BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402
	:	and 1403 of the Insurance Holding
Application of Aetna Inc. in Support of	:	Companies Act, Article XIV of the
the Request for Approval to Acquire	:	Insurance Company Law of 1921, Act
Control of Humana Medical Plan of	:	of May 17, 1921, P. L. 682, as
Pennsylvania, Inc.	:	amended, 40 P.S. §§991.1401,
	:	991.1402 and 991.1403
	:	
	:	Order No. ID-RC-16-05

DECISION AND ORDER

AND NOW, on this 30th day of March, 2016, Teresa D. Miller, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

Identity of PA Domestic Insurer

1. Humana Medical Plan of Pennsylvania, Inc. ("HMPP") is a domestic for-profit health maintenance organization ("HMO") organized under the laws of Pennsylvania with its statutory home office in Mechanicsburg, Pennsylvania.

2. Humana Inc. ("Humana") is a foreign stock company organized under the laws of Delaware with its principal place of business in Louisville, Kentucky. Humana currently directly holds 100% of the issued and outstanding stock of HMPP.

3. The stock of Humana is publicly traded on the New York Stock Exchange.

4. No person controls 10% or more of the voting securities of Humana.

5. Humana is the sole ultimate controlling person of HMPP.

Identity of Applicant

6. Echo Merger Sub, Inc. ("Sub 1") is a newly created foreign stock company organized expressly for this transaction under the laws of Delaware with its principal place of business in Hartford, Connecticut.

7. Echo Merger Sub, LLC ("Sub 2") is a newly created foreign limited liability company organized expressly for this transaction under the laws of Delaware with its principal place of business in Hartford, Connecticut.

8. Aetna Inc. ("Aetna") is a domestic stock company organized under the laws of Pennsylvania with its principal place of business in Hartford, Connecticut. Aetna currently directly holds 100% of the issued and outstanding stock of Sub 1 and 100% of the membership interests in Sub 2.

9. The stock of Aetna is a publicly traded on the New York Stock Exchange.

10. No person controls 10% or more of the voting securities of Aetna.

Acquisition Filing

11. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.

12. On July 30, 2015, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an application (which together with all material received subsequently is hereinafter referenced as "Application") from Aetna for approval to acquire control of HMPP.

13. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

14. On August 15, 2015, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Aetna and such notice invited interested persons to submit comments to the Department regarding the Application for thirty days following

the date of the publication ("Comment Period").

15. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

16. As described in the Application, on July 2, 2015, Humana entered into an Agreement and Plan of Merger ("the Agreement") with Aetna, Sub 1 and Sub 2.

17. As described in the Application and pursuant to the Agreement, Sub 1 intends to merge with and into Humana, with Humana remaining as the survivor ("the 1st Merger").

18. As described in the Application and pursuant to the Agreement, immediately upon completion of the 1st Merger, Humana intends to merge with and into Sub 2, with Sub 2 remaining as the survivor and immediately changing its corporate name to Humana LLC (collectively referenced hereafter along with the 1st Merger as "the Mergers").

19. As described in the Application, in consideration for the Mergers, each outstanding share of Humana's common stock will be converted into the right to receive 0.8375 shares of Aetna's common stock along with $125.00 in cash.

20. As described in the Application, Aetna would fund the entire purchase price from a combination of cash on hand and by issuing approximately $16 billion of new term loans, debt and commercial paper.

21. As described in the Application and subsequent to the Mergers, Aetna would indirectly control 100% of issued and outstanding stock of HMPP.

22. As described in the Application, Aetna would become the ultimate controlling person of HMPP as a result of the Mergers.

Standards for Review

23. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.

24. An application for a change in control must be approved unless the Department finds any one of certain enumerated conditions to be present.

<u>Licensing Requirements</u>

25. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic HMO being acquired.

26. The minimum net worth required of a HMO is set out in Section 301.121 of Title 31 of the Pennsylvania Code (31 Pa. Code §301.121).

27. As described in the Application, upon completion of the Mergers, HMPP will continue to have a net worth in an amount sufficient to satisfy the minimum net worth requirement for a licensed HMO.

Competitive Impact

28. The acquisition of control of a domestic insurer is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein, as per 40 P.S. §991.1402(f)(1)(ii) (the "competitive standard").

29. In applying the competitive standard, the informational requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) are applicable.

30. Aetna complied with the informational requirements of the Insurance Holding Companies Act by filing a pre-acquisition notification in the format required by the National Association of Insurance Commissioners.

31. The Department's analysis of the applicable product and geographic markets, and the information submitted by Aetna, indicate that the default product markets (annual statement lines of business) and the default geographic market (state-wide) under Section 1403(d)(2)(iii)(B) of the Insurance Holding Companies Act are appropriate.

32. For all lines of business, except those identified below, the proposed acquisition of control qualifies for the exemptions set forth in Section 1403(b)(2)(v)(A)-(C) of the Insurance Holding Companies Act:

    a. Life and Health Reporters
        i. Accident & Health Group Policies Only
        ii. Non-Renewable for Stated Reasons Only
    b. Health Only Reporters
        i. Title XVIII Medicare

33. The Department examined whether the lines of business listed in paragraph 32 establish a prima facie violation of the competitive standard pursuant to Sections 1403(d)(2)(i) and 1403(d)(2)(ii) of the Insurance Holding Companies Act.

34. For the lines of business listed in paragraph 32 above, the market share percentages of Aetna and Humana and their Pennsylvania operating insurance subsidiaries do not represent a prima facie violation of the competitive standard of Section 1403(d)(2)(i) of the Insurance Holding Companies Act.

35. With respect to the lines of business listed in paragraph 32 above, there is no prima facie violation of the competitive standard of Section 1403(d)(2)(ii) of the Insurance Holding Companies Act.

36. Section 1403(d)(2)(iv) of the Insurance Holding Companies Act further provides that even if an acquisition is not prima facie violative of the competitive standard under Section 1403(d)(2)(i) or (ii) as described above, the requisite anti-competitive effect may be established based upon other substantial evidence. Relevant factors for making such determination include, but are not limited to, the following: market shares, volatility of ranking of market leaders, number of competitors, concentration, trend of concentration in the industry and ease of entry and exit into the market.

37. Based upon the information submitted by Aetna, the Department has not found that there is substantial evidence of anti-competitive effect. To the contrary, Aetna has submitted evidence that the proposed acquisition of control will deliver important efficiencies and other benefits to Pennsylvania subscribers that cannot otherwise feasibly be achieved. As set forth in the Application, the proposed acquisition of control will combine Aetna and Humana's complementary businesses to offer a broader array of plans while reducing operating expenses. Aetna expects to leverage its successful merger experience to produce significant cost synergies. This will be achieved while improving resource utilization, strengthening medical management, and expanding value-based provider relationships.

Financial Condition of Applicant

38. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).

39. The Department has reviewed the financial information submitted by Aetna.

40. The financial condition of Aetna would not pose any impediments to the change in control nor jeopardize the financial condition of HMPP.

Plans for the Acquired Insurer

41. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.

42. In particular, the Department reviewed the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, to determine whether it is:

    a. Unfair or unreasonable;

    b. Fails to confer a benefit upon policyholders; or

    c. Not in the public interest.

43. As stated in the Application, Aetna has no future plans or proposals to liquidate HMPP, to sell its assets, to merge or consolidate it with any person or persons, or to make any other material change in its business operations or corporate structure.

44. There is no basis in the record from which it may be concluded that the plans or proposals which the acquiring party has for the insurer are unfair or unreasonable or fails to confer a benefit upon policyholders or are not in the public interest.

Management

45. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurer.

46. Biographical affidavits for all directors and executive officers of Aetna were reviewed by the Department.

47. The Department is satisfied that the persons who would control the operations of HMPP have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

48. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.

49. There is insufficient evidence in the record from which it may be concluded that the merger will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

50. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.

51. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.

52. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the change in control of HMPP.

2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:

   a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which they are presently licensed;

   b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;

   c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;

   d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;

   e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control; or,

f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of HMPP.

4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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the Request for Approval to Acquire	:	Insurance Company Law of 1921, Act
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Pennsylvania, Inc.	:	amended, 40 P.S. §§991.1401,
	:	991.1402 and 991.1403
	:	
	:	Order No. ID-RC-16-05

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order:

The application of Aetna Inc. ("Aetna") in support of the request for approval to acquire control of Humana Medical Plan of Pennsylvania, Inc. ("HMPP") as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. Aetna shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

2. For three (3) years following the effective date of the acquisition, HMPP will be prohibited from declaring or paying any dividends, returns of capital or any other type of distributions to Aetna, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq.

3. For three (3) years following the effective date of the acquisition, HMPP shall not voluntarily withdraw its certificate of authority to engage in the business of insurance in the Commonwealth of Pennsylvania.

4. For three (3) years following the effective date of the acquisition, HMPP shall not attempt to or actually redomesticate to another jurisdiction.

5. The United States Department of Justice continues to examine the transaction. The approval granted by this Order shall not become effective, and shall not be acted upon by the parties to the transaction, unless and until the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, expire or are terminated.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one year limitation does not apply to any conditions prescribed by the Department in the Order.

Teresa D. Miller
Insurance Commissioner
Commonwealth of Pennsylvania