



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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In the Matter of:

PROPOSED ACQUISITION OF CONTROL OF

AETNA LIFE INSURANCE COMPANY, ET AL.

Docket No. EX18-03

by

CVS HEALTH CORPORATION
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ORDER

I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, having read the record in the above-captioned matter, do hereby adopt the findings and recommendations of Timothy Curry, Hearing Officer, which are contained in the attached Proposed Final Decision, dated October 17, 2018, and issue the following order, TO WIT;

1. The Application of the Applicant in which it seeks approval to acquire control of the Domestic Insurers is hereby approved.
2. Approval of the Application is contingent upon the successful completion of the Divestiture under the terms set forth in the Application. The Applicant shall provide the Department with written confirmation and details concerning the closing of the Divestiture.
3. The Applicant and each of the Domestic Insurers shall conduct their operations consistent with the representations, disclosures and commitments as set forth in the record of this proceeding and proposed final.
4. The Applicant shall provide the Department with written confirmation of the consummation of the acquisition of control by the end of the calendar month in which the acquisition takes place.

5. The Applicant shall provide the Department with written details of the final purchase price after all adjustments used to complete the acquisition.

6. Within fifteen (15) days following the end of the calendar month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

7. For the two (2) year period following the closing date of the Proposed Acquisition, prior approval of the Commissioner will be required with respect to any dividend paid by any of the Domestic Insurers, whether regular, extraordinary or otherwise.

8. In addition to the quarterly filing requirements set forth in bullets two and three of the CVS Health Corporation Commitment Letter executed on October 3, 2018, for the period of two (2) years, the Applicant shall file semiannually with the Department, commencing six (6) months from the closing date of the Proposed Acquisition, a report under oath of its business operations in Connecticut, including, but not limited to, integration process, any change of business of any of the Domestic Insurers including Connecticut employment, and notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and any of the Domestic Insurers.

9. Within thirty (30) days following the end of the calendar month in which the Proposed Acquisition is consummated, the Applicant shall request that the Commissioner waive the requirements set forth in General Statutes § 38a-136 (i) (1) with respect to the Domestic Insurers undergoing a financial examination and a market conduct examination.

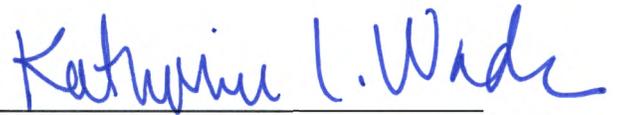
10. The Applicant shall at all relevant times abide by each and every commitment set forth in the CVS Health Corporation Commitment Letter executed by Thomas

Moriarty, Executive Vice President, Chief Policy and External Affairs Officer and General Counsel of CVS Health Corporation, on October 3, 2018.

11. If the Proposed Acquisition is not closed within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Acquisition, the Applicant shall submit to the Commissioner a statement, which shall include (i) the reason for the Applicant's inability to consummate the Proposed Acquisition; (ii) any material changes in the information contained in the Application; and (iii) the current financial statements of the Applicant and the Domestic Insurers.

12. The Applicant shall promptly pay all expenses incurred by the Commissioner in connection with the Department's review of the Application pursuant to General Statutes § 38a-132 (c), including without limitation all costs in connection with retaining expert witnesses and the conduct of the public hearing.

Dated at Hartford, Connecticut, this 17th day of October, 2018.



Katharine L. Wade
Katharine L. Wade
Insurance Commissioner



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PROPOSED FINAL DECISION

I. INTRODUCTION

CVS Health Corporation ("Applicant") seeks the approval of the Insurance Commissioner of the State of Connecticut for the proposed acquisition of control ("Proposed Acquisition") of Aetna Life Insurance Company, Aetna Insurance Company of Connecticut, Aetna Health and Life Insurance Company, Aetna Health Inc. (a Connecticut Corporation), and Aetna Better Health Inc. (a Connecticut Corporation) (collectively, "Domestic Insurers") pursuant to an Amended and Restated Form A dated September 27, 2018 ("Application") filed with the Connecticut Insurance Department ("Department") in accordance with General Statutes § 38a-130 and section 38a-138-6 of the Regulations of Connecticut State Agencies. Aetna Life Insurance Company and Aetna Health and Life Insurance Company are direct, while Aetna Insurance Company of Connecticut, Aetna Health Inc. (a Connecticut Corporation), and Aetna Better Health Inc. (a Connecticut Corporation) are indirect, wholly owned subsidiaries of, and controlled by, Aetna Inc. ("Aetna") which is a publicly traded Pennsylvania holding company for various insurance companies, health maintenance and dental maintenance organizations and related organizations.

The Proposed Acquisition will be effected pursuant to the terms of the Agreement and Plan of Merger dated as of December 3, 2017 ("Merger Agreement"), by and among the Applicant and Aetna.

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The Insurance Commissioner (“Commissioner”), is required by General Statutes § 38a-132 and section 38a-138-6 of the Regulations of Connecticut State Agencies to hold a public hearing on the Proposed Acquisition of the Domestic Insurers within thirty (30) days after the Commissioner determines that the Application is complete in all respects. In this regard, the Department staff reviewed the original Form A dated January 17, 2018 and thereafter requested the Applicants to file supplemental information. On August 13, 2018 the Applicant filed an Amended and Restated Form A and later on September 27, 2018, the Applicant filed a Second Amended and Restated Form A (*i.e.*, the Application) with the Department which amends and restates portions of the original Form A text, incorporates previously filed exhibits, and includes certain new and revised exhibits.

Based on a determination that the Form A filing was substantially complete, the Commissioner issued a notice of public hearing dated August 15, 2018, in which she ordered that the public hearing be held on September 12, 2018 concerning the application for approval of the Proposed Acquisition of the Domestic Insurers. On September 4, 2018, the Commissioner ordered that the hearing be continued to October 4, 2018. The hearing notice was subsequently published in the *Hartford Courant*, once a week for two consecutive weeks. The notices of hearing were also filed by the Department with the Office of the Secretary of the State on August 17, 2018 and September 7, 2018 and were published on the Department’s internet website. In accordance with section 38a-8-48 of the Regulations of Connecticut State Agencies, the Applicant and the Domestic Insurers were designated as parties to this proceeding.

On August 20, 2018, the Commissioner appointed the undersigned to serve as Hearing Officer in this proceeding.

On October 4, 2018, the public hearing on the Proposed Acquisition of the Domestic Insurers by the Applicant was held before the undersigned.

Timothy Farber, Esq. and Steven Whitmer, Esq. of Locke Lord, LLP, represented the Applicant. Testifying at the public hearing on behalf of the Applicant were the following: Tom Moriarty, Executive Vice President, Chief Policy and External Affairs Officer, and General Counsel; Florence Crisp, Senior Legal Counsel; Carol DeNale, Senior Vice President and Treasurer; Colleen McIntosh, Senior Vice President, Corporate Secretary and Assistant General Counsel; Mario Ramos, Senior Vice President Finance, COO/CFO Aetna Integration; and Sharon Vitti, Senior Vice President and Executive Director.

Daniel Krane, Esq. of Drinker Biddle & Reath, LLP and Steven Lauwers, Esq. of Rath Young & Pignatelli, P.C., represented the Domestic Insurers. Testifying at the

public hearing on behalf of the Domestic Insurers were the following: Karen Lynch, President; Paul Wingle, Vice President of Operations, Product & Technology; and Heather Dixon, Vice President - Controller, Chief Accounting Officer.

The following Department staff participated in the public hearing: Paul Lombardo, Director of Life & Health, Kathy Belfi, Director of Financial Regulation, Lynn Hein, Insurance Supervising Examiner and Jared Kosky, Esq., Counsel to the Insurance Department.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments on the Application with respect to the issues to be considered by the Commissioner. In this regard, a total of forty-two (42) written comments on the Application were submitted and eight (8) persons provided oral comment at the public hearing.

II. FINDINGS OF FACT

After reviewing the exhibits entered into record of this proceeding, and based on the written and oral testimony of the witnesses, the undersigned makes the following findings of facts:

1. The Applicant is a Delaware corporation with a business address of One CVS Drive, Woonsocket, RI 02895. The Applicant is a pharmacy health care company whose stock is traded on the New York Stock Exchange.
2. Aetna Life Insurance Company and Aetna Health and Life Insurance Company are direct, while Aetna Insurance Company of Connecticut, Aetna Health Inc. (a Connecticut Corporation), and Aetna Better Health Inc. (a Connecticut Corporation) are indirect, wholly owned subsidiaries of, and controlled by, Aetna Inc. ("Aetna") which is a publicly traded Pennsylvania holding company for various insurance companies, health maintenance and dental maintenance organizations and related organizations.
3. Each of the Domestic Insurers' principal place of business is 151 Farmington Avenue, RW61, Hartford, CT 06156. As of October 1, 2018, Aetna employed approximately 5,291 people located in Connecticut.
4. Aetna Life Insurance Company ("ALIC") is a Connecticut-domiciled life, accident and health insurance company and is a direct, wholly-owned subsidiary of Aetna. ALIC has been writing insurance since 1850 and is currently licensed to write accident and health, reinsurance, life participating and non-participating, variable

- life participating and non-participating and variable annuities in Connecticut. ALIC currently offers health and large case pension products, however, Aetna recently sold substantially all of the group insurance business written by ALIC. ALIC is licensed in all 50 states, the District of Columbia and the four US territories.
5. Aetna Insurance Company of Connecticut ("AICC") is a Connecticut-domiciled property-casualty insurance company and is an indirect, wholly-owned subsidiary of Aetna. AICC has been writing insurance since 1990 and is currently licensed to write all property-casualty lines of business and reinsurance in Connecticut. AICC is not currently writing any business in Connecticut. AICC is licensed in all 50 states and the District of Columbia.
 6. Aetna Health and Life Insurance Company ("AHLIC") is a Connecticut-domiciled life, accident and health insurance company and is an indirect, wholly-owned subsidiary of Aetna. AHLIC has been writing insurance since 1971 and is currently licensed to write accident and health, reinsurance and life non-participating insurance in Connecticut. AHLIC writes Medicare supplement business in Connecticut. AHLIC is licensed in 49 states (excludes New York) and the District of Columbia.
 7. Aetna Health Inc. (A Connecticut Corporation) ("AHI") is a Connecticut-domiciled health maintenance organization and is a direct, wholly-owned subsidiary of Aetna. AHI has been writing insurance since 1987 and currently writes commercial accident and health insurance as well as Medicare business in Connecticut only. AHI is not licensed in any state other than Connecticut.
 8. Aetna Better Health Inc. (A Connecticut Corporation) ("ABH") is a Connecticut-domiciled health maintenance organization and is a direct, wholly-owned subsidiary of Aetna. ABH began writing Medicaid business in 2008 but is not currently writing business in Connecticut and is not licensed in any other state.
 9. Under the terms of the Merger Agreement, dated as of December 3, 2017, the Applicant would acquire control of Aetna, with Aetna becoming an indirect wholly-owned subsidiary of the Applicant and direct wholly-owned subsidiary of CVS Pharmacy, Inc. ("CVS Pharmacy"), a Rhode Island corporation which is a direct wholly-owned subsidiary of the Applicant.
 10. Following the closing of the proposed transaction, the Applicant would become the ultimate parent company of, and thus control, Aetna and the Domestic Insurers.

11. As described in the Merger Agreement, Aetna shareholders will be entitled to receive, for each Aetna common share they own immediately prior to consummation of the proposed transaction, \$145.00 per share in cash and 0.8378 of a share of common stock in the Applicant. Based on the volume weighted average price of shares of the Applicant's common stock during the five-day period ending December 1, 2017, the last trading day prior to public announcement of the execution of the Merger Agreement, the Applicant values Aetna at approximately \$207 per share or approximately \$69 billion in the aggregate. Including the assumption of Aetna's debt, the total value of the proposed transaction is \$77 billion. Upon closing, Aetna shareholders will own approximately 22% of the combined company and the Applicant's shareholders will own approximately 78%.
12. The Applicant will fund the cash portion of the proposed transaction through a combination of existing cash on hand and debt financing. On December 3, 2017, the Applicant entered into a bridge facility commitment letter (the "Commitment Letter") providing a senior unsecured 364-day term loan facility in an aggregate principal amount of \$49 billion to finance the acquisition pursuant to the Merger Agreement. On December 15, 2017, the Applicant executed and delivered a joinder agreement (the "Commitment Letter Joinder") to the Commitment Letter, which amended the Commitment Letter to add additional commitment parties. On December 15, 2017, the Applicant entered into a Term Loan Agreement providing for total term loan commitments in an aggregate principal amount of \$5 billion and reduced the \$49 billion bridge facility commitments under the Commitment Letter by such \$5 billion principal amount.
13. Following the closing of the proposed transaction, the Domestic Insurers will maintain their separate corporate existence and will be indirect wholly-owned subsidiaries of the Applicant. No specific material changes in the Board of Directors or senior management or operations of the Domestic Insurers are currently planned by the Applicant as part of the proposed transaction or immediately after, other than to replace any current Board members or employees who may resign following the closing of the proposed transaction.
14. Following are the names and titles of the respective executive officers and directors of the Applicant:

Executive Officers

Name:	Position:
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Larry Merlo	President and Chief Executive Officer
David Denton	Executive Vice President and Chief Financial Officer
Thomas Moriarty	Executive Vice President, Chief Policy and External Affairs Officer, and General Counsel
Colleen McIntosh	Senior Vice President, Corporate Secretary and Assistant General Counsel
Jonathan Roberts	Executive Vice President and Chief Operating Officer
Troyen Brennan, M.D.	Executive Vice President and Chief Medical Officer
Eva Boratto	Executive Vice President, Controller and Chief Accounting Officer

Directors

Name:	Position:
David Dorman	Director (Chairman)
Richard Bracken	Director
C. David Brown II	Director
Alecia DeCoudreaux	Director
Nancy-Ann DeParle	Director
Anne Finucane	Director
Larry Merlo	Director
Jean-Pierre Millon	Director
Mary Schapiro	Director
Richard Swift	Director
William Weldon	Director
Tony White	Director

15. The biographical affidavits of the members of the board of directors and officers of the Applicant included in the record of this proceeding and the files of the Department describe each individual's educational background, professional credentials, and employment history, and attests to the competence, experience and integrity of those individuals who would control the operation of the Applicant and indirectly the Domestic Insurers after the acquisition.

16. All of the directors of Aetna will resign at the time of the closing. Three of those directors, Mark Bertolini and two others who are as yet to be determined, will join the Board of Directors of the Applicant. At the time of the closing the following individuals are expected to be named directors of Aetna: Karen Lynch, Shawn Guertin and Harold Paz, M.D. Ms. Lynch will become Chair of the Board of Aetna.¹
17. With regards to the officers of Aetna, each of the individuals who are currently officers will remain officers of Aetna post-closing, except for Mark Bertolini and Thomas Sabatino, Jr. A list of the current executive officers of the Domestic Insurers is set forth in Exhibit 25 of the Application.
18. The biographical affidavits of the directors and officers of the Domestic Insurers included in the record of this proceeding and the files of the Department describe each individual's educational background, professional credentials, and employment history, and attests to the competence, experience and integrity of those individuals who would control the operation of the Domestic Insurers after the Proposed Acquisition.
19. The Applicant represents that on September 26, 2018, Aetna entered into an agreement to sell its entire standalone Medicare Part D prescription drug plan ("PDP") business to a subsidiary of WellCare Health Plans, Inc. (the "Divestiture") effective 11:59 p.m. on December 31, 2018. The Divestiture includes a CMS PDP contract held by Aetna Life Insurance Company and a CMS PDP contract held by First Health Life & Health Insurance Company, a non-domestic insurer. Each of these contracts includes Medicare beneficiaries residing in Connecticut.
20. The Applicant represents that it has no present plans or proposals following the closing of the proposed transaction to cause the Domestic Insurers to declare any extraordinary dividend, to liquidate the Domestic Insurers, to sell any material portion of the assets of the Domestic Insurers, to merge them with any other person or persons or to make any other material change in the Domestic Insurers' business, corporate structure, management or general plan of operations.
21. The Applicant has committed to comply with all requirements under applicable law relating to retention of the Domestic Insurers' books and records within the State

¹Following the closing of the record, the Applicant provided the Department with updates concerning Shawn Guertin and the board of directors of the Applicant.

and will remain in compliance with the Insurance Department Bulletin FS-2 concerning custody of securities.

22. On October 3, 2018, Thomas Moriarty, Executive Vice President, Chief Policy and External Affairs Officer and General Counsel of the Applicant, executed, on behalf of the Applicant, the CVS Health Corporation Commitment Letter which is included in the record of this proceeding as Exhibit 53 of the public hearing.
23. As represented by the Applicant, Aetna currently beneficially owns directly and indirectly 100% of the issued and outstanding voting securities of the Domestic Insurers. Neither Applicant, its affiliates nor any person identified on Exhibits 7A-7B of the Application currently beneficially owns any voting securities of the Domestic Insurers or, except as contemplated by the Merger Agreement, has any right to acquire beneficial ownership of any voting security issued by the Domestic Insurers.
24. As represented by the Applicant, the Merger Agreement contemplates that immediately following the proposed transaction, the Applicant indirectly will own 100% of the capital stock of the Domestic Insurers. Other than as contemplated by the Merger Agreement, there are no contracts, arrangements or understandings, whether oral or written, with respect to any voting security issued by the Domestic Insurers in which the Applicant, any affiliate of the Applicant or any person identified on Exhibits 7A-7B of the Application is involved.
25. As represented by the Applicant, there has been no acquisition, direct or indirect, during the twelve (12) calendar months preceding the filing of the Application of any voting securities of the Domestic Insurers by the Applicant, its affiliates or any person identified on Exhibits 7A-7B of the Application.
26. As represented by the Applicant, neither the Applicant, its affiliates, any person identified on Exhibits 7A-7B of the Application, nor anyone else based upon interviews or at the suggestion of the Applicant, its affiliates or any person identified on Exhibits 7A-7B of the Applicant, made any recommendations to purchase any voting security of the Domestic Insurers during the twelve (12) calendar months preceding the filing of the Application.
27. As represented by the Applicant, neither the Applicant nor any of its affiliates nor any person identified on Exhibits 7A-7B of the Application has or will have any contract, understanding or agreement with any broker-dealers as to the solicitation of any voting security for tender issued by the Domestic Insurers.

III. DISCUSSION

The Insurance Commissioner is required to approve the Proposed Acquisition unless, after a public hearing, she finds that the proposed acquisition of control of the Domestic Insurer would result in any of the conditions set forth in General Statutes § 38a-132 (a) (1) through (6). These conditions will be addressed in turn.

(1) After the change of control, the Domestic Insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of business for which it is presently licensed.

General Statutes § 38a-132 (a) (1) requires the Domestic Insurers to satisfy the requirements for the issuance of licenses to write the line or lines of business for which they are presently licensed following the proposed acquisition of control. The Domestic Insurers are currently licensed pursuant to General Statutes § 38a-41 and satisfy the requirements for the issuance of a license to write the lines of business for which they are licensed. The Applicant, through testimony and submissions, indicates that it has no plans that would alter the Domestic Insurers' ability to continue to meet those licensure requirements as there are no material plans to change their operations, corporate structure or management. The Applicant did note through testimony that that there will be two individuals who will resign from Aetna Life Insurance Company, Mark Bertolini and Thomas Sabatino, Jr., as a result of the transaction but that the Applicant has a robust compliance program to ensure that each Domestic Insurer operates at the highest levels of business standards.

In addition to the criteria set forth in General Statutes § 38a-72, the Department considers the location of the company's books, records and assets, and the management of the company when evaluating an insurer's ability to operate in this state pursuant to § 38a-41. The Applicant, through testimony and submissions, has confirmed that each Domestic Insurer's books and records will remain in in Connecticut pursuant to General Statutes § 38a-57 and the Applicant confirmed it will cause each Domestic Insurer to remain in compliance with Insurance Department Bulletin No. FS-2 with respect to custody arrangements for securities.

As noted in the findings of fact, the Applicant represents that it has no present plans or proposals following the closing of the proposed transaction to cause the Domestic Insurers to declare any extraordinary dividend, to liquidate the Domestic

Insurers, to sell any material portion of the assets of the Domestic Insurers, to merge them with any other person or persons or to make any other material change in the Domestic Insurers' business, corporate structure, management or general plan of operations. Furthermore, based on the information contained in the biographical affidavits for the directors and officers of the Applicant, the competence, experience and integrity of the individuals who will be responsible for the governance and operation of the Domestic Insurers following the consummation of the proposed transaction, are such that the safe and expert operation of the Domestic Insurers will continue following the Proposed Acquisition.

Accordingly, the undersigned hereby finds that the evidence contained in the record supports a finding that the Domestic Insurers will be able to satisfy the requirements for the issuance of the necessary license of insurers for which they are presently licensed following completion of the Proposed Acquisition of control.

(2) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut.

General Statutes § 38a-132 (a) (2) requires that the proposed transaction neither substantially lessen competition nor create a monopoly in Connecticut. In evaluating the effect of the Proposed Acquisition on competition in Connecticut, the Commissioner is required by General Statutes § 38a-132 (a) (2) (A) to consider the information required under General Statutes § 38a-131 (c) (1) and the considerations specified in General Statutes § 38a-131 (d) (1). In this regard, the Commissioner must consider the percentages of market shares the involved insurers possess and the market in which such insurers compete, as set forth in § 38a-131 (d) (1). If certain quantitative criteria are met, then there is *prima facie* evidence that the competitive standard has been violated. (See § 38a-131 (d) (1)).

General Statutes § 38a-131 (d) (2) defines "market" as the relevant product and geographical markets. In determining the relevant product and geographical markets, § 38a-131 (d) (2) specifies that in the absence of sufficient information to the contrary, the relevant product market shall be the direct written insurance premium for a line of business as used in the annual statement insurers doing business in this state are

required to file with the Commissioner, and the relevant geographical market shall be Connecticut.

With the exception of PDPs, for business lines defined by the National Association of Insurance Commissioners ("NAIC") and reported in the Applicant's subsidiaries and Domestic Insurers' annual statements there is no competitive overlap in Connecticut and, as such, the proposed transaction will not result in any increase in the share or concentration in any reported line of business.

With regard to PDPs, there currently is competitive overlap among the parties. However, through testimony² and submissions, the Applicant states that Aetna has entered into an agreement to sell its standalone PDP business to a subsidiary of WellCare Health Plans, Inc. (*i.e.*, the Divestiture). The Divestiture includes a CMS PDP contract held by Aetna Life Insurance Company and a CMS PDP contract held by First Health Life & Health Insurance Company. Each of these contracts includes Medicare beneficiaries residing in Connecticut. As a result of the Divestiture, the Applicant's share of individual PDP members in Connecticut will be unchanged following consummation of the proposed transaction. Under the Divestiture, there will be no change until the 2020 plan year for Aetna Life Insurance Company or First Health Life & Health Insurance Company standalone PDP members.³

Accordingly, the undersigned hereby finds that, based on the evidence contained in the record of this proceeding, the effect of the acquisition of control of the Domestic Insurers by the Applicant will not substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut. This finding is contingent upon the successful completion of the Divestiture under the terms set forth by the Applicant through testimony and submissions.

(3) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of its policyholders.

²See Hrg. Transcr. 59:20-25 (Oct. 4, 2018).

³The U.S. Department of Justice announced on October 10, 2018 that it is requiring CVS Health Corporation (CVS) and Aetna Inc. (Aetna) to divest Aetna's Medicare Part D prescription drug plan business for individuals in order to proceed with their merger.

General Statutes § 38a-132 (a) (3) requires that the financial condition of any acquiring company be in sufficiently sound financial condition so as not to jeopardize the financial stability of the Domestic Insurers or prejudice the interests of its' policyholders.

Florence Crisp testified that the financial condition of the Applicant will provide a significant foundation for [the] Domestic Insurers. CVS as the Applicant reported net income of \$6.6 billion and net revenues of \$185 billion in 2017. Concerning the debt that the Applicant will incur as a result of the proposed transaction, Ms. Crisp testified that the debt will not impact the Domestic Insurers as it is held at the CVS Health Corporation level and the Domestic Insurers are not obligors or obligated in any way with respect to the debt and there are no plans to effect any dividends at the Domestic Insurers level that would impact their financial stability.⁴

The Applicant and Aetna have committed to suspend their respective share repurchase programs following the Proposed Acquisition. In recent years, the Applicant has repurchased \$5-\$6 billion worth of shares. In addition, the Applicant has suspended increases in its shareholder dividends. Both Applicant's shares repurchase program and any plan to increase shareholder dividend will remain suspended until the leverage ratio (debt to equity ratio) reaches the low 3x range. The Application notes that the combined entity will generate \$8-\$9 billion of cash annually, which will be used to service debt after the payment of the regular shareholder dividend (which for the combined company is estimated to be \$2.6 billion). The Applicant anticipates reaching a leverage ratio of the mid 3x by the end of the second year following the acquisition close date.

Based on the information entered into the record of this proceeding, including the Application and the testimony of Florence Crisp, the undersigned hereby finds that there is no evidence indicating that the financial condition of the Applicant might jeopardize the financial condition of the Domestic Insurers, or prejudice the interests of its policyholders.

(4) The plans or proposals of the acquiring party to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or make any other material change in the business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest.

⁴See Hrg. Transcr. 60:6-22 (Oct. 4, 2018).

General Statutes § 38a-132 (a) (4) requires that the acquiring party not be contemplating any material changes in the business of the Domestic Insurers that would be unfair and unreasonable to policyholders, or otherwise would not be in the public interest.

The testimony of Florence Crisp states that the Applicant does not have any such plans other than the resignations of Mark Bertolini and Thomas Sabatino, Jr., with Karen Lynch taking over the responsibilities of Mr. Bertolini.⁵

As stated in the Application, the Applicant has no present plans or proposals following the closing of the Proposed Acquisition to cause any of the Domestic Insurers to declare any extraordinary dividend, to liquidate any of the Domestic Insurers, to sell any material portion of the assets of any of the Domestic Insurers, to merge any of them with any other person or persons or to make any other material change in any of the Domestic Insurers' business, corporate structure, management or general plan of operations. Each of the Domestic Insurers will ultimately be part of the CVS Health group post-closing and the operational philosophy at the Aetna group level is not anticipated to change. Following the closing of the proposed transaction, each of the Domestic Insurers will maintain their separate corporate existence and will be indirect wholly-owned subsidiaries of the Applicant.

Accordingly, based on the information entered into the record of this proceeding, the undersigned hereby finds that there are no plans or proposals for any material change to any of the Domestic Insurers that are unfair and unreasonable to policyholders of the Domestic Insurers or not in the public interest.

(5) The competence, experience and integrity of those persons who would control the operation of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurer and of the public to permit the merger or other acquisition of control.

General Statutes § 38a-132 (a) (5) requires that the competence, experience and integrity of those persons who would control the operation of each of the Domestic Insurers post-acquisition be of sufficient quality so as not to be prejudicial or contrary to the interests of the policyholders and of the public. The record includes the biographical

⁵See Hrg. Transcr. 61:14-18 (Oct. 4, 2018).

affidavits and third party reports of those individuals who serve as members of the board of directors and as officers of the Applicant. The biographical affidavits disclose each individual's education background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten (10) years, none of the directors or officers of the Applicant have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or state law regulating the business of insurance, securities or banking. During the last ten (10) years, none of the directors or officers of the Applicant have been the subject of any proceeding under the Federal Bankruptcy Code, or have been affiliated with a business or organization which has been subject to such proceeding.

Furthermore, no director or officer of the Applicant has had a revocation, suspension or disciplinary sanction imposed against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals.

Florence Crisp testified that the individuals who will be the officers and directors of the Applicant as well as the officers and directors of each of the Domestic Insurers are individuals of extreme competence, many years of experience, and, based on their records, operate at very high levels of integrity.⁶

Accordingly, the undersigned hereby finds that the competence, experience, and integrity of those persons who would control the operations of the Domestic Insurers after completion of the Proposed Acquisition are sufficient to indicate that the interests of policyholders of the Domestic Insurers and of the public will not be jeopardized by the Applicant's acquisition of control of the Domestic Insurers.

(6) The acquisition of control of the Domestic Insurer is likely to be hazardous or prejudicial to those buying insurance.

General Statutes § 38a-132 (a) (6) requires that any proposed acquisition not be hazardous or prejudicial to the insurance buying public. Based on the financial strength of the Applicant, the commitments contained within the Merger Agreement, the competence, experience and integrity of those persons who would control the operation of the Domestic

⁶See Hrg. Transcr. 62:3-8 (Oct. 4, 2018).

Insurers post-acquisition, the testimony procured at the public hearing from representatives of the Applicant and Domestic Insurers and the affirmation that the current plans of the Applicant for the Domestic Insurers will not disrupt any of the Domestic Insurers' current policyholders, the Proposed Acquisition is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, assuming compliance with the Applicant's CVS Health Corporation Commitment Letter, as set forth in the record, and with all of Connecticut's insurance statutes and regulations, the undersigned hereby finds that it is reasonable to conclude that the Proposed Acquisition is not likely to be hazardous or prejudicial to those buying insurance.

IV. RECOMMENDATION

Based on the foregoing findings of fact and discussion, the written and oral testimony and exhibits submitted to the Department, and the record of the October 4, 2018 public hearing, the undersigned hereby concludes that no condition justifying disapproval listed in General Statutes § 38a-132 (a) is present with respect to completion of the Proposed Acquisition. Accordingly, the undersigned recommends that the Commissioner find, pursuant to § 38a-132 (a) that after the Proposed Acquisition of control (i) the Domestic Insurers will be able to satisfy the requirements for the issuance of a license for the lines of business for which they are presently licensed; (ii) the effect of the acquisition of control will not substantially lessen competition of insurance in this state or tend to create a monopoly therein; (iii) the financial condition of the Applicant is not such as might jeopardize the financial stability of the Domestic Insurers or prejudice the interests of its policyholders; (iv) the Applicant's plans or proposals for the Domestic Insurers are not unfair and unreasonable to the policyholders of the Domestic Insurers and are in the public interest; (v) the competence, experience and integrity of the management of the Applicant and each of the Domestic Insurers are such that it would be in the interest of the policyholders of the Domestic Insurers and of the public to permit the Proposed Acquisition; and (vi) completion of the Proposed Acquisition is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, the undersigned recommends that the Commissioner issue the following orders:

1. The Application of the Applicant in which it seeks approval to acquire control of the Domestic Insurers is hereby approved.

2. Approval of the Application is contingent upon the successful completion of the Divestiture under the terms set forth in the Application. The Applicant shall provide the Department with written confirmation and details concerning the closing of the Divestiture.

3. The Applicant and each of the Domestic Insurers shall conduct their operations consistent with the representations, disclosures and commitments as set forth in the record of this proceeding and proposed final.

4. The Applicant shall provide the Department with written confirmation of the consummation of the acquisition of control by the end of the calendar month in which the acquisition takes place.

5. The Applicant shall provide the Department with written details of the final purchase price after all adjustments used to complete the acquisition.

6. Within fifteen (15) days following the end of the calendar month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

7. For the two (2) year period following the closing date of the Proposed Acquisition, prior approval of the Commissioner will be required with respect to any dividend paid by any of the Domestic Insurers, whether regular, extraordinary or otherwise.

8. In addition to the quarterly filing requirements set forth in bullets two and three of the CVS Health Corporation Commitment Letter executed on October 3, 2018, for the period of two (2) years, the Applicant shall file semiannually with the Department, commencing six (6) months from the closing date of the Proposed Acquisition, a report under oath of its business operations in Connecticut, including, but not limited to, integration process, any change of business of any of the Domestic Insurers including Connecticut employment, and notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and any of the Domestic Insurers.

9. Within thirty (30) days following the end of the calendar month in which the Proposed Acquisition is consummated, the Applicant shall request that the Commissioner

waive the requirements set forth in General Statutes § 38a-136 (i) (1) with respect to the Domestic Insurers undergoing a financial examination and a market conduct examination.

10. The Applicant shall at all relevant times abide by each and every commitment set forth in the CVS Health Corporation Commitment Letter executed by Thomas Moriarty, Executive Vice President, Chief Policy and External Affairs Officer and General Counsel of CVS Health Corporation, on October 3, 2018.

11. If the Proposed Acquisition is not closed within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Acquisition, the Applicant shall submit to the Commissioner a statement, which shall include (i) the reason for the Applicant's inability to consummate the Proposed Acquisition; (ii) any material changes in the information contained in the Application; and (iii) the current financial statements of the Applicant and the Domestic Insurers.

12. The Applicant shall promptly pay all expenses incurred by the Commissioner in connection with the Department's review of the Application pursuant to General Statutes § 38a-132 (c), including without limitation all costs in connection with retaining expert witnesses and the conduct of the public hearing.

Dated at Hartford, Connecticut, this 17th day of October, 2018.



Timothy Curry
Hearing Officer