

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of Aetna Health Inc. (A Connecticut Corporation) (the "Company") as of December 31, 2020, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

TO WIT:

1. I, Andrew N. Mais, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On April 28, 2022, the verified Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 26, 2022, the Company notified the Insurance Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.



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NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

“The secretary of the board of directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the commissioner, in writing, that a copy of the report or summary has been provided to each director.”

Please address the certification to the commissioner but send[ing] to the care/attention of William Arfanis, Division Director of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

“Not later than one hundred twenty days after receiving the report or summary, the chief executive officer or the chief financial officer of the entity examined shall present the report or summary to the entity's board of directors or similar governing body at a regular or special meeting.”

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 2nd day of June, 2022.



Andrew N. Mais
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF THE

**AETNA HEALTH INC. (A CONNECTICUT CORPORATION)
(NAIC #95935)**

AS OF

DECEMBER 31, 2020

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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April 28, 2022

The Honorable Andrew N. Mais
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, CT 06103

Dear Commissioner Mais:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has conducted a financial examination of the condition and affairs of:

AETNA HEALTH INC. (a Connecticut corporation)

(hereinafter referred to as the Company or AHI-CT), a capital stock corporation incorporated under the laws of the State of Connecticut and having its main administrative office located at 151 Farmington Avenue, Hartford, CT. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department) as of December 31, 2015. The current examination, which covers the subsequent five-year-period through December 31, 2020, was conducted virtually.

The current examination was conducted as part of a multi-state examination, in which the Department served as the lead state. As the lead state, the Department coordinated the examination of CVS Health Corporation (CVS Health) holding company comprised of fifty-nine (59) regulated entities domiciled in twenty-six (26) states (CVS Health Group). The coordinated examination not only provided information on each regulated entity individually but also provided a structure for regulators to understand and evaluate risks of CVS Health as a whole.

The other Connecticut domiciled entities examined concurrently were: Aetna Life Insurance Company (ALIC); Aetna Health and Life Insurance Company (AHLIC); Aetna Insurance Company of Connecticut (AICC); and Aetna Better Health Inc. (a Connecticut corporation) (ABH-CT).

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As part of the examination planning procedures, the Department reviewed the following materials from 2016 through 2020:

- Board of Director (Board) minutes and other committee minutes through the latest 2021 minutes;
- Statutory audit reports completed by the Company's independent certified public accountants, Ernst & Young LLP (E&Y);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;
- Documentation supporting Section 404 of the Sarbanes-Oxley Act of 2002;
- Annual Statements filed with the Department; and
- Reports of the Internal Audit Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, all of which indicated no material concerns with respect to financial condition or regulatory compliance.

Work papers prepared by E&Y, as of December 31, 2020, in connection with its annual audits were reviewed and relied upon to the extent deemed appropriate.

Lewis & Ellis, Inc. (L&E) was engaged by the Department to conduct a risk-focused actuarial analysis of the CVS Health Group's reserving, pricing and underwriting and liquidity risks.

Risk & Regulatory Consulting, LLC (RRC) was engaged by the Department to assist in the review of the CVS Health Group's information technology (IT) general controls.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurers surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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This examination report includes significant findings of fact, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.) are not included within the examination report but separately communicated to other regulators and/or the Company.

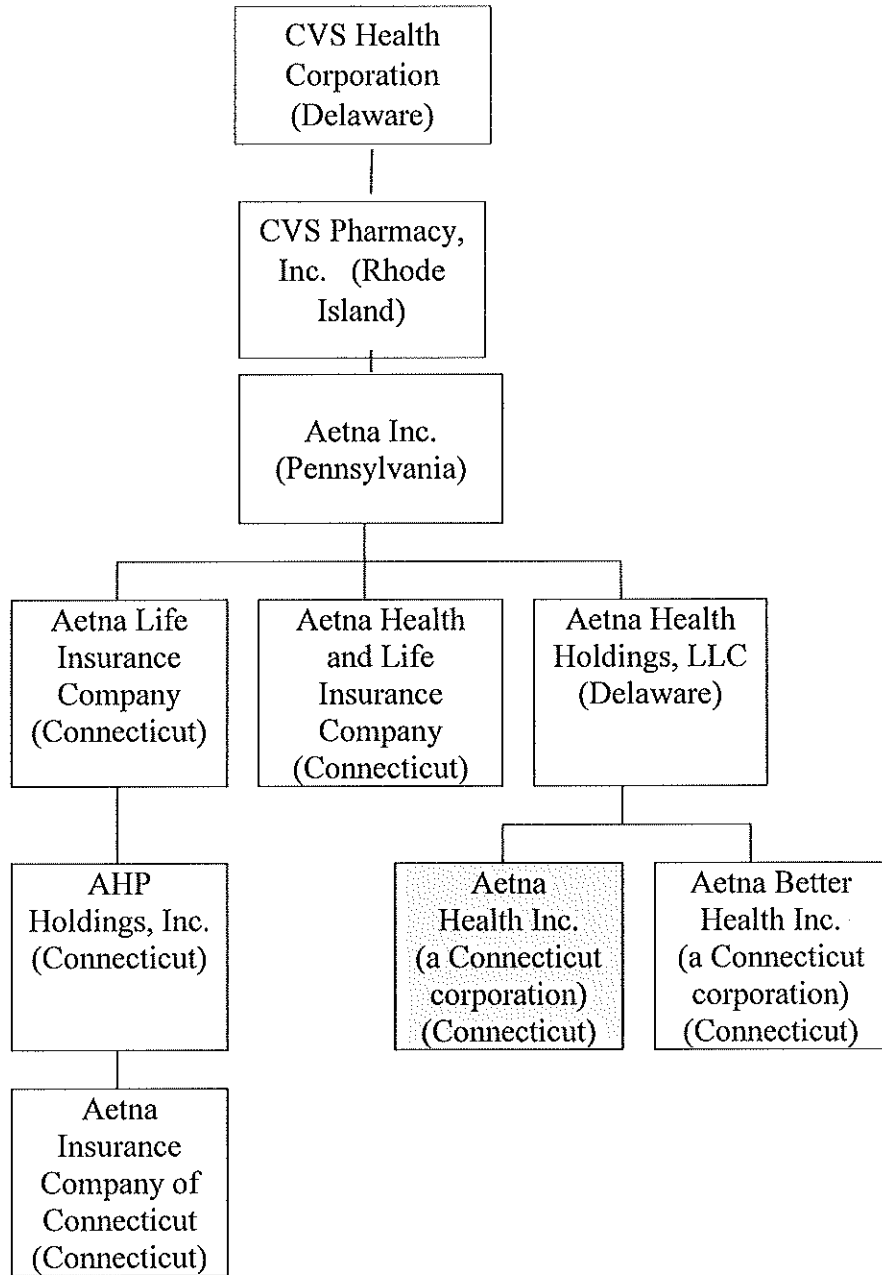
Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company was incorporated on January 5, 1987, under Chapter 593a of the CGS, as U.S. Healthcare, Inc., and the Company commenced business on June 1, 1987. The Company was organized as a stock for profit individual practice association model health maintenance organization (HMO). The Company is a wholly-owned subsidiary of Aetna Health Holdings, LLC (AHH), a Delaware HMO holding company, wholly owned by Aetna Inc., a Pennsylvania company. CVS Health is the ultimate parent.

ORGANIZATIONAL CHART

The following is a partial organizational chart that identifies the relationship of the Company and its parent and affiliates as of December 31, 2020:



MANAGEMENT AND CONTROL

The bylaws of the Company state that the annual meeting of shareholders for the election of the directors and for the transaction of such other business as properly may come before such meeting, shall be held each year, on such date and at such time, within or without the State of Connecticut, as may be determined by the Board. Special meetings of the shareholders may be called at any time by the Board, the president, any vice president, or the secretary, and shall be called by the president or the secretary at the written request of any shareholder or shareholders owning at least ten percent of the outstanding shares entitled to vote thereat, or as otherwise required by law.

At all meetings of the shareholders, the presence, in person or by proxy, of shareholders holding a majority of the total number of shares shall constitute a quorum.

Regular annual meetings of the Board shall be held immediately following the annual meeting of the shareholders. Special meetings of the Board shall be held whenever called by the president, any vice president, the secretary or any shareholder owning at least ten percent of the outstanding shares entitled to vote, or by one of the directors.

The number of directors, which shall constitute the entire Board, shall be fixed from time to time by resolution of either the Board or the shareholders, with such number being subject to any later resolutions of either of them. The directors are elected at the annual meeting of the shareholders.

At all meetings of the Board, the presence of a majority of the entire Board shall be necessary to constitute a quorum for the transaction of business.

Members of the Board serving the Company as of December 31, 2020, were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
David J. Finn	Senior Director, Network Management, CVS Health
Spence W. Papke	Senior Director, Sales & Account Management, CVS Health
Duncan G. Stuart	Vice President, Market President, CVS Health President, Aetna Health Inc.

Officers serving the Company as of December 31, 2020, were as follows:

<u>Name</u>	<u>Title</u>
Duncan G. Stuart	President
Edward Chung-I Lee	Vice President and Secretary
Robert J. Parslow	Principal Financial Officer and Controller
Tracy L. Smith	Vice President and Treasurer
Gregory S. Martino	Vice President

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Kevin J. Casey	Senior Investment Officer
Peter Keller	Assistant Controller
Bryan J. Lane	Assistant Controller
Whitney D. Lavoie	Assistant Controller
Timothy J. Olson	Assistant Controller

RELATED PARTY AGREEMENTS

The Company is party to numerous related party agreements. The agreements that are significant are as follows:

Administrative Services Agreement (Service Agreement)

The Company and Aetna Health Management, LLC (AHM) are parties to a Service Agreement, under which AHM provides certain administrative services, including accounting and processing of premiums and claims. Under the Service Agreement, the Company remits a percentage of its earned commercial and Medicare premium revenue, as applicable to AHM as a fee subject to an annual true-up mechanism as defined in the Service Agreement. Effective January 1, 2020, the Service Agreement was amended to allow other CVS Health affiliates to provide services to the Company in accordance with the fee schedule in the amendment. This Service Agreement enables the Company to receive manufacturers' pharmacy rebates from AHM under which the Company remits a percentage of its earned pharmaceutical rebates to AHM as a fee.

Guarantor Agreement

Effective November 13, 1986, the Company has a guarantor agreement with Aetna Inc.. The agreement provides that in the event of the Company's insolvency, Aetna Inc. will pay all expenses and claims incurred by the Company during insolvency pursuant to the obligation with employer groups and subscribers until the end of the subscription contract period for which premiums have been received.

Tax Sharing Agreement (Agreement)

Effective January 1, 2019, AHI-CT terminated its prior tax sharing agreement with Aetna Inc. Additionally, effective January 1, 2019 AHI-CT entered into an Agreement (including a Connecticut addendum) with CVS Health. In accordance with the Agreement, the Company's current federal and state tax provisions are generally computed as if the Company were filing a separate federal and state tax return.

Line of Credit

The Company has a \$4,000,000 unsecured line of credit at 10% interest from Aetna Inc., none of which was used during 2020 and 2019.

INSURANCE COVERAGE

The Company is covered by a fidelity bond maintained by CVS Health for itself and other affiliates and subsidiaries. The aggregate limit of liability provides fidelity coverage above the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts

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in the Handbook. In addition to the fidelity insurance policy, CVS Health maintains various other types of insurance coverages.

TERRITORY AND PLAN OF OPERATIONS

The Company primarily sells Medicare products, and has a small block of commercial group business that is no longer actively marketed. For 2020 and all years during the exam period, all business was written in the State of Connecticut. The Company was licensed for Medicare in New Hampshire and Massachusetts during 2020 and Rhode Island during 2019. The Company started writing Medicare business in the additional states during January 2021.

REINSURANCE

Effective April 1, 2014, the Company participates in a quota share reinsurance agreement with Fresenius Medical Care Reinsurance Company (Cayman) LTD (Fresenius) covering Medicare Advantage members. The agreement provides for the Company to be reimbursed the Percentage Payable of Eligible Expenses Incurred per Program Participant per Agreement Year under the Company's Medicare Advantage Plans as specified under Schedule A to the agreement.

INFORMATION TECHNOLOGY CONTROLS

Risk & Regulatory Consulting, LLC (RRC) performed an evaluation of the IT controls in accordance with the guidelines and procedures set forth in Exhibit C Evaluation of Controls in Information Technology of the Handbook (Exhibit C).

RRC's objectives were to determine whether IT resources align with the Company's objectives and to ensure that significant risk (strategic, operational, reporting, and compliance) arising out of its IT environment was appropriately mitigated by strategies and controls as outlined in the Handbook's Exhibit C Part Two – Evaluation of Controls in IT.

The objectives above were achieved through a combination of reviewing the Company's policies and procedures, testing in key areas related to Exhibit C, interviewing the Company's senior IT management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by the Company and by E&Y.

Based upon the risk-focused assessment and review, no material findings were noted which would have a significant effect on the annual statement. As a result of this review, it was determined that the IT general controls at the Company were effective.

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ACCOUNTS AND RECORDS

The Company uses the Oracle Integrated Financial System, CVS Health Group's general ledger system, to process and maintain its financial accounting records.

The Company uses Sovos' Statutory Reporting software, formerly known as WingPlus, to prepare its statutory statements. Financial Statement and supplemental data are imported into the Statutory Reporting software using formatted source information derived from the Oracle ledger and certain other non-ledger sources.

General ledger account balances are reconciled and traced to appropriate asset, liability, and income statement lines of the Annual Statement. Adjusting entries are posted on a quarterly basis.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2020. No adjustments were made to surplus as a result of the examination.

ASSETS

Account Description	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$63,629,135		\$63,629,135
Mortgage loan – first liens	3,171,130		3,171,130
Cash, cash equivalents and short-term investments	6,735,827		6,735,827
Other invested assets	1,027,340		1,027,340
Receivables for securities	503,330		503,330
Investment income due and accrued	366,052		366,052
Uncollected premiums and agents' balances in the course of collection	130,585	\$28,929	101,656
Accrued retrospective premiums and contracts and contracts subject to redetermination	3,548,136		3,548,136
Amounts receivable relating to uninsured plans	2,043,225		2,043,225
Current federal and foreign income tax recoverable	1,847,225		1,847,225
Net deferred tax asset	44,859	19,005	25,854
Health care and other amounts receivable	1,003,517		1,003,517
Aggregate write-ins for other than invested assets	323,470	167	323,303
Totals	<u>\$84,373,831</u>	<u>\$48,101</u>	<u>\$84,325,730</u>

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LIABILITIES, CAPITAL AND SURPLUS

Account Description	Covered	Uncovered	Total
Claims unpaid	\$10,496,858	\$380,117	\$10,876,975
Accrued medical incentive pool and bonus amounts	2,019,078		2,019,078
Unpaid claims adjustment expenses	148,761		148,761
Aggregate health policy reserves	10,887,907		10,887,907
Aggregate health claim reserves	470		470
Premiums received in advance	114,013		114,013
General expenses due or accrued	210		210
Remittances and items not allocated	122,268		122,268
Amounts due to parent, subsidiaries and affiliates	3,607,230		3,607,230
Payable for securities	500,000		500,000
Funds held under reinsurance treaties	122,861		122,861
Liability for amounts held under uninsured Plans	58,132		58,132
Aggregate write-ins for other liabilities	365		365
Total liabilities	\$28,078,153	\$380,117	\$28,458,270
Common capital stock			12
Gross paid in and contributed surplus			50,844,600
Unassigned funds (surplus)			5,022,848
Total capital and surplus			55,867,460
Total liabilities, capital and surplus			<u>\$84,325,730</u>

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STATEMENT OF REVENUE AND EXPENSES

Account Description	Uncovered	Total
Net premiums income		\$117,599,147
Change in unearned premium reserves and reserve for rate credits		(3,610,756)
Total revenues		113,988,391
Hospital/medical benefits	\$1,622,604	67,587,002
Other professional services		5,506,452
Outside referrals	1,096,120	1,096,120
Emergency room and out-of-area	173,835	4,324,263
Prescription drugs	230,980	12,640,724
Incentive pool, withhold adjustments and bonus amounts		1,869,525
Subtotal	3,123,539	93,024,086
Net reinsurance recoveries		1,278,609
Total hospital and medical	3,123,539	91,745,477
Claims adjustment expenses		2,398,725
General administrative expenses		14,218,623
Increase in reserves for life and accident and health contracts		(7,635)
Total underwriting deductions	\$3,123,539	108,355,190
Net underwriting gain or (loss)		5,633,201
Net investment income earned		1,993,633
Net realized capital gains (losses)		(639,026)
Net investment gains (losses)		1,354,607
Net income or (loss) after capital gains tax and before all other federal income taxes		6,987,808
Federal and foreign income taxes incurred		1,052,755
Net income (loss)		<u>\$5,935,053</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting period	\$50,852,433
Net income	5,935,053
Change in net unrealized capital gains and (losses)	20,117
Change in net deferred income tax	(948,112)
Change in nonadmitted assets	7,969
Net change in capital and surplus	5,015,027
Capital and surplus end of reporting period	<u>\$55,867,460</u>

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<u>CLAIMS UNPAID</u>	<u>\$10,876,975</u>
<u>UNPAID CLAIMS ADJUSTMENT EXPENSES</u>	<u>\$148,761</u>

L&E performed a risk-focused actuarial analysis of reserving, pricing and underwriting, and liquidity risk of the Medicare and commercial businesses. L&E also reviewed certain aspects of the Patient Protection and Affordable Care Act (ACA).

This included a review that:

- the reserve computations were performed correctly and the selected estimates were reasonable;
- the assumptions and methodologies used were accurate and appropriate;
- the pricing and/or underwriting practices were sufficiently established for risks assumed; and
- the ACA and Medicare receivables and payables were appropriately calculated and reported.

Information reviewed included the following:

- SOX controls for claim liability and reserving processes;
- E&Y workpapers;
- interviews with Company reserving and pricing actuaries in order to gain an understanding of the processes and procedures in place;
- management reports, rate filing documentation and underwriting guidelines;
- 2020 Annual Statement;
- 2020 Actuarial Opinion;
- 2020 Actuarial Memorandum (Memorandum); and
- A.M. Best Reports.

L&E analysis of reserving risk analysis included:

- interviews with Company staff responsible for reserving;
- review of the Actuarial Opinion and Memorandum, and assumptions and methodologies provided by the Company; and
- performing tests to verify the appropriateness of the processes and the actual calculations for the policy and claim reserves, and the contract claims liabilities.

L&E analysis of pricing and underwriting risks included:

- interviews with Company pricing actuaries for the Medicare and Commercial business in order to gain an understanding of the processes and procedures in place for ensuring pricing is reasonable;
- review of management reports and rate filing documentation to verify the processes are working properly and a review of select pricing data and processes; and
- review of CPA and Company workpapers to verify the appropriateness of the processes and the development of Medicare Risk Adjustment asset accruals.

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L&E analysis of ACA risks included:

- testing certain controls regarding the the Risk Adjustment.

Conclusion

Although no material issues were noted during the review of these risks the following was noted:

A review of the Memorandum noted the Company did not fully comply with the Instructions. According to the Instructions, “The Actuarial Opinion and the supporting Actuarial Memorandum and work papers must conform to the appropriate Actuarial Standards of Practice as promulgated by the Actuarial Standards Board”. It is recommended that the Company revise its future Memorandum to comply with the Instructions.

MEDICAL LOSS RATIO

Within the “aggregate health policy reserves” liability, the Company report \$3,610,756 for its statutory medical loss ratio (MLR) liability. The ACA requires insurers to spend a minimum percentage of premium dollars on medical services and activities designed to improve health care quality. The Department reviewed and tested the Company's processes and controls designed to mitigate specific risks associated with the determination of its MLR rebate liability. No material exceptions were identified.

CAPITAL AND SURPLUS

\$55,867,460

The reconciliation of surplus for the period under examination, was as follows:

Surplus, December 31, 2015	\$68,181,315
Net income	\$30,799,024
Change in net unrealized capital gains or (losses)	308,317
Change in net deferred income tax	\$484,747
Change in non-admitted assets and related items	\$31,387
Change in unauthorized and certified reinsurance	\$62,670
Surplus adjustments: Paid in	(\$44,000,000)
Surplus, December 31, 2020	<u>\$55,867,460</u>

The change in surplus adjustments: paid in during the exam period was attributable to the payments of extraordinary dividends to the Company’s parent AHH.

RECOMMENDATION

Pg. CLAIMS UNPAID AND UNPAID CLAIMS ADJUSTMENT EXPENSES

- 11 It is recommended that the Company revise its future Memorandum to comply with the Instructions.

SUBSEQUENT EVENTS

- In February 2021, Karen S. Lynch was promoted to President and Chief Executive Officer of CVS Health.
- In May 2021, Shawn Guertin was hired as Executive Vice President and Chief Financial Officer of CVS Health.
- The COVID-19 pandemic has continued to develop throughout 2021 and 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination team noted no significant financial impact to the Company as result of COVID-19. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position including its Pandemic Plan. The Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

CONCLUSION


The results of this examination disclosed that, as of December 31, 2020, the Company had admitted assets of \$84,325,730, liabilities of \$28,458,270, and capital and surplus of \$55,867,460. During the period under examination admitted assets decreased \$18,924,156, liabilities decreased \$6,610,301, and capital and surplus decreased \$12,313,855.

SIGNATURE

In addition to the undersigned, the following members of the State of Connecticut Insurance Department participated in the examination: Sharon Altieri, CPA; William Arfanis, CFE; Cecilia Arnold, CFE; Edna Bosley; Susan Cotugno, CPA; Michael Daniels, CFE; Michael Estabrook, CFE; Daniel Levine, AFE, CPA; Ellen McCarthy, AFE; Joseph Marcantonio, AFE, CISA, AES; Kenneth Roulier, AFE, AES, CISA, Manuel V. Hidalgo, FSA, MAAA, CFA; Wanchin Chou, FCAS, MAAA, CPCU, CSPA, CCRMP; and the consulting firms of RRC, and L&E.

I, Jeffrey Prospero, CFE, solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2020, to the best of my information, knowledge and belief.


Respectfully submitted,


Jeffrey Prospero, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, 
Notary Public on this 26 day of April, 2022.


Notary Public

My Commission Expires June 30, 2026

