Examination Warrant Number 11-00001-72052-R1

Report of Examination of

Aetna Health Insurance Company
Blue Bell, Pennsylvania

As of December 31, 2011

Aetna Health Insurance Company

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Harrisburg, Pennsylvania
April 17, 2013

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 11-00001-72052-R1, dated, February 25, 2011, an examination was made of

Aetna Health Insurance Company, NAIC Code: 72052

a Pennsylvania domiciled stock life, accident, and health insurance company, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 980 Jolly Road, Blue Bell, Pennsylvania 19422.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2006. This multi-state examination of the Company covers the five-year period from January 1, 2007 through December 31, 2011. Material subsequent events through the date of this report were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a factual disclosure of other significant regulatory information.

The following Pennsylvania domestic affiliated insurance companies were also examined concurrently with this examination:

Company	NAIC Code
Aetna Health Inc. (a Pennsylvania corporation)	95109
Aetna Better Health Inc. (a Pennsylvania corporation)	13735

In addition to the examinations noted above, other affiliated insurance companies examined as of December 31, 2011 by the states of New Jersey, Texas, and Missouri included the following:

Company	NAIC Code
Aetna Health Inc. (a New Jersey corporation)	95287
Aetna Dental Inc. (a New Jersey corporation)	11183
Aetna Health Inc. (a Texas corporation)	95490
Aetna Dental Inc. (a Texas corporation)	95910
Missouri Care, Incorporated	12913

Use of Others Work

The Connecticut Insurance Department ("CID") performed an examination of its domestic insurance companies that are part of the Aetna Insurance Group ("Aetna Group") as of December 31, 2010. Many of the areas and the related processes reviewed during that examination are common to all the companies in the Aetna Group, including the Pennsylvania companies examined as part of this examination. Those areas included shared information technology ("IT") systems, enterprise risk management, internal audit functions, premiums and claims systems. In an effort to increase efficiency and avoid duplication of work, this examination utilized some of the work performed by the CID in its 2010 examination.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of KPMG LLP provided an unqualified opinion on the financial statements based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was also reviewed during the examination and incorporated into the examination working papers.

HISTORY

The Company was incorporated in 1938 and commenced business in 1956. Previous names of the Company included St. Paul Health & Accident Company, St. Paul Hospital and Casualty company and, in 1977, Omaha Financial Life Insurance company.

In 1989, the Company entered into an assumption agreement and transferred and assigned all its in-force credit life business and mortgage policies to its former parent company, United Omaha Life Insurance Company and two unaffiliated companies. The Company ceased writing business prior to the transfer and remained inactive until its purchase by U.S. Healthcare, Inc., on January 6, 1993.

The Company adopted a new name, Corporate Health Insurance Company, on February 4, 1993.

The Company was a Minnesota domiciled insurer until July 7, 1997, when it became a Pennsylvania domiciled insurer by order of the Pennsylvania Insurance Commissioner, based on an application received April 9, 1997.

The ultimate parent of the Company was U.S. Healthcare, Inc., from January 6, 1993 until July 18, 1996 when U.S. Healthcare, Inc. merged with Aetna Inc. in 1996. The surviving company was Aetna Inc.

Effective April 21, 2006, Aetna Health Inc., a corporation of the State of Louisiana, was merged into the Company (the Company's name at that time was Corporate Health Insurance Company) pursuant to the provisions of the Business Corporation Law of Louisiana and the Business Corporation Law of 1998 of the Commonwealth of Pennsylvania.

Effective January 1, 2008, the Company adopted its present name, Aetna Health Insurance Company.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, the Company's total capitalization was $28,196,563 consisting of 25,010 shares of issued and outstanding common stock with a par value of $100 per share amounting to common capital stock of $2,501,000, gross paid in and contributed surplus of $22,516,449, aggregate write-ins for special surplus funds of $22,998 and $3,156,116 of unassigned funds ("surplus").

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, Subsection (a), Paragraph (1) life and annuities and (2) accident and health.

In 1999, the NAIC and the Commonwealth of Pennsylvania adopted Risk-Based Capital ("RBC") standards for health organizations. The RBC standards are designed to identify weakly capitalized companies by comparing each company's adjusted capital and surplus to its required capital and surplus ("RBC ratio"). The RBC ratio is designed to reflect the risk profile of a company. As of December 31, 2011, the Company had capital and surplus that exceeded the highest threshold specified by the RBC rules.

STOCKHOLDER

The Company is a Pennsylvania domestic for profit insurer and is a wholly-owned subsidiary of Aetna Inc.

The following represents the stockholder dividends paid to and capital contributions received from the Company's parent from 2007 through December, 2012:

Year	Dividends Declared	Less: Return of Capital	Stockholder Dividends
2007	$6,700,000	$ 0	$6,700,000
2008	40,900,000	0	40,900,000
2009	24,700,000	5,706,580	18,993,420
2010	0	0	0
2011	11,000,000	2,700,000	8,300,000
2012	0	0	0
Totals	$83,300,000	$8,406,580	$74,893,420

Year	Capital Contributions
2007	$ 0
2008	0
2009	0
2010	7,000,000
2011	0
2012	15,000,000
Totals	$22,000,000

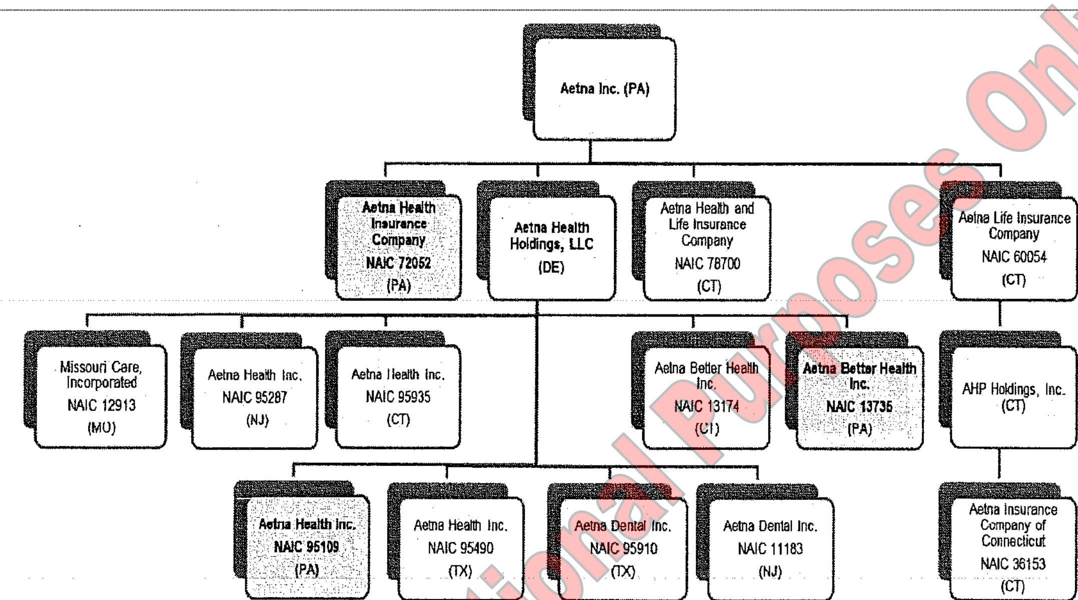
INSURANCE HOLDING COMPANY SYSTEM

The Company became a member of an insurance holding company system through its purchase by Aetna, Inc. (formerly U.S. Healthcare, Inc.), a Pennsylvania domiciled corporation, on January 6, 1993. Pursuant to the requirements of 40 P.S. §§ 991.1401-991.1413, an Insurance Holding Company System Registration Statement and various amendments thereto, has been timely filed with the Pennsylvania Insurance Department during the examination period.

The Company reported no investments in subsidiaries during the examination period.

ORGANIZATIONAL CHART

The following is an abridged organizational chart depicting the Company and selected other companies within the holding company system as of December 31, 2011[1].



1 All holdings are 100%

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of December 31, 2011:

Name and Address	Principal Occupation
Gerard Vincent Carey (*) Cherry Hill, NJ	C.P.A - Retired
John Patrick Elliott Blue Bell, PA	Attorney
Mara Pauline Jacobowitz North Woodmere, NY	Homemaker
Gregory Stephen Martino Hummelstown, PA	Secretary, Aetna Health Insurance Company
Felicia Farr Norwood Chicago, IL	Health Insurance Executive, Aetna Inc.
Michael Gerard Ungvary Malvern, PA	Healthcare Management, Aetna Inc.
Janice Christine Washeleski Trappe, PA	Marketing Head of Sales and Service, Aetna Inc.
Patrick Rodney Young New Hope, PA	President, Aetna Health Insurance Company

(*) Removed on July 2, 2012; Alice Stallsmith Wilson and Thomas George Wilson were appointed on July 2, 2012, both of whom are retired.

The members of the Board are elected annually to serve a term of one year.

The Company has a conflict of interest policy, which appears to adequately address any conflict of interest concerns. There were no conflicts of interest reported by the members of the Board.

COMMITTEES

The Company established an audit committee during the examination period.

The following are the members of the Audit Committee as of December 31, 2011:

Michael G. Ungvary (Chairperson)
Gregory S. Martino

OFFICERS

The following officers were appointed and serving in accordance with the Company's By-laws as of December 31, 2011:

Name	Title
Patrick Rodney Young	President
Gregory Stephen Martino	Secretary
Jennifer Anne Palma	Principal Financial Officer and Controller
Elaine Rose Cofrancesco	Treasurer
Michael William Fedyna	Chief Actuary
David William Braun #	Assistant Controller

replaced by Brian C. Winters on April 30, 2012

CORPORATE RECORDS

MINUTES

The Company's stockholder meetings and board of directors meetings all appear to have been held within the confines of the Company's Articles of Incorporation and By-laws. The annual meetings held by the sole stockholder were all held by Written Consent of the Sole Stockholder in Lieu of an Annual Meeting and this was the procedure used to elect the members of the Board.

ARTICLES OF INCORPORATION

In 2007, the Articles of Incorporation were amended to reflect the Company's name change.

BY-LAWS

In 2007, the By-Laws were amended to reflect the Company's name change.

SERVICE AND OPERATING AGREEMENTS

The Company had the following service and operating agreements with affiliates as of December 31, 2011:

AGREEMENT WITH AETNA HEALTH MANAGEMENT, LLC.

The Company and Aetna Health Management, LLC ("AHM"), indirectly a wholly-owned subsidiary of Aetna Inc., are parties to an administrative services agreement dated January 1, 2004 (and as amended on February 1, 2008). Under the terms of the agreement, AHM provides certain administrative services, including accounting, finance, human resources, general operational services, purchasing, legal services, data processing, claims processing and payment, premium processing, policyholder services and marketing. The Company remits a percentage of its earned commercial, Medicaid and Medicare premium revenue, as applicable, to AHM as a fee, subject to an annual true-up mechanism as defined in the agreement. The true-up is due to be settled by April 15^{th} of the following contract year (which is January 1 to December 31 annually). The terms of settlement require that these amounts be settled within 45 days after the end of the calendar quarter.

This agreement obligates the Company to pay a fee for such services, including commission expense. This agreement also provides for interest on administrative services outstanding balances. Under this agreement, the amount of fees incurred for the years 2011 and 2010 were \$13,823,724 and \$14,722,079, respectively. Interest earned on amounts due from affiliates was \$7,617 in 2011 and \$16,201 in 2010. Interest incurred on amounts due to affiliates related to this agreement was \$2,157 in 2011 and \$16,108 in 2010.

TAX SHARING AGREEMENT

The Company participates in a tax sharing agreement, effective January 1, 2006, with its parent Aetna Inc. ("Aetna") and Aetna's other subsidiaries. This agreement provides that the subsidiaries of Aetna shall share in and settle state and federal income taxes where a consolidated return is filed. The basis of each subsidiary's liability to Aetna is generally computed as if the subsidiary were filing a separate, standalone federal and state income tax return. The agreement is continuous and can be terminated by written agreement by both parties, withdrawal from

Aetna's affiliated group by the Company and the discontinuance of filing consolidated tax returns. All Federal income tax receivables/payables are due from/due to Aetna.

INSOLVENCY AGREEMENTS

The Company has insolvency agreements, all of which were entered into in 2008 or 2009, with the following affiliated Health Maintenance Organizations (HMO):

Aetna Health Inc. (a Pennsylvania corporation)
Aetna Health Inc. (a New Jersey corporation)
Aetna Health Inc. (a Maine corporation)
Aetna Health Inc. (a Michigan corporation)
Aetna Health Inc. (a Florida corporation)
Aetna Health Inc. (a Texas corporation)
Aetna Health of California Inc. (a California corporation)

These agreements provide that in the event that the HMO ceases operations or becomes insolvent, the Company will continue to pay benefits for any members confined as inpatients on the date of insolvency until their discharge. These agreements also provide that the Company will continue benefits for any member until the end of the contract period for which premium has been paid, but for no longer than thirty-one days. The Company will also make available to members, for a period of thirty-one days, replacement insurance policies.

COMMITMENTS TO MAINTAIN CAPITAL

The Company, at the request of the State of New Jersey, entered into a commitment in 1998 to maintain capital and surplus within Aetna Health Inc. (a New Jersey corporation) ("AHI-NJ") that meets or exceeds the requirements of the State of New Jersey so long as AHI-NJ continues to be an affiliate of the Company. This requirement was met in 2011 and 2010.

LITIGATION EXPOSURES COVERAGE

The Company has coverage for certain litigation exposures ($10,000,000 per claim and in the aggregate including defense costs) through, Aetna Insurance Company of Connecticut, an affiliated captive insurance company.

REINSURANCE

CEDED

The Company did not report any ceded reinsurance balances in its financial statements as of year-end 2011.

ASSUMED

Reinsurance Agreement with Aetna Health Inc.

The Company has a reinsurance agreement with Aetna Health Inc. (a New Jersey corporation) ("AHI-NJ") to assume group health insurance business. Premiums assumed at December 31, 2011 and 2010 were $24,368,489 and $29,909,564, respectively. At December 31, 2011 and 2010, the reinsurance reserve balances on paid and unpaid losses related to this agreement were $2,228,761 and $4,988,959, respectively.

Assignment and Assumption Agreement with Aetna Life Insurance Company

In addition, the Company entered into an assignment and assumption agreement with Aetna Life Insurance Company ("ALIC"), a wholly-owned subsidiary of Aetna. Under this agreement, the Company agrees to assume all of ALIC's obligations under a reinsurance agreement with Aetna Health Inc. (a Pennsylvania corporation) ("AHI-PA"). This agreement reduces AHI-PA's risk of catastrophic loss for Arizona and Nevada members. Under the agreement, the Company is liable for 100% of the Arizona and Nevada incurred claims during the contract year which are in excess of 96% of Arizona and Nevada's earned premiums for such contract year. Premiums assumed under this agreement were $149,129 and $210,063 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the Company did not have a reinsurance reserve balance on paid and unpaid losses related to this agreement.

Assignment and Assumption Agreement with Aetna Health Inc.

The Company also entered into an assignment and assumption agreement with Aetna Health Inc. (a Washington corporation) ("AHI-WA"), indirectly a wholly-owned subsidiary of Aetna. Under this agreement, the Company agreed to assume all of AHI-WA's liabilities effective July 1, 2010. As consideration, the Company received $114,708 from AHI-WA.

Insolvency Coverage for Aetna Dental Inc.

The Company provides insolvency coverage for Aetna Dental Inc. (a Texas corporation) ("ADI-TX"). Protection against the risk of insolvency is provided to subscribers and their dependents for eligible expenses for dental services following cessation of operations. Based on a premium of $0.15 per member per month, related to the ADI-TX's North Carolina membership, premiums assumed for these services were $47,445 and $47,826 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the Company did not have a reinsurance reserve balance on paid and unpaid losses related to this arrangement.

Terminated Reinsurance Agreement with Aetna Health Inc.

The Company was party to specific excess loss reinsurance agreements with various affiliated HMO and PPO organizations, including Aetna Health Inc. (a Pennsylvania corporation) ("AHI-PA"). The agreements provided for the Company to reimburse AHIC-PA and the other named affiliates for 100% of eligible losses, as defined, paid on behalf of any insured during the policy period. Reimbursement was subject to a specific deductible of $500,000. The policy period was defined as the twelve-month period beginning on the effective date of this agreement. The Company received approvals to terminate these agreements effective December 31, 2007.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in 46 states and the District of Columbia and writes in Arizona, Colorado, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kansas, Maryland, Massachusetts, Missouri, Nevada, New Jersey, Ohio, Pennsylvania, Tennessee, Texas, and Virginia.

Concentration of Business by States

The highest concentration of 2011 direct premium income was in the states of New Jersey $30.0 million (38.5%), Pennsylvania $18.8 million (24.1%), and Texas $15.5 million (19.8%).

Lines of Business / Operations

As shown below, the majority (99.8%) of the Company's 2011 net premiums were from the comprehensive hospital and medical (accident and health) line. Included in the direct and assumed premium is $24.6 million of assumed premiums. All of the reinsurance assumed premiums were from affiliates, with the majority (99.2%) assumed from Aetna Health Inc. (a New Jersey corporation).

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of total
December 31, 2011				
Comprehensive (hospital and medical)	$ 102,398,385	$ 0	$ 102,398,385	99.8%
Other health	196,574	0	196,574	0.2%
Totals	$ 102,594,959	$ 0	$ 102,594,959	100.0%

The Company's earned premiums during the examination period were primarily comprised of the non-referred portion of the Quality Point-of-Service product of Aetna's Health Maintenance Organizations affiliates and assumed reinsurance from affiliates.

MEMBERSHIP

As noted below, the Company's total member enrollment decreased by 10.9% from 2007 to 2011. During the same period, total member months enrollment decreased 9.7%.

Description	5-Year Change	2011	2010	2009	2008	2007
Total members at end of period (enrollment)		546,182	548,544	598,611	614,701	612,746
% Change from Prior Year-end & 5-Year	-10.9%	-0.4%	-8.4%	-2.6%	0.3%	
Total member months (enrollment)		6,643,507	6,526,973	7,199,596	7,439,812	7,361,015
% Change from Prior Year-end & 5-Year	-9.7%	1.8%	-9.3%	-3.2%	1.1%	

The decline in the membership reflects the general economic conditions of the country as the economy continues to impact the buying behavior of the Company's clients causing increased competitive pressures affecting the ability to obtain new clients and retain existing clients.

SIGNIFICANT OPERATING TRENDS

The Company reported the following key financial statement balances during the period under examination:

	2011	2010	2009	2008	2007
Admitted Assets	$ 46,231,517	$ 52,194,632	$ 40,794,984	$ 66,224,188	$ 80,278,270
Liabilities	$ 18,034,954	$ 26,122,000	$ 23,605,774	$ 26,162,071	$ 39,233,059
Capital and Surplus Funds	$ 28,196,563	$ 26,072,632	$ 17,189,210	$ 40,062,117	$ 41,045,211
Net Premium Income	$102,594,959	$109,310,314	$109,603,279	$174,343,683	$180,978,049
Benefits to Members	$ 53,720,291	$ 51,138,437	$ 63,960,531	$ 65,186,753	$ 64,973,497
Net Investment Income	$ 1,670,505	$ 1,727,856	$ 2,147,331	$ 3,114,539	$ 3,076,341
Net Income	$ 13,127,078	$ 7,976,187	$ 1,912,662	$ 37,974,107	$ 19,481,594

Loss Experience – Underwriting Gain/ (Loss) By Line of Business

As noted below, the Company reported an underwriting gain in 2011 on all lines of business it writes.

Line	Total	Comprehensive (Hospital & Medical)	Federal Employees Health Benefit Plan	Other Health
Net premium income	$102,594,959	$102,398,385	$ 0	$196,574
Total revenues	$102,594,959	$102,398,385	$ 0	$196,574
Hospital/medical benefits	53,720,291	53,737,822	(17,531)	0
Incentive pool; withhold adjustments and bonus amounts	0	0	0	0
Subtotal	53,720,291	53,737,822	(17,531)	0
Net reinsurance recoveries	(14,611,460)	(14,611,460)	0	0
Total hospital and medical	68,331,751	68,349,282	(17,531)	0
Claims adjustment expenses including cost containment expenses	2,709,829	2,709,829	0	0
General administrative expenses	13,943,496	13,943,496	0	0
Total underwriting deductions	84,985,076	85,002,607	(17,531)	0
Net underwriting gain or (loss)	$17,609,883	$17,395,778	$ 17,531	$196,574

ACCOUNTS AND RECORDS

The Company maintains its accounts and records at its home office in Blue Bell, Pennsylvania, as well as in its affiliate's home office in Hartford, Connecticut through an administrative services agreement with Aetna Health Management (AHM), LLC. The Company has its accounting, premium, and claim processing records kept on an automated and integrated accounting system with respect to the general ledger, trial balance, receivables, and payables. The receipt of premium and payment of claims are handled by AHM with cash due to and due from the Company settled through an inter-company receivable and payable system.

PENDING LITIGATION

A review of the Company's legal representation letter indicates that there was no other material current, pending, or threatened litigation, other than claim litigation, which is considered in the normal course of business.

FINANCIAL STATEMENTS

The financial condition of the Company as of December 31, 2011 and the results of its operations for the five-year period under examination are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	2011	2010	2009	2008	2007
Bonds	$ 39,699,358	$ 34,336,275	$ 32,695,719	$ 41,222,170	$ 54,840,682
Cash, cash equivalents and short-term investments	5,550,708	15,426,625	3,292,800	20,951,600	10,229,164
Secutiries lending reinvested collateral assets	0	1,454,608	0	0	0
Subtotal, cash and invested assets	45,250,066	51,217,508	35,988,519	62,173,770	65,069,846
Investment income due and accrued	449,225	560,736	541,356	546,110	839,813
Other amounts receivable under reinsurance contracts	15,619	19,455	137,184	11,315	1,440,406
Current federal and foreign income tax recoverable and interest thereon	232,025	0	3,113,926	2,742,093	8,966,243
Net deferred tax asset	102,774	108,703	190,216	270,407	396,562
Guaranty funds receivable or on deposit	2,131	3,737	5,342	7,067	8,372
Receivable from parent, subsidiaries and affiliates	0	0	26,000	0	2,197,407
Aggregate write-ins for other than invested assets	179,677	284,493	792,441	473,426	1,359,621
Total	$ 46,231,517	$ 52,194,632	$ 40,794,984	$ 66,224,188	$ 80,278,270
Claims unpaid	$ 12,698,227	$ 14,130,262	$ 18,234,012	$ 19,291,166	$ 34,738,209
Unpaid claims adjustment expenses	240,215	298,359	345,350	340,086	436,224
Aggregate health claim reserves	190,453	211,262	272,422	357,619	637,486
General expenses due or accrued	1,478,927	1,270,959	1,087,749	1,894,034	1,419,797
Current federal and foreign income tax payable and interest thereon	0	1,574,859	0	0	0
Remittances and items not allocated	0	0	0	3,252	0
Amounts due to parent, subsidiaries and affiliates	1,397,413	5,151,972	1,665,899	2,275,572	1,001
Payable for securities lending	0	1,454,608	0	0	0
Aggregate write-ins for other liabilities	2,029,719	2,029,719	2,000,342	2,000,342	2,000,342
Total liabilities	18,034,954	26,122,000	23,605,774	26,162,071	39,233,059
Aggregate write-ins for special surplus funds	22,998	0	0	0	0
Common capital stock	2,501,000	2,501,000	2,501,000	2,501,000	2,501,000
Gross paid in and contributed surplus	22,516,449	25,216,449	18,216,449	23,923,029	23,923,029
Aggregate write-ins for other than special surplus funds	0	0	19,169	0	0
Unassigned funds (surplus)	3,156,116	(1,644,817)	(3,547,408)	13,638,088	14,621,182
Total capital and surplus	28,196,563	26,072,632	17,189,210	40,062,117	41,045,211
Totals	$ 46,231,517	$ 52,194,632	$ 40,794,984	$ 66,224,188	$ 80,278,270

Comparative Statement of Income
For the Year Ended December 31,

	2011	2010	2009	2008	2007
Net premium income	$ 102,594,959	$ 109,310,314	$ 109,603,279	$ 174,343,683	$ 180,978,049
Total revenues	102,594,959	109,310,314	109,603,279	174,343,683	180,978,049
Hospital/medical benefits	53,720,291	51,057,931	63,898,636	65,110,324	64,498,637
Emergency room and out-of-area	0	80,506	61,895	76,429	474,860
Subtotal (hospital and medical)	53,720,291	51,138,437	63,960,531	65,186,753	64,973,497
Net reinsurance recoveries	(14,611,460)	(31,331,817)	(30,274,032)	(34,646,069)	(69,851,178)
Total hospital and medical	68,331,751	82,470,254	94,234,563	99,832,822	134,824,675
Claims adjustment expenses	2,709,829	2,634,376	1,279,211	1,303,735	1,286,344
General administrative expenses	13,943,496	14,849,594	15,123,294	24,702,420	16,937,365
Total underwriting deductions	84,985,076	99,954,224	110,637,068	125,838,977	153,048,384
Net underwriting gain or (loss)	17,609,883	9,356,090	(1,033,789)	48,504,706	27,929,665
Net investment income earned	1,670,505	1,727,856	2,147,331	3,114,539	3,076,341
Net realized capital gains or (losses)	95,139	178,372	413,765	590,313	(770,771)
Net investment gains or (losses)	1,765,644	1,906,228	2,561,096	3,704,852	2,305,570
Aggregate write-ins for other income or expenses	0	0	0	0	(1,500)
Net income or (loss) before federal income taxes	19,375,527	11,262,318	1,527,307	52,209,558	30,233,735
Federal income taxes incurred	6,248,449	3,286,131	(385,355)	14,235,451	10,752,141
Net income	$ 13,127,078	$ 7,976,187	$ 1,912,662	$ 37,974,107	$ 19,481,594

Comparative Statement of Capital and Surplus
For the Year Ended December 31,

	2011	2010	2009	2008	2007
Capital and surplus, December 31, previous year	$ 26,072,632	$ 17,189,210	$ 40,062,117	$ 41,045,211	$ 27,869,009
Net income or (loss)	13,127,078	7,976,187	1,912,662	37,974,107	19,481,594
Change in net unrealized capital gains and (losses)	1,808	5,404	(3,496)	(17,425)	232,449
Change in net deferred income tax	11,616	(74,942)	(42,520)	540,128	177,931
Change in nonadmitted assets	(39,569)	15,507	(58,722)	(675,667)	(15,772)
Surplus adjustments:					
Paid in	(2,700,000)	7,000,000	(5,706,580)	0	0
Dividends to stockholders	(8,300,000)	0	(18,993,420)	(40,900,000)	(6,700,000)
Aggregate write-ins for gains or (losses) in surplus	22,998	(6,038,734)	19,169	2,095,763	0
Net change in capital and surplus	2,123,931	8,883,422	(22,872,907)	(983,094)	13,176,202
Capital and surplus, December 31, current year	$ 28,196,563	$ 26,072,632	$ 17,189,210	$ 40,062,117	$ 41,045,211

Comparative Statement of Cash Flow
For the Year Ended December 31,

	2011	2010	2009	2008	2007
Cash from Operations					
Premiums collected net of reinsurance	$ 102,598,795	$ 109,428,043	$ 109,477,410	$ 175,772,774	$ 179,537,643
Net investment income	1,951,463	1,740,142	2,178,529	3,446,046	3,054,290
Total	104,550,258	111,168,185	111,655,939	179,218,820	182,591,933
Benefit and loss related payments	69,784,595	95,896,034	95,376,914	115,559,732	139,994,839
Commissions, expenses paid and aggregate write-ins for deductions	16,503,501	17,347,751	17,203,526	25,628,056	19,520,804
Federal and foreign income taxes paid (recovered)	8,130,284	(4,520,152)	115,780	6,258,371	(4,060,626)
Total deductions	94,418,380	108,723,633	112,696,220	147,446,159	155,455,017
Net cash from operations	10,131,878	2,444,552	(1,040,281)	31,772,661	27,136,916
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	14,070,233	32,502,577	15,468,217	40,397,992	18,100,224
Net gain or (loss) on cash, cash equivalents and short term investments	1	66	119	96	217
Miscellaneous proceeds	1,454,608	0	0	0	0
Total investment proceeds	15,524,842	32,502,643	15,468,336	40,398,088	18,100,441
Cost of investments acquired (long-term only):					
Bonds	19,429,892	33,864,373	6,430,640	25,911,043	22,358,331
Other invested assets	0	1,454,608	0	0	0
Total investments acquired	19,429,892	35,318,981	6,430,640	25,911,043	22,358,331
Net cash from investments	(3,905,050)	(2,816,338)	9,037,696	14,487,045	(4,257,890)
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Capital and paid in surplus, less treasury stock	(2,700,000)	7,000,000	(5,706,580)	0	0
Dividends to stockholders	(8,300,000)	0	(18,993,420)	(40,900,000)	(6,700,000)
Other cash provided or (applied)	(5,102,745)	5,505,611	(956,215)	5,362,730	(12,517,466)
Net cash from financing and miscellaneous sources	(16,102,745)	12,505,611	(25,656,215)	(35,537,270)	(19,217,466)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(9,875,917)	12,133,825	(17,658,800)	10,722,436	3,661,560
Cash and short-term investments:					
Beginning of the year	15,426,625	3,292,800	20,951,600	10,229,164	6,567,604
End of the year	$ 5,550,708	$ 15,426,625	$ 3,292,800	$ 20,951,600	$ 10,229,164

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

The book value of the Company's invested assets as of December 31, 2011, as shown below, totaled $45,250,066 and consisted of bonds, cash equivalents, and short-term investments.

Description	Amount	Percentage
Bonds	$ 39,699,358	87.7%
Cash equivalents	2,973,185	6.6%
Short-term investments	2,577,523	5.7%
Totals	$ 45,250,066	100.0%

The Company's invested assets had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1-Highest quality	$ 40,231,960	88.9%
2-High quality	1,498,146	3.3%
3-Medium quality	3,519,960	7.8%
Totals	$ 45,250,066	100.0%

As noted above, approximately 92.2% of the Company's investment portfolio received a National Association of Insurance Commissioners ("NAIC") "highest" or "high quality" rating. Specifically, 88.9% of the portfolio was rated "highest quality" and 3.3% of the portfolio was rated "high quality". The remaining investments, approximately 7.8%, were classified as "medium quality".

The contractual or expected maturities of bonds, cash equivalents and short-term investments at December 31, 2011 were as follows:

Years to Maturity	Amount	Percentage
1 Year or Less	$ 9,242,690	20.4%
2 to 5 Years	15,487,147	34.2%
6 to 10 Years	8,597,862	19.0%
Over 10 Years	11,922,367	26.4%
Totals	$ 45,250,066	100.0%

The maturity for a mortgage pass-through security, included in U.S. Government and U.S. special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions, is not based on stated maturity, but instead is based on prepayment assumptions. Prepayment assumptions are calculated utilizing published repayment factors that estimate the prepayment rates on the mortgages in the Federal National Mortgage Association ("FNMA") and Government National Mortgage Association ("GNMA") pools.

The Company's bond portfolio is spread among the following categories: Industrial and Miscellaneous 42.25%; U.S. Special Revenue and Special Assessment 36.95%; Government 14.03%; and U.S. States Territories and Possessions 6.77%. Investments in foreign bonds accounted for 10.07% of the bond portfolio and 8.65% of total admitted assets. Cash equivalents consisted of short-term bonds and commercial paper.

On December 31, 2011, all of the Company's bonds were held under a custodian agreement with State Street Bank and Trust Company in Westwood, Massachusetts. However, the agreement did not meet all the requirements of 31 Pa. Code, Chapter 148a3. It was recommended that the custodian agreement with State Street Bank and Trust Company be amended to contain all of the requirements of 31 Pa. Code, Chapter 148a3. The Company complied with this recommendation in 2013.

The Company has a written investment policy as required by 40 P.S. § 504.1(c). The investment policy is approved by the Board on an annual basis. It appears that the Company is following its investment policy.

LIABILITIES

CLAIMS UNPAID AND UNPAID CLAIMS ADJUSTMENT EXPENSES

At December 31, 2011, the Company reported an unpaid claims liability of $12,698,227, which included a liability for claims reported in process of adjustment (case reported) of $122,506 and an incurred but unreported claim liability (IBNR) of $12,575,721. The following schedule reflects the Company's reserves for case reported and IBNR by line of business:

		Line of Business	
Description	**Total**	**Comprehensive (Hospital and Medical)**	**Federal Employees Health Benefits Plan**
Case Reported			
Direct (reported in process of adjustment)	$ 122,506	$ 122,502	$ 4
Reinsurance assumed (reported in process of adjustment)	0	0	0
Reinsurance ceded (reported in process of adjustment)	0	0	0
Net (reported in process of adjustment)	**122,506**	**122,502**	**4**
Incurred but Unreported			
Direct (incurred but unreported)	10,346,960	10,344,148	2,812
Reinsurance assumed (reported in process of adjustment)	2,228,761	2,228,761	0
Reinsurance ceded (incurred but unreported)	0	0	0
Net (incurred but unreported)	**12,575,721**	**12,572,909**	**2,812**
Direct (totals)	10,469,466	10,466,650	2,816
Reinsurance assumed (totals)	2,228,761	2,228,761	0
Reinsurance ceded (totals)	0	0	0
Net (totals)	**$12,698,227**	**$12,695,411**	**$2,816**

Hospital and medical costs consist principally of fee-for-service medical claims and capitation costs. Claims unpaid include the Company's estimate of payments to be made on claims reported but not yet paid and for health care services rendered to enrollees but not yet reported to the Company as of the financial statement date. Such estimates are developed using actuarial principles and assumptions, which consider, among other things, historical and projected claim submission and processing patterns, medical cost trends, historical utilization of health care services, claim inventory levels, changes in membership and product mix, seasonality and other relevant factors. Capitation costs, which are recorded in hospital and medical expenses in the statutory financial statements, represent contractual monthly fees paid to participating physicians and other medical providers for providing medical care, regardless of the medical services provided to the enrollee.

The Company uses the triangulation method to estimate reserves for IBNR. The method of triangulation makes estimates of completion factors which are then applied to the total paid claims (net of coordination of benefits) to date for each incurred month. This provides an estimate of the total projected incurred claims and total amount outstanding or claims incurred but not reported (claims unpaid). For the most current dates of service where there is insufficient paid claim data to rely solely on the triangulation method, the Company examines cost and utilization trends as well as environmental factors, plan changes, provider contracts, changes in membership and/or benefits, and historical seasonal patterns to estimate the reserve required for these months.

At December 31, 2011, the Company also reported an unpaid claims adjustment expense liability of $240,215. Claims adjustment expenses, which include cost containment expenses, represent the costs incurred related to the claim settlement process such as costs to record, process and adjust claims.

The Company's appointed actuary, Mr. Michael W. Fedyna, who is an employee of the Company, provided an unqualified actuarial opinion on all of the claims and reserve liabilities reported by the Company as of December 31, 2011 in its statutory financial statements.

This examination utilized the actuarial services of Lewis & Ellis, LLP (L&E) to assist the Department examiners in the Phase 1 and 2 activities of the risk-focused financial examination of the Company. After review of the reserving risks identified by L&E's actuary and the subsequent testing by the examiners in Phase 3 and 4 of the Company's controls to mitigate those risks, it was determined that no further substantive procedures were required to test the adequacy of the above captioned liability accounts.

It was also noted that as part of its year-end 2011 statutory audit, the Company's external auditors, KPMG LLP (KPMG), evaluated the adequacy of the Company's reserves. Based on the analysis, KPMG's actuaries concluded that the Company's provision for its unpaid claims liability (including the reserves for unpaid claims adjustment expenses) was reasonable.

In addition to KPMG's and the Company's appointed actuary's actuarial reserve evaluations, a review was made by the Department examiners of the development of the unpaid claims and claims adjustment expenses subsequent to the examination date. Based on the subsequent development through December 31, 2012, as reported by the Company, the year-end 2011 reserves appear to be adequate.

A review of the work performed by KPMG to test the accuracy and completeness of the claims data used in the Company's actuarial analysis noted no exceptions.

AGGREGATE HEALTH CLAIM RESERVES

At December 31, 2011, the Company reported aggregate health claim reserves of $190,453. The following schedule reflects the Company's reserves by line of business:

		Line of Business	
Description	Total	Comprehensive (Hospital & Medical)	Federal Employees Health Benefit Plan
Aggregate Health Claim Reserves			
Present value of amounts not yet due on claims (claim reserve)	$ 0	$ 0	$ 0
Reserve for future contingent benefits (claim reserve)	190,453	190,411	42
Aggregate write-ins for other claim reserves (claim reserve)	0	0	0
Totals (gross) (claim reserve)	$ 190,453	$ 190,411	$ 42
Reinsurance ceded (claim reserve)	0	0	0
Totals (net) (claim reserve)	**$ 190,453**	**$ 190,411**	**$ 42**

The reserve for future contingent benefits includes the estimated cost of services which will continue to be incurred after the financial statement date if the Company is obligated to pay for such services in accordance with contract provisions or regulatory requirements. These reserves are estimated using a percentage of current hospital and medical costs, which are based on the Company's historical cost experience.

As previously noted, this examination utilized the actuarial services of L&E to assist the Department examiners in the Phase 1 and 2 activities of the risk-focused financial examination of the Company. After review of the reserving risks identified by L&E's actuary and the subsequent testing by the examiners in Phase 3 and 4 of the Company's controls to mitigate those risks, it was determined that no further substantive procedures were required to test the adequacy of the above captioned liability account.

It was also noted that as part of its year-end 2011 statutory audit, KPMG evaluated the adequacy of the above captioned reserves. Based on the analysis, KPMG's actuaries concluded that the Company's provision for its aggregate health claim reserves liability was reasonable.

SUBSEQUENT EVENTS

Financial Results for Year Ended December 31, 2012

Although the Company has reported profits in all of the years covered by this examination, the 2012 (through December 31, 2012) results have deteriorated. For 2012, the Company reported a net underwriting loss of $14.3 million, which is a year-over-year increase in net underwriting losses of $31.9 million ($14.3 million underwriting loss for year ended December 31, 2012 vs. $17.6 underwriting gain for year ended December 31, 2011). The Company is reporting a net loss for year ended December 31, 2012 of $8.6 million vs. $13.1 million net income for year ended December 31, 2011, or a year over year decrease of $21.7 million.

This decrease in profitability can be attributed to, in part, a decrease in revenues of $34.9 million from $102.6 million for the twelve months ended December 31, 2011 compared to revenues of $67.7 million, or a 34.0% decrease, for the twelve months ended December 31, 2012. Total underwriting expenses decreased by $3 million, or 3.5% for the same period.

In order to maintain surplus, the Company's parent has made capital contributions to the Company totaling $22 million from 2007 through December 31, 2012; $15 million of which was contributed in 2012.

According to the Company, the 2012 results were primarily the result of overestimating the amount of earned premiums it would receive. The Company's earned premiums and medical expenses are comprised primarily of the non-referred portion of the Quality Point-of-Service ("QPOS") product of its HMO affiliates. Annually, the underwriting department determines an estimation of the percentage of QPOS premium attributable to the non-referred product based on prior year underwriting experience. After reviewing second quarter 2012 results, the Company re-evaluated these previously determined percentages and concluded an adjustment to the rate was necessary to more appropriately distribute the premium in the Northern New Jersey market.

The Company's parent indicated that it is its intention to maintain adequate level of capital to support the ongoing capital requirements of the Company.

Acquisitions

On December 27, 2012, the Insurance Commissioner of the Commonwealth of Pennsylvania approved the acquisition of Coventry Health Care of Pennsylvania, Inc., HealthAssurance Pennsylvania, Inc., and HealthAmerica Pennsylvania, Inc. ("Domestic Insurers") by the Company's ultimate parent, Aetna Inc. ("Aetna").

The Domestic Insurers are part of an insurance holding company system controlled by Coventry Health Care Inc. ("Coventry"). Under the terms of the acquisition, Coventry will merge with and into Aetna. As a result of the merger, Coventry and its Domestic Insurers would become wholly-owned subsidiaries of Aetna.

The acquisition of Coventry Health Care, Inc. by Aetna became effective on May 7, 2013.

RECOMMENDATIONS

PRIOR EXAMINATION

There were no examination recommendations or financial statement changes made as a result of the prior examination.

CURRENT EXAMINATION

There were no recommendations as a result of this examination.

CONCLUSION

As a result of this examination, the financial condition of Aetna Health Insurance Company, as of December 31, 2011, was determined to be as follows:

	Amount	Percentage
Admitted Assets	$ 46,231,517	100.0%
Liabilities	$ 18,034,954	39.0%
Capital and Surplus	28,196,563	61.0%
Total Liabilities, Capital and Surplus	$ 46,231,517	100.0%

Since December 31, 2006, the date of the previous examination, the Company's assets decreased by $38,050,359, its liabilities decreased by $38,377,913, and its surplus increased by $327,554.

This examination was conducted with actuarial assistance from Lewis & Ellis, LLP and examination assistance from Cerebres, LLC with Richard Stone, CFE of Cerebres, LLC in charge.

Respectively

Annette B. Szady

Annette B. Szady, CPA
Director, Bureau of Financial Examinations

David R. Evans

David R. Evans, CFE
Examination Manager

Richard M. Stone

Richard M. Stone, CFE
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However, the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.