REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

MISSOURI CARE, INCORPORATED

AS OF

DECEMBER 31, 2008

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Columbia, Missouri
May 14, 2010

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Mary Jo Hudson, Director
Ohio Department of Insurance
Secretary, 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, Missouri 65101

Ladies and Gentlemen:

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

Missouri Care, Incorporated

hereinafter referred to as such, as Missouri Care, or as the Company. Its administrative office is located at 2404 Forum Boulevard, Columbia, Missouri, 65203, telephone number (573) 441-2100. This examination began on November 16, 2009, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This is the first financial examination of Missouri Care, Incorporated since it was formed on July 27, 2006 and began insuring risks on February 1, 2007. Previously, the Company operated under different ownership as a legal entity named Missouri Care, LC. Refer to the Acquisitions, Mergers and Major Corporate Events section for further information about the change in entities from the prior examination to the current examination.

The prior full scope association financial examination of Missouri Care, LC was made as of December 31, 2005, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2006, through December 31, 2008, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key activities identified in our examination of Missouri Care, were as follows:

- Investments
- Premiums
- Claims Handling
- Reserving
- Related Party Transactions
- Taxes

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Hartford, Connecticut, for its audit covering the period from January 1, 2008, through December 31, 2008. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, paid claims data, income taxes, deferred taxes, legal representations, bank confirmations, and fraud assessment.

SUMMARY OF SIGNIFICANT FINDINGS

The following problems were found regarding the intercompany tax transactions between Missouri Care and Aetna, Inc. (Aetna) and the overall accounting process for income taxes.

- The Company could not fully reconcile the federal income tax payable that was reported in the 2008 Annual Statement, due to amounts of unknown origin totaling $160,063.
- The supporting workpapers for tax balances were confusing and there was extreme difficulty in segregating tax payments by each applicable tax year. The Company fails to fully settle or "zero out" any tax year. A continuous rolling balance approach is used, which creates difficulties in the understanding of tax reconciliations.
- A control deficiency exists from the lack of oversight by accounting personnel in Missouri Care's Columbia, Missouri office to verify the accuracy of taxes billed and other accounting information supplied by Aetna's tax department. Management was apparently unaware of tax recoverable balances of nearly $400,000 due to Missouri Care from Aetna that remained stagnant for well over one year.

SUBSEQUENT EVENTS

The following mergers occurred subsequent to December 31, 2008:

- An affiliate, Schaller Anderson of Missouri, LLC (SA-Missouri), was merged into Schaller Anderson of Arizona, LLC (SA-Arizona), effective January 1, 2009. As a result of this merger, a Plan Management Services Agreement between Missouri Care and SA-Missouri was transferred to SA-Arizona.
- The Company's direct parent, Schaller Anderson, Inc. (SAI), was merged into an upstream parent, Aetna Health Holdings, LLC (AHH), effective December 31, 2009. As a result of this merger, Missouri Care became a direct subsidiary of AHH.
- An affiliate, Aetna Health, Inc., a Missouri corporation, was merged into Aetna Health, Inc., a Pennsylvania corporation, effective December 31, 2009.

COMPANY HISTORY

General

The Company was originally organized as Missouri Care, LC by the Curators of the University of Missouri (University of Missouri) on September 2, 1997. The Company commenced business on January 1, 1998 as a not-for-profit, limited liability corporation. The University of Missouri owned 100% of Missouri Care, LC from its inception in 1997 until early 2007.

The business operations, assets and liabilities of Missouri Care, LC were acquired, effective February 1, 2007, by a newly formed entity that was soon renamed Missouri Care, Incorporated. Refer to the Acquisitions, Mergers and Major Corporate Events section below for a complete description of this transaction. A Certificate of Authority to operate as a Health Maintenance Organization under Chapter 354 RSMo (Health Services Corporations – Health Maintenance Organizations – Prepaid Dental Plans), was issued by the Missouri DIFP on March 8, 2007.

Capital Stock

The Company's Articles of Incorporation allow for the issuance of 30,000 shares of common stock with a par value of $1 per share. As of December 31, 2008, 1,000 shares were issued and outstanding to SAI for a total capital stock balance of $1,000. All outstanding shares of Missouri Care common stock held by SAI were transferred to Aetna Health Holdings, LLC, as a result of the merger of these two companies at the end of 2009.

Dividends and Capital Contributions

The Bylaws allow for dividends to be paid on common stock shares, pursuant to a declaration of the Board of Directors. However, no dividends were declared or paid during the examination period.

SAI contributed an initial capitalization of $10,499,000 in January 2007 to the Company, which was in its beginning stages as the newly formed entity, Missouri Care, Incorporated. An additional cash infusion of $10,000,000 was paid by SAI in January 2007 to Missouri Care in exchange for a surplus note. SAI also made a capital contribution of $2,000,000 to Missouri Care in December 2009.

Mergers and Acquisitions

Missouri Care, Incorporated (f/k/a Schaller Anderson Acquisition, Incorporated), executed an Asset Purchase and Sales Agreement, dated November 17, 2006, to acquire the assets, liabilities, and rights to all agreements and contracts of Missouri Care, LC from the Curators of the University of Missouri. The purchase price was $14,500,000 and the agreed upon net worth of Missouri Care, LC to be transferred upon closing was $1,548,546. The difference between the purchase price and the net worth of the assets and liabilities acquired resulted in goodwill of $12,951,563 recorded by the Company. The Agreement closed on February 1, 2007 and the Company began insuring members on that date. The Agreement also contained a condition for an additional purchase price equal to 50% of the amount, if any, in which the Company's hospital and medical expenses are less than 88% of net revenues for the period from January 1, 2007 through June 30, 2009. Missouri Care had an accrued liability of $2.1 million, as of December 31, 2008, for this additional purchase price.

The direct parent of Missouri Care, as of the examination date, was Schaller Anderson, Inc. On July 31, 2007, SAI and its affiliates (including Missouri Care) were purchased by Aetna Health Holdings, LLC, a subsidiary of Aetna, Inc.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. The Articles of Incorporation were amended on February 15, 2007 to change the Company name from Schaller Anderson Acquisition, Incorporated to Missouri Care, Incorporated. The Articles of Incorporation and Bylaws were amended several times during the examination period to change the number of members required to serve on the Board of Directors. The most recent amendment to the Bylaws on March 5, 2008 stated that the number of directors shall be set by a resolution of the Board of directors or shareholders. The Bylaws were also amended on September 22, 2009 to allow one individual to hold multiple officer positions, except for the offices of President and Secretary.

The minutes of the Board of Directors' meetings, written consents in lieu of meeting, and the sole shareholder written consents were reviewed for proper approval of corporate transactions. In general, the minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors, which is appointed by the member policyholders. The Company's Bylaws specified that the number of directors serving shall be fixed by a resolution of the Board of Directors or shareholders. Five (5) directors were required, per a Board of Directors resolution, effective April 1, 2008. The Board of Directors elected and serving, as of December 31, 2008, were as follows:

Name	Principal Occupation and Business Affiliation [1]
Donna E. Checkett [2]	Senior Vice President, Medicaid Business
Thomas R. Cheek, MD [2]	Senior Medical Director
Thomas L. Kelly	President and Chief Executive Officer
Coleen H. Kivlahan, MD	Senior Vice President, Medical Affairs
Janet M. Stallmeyer	Senior Vice President, Central Region

[1] All employed by Aetna, Inc. (Schaller Anderson / Medicaid Business Unit)
[2] Removed as a director, effective June 1, 2009

The sole shareholder, SAI, issued a written consent to require only four (4) directors, effective June 1, 2009. On the same date, Donna E. Checkett and Thomas R. Cheek, MD were removed from the Board of Directors and were replaced by Frederick R. Hatfield, Senior Vice President and Chief Operating Officer for SAI.

Committees

The Articles of Incorporation and Bylaws do not require any committees, but the Bylaws do allow for committees to be appointed by the Board of Directors. However, there were no committees formed during the examination period.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2008, were as follows:

Officer	Position
Thomas L. Kelly	Chairman and President
Brian K. Fischer	Chief Financial Officer and Treasurer
Edward C. Lee	Vice President and Assistant Secretary
Jerry J. Bellizzi	Vice President and Assistant Secretary
Elaine R. Confrancesco	Vice President and Assistant Treasurer
Michelle M. Matiski	Secretary
Sandra M. Coombes	Assistant Secretary
Nancy A. Frazer	Assistant Secretary
Melissa B. Pavlovich	Assistant Secretary
Melinda Westbrook	Assistant Secretary
Nancy S. Haase	Assistant Treasurer
Eric S. Trafton	Assistant Treasurer
Kevin J. Casey	Senior Investment Officer

Holding Company, Subsidiaries and Affiliates

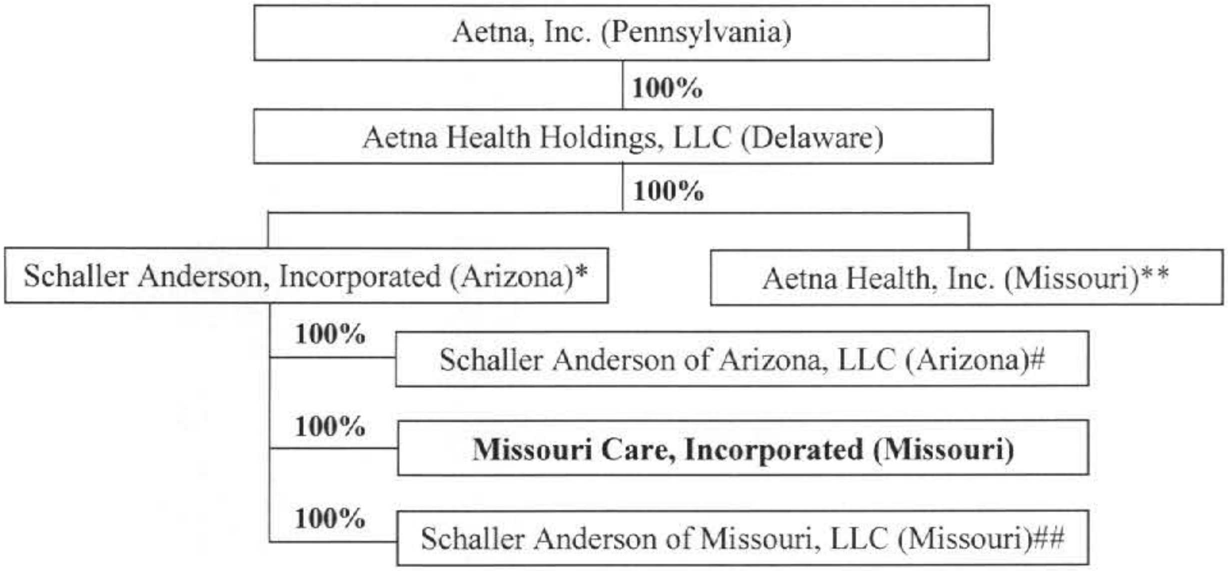
The Company is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Missouri Care for each year of the examination period. As of December 31, 2008, Missouri Care was directly owned 100% by Schaller Anderson, Incorporated (SAI), a holding company located in Phoenix, Arizona. SAI was ultimately owned 100% by Aetna, Inc. Aetna Health Holding, LLC became the direct parent of Missouri Care upon its merger with SAI at the end of 2009.

The ultimate parent company, Aetna, is a publicly traded stock company located in Hartford, Connecticut. Aetna has three business segments - Health Care, Group Insurance, and Large Case Pensions. Health Care is the largest segment, comprising 92% of Aetna's revenues. Within the Health Care segment there are three business units - Commercial, Medicare and Medicaid. Commercial is the largest business unit, comprising 76% of total revenues for the Health Care segment.

Missouri Care is part of Aetna's Medicaid business unit, which represents only 3.5% of total revenues for the Health Care segment of Aetna. Missouri Care's members represent only 4.4% of the total members in the Medicaid business unit. Missouri Care is one of the few entities that actually insure risk in the Medicaid business unit. Most of Aetna's Medicaid business unit is comprised of entities that provide administrative services only. The Schaller Anderson / Medicaid business unit fully manages several Medicaid insurance companies that are owned by unaffiliated third parties.

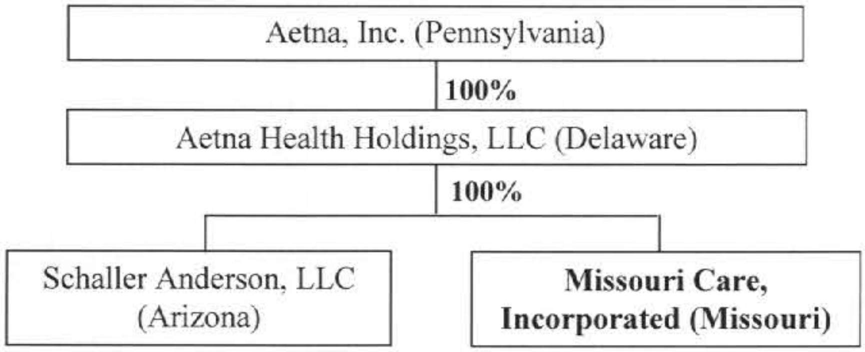
Organizational Chart

Below is an organization chart reflecting Missouri Care's ownership and selected affiliates, as of December 31, 2008.



* Merged into Aetna Health Holdings, LLC, effective December 31, 2009
** Merged into Aetna Health, Inc., a Pennsylvania corporation, effective December 31, 2009
\# Name changed to Schaller Anderson, LLC, effective January 1, 2010
\## Merged into Schaller Anderson of Arizona, LLC, effective January 1, 2009

The organizational structure that affects Missouri Care has been simplified due to the mergers that occurred subsequent to the examination date. Below is the current organizational chart, as of January 1, 2010.



Intercompany Agreements

The Company's agreements with related parties that were in effect, as of December 31, 2008 and subsequent periods, are outlined below.

1. **Type:** Subordinated Surplus Note

   Entity: Aetna Health Holdings, LLC (assumed after merger with SAI)

   Effective: January 5, 2007

   Terms: Missouri Care issued a $10,000,000 surplus note to its former direct parent, SAI, on January 5, 2007. Interest is accrued at an annual rate of 4.58% of the unpaid principal balance of the note. The terms of the note do not specify the date in which the principal balance shall be repaid by Missouri Care. No payments of surplus note interest or principal were made by the Company during 2007, 2008 or 2009. The outstanding surplus note balance was $10,877,101, as of December 31, 2008. The surplus note became payable to Aetna Health Holdings, LLC, effective December 31, 2009, due to the merger of SAI into Aetna Health Holdings, LLC on that date.

2. **Type:** Plan Management Services Agreement

   Entity: Schaller Anderson, LLC (f/k/a Schaller Anderson of Arizona, LLC)

   Effective: February 14, 2007

   Terms: Schaller Anderson, LLC agrees to provide all services necessary to manage the day-to-day business operations of Missouri Care. Schaller Anderson, LLC will provide the following services: claims processing, provider contracting, member enrollment, encounter data maintenance, accounting, budgeting, accounts payable, financial reporting, information systems, advertising, marketing, member services, provider relations, quality management, credentialing, medical management, and other services. Missouri Care will pay Schaller Anderson, LLC a monthly management fee equal to 12% of Missouri Care's total revenue.

3. **Type:** Tax Sharing Agreement

   Entity: Aetna, Inc. and its subsidiaries

   Effective: July 31, 2007

   Terms: Aetna, Inc. and its subsidiaries (including Missouri Care) agree to file a consolidated federal income tax return. The Company's income tax liability each year will be the amount of income taxes that Missouri Care would have paid as a stand-alone entity filing an unconsolidated tax return. The settlements between the subsidiaries and Aetna, Inc. for quarterly installments and the final tax return are due within 90 days of the date of each tax filing.

Intercompany Payments

Fees and other payments to related parties, pursuant to the above agreements, are listed in the following table:

		Net Paid / (Received)		
Related Party	Agreement	**2006**	**2007**	**2008**
AHH	Subordinated Surplus Note	$ 0	$ 0	$ 0
SAI	Plan Management Services	8,667,095	9,187,500	12,254,462
Aetna, Inc.	Tax Sharing	0	785,469	1,211,527
TOTAL		$8,667,095	$9,972,969	$13,465,989

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond policy that covers losses resulting from dishonest or fraudulent acts of employees. The policy has a liability limit of $800,000 with a $0 deductible, which meets the minimum coverage that is recommended by the NAIC. The Company also is a named insured on insurance policies of the parent, Aetna, Inc., that provide coverage for the following risks: commercial general liability and managed care professional liability.

An affiliate, Schaller Anderson, LLC, performs most of the day-to-day functions to operate the business of Missouri Care, pursuant to a Plan Management Services Agreement. This Agreement requires Schaller Anderson, LLC to maintain certain insurance coverages, including a commercial crime policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Missouri Care does not have any direct employees and therefore, has no liabilities for employee benefits. The Company's business operations are managed by the employees of the parent, Aetna, Inc., who work for Aetna's Medicaid business unit, also known as Schaller Anderson. Schaller Anderson has over 1,000 employees that are located mostly in its offices in Phoenix, Arizona. Missouri Care has a Plan Management Services Agreement with Schaller Anderson, LLC, which is described in the Intercompany Agreements section of this report. Missouri Care indirectly pays for the salaries and benefits of Aetna, Inc. employees through management fees that are paid each month, pursuant to this Agreement.

TERRITORY AND PLAN OF OPERATION

Missouri Care is licensed only in the State of Missouri under Chapter 354 RSMo, as it relates to Health Maintenance Organizations. The Company's only product is Medicaid business contracted through the MO HealthNet Managed Care program, which is administered by the MO HealthNet division of the Missouri Department of Social Services. The currently effective MO HealthNet contract began October 1, 2009 and ends June 30, 2010, with options to renew for two successive one-year periods ending June 30, 2011 and June 30, 2012. The Company has a separate Administrative Services Only (ASO) contract, effective from October 1, 2008 to June 30, 2011, for Medicaid recipients in Northwest Missouri.

As of December 31, 2008, Missouri Care's insured members were solely in the Central Region of the MO HealthNet program with an enrollment of 39,719 members. Business operations were expanded, effective October 1, 2009, to also serve the Eastern and Western Regions of MO HealthNet. As a result of the expansion, insured enrollment increased to 45,519 total members by the end of 2009, of which 90% were located in the Central Region and the remaining 10% in the Eastern and Western Regions. The Medicaid eligible population of the MO HealthNet program consists mostly of children from low-income families. Approximately two-thirds of the Company's members were children of ages 13 and under at the end of 2009.

The Company is the dominant insurer in the Central Region, based upon enrollment figures. Missouri Care's membership count represented 53% and 51% of the Central Region total membership, as of December 31, 2008 and December 31, 2009, respectively. The Company's market share was less than 2% of total members in both the Eastern and Western Regions, as of December 31, 2009.

A Medicaid eligible person must be enrolled through the State of Missouri. An enrollee becomes a Missouri Care member by either selecting Missouri Care over competitors or by being randomly assigned to Missouri Care if the enrollee does not make a selection. The Company does not utilize any brokers or agents and does not have any direct solicitation for membership, as required by its contract with the State of Missouri. The Company's marketing activities to increase membership include meetings with community services organizations, conducting community health programs and other events, and limited advertising.

The premium rates for each member are established through the contractual bid process with the State of Missouri. All premiums due to Missouri Care are paid entirely by the State of Missouri on behalf of the members.

The Company has contracts with primary care physicians, specialists, ancillary providers, hospitals, and provider organizations to provide medical care for its members. Physician services are compensated on a fee-for-service basis. Hospital rates are based upon negotiated per diem rates, percentage discounts from billed charges, or specific case rates. Approximately 40% of the claim payments in 2008 and 2009 were paid to the University of Missouri for medical services provided by its network of hospitals, physicians, and other providers.

GROWTH OF COMPANY

The table below shows the Company's premium writings and writing ratios for the most recent five years, which includes the current examination period.

Year	Direct Premiums Written	Net Premiums Written	Change in Net Premiums	Capital and Surplus	Ratio of Net Premiums to Surplus
2005	$ 77,929,943	$ 77,421,779	na	$7,874,193	9.83
2006	76,531,971	76,089,021	-1.7%	5,671,974	13.41
2007	74,886,779	74,441,086	-2.2%	8,804,819	8.45
2008	112,422,105	112,165,482	50.7%	10,080,960	11.13
2009	124,043,374	123,876,752	10.4%	11,087,832	11.17

Direct writings decreased slightly in 2006 and 2007 due to lower membership from changes in the requirements for Medicaid eligibility in the State of Missouri. Surplus levels and premium to surplus ratios for 2007 and subsequent years are not comparable to prior years because Missouri Care was reformed as a new entity with a different capital structure, beginning February 1, 2007, after a change in ownership. The large increase in premiums in 2008 was due to the addition of ten new counties to the Central Region of the MO HealthNet program, beginning January 1, 2008. Premiums also increased in 2009 due to a higher Medicaid eligible population from higher unemployment and the Company's entry into the East and West Regions of the MO HealthNet program, beginning October 1, 2009.

LOSS EXPERIENCE

The table below shows the Company's incurred losses and loss ratios for the most recent five years, which includes the current examination period.

Year	Net Premiums Written	Total Medical and Hospital Expenses	Loss Ratio
2005	$ 77,421,779	$ 67,548,653	87.2%
2006	76,089,021	65,315,156	85.8%
2007	74,441,086	63,275,107	85.0%
2008	112,165,482	95,593,475	85.2%
2009	123,876,752	106,538,518	86.0%

Missouri Care's loss ratios have been very consistent, as shown above. The loss ratios are higher than average for the health insurance industry. However, achieving an impressive loss ratio for Medicaid business is a difficult goal to accomplish, due to the inherent obstacles. Premium rates are set by the MO HealthNet Division with low profit margins for the insurers. Underwriting is not available as a loss management tool, since the members assigned to Missouri Care from the MO HealthNet program cannot be rejected, regardless of pre-existing health conditions. Despite these inherent barriers, there are several areas that are available to manage Missouri Care's loss expenses. Example areas are provider compensation rates, medical case management, and wellness programs.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2006	2007	2008
Direct Business	$76,531,971	$74,886,779	$112,422,105
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	(442,950)	(445,693)	(256,623)
Net Premiums Written	**$76,089,021**	**$74,441,086**	**$112,165,482**

Assumed

The Company does not assume any business.

Ceded

Missouri Care's reinsurance program is designed to protect against the risk from large dollar claims. The Company has an excess of loss reinsurance agreement, effective March 1, 2008 to February 28, 2009, with ReliaStar Life Insurance Company (ReliaStar). This agreement covers 80% of eligible medical expenses in excess of the Company's retention of $250,000 per member, up to a maximum reinsurance limit of $5,000,000 per member, per year and per lifetime. Eligible medical expenses include costs for inpatient hospital services, transplant services, and drug related services (e.g. dialysis, chemotherapy). A maximum daily limit of $2,000 per member is applicable for hospitals in Missouri, except for certain other hospitals, which have average daily limits of $2,200 per member. There are no daily limits for hospitals outside of Missouri.

The Company entered into a new excess of loss reinsurance agreement, effective March 1, 2009 to February 28, 2010, with ReliaStar. The Company's retention, coinsurance percentage, maximum reinsurance limit, daily hospital limits, and other terms are essentially the same as those in the prior year agreement with ReliaStar.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

Missouri Care's core business applications are run through local area networks in the Company's main office in Columbia, Missouri and the office of an affiliate, Schaller Anderson, in Phoenix Arizona. The network servers in these two locations are connected to the data centers for Aetna's Medicaid business unit located in Middletown, Connecticut and Windsor, Connecticut. The Connecticut data centers house several large mainframe computers, midrange systems, internet based web services, and network infrastructure components that provide processing for critical production applications supporting key business areas. The data centers also provide automated facilities for data storage.

The CPA firm, KPMG, LLP, (KPMG) issued audited statutory financial statements of the Company for all years in the examination period. A different office of KPMG conducted the statutory audit for each year of the examination period, as follows: 2006 – St. Louis, Missouri, 2007 – Phoenix, Arizona, 2008 – Hartford, Connecticut.

The actuarial opinion regarding the Company's reserves for claims unpaid and unpaid claims adjustment expenses was issued by Peter Reilly, FSA, MAAA for the years ending December 31, 2007 and December 31, 2008. Mr. Reilly is employed by Aetna, Inc. in Blue Bell, Pennsylvania. The actuarial opinion for the year ending December 31, 2006 was issued by Charles D. Friedstat, FSA, MAAA, of KPMG, LLP in Chicago, Illinois.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2008, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 354.410 RSMo (Trust Deposits and Capital Requirements) and Section 354.551 RSMo (Point of Service Riders). The funds on deposit were as follows:

Type of Security	Par Value	Fair Value	Statement Value
Missouri State Bond	$1,025,000	$1,040,631	$1,027,769

Deposits with Other States

Since Missouri Care is only licensed in Missouri, the Company has no funds on deposit with any other states.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Missouri Care, Incorporated for the period ending December 31, 2008. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2008

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 4,063,096	$ 0	$ 4,063,096
Cash, Cash Equivalents and Short-Term Investments	9,432,439	0	9,432,439
Investment Income Due and Accrued	20,793	0	20,793
Uncollected Premiums and Agents' Balances	11,923,292	0	11,923,292
Net Deferred Tax Asset (**Note 1**)	4,041,229	3,659,330	381,899
Health Care Receivables	1,214,449	34,527	1,179,922
Aggregate Write-In Assets: Goodwill	9,849,572	9,849,572	0
TOTAL ASSETS	**$40,544,870**	**$13,543,429**	**$27,001,441**

Liabilities, Surplus and Other Funds
as of December 31, 2008

Claims Unpaid	$10,561,122
Unpaid Claims Adjustment Expenses	276,816
General Expenses Due or Accrued	650,582
Federal Income Taxes Payable (**Note 2**)	642,675
Amounts Due to Parent, Subsidiaries and Affiliates	3,450,811
Aggregate Write-In Liabilities:	
Sales Agreement Reserve	2,078,634
TOTAL LIABILITIES	**$17,660,640**
Common Capital Stock	1,000
Gross Paid In and Contributed Surplus	10,499,000
Surplus Notes	10,877,101
Unassigned Funds (Surplus)	(12,036,300)
Capital and Surplus	**$ 9,340,801**
TOTAL LIABILITIES AND SURPLUS	**$27,001,441**

Statement of Revenue and Expenses
For the Year Ended December 31, 2008

REVENUES:	
Net Premium Income	$112,165,482
TOTAL REVENUES	**$112,165,482**
HOSPITAL AND MEDICAL:	
Hospital / Medical Benefits	64,266,332
Other Professional Services	3,576,974
Emergency Room and Out-of-Area	13,160,565
Prescription Drugs	14,662,628
Less Net Reinsurance Recoveries	(73,024)
TOTAL HOSPITAL AND MEDICAL	**$ 95,593,475**
Claims Adjustment Expenses	8,579,437
General Administrative Expenses	4,688,199
TOTAL UNDERWRITING DEDUCTIONS	**$108,861,111**
NET UNDERWRITING GAIN	**$ 3,304,371**
Net Investment Gains	417,600
Agg. Write-In Expenses: Amortization of Goodwill	(2,590,313)
Less Federal Income Taxes Incurred	(1,211,527)
NET INCOME (LOSS)	**($ 79,869)**

CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2007	$ 8,804,819
Net Income (Loss)	(79,869)
Change in Net Unrealized Capital Gains or (Losses)	(398)
Change in Net Deferred Income Tax	(396,180)
Change in Non-Admitted Assets	1,638,503
Change in Surplus Notes	487,434
Aggregate Write-Ins for Gains and Losses in Surplus	(373,349)
Examination Changes	(740,159)
Surplus as Regards Policyholders, December 31, 2008	**$ 9,340,801**

Comments on Financial Statement Items

Note 1 – Net Deferred Tax Asset (DTA) $381,899

An examination change was made to decrease the net DTA by $536,866 due to errors in the Company's calculation of the reported net DTA. The main error was the Company's use of a five year amortization period for goodwill instead of the fifteen year amortization period that is required for tax purposes. This resulted in an approximate $600,000 overstatement of the temporary tax difference for goodwill that would reverse in the next calendar year. Missouri Care recorded a prior period adjustment of $536,866 in the 2009 Annual Statement to correct for the overstatement of the net DTA in the 2008 Annual Statement. The underlying problem appears to have been corrected by management and should not be an issue in future years.

Note 2 – Federal Income Taxes (FIT) Payable $642,675

Missouri Care's payments for federal income taxes are paid to the parent, Aetna, pursuant to a Tax Sharing Agreement. The reported FIT payable of $439,382 was comprised of the following components:

Recoverable for 2007 Tax Year (Feb. 1, 2007 to July 31, 2007)	($233,304)
Payable for 2007 Tax Year (Aug. 1, 2007 to Dec. 31, 2007)	593,663
Payable for 2008 Tax Year	239,106
Unreconciled Amounts	(160,083)
Net Reported FIT Payable at December 31, 2008	$439,382

Numerous examination changes were made to the reported amounts above. First, the $233,304 recoverable for the 2007 tax year was non-admitted because the collectability of this balance is uncertain. The balance has been outstanding for over one year since it was recorded in December 2008. The Company initially stated that the recoverable was uncollectible since it was attributable to a time period prior to Aetna's ownership of Missouri Care. The Company later reversed its explanation and stated that it plans to initiate the settlement process for this component. Second, the payable of $239,106 for the 2008 tax year was reduced by $190,094 due to an overstatement of the incurred federal tax expense for 2008. Missouri Care recorded a prior period adjustment of $190,094 in the 2009 Annual Statement to correct for this overstatement. Finally, the unreconciled balance of $160,083 was non-admitted since the Company could not provide any evidence that a valid and collectible asset supports this amount.

An examination change was made to increase the FIT payable by a net amount of $203,293 for the items in the preceding paragraph. The resulting examination balance of $642,675 represents the actual payments made by Missouri Care to Aetna in 2009 for the 2007 and 2008 tax years.

Examination Changes

Capital and Surplus Per Company, December 31, 2008:	
Common Capital Stock	$ 1,000
Gross Paid In and Contributed Surplus	10,499,000
Surplus Notes	10,877,101
Unassigned Funds (Surplus)	(11,296,141)
Total Capital and Surplus Per Company	**$10,080,960**
Examination Changes:	
Decrease Net Deferred Tax Asset	($ 536,866)
Increase Federal Income Tax Liability	(203,293)
Total Examination Changes	($ 740,159)
Capital and Surplus Per Examination, December 31, 2008:	
Common Capital Stock	$ 1,000
Gross Paid-in and Contributed Surplus	10,499,000
Surplus Notes	10,877,101
Unassigned Funds (Surplus)	(12,036,300)
Total Capital and Surplus Per Examination	**$ 9,340,801**

General Comments and/or Recommendations

Income Taxes (page 17)

The accrued liability for Federal Income Taxes Payable was deficient by $203,293 due to numerous problems in the overall accounting process for income taxes. Although this variance represented only 2% of capital and surplus, the underlying issues need to be addressed by management.

Aetna's tax department provided a series of confusing attempts to reconcile the FIT payable that was reported in the 2008 Annual Statement. However, the Company ultimately could not reconcile the FIT payable, due to an unidentified balance of approximately $160,000. This unknown balance also existed for the FIT recoverable that was reported in the 2009 Annual Statement. The Company should fully investigate the unknown balance and either request payment from Aetna, if a valid receivable exists, or write-off the balance. The Company should also implement a reconciliation process on at least a quarterly basis to identify all components of the FIT recoverable or payable balance.

It was extremely difficult to understand the various tax amounts in the supporting workpapers that were provided during the examination. The practice of combining multiple tax years in the reconciliation process led to most of the confusion. A tax payment for one tax year was combined with the payment of the subsequent tax year, in some instances. The Company had difficulty identifying and explaining the applicable tax year for certain tax payments. Further, Missouri Care never completely settles any given tax year. Missouri Care's receivable or payable balance at the end of one tax year is rolled into the activity of the next tax year. Income tax transactions between Missouri Care and Aetna should be segregated and reconciled on an individual tax year basis. Tax payments from Missouri Care to Aetna should be separated for each tax year. A final settlement should be made to "zero out" each tax year.

There appears to be a control weakness at the Missouri Care entity level due to an inability to verify the accuracy of tax payments and tax recoverable / payable balances. Intercompany tax bills and tax accounting entries are calculated by Aetna tax department personnel and supplied to accounting personnel in Missouri Care's main office in Columbia, Missouri. Payments to Aetna and journal entries are then initiated by the Columbia, Missouri office without any crosschecks or recalculations to ensure that the amounts calculated and billed by Aetna are correct. The Company's management was apparently unaware of tax recoverable balances of nearly $400,000 due to Missouri Care from Aetna that remained stagnant for well over one year. Accounting personnel in Missouri Care's Columbia, Missouri office should verify the accuracy of each tax payment billed by Aetna and review the accuracy of quarterly tax reconciliations. These controls should be established to detect any errors or unknown amounts that may occur in the future.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Care, Incorporated during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, Larry Kleffner, CFE and Timothy Carroll, examiners for the Missouri DIFP, participated in this examination. Karen Elsom, FCAS, MAAA, of Lewis & Ellis, LLC, also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of Moniteau)

I, Tim L. Tunks, 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 Missouri Care, Incorporated, 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.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 3rd day of May, 2010.

My commission expires: 10-24-13

Kathy J. Gerlach
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KATHY J. GERLACH
My Commission Expires
October 24, 2013
Moniteau County
Commission #09401103

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP

Missouri Care
AN AETNA HEALTH PLAN

June 21, 2010

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Mary Jo Hudson, Director
Ohio Department of Insurance
Secretary, 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, Missouri 65101

Ladies and Gentlemen:

Please find the Missouri Care response to the 2008 Financial Examination. We have bulleted our response to each point under each appropriate heading for your reference.

Summary of Significant Findings:

- The company could not fully reconcile the federal income tax payable that was reported in the 2008 Annual Statement, due to amounts of unknown origin totaling $160,063.

We disagree. The company has fully reconciled the federal income tax payable amounts. The amount referenced above reflects a timing variance from the company's current estimate to the audited financial statements. The company is working to address the variance and anticipates a reconciling adjustment in 2010.

- The supporting work papers for tax balances were confusing and there was extreme difficulty in segregating tax payments by each applicable tax year. The company fails to fully settle or "zero out" any tax year. A continuous rolling balance approach is used, which creates difficulties in the understanding of tax reconciliations.

We disagree. The company does completely settle each tax year. Payments are segregated and reconciled on an individual tax year basis as demonstrated by the year-over-year roll forward schedule provided by the company. We disagree that our internal work papers are confusing and with the implication that they are inaccurate.

- A control deficiency exists from the lack of oversight by accounting personnel in Missouri Care's Columbia, Missouri office to verify the accuracy of taxes billed and other accounting information supplied by Aetna's tax department. Management was apparently unaware of tax recoverable balances of nearly $400,000 due to Missouri Care from Aetna that remained stagnant for well over one year.

We disagree. As an Aetna affiliate, the company is supported by various areas with specific technical experience, including tax services. The process and controls for calculating tax provisions under the tax sharing agreement are maintained by experts in this centralized department. These processes and controls are subject to external review, which have not identified deficiencies.

Accounting personnel in Columbia, Missouri coordinate accounting and reporting activities for Missouri Care, including the reporting of Missouri Care tax obligations with the tax department. The amounts reported by the accounting personnel in Missouri Care's Columbia, Missouri office were consistent with the calculated tax obligations of the company.

Comments on Financial Statements:

- Net Deferred Tax Asset (DTA) - $381,899. An examination change was made to decrease the net DTA by $536,866 due to errors in the Company's calculation of the reported net DTA. Use of 5-year amortization schedule vs. 15-year was the main error.

Agreed, the correction was made in 2009.

- Federal Income Taxes (FIT) Payable - $642,675. An examination change was made to FIT payable of $203,293, which totals actual payments made by Missouri Care to Aetna in 2009 for the 2007 and 2008 tax years.

Recoverable for 2007 Tax Year (Feb. 1, 2007 to July 31, 2007)	$ (233,304)
Payable for 2007 Tax Year (Aug. 1, 2007 to Dec. 31, 2007)	$ 593,633
Payable for 2008 Tax Year	$ 239,106
Unreconciled Amounts	$ (160,083)
Net Reported FIT Payable at December 31, 2008	$ 439,352

Regarding the $233,304 adjustment for tax year 2007, we believe this amount is collectible and the company plans to initiate the settlement process for this component in June 2010. While we agree that the amount should be excluded from the statutory basis financial statements, the exclusion is due to the extended timing of its settlement, not doubt with collectability of the amount. We are in process of resolving this timing issue and anticipate a reconciling adjustment 2010.

Regarding the $160,083 adjustment, we agree with the exclusion of this amount from the statutory basis financial statements due to the timing of its settlement. We are in process of resolving this timing issue and anticipate a reconciling adjustment 2010.

General Comments and/or Recommendations:

- The company should fully investigate the unknown balance and either request payment from Aetna, if a valid receivable exists or write-off the balance.

As indicated during the review process we are completing the reconciliation and anticipate resolution in June 2010.

- The company should also implement a reconciliation process on at least a quarterly basis to identify all components of the FIT recoverable or payable balance.

As indicated during the review process, we do not believe a quarterly reconciliation process is appropriate or of benefit to the company. Per the tax sharing agreement, quarterly installments and the final tax return are settled within 90 days of the date of each tax filing. Reconciliations to these amounts are completed annually as appropriate information is available.

- Income tax transactions between Missouri Care and Aetna should be segregated and reconciled on an individual tax year basis.

As indicated during the review process, transactions are segregated and reconciled annually.

- Tax payments from Missouri Care to Aetna should be separated for each tax year.

As indicated during the review process, transactions are segregated and reconciled annually.

- A final settlement should be made to "zero out" each tax year.

As indicated during the review process, transactions are segregated and reconciled annually, so in the future, settlements should not be necessary.

- Accounting personnel in Missouri Care's Columbia, Missouri office should verify the accuracy of each tax payment billed by Aetna and review the accuracy of quarterly tax reconciliations.

We disagree. As an Aetna affiliate, the company is supported by various areas with specific technical experience, including tax services. The process and controls for calculating tax provisions under the tax sharing agreement are maintained by experts in this centralized department.

Accounting personnel in Missouri Care's Columbia, Missouri coordinate accounting and reporting activities with the company's tax department.

- These controls should be established to detect any errors or unknown amounts that may occur in the future.

We believe appropriate controls are currently in place.

Should you have any additional questions, please find my contact information below.

Sincerely,

Brian K. Fischer
Chief Financial Officer and Treasurer
4645 E. Cotton Center Blvd.
Phoenix, AZ 85040
FischerB@Aetna.com
(602) 659-2048