended March 31, 2017			
Forward starting pay fixed swaps	$ 18.3	Interest expense	$ (1.5)
Forward starting pay fixed swaps		Net realized (losses) gains on financial instruments	$ (12.0)

Income Statement Relationship of Fair Value and Cash Flow Hedging

A summary of the relationship between the effects of fair value and cash flow hedges on the total amount of income and expense presented in our consolidated statements of income for the three months ended March 31, 2018 and 2017 is as follows:

	Classification and Amount of (Loss) Gain Recognized in Income on Fair Value and Cash Flow Hedging Relationships			
	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Net Realized (Losses) Gains on Financial Instruments	Interest Expense	Net Realized (Losses) Gains on Financial Instruments	Interest Expense
Total amount of income or expense in the income statement in which the effects of fair value or cash flow hedges are recorded	$(26.1)	$(184.2)	$7.3	$(235.0)
Loss (gain) on fair value hedging relationships:				
Interest rate swaps				
Hedged items	—	(0.4)	—	(0.2)
Derivatives designated as hedging instruments	—	0.4	—	0.2
Loss on cash flow hedging relationships:				
Forward starting pay fixed swaps				
Amount of loss reclassified from accumulated other comprehensive loss into net income	—	(3.2)	—	(1.5)
	—	—	(12.0)	—

Amount of loss reclassified from accumulated other comprehensive loss into net income due to ineffectiveness and missed forecasted transactions

Non-Hedging Derivatives

A summary of the effect of non-hedging derivatives on our consolidated statements of income for the three months ended March 31, 2018 and 2017 is as follows:

Type of Non-hedging Derivatives	Income Statement Location of Loss Recognized	Derivative Gain (Loss) Recognized
Three months ended March 31, 2018		
Interest rate swaps	Net realized (losses) gains on financial instruments	$ (2.4)
Options	Net realized (losses) gains on financial instruments	(0.7)
Futures	Net realized (losses) gains on financial instruments	3.0
Total		$ (0.1)
Three months ended March 31, 2017		
Interest rate swaps	Net realized (losses) gains on financial instruments	$ 0.6
Options	Net realized (losses) gains on financial instruments	(10.5)
Futures	Net realized (losses) gains on financial instruments	(0.4)
Total		$ (10.3)

6. Fair Value

Assets and liabilities recorded at fair value in our 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 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 our 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. Level II securities primarily include United States Government securities, corporate securities, securities from states, municipalities and political subdivisions, mortgage-backed securities and certain other asset-backed securities. For securities not actively traded, the 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 pricing services’ qualifications and procedures used to determine fair values. In addition, we periodically review the 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, which 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: 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, 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. These securities are designated Level I securities, as 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 observable market inputs for similar derivative transactions. Derivatives are designated as Level II securities. Derivatives presented within the fair value hierarchy table below are presented on a gross basis and not on a master netting basis by counterparty.

A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017 is as follows:

	Level I	Level II	Level III	Total
March 31, 2018				
Assets:				
Cash equivalents	$1,542.6	$—	$—	$1,542.6
Fixed maturity securities, available-for-sale:				
United States Government securities	—	583.5	—	583.5
Government sponsored securities	—	104.8	—	104.8
States, municipalities and political subdivisions, tax-exempt	—	5,379.6	—	5,379.6
Corporate securities	39.5	7,322.3	260.5	7,622.3
Residential mortgage-backed securities	—	2,760.9	4.7	2,765.6
Commercial mortgage-backed securities	—	75.7	—	75.7
Other securities	—	1,047.8	13.7	1,061.5
Total fixed maturity securities, available-for-sale	39.5	17,274.6	278.9	17,593.0
Equity securities:				
Exchange traded funds	510.6	—	—	510.6
Fixed maturity mutual funds	—	656.4	—	656.4
Common equity securities	836.3	68.1	—	904.4
Private equity securities	—	—	303.4	303.4
Total equity securities	1,346.9	724.5	303.4	2,374.8
Other invested assets, current	24.3	—	—	24.3
Securities lending collateral	433.9	178.3	—	612.2
Derivatives	—	3.5	—	3.5
Total assets	$3,387.2	$18,180.9	$582.3	$22,150.4
Liabilities:				
Derivatives	$—	$(24.6)	$—	$(24.6)
Total liabilities	$—	$(24.6)	$—	$(24.6)
December 31, 2017				
Assets:				
Cash equivalents	$1,956.4	$—	$—	$1,956.4
Fixed maturity securities, available-for-sale:				
United States Government securities	—	645.5	—	645.5
Government sponsored securities	—	90.1	—	90.1
States, municipalities and political subdivisions, tax-exempt	—	6,034.9	—	6,034.9
Corporate securities	24.8	7,231.8	229.2	7,485.8
Residential mortgage-backed securities	—	2,533.9	5.0	2,538.9
Commercial mortgage-backed securities	—	78.7	—	78.7
Other securities	75.2	973.1	15.9	1,064.2
Total fixed maturity securities, available-for-sale	100.0	17,588.0	250.1	17,938.1
Equity securities:				
Exchange traded funds	1,300.3	—	—	1,300.3
Fixed maturity mutual funds	—	790.6	—	790.6
Common equity securities	1,146.6	107.1	—	1,253.7
Private equity securities	—	—	287.4	287.4
Total equity securities	2,446.9	897.7	287.4	3,632.0
Other invested assets, current	17.2	—	—	17.2
Securities lending collateral	214.1	241.0	—	455.1
Derivatives	—	3.1	—	3.1

Total assets	$4,734.6	$18,729.8	$ 537.5	$24,001.9
Liabilities:				
Derivatives	$—	$(21.5)	$ —	$(21.5)
Total liabilities	$—	$(21.5)	$ —	$(21.5)

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, 2018 and 2017 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Other Securities	Equity Securities	Total
Three Months Ended March 31, 2018					
Beginning balance at January 1, 2018	$ 229.2	$ 5.0	$ 15.9	$ 287.4	$ 537.5
Total (losses) gains:					
Recognized in net income	(0.3)	—	—	(238.7)	(239.0)
Recognized in accumulated other comprehensive loss	0.5	—	(0.1)	—	0.4
Purchases	19.9	0.1	—	255.6	275.6
Sales	(3.6)	—	—	(0.9)	(4.5)
Settlements	(6.0)	(0.4)	(0.7)	—	(7.1)
Transfers into Level III	20.8	—	—	—	20.8
Transfers out of Level III	—	—	(1.4)	—	(1.4)
Ending balance at March 31, 2018	$ 260.5	$ 4.7	$ 13.7	$ 303.4	$ 582.3
Change in unrealized losses included in net income related to assets still held for the three months ended March 31, 2018	$ (0.5)	$ —	$ —	$ —	$ (0.5)
Three Months Ended March 31, 2017					
Beginning balance at January 1, 2017	$ 238.8	$ 12.0	$ 42.8	$ 187.8	$ 481.4
Total (losses) gains:					
Recognized in net income	(1.3)	—	—	0.3	(1.0)
Recognized in accumulated other comprehensive loss	3.6	—	0.1	(0.4)	3.3
Purchases	34.8	1.5	9.5	36.0	81.8
Sales	(32.6)	(1.5)	—	(0.4)	(34.5)
Settlements	(19.6)	(0.2)	(0.4)	—	(20.2)
Transfers into Level III	8.3	—	1.2	—	9.5
Transfers out of Level III	(2.0)	(4.6)	(24.6)	—	(31.2)
Ending balance at March 31, 2017	$ 230.0	$ 7.2	$ 28.6	$ 223.3	$ 489.1
Change in unrealized losses included in net income related to assets still held for the three months ended March 31, 2017	$ (1.7)	$ —	$ —	$ —	$ (1.7)

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, 2018 or 2017.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. As disclosed in Note 3, "Business Acquisitions," we completed our acquisition of America's 1st Choice on February 15, 2018. The preliminary values of net assets acquired in our acquisition of America's 1st Choice and resulting goodwill and other intangible assets were recorded at fair value primarily using Level III inputs. The majority of America's 1st Choice's assets acquired and liabilities assumed were recorded at their carrying values as of the respective date of acquisition, as their carrying values approximated their fair values due to their short-term nature. The preliminary fair values of goodwill and other intangible assets acquired in our acquisition of America's 1st Choice were internally estimated based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets could be expected to generate in the future. We developed internal estimates for the expected cash flows and discount rate in the present value calculation. Other than the assets acquired and liabilities assumed in our acquisition of America's 1st

Choice described above, there were no material assets or liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 2018 or 2017.

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 a monthly analysis on the prices received from the pricing services 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 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 the pricing services during the three months ended March 31, 2018 or 2017.

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB guidance 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 our 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 our consolidated balance sheets for cash, accrued investment income, premium and self-funded receivables, other receivables, income taxes receivable/payable, unearned income, accounts payable and accrued expenses, 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 in our 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 estimated to be 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 – senior unsecured notes, remarketable subordinated notes and surplus 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 observable market 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 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, 2018 and December 31, 2017 is as follows:

	Carrying Value	Estimated Fair Value Level I	Level II	Level III	Total
March 31, 2018					
Assets:					
Other invested assets, long-term	$3,460.8	$—	$—	$3,460.8	$3,460.8
Liabilities:					
Debt:					
Short-term borrowings	1,125.0	—	1,125.0	—	1,125.0
Commercial paper	695.7	—	695.7	—	695.7
Notes	17,811.5	—	18,118.1	—	18,118.1
Convertible debentures	253.7	—	1,202.5	—	1,202.5
December 31, 2017					
Assets:					
Other invested assets, long-term	$3,343.8	$—	$—	$3,343.8	$3,343.8
Liabilities:					
Debt:					
Short-term borrowings	1,275.0	—	1,275.0	—	1,275.0
Commercial paper	803.6	—	803.6	—	803.6
Notes	17,592.7	—	18,815.1	—	18,815.1
Convertible debentures	260.5	—	1,215.7	—	1,215.7

7. Income Taxes

During the three months ended March 31, 2018 and 2017, we recognized income tax expense of $467.8 and $505.1, respectively, which represent effective tax rates of 26.3% and 33.3%, respectively. The decrease in income tax expense and effective tax rate was primarily due to the effect of the Tax Cuts and Jobs Act, which reduced the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. This decrease was partially offset by the reinstatement of the non-tax deductible Health Insurance Provider Fee for 2018, which resulted in additional income tax expense of $83.4. At March 31, 2018, we have not completed our accounting for all of the tax effects of the Tax Cuts and Jobs Act. We have made a reasonable estimate of the effects and will continue to make and refine our calculations as additional analysis is completed. Our estimates may also be affected as we gain a more thorough understanding of the Tax Cuts and Jobs Act.

8. Retirement Benefits

The components of net periodic benefit credit included in our consolidated statements of income for the three months ended March 31, 2018 and 2017 are as follows:

	Pension Benefits Three Months Ended March 31		Other Benefits Three Months Ended March 31	
	2018	2017	2018	2017
Service cost	$2.1	$2.5	$0.3	$0.3
Interest cost	13.6	16.6	3.8	5.2
Expected return on assets	(36.8)	(36.8)	(6.1)	(5.7)
Recognized actuarial loss	6.0	5.4	0.9	2.9
Settlement loss	6.6	1.7	—	—
Amortization of prior service credit	—	(0.1)	(3.1)	(3.4)
Net periodic benefit credit	$(8.5)	$(10.7)	$(4.2)	$(0.7)

For the year ending December 31, 2018, 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, 2018 and 2017.

9 . Medical Claims Payable

A reconciliation of the beginning and ending balances for medical claims payable, by segment (see Note 15, "Segment Information"), for the three months ended March 31, 2018 is as follows:

	Commercial & Specialty Business	Government Business	Total
Gross medical claims payable, beginning of period	$ 3,406.6	$ 4,584.9	$7,991.5
Ceded medical claims payable, beginning of period	(78.0)	(26.9)	(104.9)
Net medical claims payable, beginning of period	3,328.6	4,558.0	7,886.6
Business combinations and purchase adjustments	—	199.2	199.2
Net incurred medical claims:			
Current period	5,825.2	11,445.9	17,271.1
Prior periods redundancies	(337.0)	(308.2)	(645.2)
Total net incurred medical claims	5,488.2	11,137.7	16,625.9
Net payments attributable to:			