

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Aetna Health Inc as of December 31, 2008

### ORDER

After full consideration and review of the report of the financial examination of Aetna Health Inc for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Aetna Health Inc, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this March 19, 2010.

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

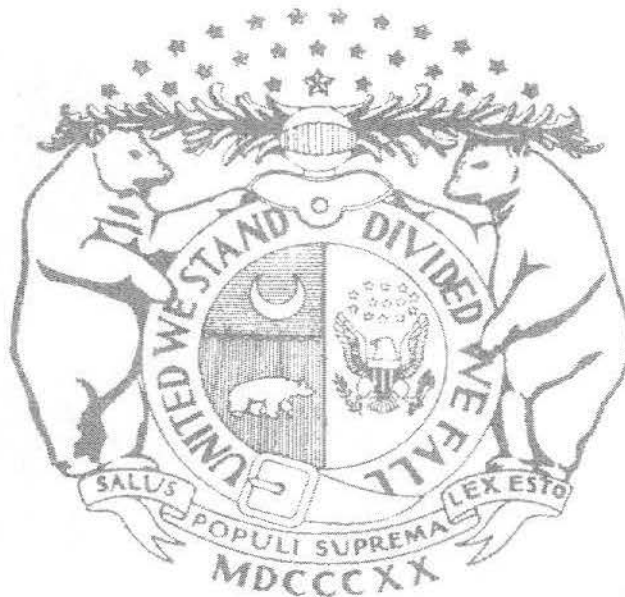
REPORT OF  
FINANCIAL EXAMINATION

**AETNA HEALTH INC.**

As Of

December 31, 2008

**FILED**  
MAR 29 2010  
DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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January 29, 2010  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair of the NAIC Financial Condition (E) Committee

Honorable Merle Scheiber, Director  
South Dakota Division of Insurance  
Secretary of the Midwestern Zone, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial Institutions  
and Professional Registration  
301 West High Street, Room 530  
Jefferson City, MO 65101

Dear Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**Aetna Health Inc.**

also referred to as "Aetna" or the "Company." The examination was conducted at Aetna's home office at 980 Jolly Road, Blue Bell, PA 19422, telephone number (800) 872-3862. This examination began on August 24, 2009 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The previous examination of Aetna Health Inc. was performed as of December 31, 2005. That examination was conducted by examiners from the state of Missouri.

The current examination covers the period from January 1, 2006 through December 31, 2008. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. No other zones participated in this examination.

This examination also included material transactions or events occurring after December 31, 2008. On August 20, 2009, the Company requested approval from the Missouri Department of Insurance, Financial Institutions and Professional Registration ("Department") to merge with an affiliate, Aetna Health Inc. (PA). This examination focused on the pending merger and on the accuracy of the financial statements.

Comprehensive control testing and consideration of prospective risks were de-emphasized.

### **PRIOR EXAMINATION COMMENTS**

None.

### **HISTORY**

#### **General**

Aetna Health Inc. incorporated in the state of Missouri on August 30, 1996, as U.S. Healthcare, Inc. On August 13, 1998, the Company received a Certificate of Authority to operate as a Health Maintenance Organization under Sections 354.400 to 354.550 RSMo (Health Maintenance Organizations). On August 18, 1998, the Company received a Certificate of Authority from the Kansas Insurance Department. The Company amended its articles of incorporation effective May 1, 2002, changing its name from U.S. Healthcare, Inc. to Aetna Health Inc.

#### **Capital Stock**

The Company has authority to issue 5,000 shares of common stock with \$1 par value and 50 shares of preferred stock with \$1 par value. At year-end 2008 there were 1,000 shares of common stock issued and outstanding for a balance of \$1,000 in the Company's capital stock account. Aetna Health Holdings, LLC (Delaware), an intermediate holding company in the Aetna Inc. holding company system, owns all 1,000 shares.

#### **Dividends**

The Department approved an extraordinary dividend in the amount \$4.4 million on November 21, 2008. The Company paid the dividend on December 19, 2008.

## Management

Aetna's by-laws vest the management of the Company in a board of directors. The number of directors is set by a resolution of the shareholders or the board of directors. Currently the size of the board is set at three directors. At year-end 2008 there was a vacancy on the board. Refer to Subsequent Events below for further details.

The directors serving as of December 31, 2008 were as follows:

<u>Name</u>	<u>Affiliation</u>
Allan Greenberg	President
Newton Centre, MA	Aetna Health Inc. (MO)
Burton Vanderlaan, M.D.	Regional Medical Director
Chicago, IL	Aetna Inc.

The following officers were serving as of December 31, 2008:

<u>Name</u>	<u>Office</u>
Allan Greenberg	President
Edward Lee	Vice President and Secretary
Alicia Bolton	Principal Financial Officer and Controller
Elaine Cofrancesco	Treasurer
Gregory Martino	Vice President and Secretary
Kevin Casey	Senior Investment Officer
Steven Conte	Assistant Controller



**Conflict of Interest**

The Company requires that conflict of interest disclosure forms be signed annually by all employees. The forms for the directors and officers were reviewed for all years under examination. No materially significant conflicts were disclosed.

**Corporate Records**

We reviewed the Company's articles of incorporation and by-laws. There were no changes to the articles of incorporation or to the by-laws during the current examination period.

We also reviewed the board of directors meetings minutes. The minutes appear to properly support and approve the major corporate transactions and events for the period under examination.

We reviewed the affidavits from the Company's directors attesting to their receipt of the December 31, 2005, Examination Report. Those affidavits were received by the Department on January 12, 2007.

**Acquisitions, Mergers and Major Corporate Events**

None.

**Surplus Debentures**

None.

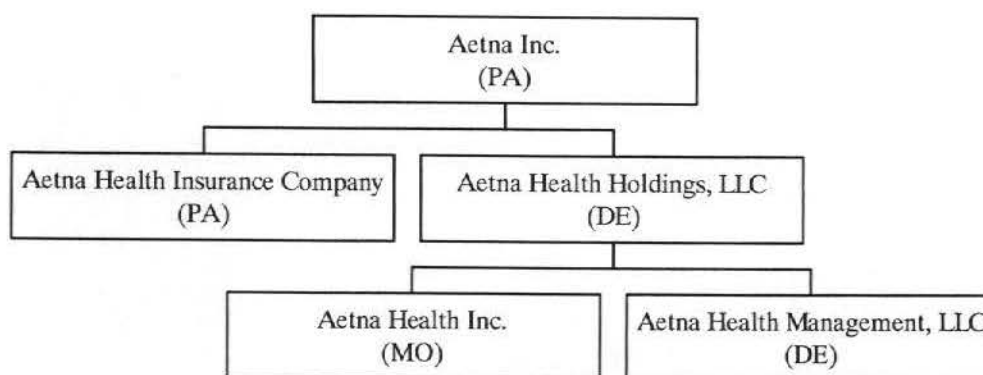
**AFFILIATED COMPANIES****Holding Company, Subsidiaries and Affiliates**

The ultimate controlling person in the insurance holding company system is Aetna Inc. (formerly Aetna U.S. Healthcare Inc.), which was incorporated in Pennsylvania on December 20, 1982, and is registered on the New York Stock Exchange under ticker symbol AET. Prior to December 13, 2000, Aetna Inc. was a subsidiary of a Connecticut corporation also called Aetna, Inc. On December 13, 2000, the Connecticut corporation spun off the Pennsylvania corporation to its shareholders. The remaining entity, which contained the Connecticut corporation's financial services and international businesses, was merged into a subsidiary of ING Groep N.V.

**Organizational Chart**

Aetna Inc. and its subsidiaries form an insurance holding company system as defined by Section 382.010 RSMo (Definitions). Aetna Inc. owns 100% of Aetna Health Holdings, LLC (Delaware), which owns 100% of Aetna Health Inc. (Missouri) and various other health services companies.

The organizational chart below depicts the portion of the holding company system of which Aetna Health Inc. (Missouri) is directly a part and includes affiliates with which the Company has agreements in place.



## Intercompany Transactions

### Administrative Services Agreement, including Pharmacy Rebates

- Parties:** Aetna Health Management, LLC (DE) and Aetna Health Inc. (Missouri)
- Effective:** January 1, 2004, Amendment 1 effective July 1, 2004, approved February 14, 2006.
- Terms:** Aetna Health Management, LLC provides Aetna with administrative services and resources including finance, human resources, operational services, purchasing, legal, claim payment, quality assessment, customer services, provider network services, facilities, marketing support, insurance and risk management, data processing, pharmacy services, ancillary and other agreements, licenses and permits, benefit contracts, fees and expenses, agents fees and commissions and out-of-pocket corporate maintenance expenses.
- Rate(s):** Aetna pays Aetna Health Management, LLC a percentage of earned premiums on all Commercial, Medicare and Medicaid business as a fee. Pharmacy rebates are paid to the Company less a 10% fee for administration of the rebate program. Intercompany balances are settled no less than 45 days after the end of a quarter. The agreement also contains provisions for true-up adjustments for Commercial, Medicaid, Medicare and Self-insured business. True-up adjustments are settled by April 15 of the following year.

### Tax Sharing Agreement

- Parties:** Aetna Inc. and various subsidiaries, including Aetna Health Inc. (Missouri)
- Effective:** January 1, 2006, non-disapproved on February 15, 2006.



Terms: For each taxable year during which a subsidiary is included in a consolidated federal income tax return with Aetna Inc., the subsidiary will pay to Aetna Inc. an amount equal to the regular federal income tax liability (including interest, penalties and other additions to tax) that such subsidiary would pay on its taxable income if it were filing a separate unconsolidated return.

#### Guarantor Agreement

Parties: Aetna Inc. and Aetna Health Inc. (Missouri).  
Effective: August 2, 1998, non-disapproved August 13, 1998  
Terms: In the event of Aetna's inability to pay any amounts payable, including any insolvency, Aetna Inc. agrees to pay all expenses and claims incurred by Aetna prior to such inability. Further, Aetna Inc. agrees to pay all expenses and claims incurred by Aetna subsequent to such inability pursuant to its obligations under its agreements with groups and subscribers, until the end of the contract period. Aetna Inc. agrees to provide additional capital contributions to maintain the statutory solvency of Aetna as prescribed by the Department of Insurance, Financial Institutions and Professional Registration. The additional capital contributions shall be an amount equal to the medical loss expenses in excess of 100% of premiums.

#### Administrative Service Agreement relating to POS rider

Parties: Aetna Health Inc. (Missouri) and Aetna Health Insurance Company (PA).  
Effective: October 1, 2006, non-disapproved October 18, 2006  
Terms: Aetna Health Insurance Company provides indemnity benefits for use in connection with Aetna's POS product. The Company provides administrative services with regard to the indemnity benefits related to the POS product. The Company and Aetna Health Insurance Company reimburse one another for expenses incurred.  
Rate: The Company and Aetna Health Insurance Company receive their respective shares of the blended premium rate as agreed to in accordance with usual and customary insurance company practices.

## FIDELITY BOND AND OTHER INSURANCE

Aetna is a named insured on a Fidelity Bond with a \$1 million liability limit. This coverage exceeds the NAIC suggested minimum fidelity bond coverage for a company of this size.

The Company and other Aetna, Inc. affiliates are insured through the following types of policies: corporate blanket fidelity and computer crime policy, corporate general liability, business automobile liability, workers' compensation, corporate umbrella/excess liability, managed care professional liability, directors and officers liability, and corporate and real estate property. Aetna appears to have adequate coverage in place.

## EMPLOYEE BENEFITS

The Company has no employees. Aetna Health Management, LLC, an affiliate, provides personnel services in accord with the administrative services agreement.

Aetna Health Management, LLC employees receive a benefits package which includes medical, dental and vision coverage, life insurance, long and short term disability insurance, a pension plan, a 401(k) plan, an employee stock purchase plan, tuition reimbursement, and paid time off.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2008, as reflected below, were sufficient in par and market value to meet the minimum deposit requirement in accordance with Section 354.410 RSMo – Certificate issued, when—annual deposit requirements.

	Par Value	Market Value	Statement Value
U.S. Treasury Note	\$ 475,000	\$ 515,783	\$ 478,231
U.S. Treasury Note	<u>150,000</u>	<u>159,996</u>	<u>155,222</u>
Total	<u>\$ 625,000</u>	<u>\$ 675,779</u>	<u>\$ 633,453</u>

## INSURANCE PRODUCTS AND PRACTICES

### Territory and Plan of Operations

Aetna is licensed by the Department as a health maintenance organization ("HMO") under sections 354.400-354.551 RSMo (Health Maintenance Organizations). The Company is also licensed in the state of Kansas. Aetna operates as an individual practice association model HMO.

The Company markets its products to groups, including federal employees. Aetna structures its accounts into two segments: national accounts, consisting of more than 3,000 members; and regional accounts, consisting of fewer than 3,000 members.

Together with an affiliate, Aetna Health Insurance Company, Aetna jointly markets and administers a Quality Point-of-Service product which includes HMO and indemnity benefits. Aetna provides the HMO benefits and the affiliate provides the indemnity benefits. The Company also offers an "open access" HMO, which allows members to access specialists without a primary-care physician (PCP) referral. In addition, the Company offers an "open access" point-of-service product, Choice POS. For covered services, Choice POS allows in-network visits to participating providers or out-of-network visits to non-participating providers without a PCP referral.

#### **Policy Forms & Underwriting; Advertising & Sales Materials; Treatment of Policyholders**

The Department of Insurance, Financial Institutions and Professional Registration has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. A Market Conduct examination is currently being conducted; completion is expected by year-end. Any findings are not expected to have a significant financial impact upon the Company.

The Company's procedure for handling consumer complaints was reviewed. Complaints appear to be handled in a timely and appropriate manner.

#### **REINSURANCE**

The Company neither assumes nor cedes any reinsurance.

#### **ACCOUNTS AND RECORDS**

The Company's financial statements are audited annually by KPMG, LLP. The CPA audit workpapers were reviewed. These work papers were used in the course of this examination as deemed appropriate.

Claims payable and related actuarial items were reviewed and certified by Peter K. Reilly, FSA, MAAA.

The Department retained Karen Elsom, FSA, MAAA, of Lewis & Ellis, as consulting actuary to review the adequacy of claims payable and other related liabilities. She found the year-end 2008 claims payable and related liabilities to be adequately stated.

#### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2008, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the

financial statements or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the work papers for each individual financial statement item.

## ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 10,216,612	-	\$ 10,216,612
Cash equivalents and short-term investments	3,531,833	-	3,531,833
Investment income due and accrued	172,699	-	172,699
Uncollected premiums	1,308,517	93,463	1,215,054
Current federal income tax recoverable	486,884	-	486,884
Net deferred tax asset	1,756,130	544,430	1,211,700
Receivables from parent, subsidiaries and affiliates	358,394	-	358,394
Health care receivable	84,196	-	84,196
Current state income tax receivable	72,167	-	72,167
Total Assets	<u>\$ 17,987,432</u>	<u>\$ 637,893</u>	<u>\$ 17,349,539</u>

## LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$ 4,664,553
Unpaid claims adjustment expenses	85,330
Aggregate health policy reserves	2,663,115
Aggregate health claim reserves	82,378
General expenses due or accrued	101,540
Remittances and items not allocated	181,761
Federal contingency reserve	166,621
Total Liabilities	<u>\$ 7,945,298</u>
Common capital stock	\$ 1,000
Gross paid-in and contributed surplus	23,749,000
Unassigned funds (surplus)	(14,345,759)
Total Capital and Surplus	<u>\$ 9,404,241</u>
Total Liabilities, Capital and Surplus	<u>\$ 17,349,539</u>

## SUMMARY OF OPERATIONS

Net premium income	\$ 54,164,033
Change in unearned premium reserves	<u>138</u>
Total Revenues	54,164,171
Hospital/medical benefits	37,544,978
Other professional services	19,962
Outside referrals	868,454
Emergency room and out-of-area	2,676,171
Prescription drugs	<u>7,546,940</u>
Total Hospital and Medical	48,656,505
Claims adjustment expenses	973,130
General administrative expenses	5,794,786
Increase in reserves	<u>2,509,091</u>
Total Underwriting Deductions	57,933,512
Net Underwriting Loss	(3,769,341)
Net investment income earned	789,712
Net realized capital gain	34
Federal income tax incurred	<u>(1,712,151)</u>
Net Loss	<u>\$ (1,267,444)</u>

## CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2007	\$ 13,703,830
Net loss	(1,267,444)
Change in net deferred tax asset	(749,108)
Change in nonadmitted assets	4,776,799
Paid-in surplus	(4,400,000)
Correction of prior year nonadmitted cash equivalent	(4,434,457)
Correction of prior year deferred tax asset	1,552,060
Correction of prior year nonadmitted deferred tax asset	(259,160)
Correction of prior year current federal taxes	<u>481,721</u>
Capital and surplus, December 31, 2008	<u>\$ 9,404,241</u>



## **EXAMINATION CHANGES**

None.

## **NOTES TO FINANCIAL STATEMENTS**

None.

## **GENERAL COMMENTS OR RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

At year-end 2008 there was a vacancy on the Board of Directors resulting from Maureen Weldon's departure from the Board on October 28, 2008. That vacancy was filled on June 12, 2009 with the appointment of Cory Orzak to the Board.

By unanimous written consent dated July 7, 2009, the Company's Board of Directors resolved to merge with Aetna Health Inc. (PA), an affiliate, upon approval of the merger by the Department Director and the Pennsylvania Insurance Commissioner. On August 20, 2009, the Company submitted a Form D to the Department requesting authorization to merge into Aetna Health Inc. (PA). The Department approved the merger as of November 18, 2009. The Pennsylvania Insurance Commissioner approved the merger as of September 15, 2009. Effective December 31, 2009, the Company merged with and into Aetna Health Inc. (PA).

## ACKNOWLEDGMENT

The assistance and cooperation extended by Aetna Health, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Arthur Palmer, CFE, Douglas Daniels, CFE and Andrew T. Balas, CFE, AES, CPA, examiners for the Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

## VERIFICATION

State of Missouri )

) ss

City of St. Louis )

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Thomas J. Cunningham  
Thomas J. Cunningham, CPA, CFE  
Examiner-in-Charge  
Department of Insurance, Financial Institutions  
and Professional Registration

Sworn to and subscribed before me this 22 day of January 2010.  
My commission expires:

7/27/13

Kathy L. Egan  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens  
Michael Shadowens, CFE  
Audit Manager  
Department of Insurance, Financial Institutions  
and Professional Registration