



# 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 Life Insurance Company (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 June 1, 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.

**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 6<sup>th</sup> day of June, 2022.



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Andrew N. Mais  
Insurance Commissioner

Exhibit A

**EXAMINATION REPORT**

**OF THE**

**AETNA LIFE INSURANCE COMPANY  
(NAIC #60054)**

**AS OF**

**DECEMBER 31, 2020**

**BY THE**

**CONNECTICUT INSURANCE DEPARTMENT**



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April 28, 2022

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

Dear Commissioner Mais:

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

**AETNA LIFE INSURANCE COMPANY**

(hereinafter referred to as the Company or ALIC), a capital stock corporation incorporated under the laws of the State of Connecticut and having its statutory home office and 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) insurance entities comprised of five subgroups of fifty-nine (59) regulated entities domiciled in twenty-six (26) states (CVS Health Group). The coordinated examination not only provided information on each insurer individually but also provided a structure for regulators to understand and evaluate risks of the companies within the holding company as a whole.

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

## AETNA LIFE INSURANCE COMPANY

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 (SOX);
- 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 issues.

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.

## AETNA LIFE INSURANCE COMPANY

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

In 1850, the Company, a subsidiary of the Aetna Fire Insurance Company (Aetna Fire), commenced business as the Annuity Fund. In May 1853, Aetna Fire obtained a charter amendment that recognized the incorporation of the Annuity Fund as ALIC, its present title.

On December 30, 1964, as a result of a corporate reorganization, the Company transferred its majority interest in The Aetna Casualty and Surety Company (Aetna Surety) to a trust for the benefit of the Company's stockholders.

Effective December 29, 1967, the Company became a wholly owned subsidiary of Aetna Life and Casualty Company (AL&C), pursuant to an exchange of all of its common stock for an equal number of shares of AL&C. Simultaneous with the exchange of stock, Aetna Surety merged into AL&C, with AL&C as the surviving entity.

Aetna Inc. was incorporated in Connecticut on March 25, 1996, to reorganize and align Aetna Services, Inc., formerly AL&C, and Aetna U.S. Healthcare, Inc. (AUSHI), formerly U.S. Healthcare, Inc., in accordance with the terms of the Agreement and Plan of Merger dated March 30, 1996. The merger, accounted for as a purchase, was consummated on July 19, 1996.

On December 13, 2000, Aetna Inc. spun-off AUSHI to its shareholders. Simultaneous with that transaction, Aetna Inc. was acquired by ING America Insurance Holdings, Inc., a subsidiary of ING Groep N.V. of the Netherlands. AUSHI subsequently changed its name to Aetna Inc., a Pennsylvania corporation.

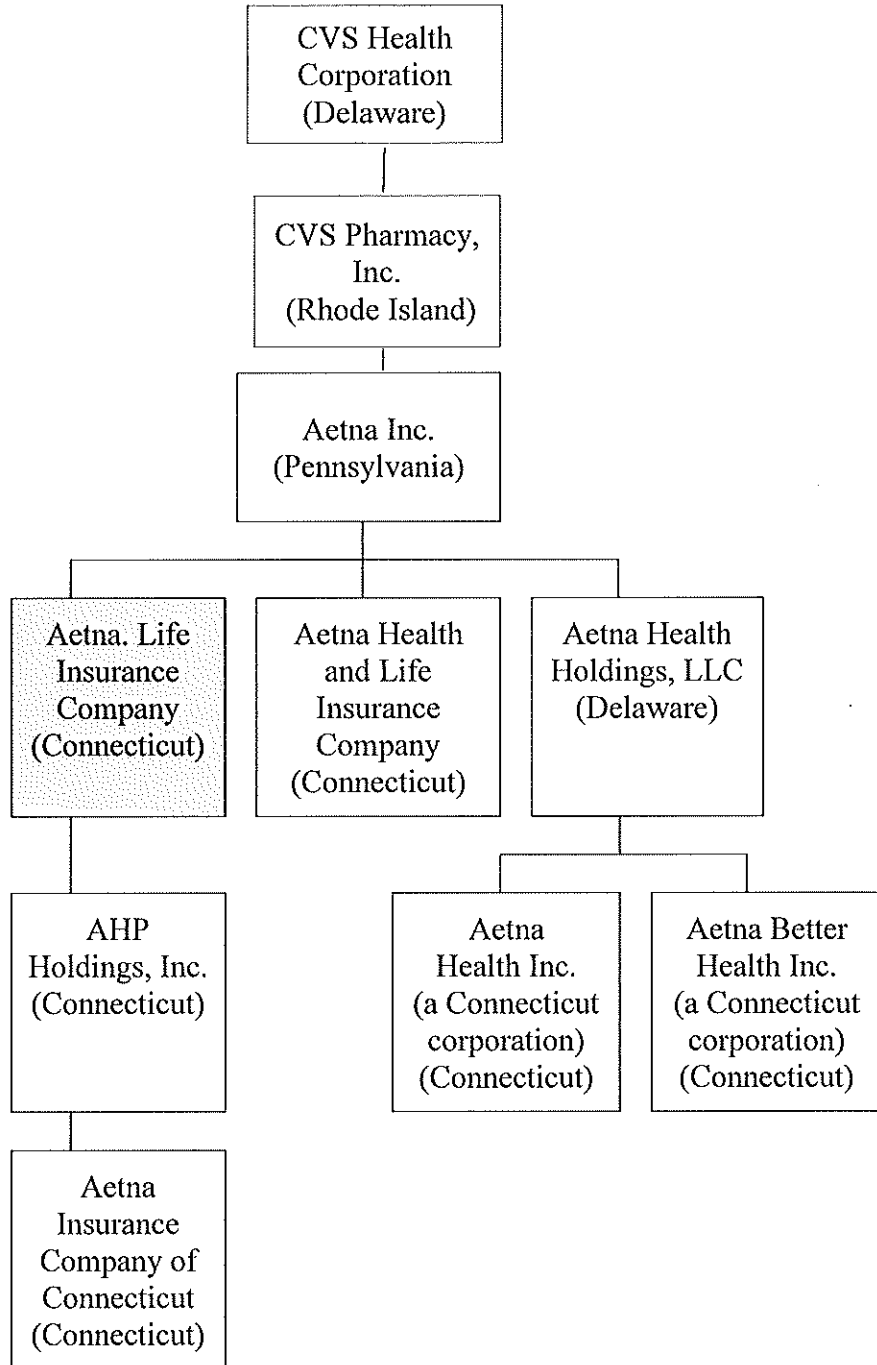
Effective November 1, 2017, Aetna Inc. completed the sale of a substantial portion of its domestic group life insurance, group disability and absence management business written by the Company to the Hartford Life and Accident Insurance Company (HLAIC). The transaction was accomplished through an indemnity reinsurance agreement.

Effective November 28, 2018, ALIC became part of the insurance holding company system currently controlled by CVS Health as a result of a merger transaction between Aetna Inc. and a subsidiary of CVS Pharmacy, Inc., which is a direct subsidiary of CVS Health. The Company is a wholly-owned subsidiary of Aetna Inc. whose ultimate parent is CVS Health.

AETNA LIFE INSURANCE COMPANY

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:





# AETNA LIFE INSURANCE COMPANY

## MANAGEMENT AND CONTROL

The bylaws of the Company require the annual meeting of the stockholders of the Company to be held at the Company's home office in the City of Hartford in March or April of each year and at any time as prescribed by the Board. Special meetings of the stockholders may be called, for any purpose, by the Board, the chairman of the Board (Chairman), or by the president.

The bylaws provide that the business and affairs of the Company be managed by a Board consisting of not less than three and not more than twenty-one directors. The number of directors serving the Company is resolved by vote of the stockholders or directors. Directors elected to the Board may hold office until the next annual meeting of the stockholders and until a successor has been duly elected and qualified. Regular meetings of the Board are held at periodic intervals at any place and date as the Board may designate. Special meetings of the Board may be called by the Chairman, the president or not less than one-third of the directors then in office. A majority of the Board, but not less than two, nor less than one-third of the number of directors provided for in the bylaws, shall 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>
Karen Sue Lynch	President and Chief Executive Officer, CVS Health
Peter Robert Oades	Senior Vice President, Chief Investment Officer, CVS Health
Robert Scott Walker	Senior Vice President, Chief Financial Officer, CVS Health

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

<u>Name</u>	<u>Title</u>
Karen Sue Lynch	President
Edward Chung-I Lee	Vice President and Secretary
Carol Ann De Nale	Senior Vice President and Treasurer
Jeffrey James Drzazgowski	Vice President, Chief Actuary and Chief Underwriting Officer
James David Clark	Senior Vice President, Controller and Chief Accounting Officer
Brian Sheppard Nazworth	Vice President, Internal Audit
Peter Robert Oades	Senior Vice President and Chief Investment Officer
Robert Scott Walker	Senior Vice President and Chief Financial Officer

## AETNA LIFE INSURANCE COMPANY

### RELATED PARTY AGREEMENTS

The Company is party to numerous related party transaction agreements. The following are samples of agreements that are significant are as follows:

#### Expense Allocation Agreement

Effective January 1, 2005, the Company entered into an Expense Allocation Agreement under which Aetna Inc. allocates expenses to the Company for employee benefit plans in proportion to the members covered by the Company under health benefit plans.

#### Employee Services Agreement

Effective January 1, 2017, the Company entered into an Employee Services Agreement (the Aetna Resources Agreement) with Aetna Resources LLC, a Delaware limited liability company (Aetna Resources). Under the Aetna Resources Agreement, Aetna Resources purchased all employee services and staffing resources necessary for the day-to-day operation and management of the Company. The Aetna Resources Agreement obligates the Company to pay Aetna Resources the unreimbursed cost for providing employee services.

#### Tax Sharing Agreement (Agreement)

Effective January 1, 2019, the Company terminated its prior tax sharing agreement with Aetna Inc. Additionally, effective January 1, 2019 the Company entered into a written tax sharing agreement and an 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. In accordance with IRS rules, the Company is participating in the Agreement for state taxes only until they become eligible to participate for both state and federal taxes.

#### Pharmacy Agreement

Effective October 7, 2005, and amended effective January 1, 2020, September 1, 2020 and the most recent amendment was effective January 1, 2021, the Company entered into an Amended and Restated Administrative Services Agreement (A&R Agreement) with Aetna Health Management, LLC (AHM). Under the A&R Agreement, AHM provides the Company with administrative services and resources (including pharmacy rebate management services) and the Company will in return provide AHM with administrative services and resources (including patient management and quality management services).

#### Commercial Revolving Promissory Note

Aetna Inc. executed a Commercial Revolving Promissory Note (Aetna Note) dated April 1, 2020, pursuant to which the Company could advance to Aetna Inc. and Aetna Inc. was required to repay the Company on demand, advances of up to \$850 million together with any related interest on the unpaid principal balance. The entire unpaid principal balance of the Aetna Note, together with interest thereon and all other amounts payable were due and payable on March 31, 2021. No advances were outstanding under the Aetna Note at December 31, 2020.

## AETNA LIFE INSURANCE COMPANY

In addition, the Company executed a Commercial Revolving Promissory Note (Company Note) dated April 1, 2020, pursuant to which Aetna Inc. could advance to the Company and the Company, was required to repay Aetna Inc. on demand, advances of up to \$850 million together with any related interest on the unpaid principal balance. The entire unpaid principal balance of the Company Note, together with interest thereon and all other amounts payable were due and payable on March 31, 2021. There were no advances under the Company Note made during the year ended December 31, 2020.

### Administrative Services Agreement (AHLIC Agreement)

Effective May 1, 2013, and subsequently amended on March 12, 2018, the Company entered into the AHLIC Agreement whereby the Company provides AHLIC with certain administrative services including accounting, cash management, human resources, and legal services. The AHLIC Agreement obligates AHLIC to pay the Company the cost of providing such services. Effective January 1, 2020, this agreement was amended to allow other CVS Health affiliates to provide services to AHLIC in accordance with the fee schedule in the amendment. ALIC also assigned the agreement to AHM as part of the amendment.

During the review of related parties, it was noted that the Company did not have a formal written expense allocation agreement with Aetna Inc., for Selling, General & Administrative expenses as required by the SSAP No. 25(8) of the NAIC Accounting Practices and Procedures Manual (Manual) and Section 38a-136 of the CGS. SSAP No. 25(8) states that "Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date". Section 38a-136 of the CGS requires that affiliated agreements "may not be entered into unless the insurance company has notified the commissioner in writing of its intention to enter into such transaction at least thirty days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has approved or not disapproved it within such period." Commencing in December 2021, allocated expenses are routed from Aetna Inc. via AHM on a monthly basis, and thus the cash settlement is between ALIC and AHM under the terms of the AHLIC Agreement.

It is recommended that the Company ensure that intercompany agreements are in accordance with the Manual and CGS.

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

## AETNA LIFE INSURANCE COMPANY

### TERRITORY AND PLAN OF OPERATIONS

The Company is licensed to transact business in all states, the District of Columbia, Guam, Puerto Rico, the US Virgin Islands, Commonwealth of Northern Mariana Islands and Canada.

The Company's three business operation segments include Health Care, Group Insurance and Large Case Pensions (LCP).

Health Care products consist of commercial medical, government medical, dental and vision plans offered on both an insured basis (where the Company assumes all or a majority of the financial risks for health care costs) and an employer-funded basis (where the employer or other plan sponsor under an administrative service only (ASO) contract assumes all or a majority of this risk. The Company's commercial medical plans include point of service (POS), preferred provider organization (PPO) and indemnity benefit plans. Commercial plans also include health savings accounts and consumer-directed plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account (which may be funded by the plan sponsor and/or the member in the case of health savings accounts). The Company offers commercial medical stop loss insurance coverage for certain employers who elect to self-insure their health benefits. Under commercial medical stop loss insurance products, the Company assumes risk for costs associated with large individual claims and/or aggregate loss experience within an employer's plan above a pre-set annual threshold. Through annual contracts with the United States Centers for Medicare and Medicaid Services, the Company offers PPO products for eligible individuals in certain geographic areas through the Medicare Advantage program. Medicare Advantage members typically receive enhanced benefits over traditional fee-for-services Medicare coverage.

Group Insurance primarily includes group life, insurance products offered on an insured basis, as well as group disability and long-term care (LTC) insurance products offered on both an insured and an employer-funded basis. The Company no longer solicits or accepts new LTC customers. As noted earlier, on November 1, 2017, Aetna Inc. completed the sale of a substantial portion of its domestic group life insurance, group disability insurance and absence management business written by the Company to HLAIC

LCP manages a variety of retirement products (including pension and annuity products) primarily for defined benefit and defined contribution plans. These products provide a variety of funding and benefit payment distribution options and other services. The Company no longer solicits or accepts new large case pension customers but continues to accept deposits from existing customers and manages the run-off of the existing business. Contracts provide non-guaranteed, experience-rated and guaranteed investment options through General and Separate Account products. Separate Account assets and liabilities related to participating contracts generally represent funds maintained to meet specific objectives of contract holders who bear the investment risk. Separate Account assets and

## AETNA LIFE INSURANCE COMPANY

liabilities related to non-participating contracts represent funds where the Company bears the investment risk. LCP earns fee revenue from the Separate Accounts. General Account assets supporting the experience-rated products (where the contract holder, not the Company, assumes investment and other risks, subject to, among other things, certain minimum guarantees) may be subject to participant or contract holder withdrawal.

### Marketing and Agency System

Depending on the product, the Company markets to a range of customers from individuals and small employer groups to large, multi-site and/or multi-state employers. The Company's health care products and services are sold primarily through the Company's sales personnel, as well as independent brokers and consultants who assist in the production and servicing of business. Sales representatives also sell to employers on a direct basis. For large customers, independent consultants and brokers are frequently involved in employer health plan selection decisions and sales. The Company pays brokers compensation with respect to their services.

## REINSURANCE

The Company, through affiliated and non-affiliated insurers, utilizes a variety of ceded reinsurance agreements. The Company's ceded reinsurance balances relate primarily to the following:

### Affiliated Agreements

Effective January 1, 2016 through December 31, 2020, the Company entered into separate yearly (5) quota share reinsurance agreements with Health Re, whereby the Company ceded a quota share portion of its liabilities for certain group accident and health claims to Health Re. The agreement is a quota share reinsurance agreement with funds withheld and has a risk period that commenced on January 1, 2016 through December 31, 2019. Risk period is 4 years from commencement.

Commutation Agreement recapture and final settlement as of November 1, 2017 between the Company and AHLIC, the Reinsurer, of Coinsurance Agreement dated December 22, 1969, to which AHLIC reinsures varying quota shares of certain liabilities arising out of the Long-Term Disability business written by the Company.

Effective January 1, 2017, the Company entered into a reinsurance agreement with Texas Health + Aetna. Health Insurance Company (Texas Health), whereby the Company ceded to Texas Health, on an indemnity coinsurance basis, a 100% quota share participation in certain liabilities, obligations and reserves arising under commercial employer group business. Under the agreement, the Reinsurer will indemnify the Company for 100% of the loss.

Effective January 1, 2017, the Company entered into a reinsurance agreement Banner Health and Aetna. Health Insurance Company (Banner Health), whereby the Company ceded to Banner Health, on an indemnity coinsurance basis, 100% quota share

## AETNA LIFE INSURANCE COMPANY

participation in certain liabilities, obligations and reserves arising under commercial employer group business.

Effective January 1, 2018, the Company entered into a reinsurance agreement with Innovation Health Insurance Company (IHIC), whereby the Company ceded to IHIC, on an indemnity coinsurance basis, a 100% quota share participation in certain liabilities, obligations and reserves arising under Medicare Advantage business in Relationship Jurisdiction 1 and 2. Settlement with respect to amounts owed shall be performed through direct payment following the monthly report.

### Non-Affiliated Agreements

- Effective December 31, 1988, all of the Company's domestic non-participating individual life insurance business and settlement annuities on participating individual life insurance business was ceded to Voya Retirement Insurance and Annuity Company under indemnity reinsurance agreements.
- Effective October 1, 1998, all the Company's domestic participating individual life insurance business and participating single premium deferred annuity business was ceded to Lincoln National Corporation under indemnity reinsurance agreements.
- Effective January 1, 2010, the Company entered into a reinsurance agreement with US Business Canada Life Assurance Company (Canada Life), whereby the Company cedes a portion of its group and individual health insurance policies to Canada Life. The agreement is an indemnity coinsurance agreement with funds withheld and also includes an experience refund provision.
- Effective January 1, 2011, the Company entered into a reinsurance agreement with Canada Life, whereby the Company cedes a portion of its medical stop loss business to Canada Life. The agreement is an indemnity coinsurance agreement with funds withheld and also includes an experience refund provision.
- Effective January 1, 2013, the Company entered a reinsurance agreement with Hannover Life Re, whereby the Company cedes certain individual and group Medicare Advantage Plans to Hannover Life Re. The agreement is an indemnity coinsurance agreement with funds withheld and also includes an experience refund.
- Effective April 1, 2014, the Company participates in a quota share reinsurance agreement with Fresenius Medical Care Reinsurance Company (Cayman) LTD (Fresenius). The term of the contract is for one year but will automatically renew for successive one-year terms unless terminated earlier by the parties in accordance with the agreement. 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 of the agreement.

## AETNA LIFE INSURANCE COMPANY

- Effective January 1, 2017, the Company entered into a yearly renewable term reinsurance agreement with Hannover Life Reassurance Company of America (Reinsurer), whereby the Company will cede to Reinsurer Group Term Life business on a first dollar quota share basis. Settlement of risk charge (0.5% x Premium) x 28% Quota Share on a quarterly basis.
- Effective November 1, 2017, the Company entered into a reinsurance agreement with Hartford Life Accident Insurance Company (Reinsurer), whereby the Company ceded to Reinsurer on a coinsurance basis, 100% certain portion of its domestic Group Life, Group Disability and Absence Management business insurance, excluding International and Strategic Resource Company (SRC). The Company also appointed Reinsurer as Administrator of the Group Insurance contracts
- Effective January 1, 2019, Well Care Prescription Insurance Inc. (Well Care) the Ceding Company, entered into a “follow the fortunes” indemnity reinsurance agreement with the Company Reinsurer. Well Care ceded 100% of risk with respect to the Medicare Part D Prescription Drug Insurance (PDP). Monthly settlement with respect to amounts owed performed through intercompany transactions.

### 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.

During the evaluation of the IT controls, one system was identified that required additional analysis. Upon completion of these additional procedures, it was determined that the data from this system could be relied on.

Based upon the overall 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.

## AETNA LIFE INSURANCE COMPANY

### 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.



AETNA LIFE INSURANCE COMPANY

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	\$9,767,185,910		\$9,767,185,910
Preferred stocks	8,034		8,034
Common stocks	943,152,810	\$8,095,252	935,057,558
Mortgage loans on real estate:			
First liens	960,372,155		960,372,155
Other than first liens	4,802,568		4,802,568
Real estate:			
Properties occupied by the company	181,113,991		181,113,991
Properties held for production of income	2,341,681		2,341,681
Cash, cash equivalents and short-term investments	1,485,260,158		1,485,260,158
Contract loans	48,269		48,269
Other invested assets	1,117,467,372	28,384	1,117,438,988
Receivables for securities	7,071,874		7,071,874
Investment income due and accrued	88,157,311		88,157,311
Uncollected premiums and agents' balances in course of collection	490,746,867	122,278,641	368,468,226
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,039,290		1,039,290
Accrued retrospective premiums	603,372,141		603,372,141
Amounts recoverable from reinsurers	1,045,302,420		1,045,302,420
Other amounts receivable under reinsurance contracts	88,671,659		88,671,659
Amounts receivable relating to uninsured plans	613,138,941	13,652,009	599,486,932
Current federal and foreign income tax recoverable and interest thereon	67,224,919		67,224,919
Net deferred tax asset	583,952,562	275,942,377	308,010,185
Guaranty funds receivable or on deposit	44,747,375		44,747,375
Electronic data processing equipment and software	89,550,975		89,550,975
Furniture and equipment, including health care delivery assets	243,929,450	243,929,450	0
Receivables from parent, subsidiaries and affiliates	205,948,704	2,750,000	203,198,704
Health care and other amounts receivable	659,191,326	75,329,022	583,862,304
Aggregate write-ins for other than invested assets	497,989,795	406,840,136	91,149,659
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	19,791,788,557	1,148,845,271	18,642,943,286
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	5,414,370,352		5,414,370,352
<b>Total</b>	<b><u>\$25,206,158,909</u></b>	<b><u>\$1,148,845,271</u></b>	<b><u>\$24,057,313,638</u></b>

AETNA LIFE INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$2,810,175,363
Aggregate reserve for accident and health contracts	1,620,563,635
Liability for deposit-type contracts	332,856,515
Contract claims:	
Life	3,685,123
Accident and health	2,603,211,159
Policyholders' dividends due and unpaid	144,666
Provision for policyholders' dividends and coupons payable:	
Dividends apportioned for payment	14,706
Premiums and annuity considerations for life and accident and health contracts received in advance	74,715,847
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	647,445,762
Interest Maintenance Reserve	42,093,703
Commissions to agents due or accrued	84,946,691
Commissions and expense allowances payable on reinsurance assumed	2,028,643
General expenses due or accrued	409,279,969
Taxes, licenses and fees due or accrued	146,565,187
Unearned investment income	2,167
Amounts withheld or retained by company as agent or trustee	8,489,390
Remittances and items not allocated	33,099,710
Net adjustment in assets and liabilities due to foreign exchange rates	17,661,031
Miscellaneous liabilities:	
Asset valuation reserve	354,440,805
Reinsurance in unauthorized companies	23,655,774
Funds held under reinsurance treaties with unauthorized reinsurers	469,718,671
Payable to parent, subsidiaries and affiliates	262,154,478
Drafts outstanding	6,698,272
Liability for amounts held under uninsured plans	856,762,218
Funds held under coinsurance	863,005,314
Payable for securities	27,962,780
Aggregate write-ins for liabilities	1,777,937,121
Total liabilities excluding Separate Accounts business	13,479,314,700
From Separate Accounts Statement	5,414,370,352
Total liabilities	18,893,685,052
Common capital stock	62,765,560
Gross paid in and contributed surplus	2,187,719,508
Aggregate write-ins for special surplus funds	750,000
Unassigned funds (surplus)	2,912,393,518
Surplus	5,100,863,026
Total capital and surplus	5,163,628,586
Total liabilities and surplus	<u>\$24,057,313,638</u>

AETNA LIFE INSURANCE COMPANY

STATEMENT OF INCOME

Premiums and annuity considerations for life and accident and health contracts	\$23,885,141,278
Net investment income	443,551,201
Amortization of Interest Maintenance Reserve (IMR)	27,285,562
Commissions and expense allowances on reinsurance ceded	756,633,995
Miscellaneous income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	11,955,781
Charges and fees for deposit-type contracts	313,369
Aggregate write-ins for miscellaneous income	13,961,611
Totals	25,138,842,797
Death benefits	914,274
Annuity benefits	395,527,060
Disability benefits and benefits under accident and health contracts	18,938,777,262
Surrender benefits and withdrawals for life contracts	81,846,987
Interest and adjustments on contracts or deposit-type contract funds	(34,524,237)
Payments on supplementary contracts with life contingencies	867
Increase in aggregate reserves for life and accident and health contracts	(63,875,645)
Totals	19,318,666,568
Commissions on premiums, annuity considerations and deposit-type contract funds	710,491,318
Commissions and expense allowances on reinsurance assumed	28,371,974
General insurance expenses	1,011,070,410
Insurance taxes, licenses and fees, excluding federal income taxes	1,081,742,521
Net transfers to or (from) Separate Accounts net of reinsurance	(55,453,798)
Aggregate write-ins for deductions	202,719
Totals	22,095,091,712
Net gain from operations before dividends to policyholders and federal income taxes	3,043,751,085
Dividends to policyholders	14,784
Net gain from operations after dividends to policyholders and before federal income taxes	3,043,736,301
Federal and foreign income taxes incurred	772,761,124
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	2,270,975,177
Net realized capital gains (losses) less capital gains tax	(23,461,020)
Net income	<u>\$2,247,514,157</u>

AETNA LIFE INSURANCE COMPANY

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	\$3,852,489,235
Net income	2,247,514,157
Change in net unrealized capital gains (losses)	19,566,352
Change in net unrealized foreign exchange capital gain (loss)	1,979,113
Change in net deferred income tax	90,371,036
Change in nonadmitted assets	(211,133,321)
Change in liability for reinsurance in unauthorized companies	(19,584,454)
Change in reserve on account of change in valuation basis	1,416,689
Change in asset valuation reserve	(73,542,657)
Surplus adjustment: paid in	779,746,128
Dividends to stockholders	(1,550,000,000)
Aggregate write-ins for gains and losses in surplus	24,806,308
Net change in capital and surplus for the year	1,311,139,351
Capital and surplus, December 31, current year	<u>\$5,163,628,586</u>

SEPARATE ACCOUNTS ASSETS

	General Account Basis	Fair Value Basis	Total
Bonds		\$1,664,019,477	\$1,644,019,477
Preferred stocks		1,527,802	1,527,802
Common stocks		14,091,230	14,091,230
Cash and cash equivalents		193,049,303	193,049,303
Short-term investments		83,832	83,832
Derivatives		(141,952)	(141,952)
Other invested assets		3,521,539,486	3,521,539,486
Investment income due and accrued		12,657,822	12,657,822
Receivables for securities		7,296,254	7,296,254
Aggregate write-ins for other than invested assets		247,099	247,099
Total	<u>\$0</u>	<u>\$5,414,370,353</u>	<u>\$5,414,370,353</u>

AETNA LIFE INSURANCE COMPANY

SEPARATE ACCOUNTS LIABILITIES AND SURPLUS

	General Account Basis	Fair Value Basis	Total
Aggregate reserve for life, annuity and accident and health contracts		\$534,311,246	\$534,311,246
Liability for deposit-type contracts		4,864,317,244	4,864,317,244
Charges for investment management, administration and contract guarantees due or accrued		26,024	26,024
Payable for securities		15,715,839	15,715,839
Total liabilities		<u>5,414,370,353</u>	<u>5,414,370,353</u>
Surplus		0	0
Totals	<u>\$0</u>	<u>\$5,414,370,353</u>	<u>\$5,414,370,353</u>

<u>AGGREGATE RESERVE FOR LIFE CONTRACTS</u>	<u>\$2,810,175,363</u>
<u>AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS</u>	<u>\$1,620,563,635</u>
<u>LIABILITY FOR DEPOSIT-TYPE CONTRACTS</u>	<u>\$332,856,515</u>
<u>CONTRACT CLAIMS – LIFE</u>	<u>\$3,685,123</u>
<u>CONTRACT CLAIMS – ACCIDENT AND HEALTH</u>	<u>\$2,603,211,159</u>

L&E performed a risk-focused actuarial analysis of reserving, pricing and underwriting, liquidity, and reinsurance risks, for Commercial medical, dental, group life, group disability, LTC, and LCP. 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;
- there was statutory transfer of risk for ceded reinsurance agreements; and
- the ACA and Medicare Advantage receivables and payables were appropriately calculated and reported.

Information reviewed included the following:

- SOX controls for claim liability and reserving processes;
- E&Y workpapers;

## AETNA LIFE INSURANCE COMPANY

- 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; and
- A.M. Best Reports.

L&E analysis of reserving risk analysis included:

- interviews with Company staff responsible for reserving and asset adequacy analysis;
- review of the Actuarial Opinion and Memorandum regarding cash flow testing, asset adequacy analysis, assumptions, and methodologies provided by the Company, and a review of experience studies.

L&E analysis of pricing and underwriting risks included:

- interviews with Company pricing actuaries in order to gain an understanding of the processes and procedures in place for ensuring pricing is reasonable;
- review of management reports, rate filing documentation and underwriting guidelines to verify the processes are working properly, and a review of select pricing data and processes.

L&E analysis of reinsurance risks included:

- assistance with control identification and review for reinsurance risks.

L&E analysis of ACA risks included:

- testing of certain controls regarding the Risk Adjustment.

Based upon the risk focused examination assessment and review, no material findings were noted which affected the Company's pricing and underwriting, capital and surplus, liquidity, reinsurance and certain ACA risks. The following was noted during a review of the Company's LTC reserves:

While the Company's Best Estimate incidence rates are based on Company experience by attained age, a better fitting assumption could be used. The assumptions used in the LTC Gross Premium Valuation (GPV), which is used to determine the need for a Premium Deficiency Reserve (PDR), (and the amount if needed), was based on actual experience though the rate slope by age was not as steep as experience might have suggested. A more appropriate claim incidence rate by attained age would be worth an approximate \$100 million increase in LTC reserves. According to Actuarial Standard or Practice (ASOP) No. 18, "Actuarial assumptions in combination should reflect the actuary's professional judgment of future events affecting the incidence and cost of LTC benefits. In setting actuarial assumptions, the actuary should consider available experience data

## AETNA LIFE INSURANCE COMPANY

and reasonably foreseeable future changes in experience over the term of the benefit promises. Appropriate provisions for adverse deviation should be considered."

According to SSAP No. 3 of the Manual, a Change in Accounting Estimate reflect, "changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements which require estimating the effects of future events. Accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained. A change in accounting estimate shall be included in the statement of income in the period when the change becomes known".

The Company reviews all its assumptions in the fourth quarter of each year. Prior to the fourth quarter 2022 review, it is recommended that the Company increase LTC reserves by \$100 million in accordance with ASOP No. 18, and record this change on the next statutory filing, in accordance with SSAP No. 3 of the Manual. This increase did not have a material impact on the Company's surplus as of December 31, 2020.

### MEDICAL LOSS RATIO

Within the "provision for experience rating refunds" liability, the Company reported \$114,101,966 for its statutory medical loss ratio (MLR) rebate 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.

<u>CAPITAL AND SURPLUS</u>	<u>\$5,163,628,586</u>
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The reconciliation of surplus for the period under examination, was as follows:

Surplus, as of December 31, 2015	\$3,770,758,869
Net income	\$8,577,584,601
Change in net unrealized capital gains (losses)	(\$86,132,377)
Change in net unrealized foreign exchange capital gain (loss)	(\$2,695,529)
Change in net deferred income tax	(\$78,613,603)
Change in nonadmitted assets	(\$488,902,285)
Change in liability for reinsurance in unauthorized and certified companies	(\$20,372,836)
Change in reserve on account of change in valuation basis	\$12,613,132
Change in asset valuation reserve	(\$76,475,290)
Surplus adjustment: Paid in	\$780,617,898
Dividends to stockholders	(\$7,865,000,000)
Aggregate write-ins for gains and losses in surplus	<u>\$640,246,006</u>
Surplus, December 31, 2020	<u>\$5,163,628,586</u>

## AETNA LIFE INSURANCE COMPANY

### RECOMMENDATIONS

Pg. RELATED PARTY AGREEMENTS

6 It is recommended that the Company ensure that intercompany agreements are in accordance with the Manual and CGS.

17 AGGREGATE RESERVES FOR ACCIDENT AND HEALTH CONTRACTS

Prior to the fourth quarter 2022 review, it is recommended that the Company increase LTC reserves by \$100 million in accordance with ASOP No. 18, and record this change on the next statutory filing, in accordance with SSAP No. 3 of the Manual.

### SUBSEQUENT EVENTS

- The amended and restated administrative services agreement between the Company and AHM was amended effective January 1, 2021.
- The Company received a non-cash capital contribution from Aetna Inc. on February 17, 2021 in the form of a 100% ownership interest in Aetna International LLC, an affiliated unaudited noninsurance holding company.
- Effective February 4, 2021 the Company entered into a quota share reinsurance agreement with funds withheld with Health Re, whereby the Company ceded a quota share portion of its liabilities for a certain group accident and health claims with a risk period that commenced on January 1, 2021.
- The Company executed a commercial revolving promissory note dated April 1, 2021, which the Company may advance to Aetna Inc. advances of up to \$850 million together with any related interest on the unpaid principal balance. The entire unpaid principal balance together with interest are due and payable on March 31, 2022.
- Effective November 1, 2021, the Company terminated its personnel services and expense reimbursement agreement with Aetna Health Inc. There is no financial impact as a result of the agreement termination.
- 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



## AETNA LIFE INSURANCE COMPANY

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 \$24,057,313,638, liabilities of \$18,893,685,052, and capital and surplus of \$5,163,628,586. During the period under examination, admitted assets increased \$2,843,210,368, liabilities increased \$1,450,340,652 and capital and surplus increased \$1,392,869,715.


AETNA LIFE INSURANCE COMPANY

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,

  
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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

