BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:
Application of Aetna Inc. in Support of
the Request for Approval to Acquire
Control of Coventry Health Care of
Pennsylvania, Inc., HealthAssurance
Pennsylvania, Inc. and HealthAmerica
Pennsylvania, Inc.:

Pursuant to Sections 1401, 1402
and 1403 of 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,
991.1402 and 991.1403
Order No. ID-RC-12-19

DECISION AND ORDER

AND NOW, on this 27th day of December, 2012, Michael F. Consedine,
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

1. Coventry Health Care of Pennsylvania, Inc. (“CHC-PA”) is a domestic health
maintenance organization (“HMO”) organized pursuant to the laws of the
Commonwealth of Pennsylvania with its principal place of business located in
Bethesda, Maryland.

2. HealthAmerica Pennsylvania, Inc. (“HealthAmerica” and together with CHC-PA
referred as “Domestic HMOs”) is a domestic HMO organized pursuant to the laws of
the Commonwealth of Pennsylvania with its principal place of business located in
Harrisburg, Pennsylvania.

3. HealthAssurance Pennsylvania, Inc. (“HealthAssurance” and together with Domestic
HMOs referenced as Domestic Insurers) is a domestic risk assuming preferred provider
organization not licensed as an insurer (“RANLI PPO”) organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania.

4. Coventry Health Care, Inc. (“Coventry”) is a publicly traded business corporation organized under the laws of the state of Delaware with its principal place of business located in Bethesda, Maryland. Domestic Insurers are direct wholly-owned subsidiaries of Coventry.

5. The only person controlling 10% or more of Coventry’s issued and outstanding capital stock has properly filed a disclaimer of control.

6. Coventry is the sole ultimate controlling person of Domestic Insurers.

7. Jaguar Merger Subsidiary, Inc. (“Merger Sub”) is a business corporation organized under the laws of the state of Delaware with its principal place of business located in Hartford, Connecticut.

8. Aetna Inc. (“Aetna”) is a publicly traded business corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Hartford, Connecticut. Aetna directly holds 100% of the issued and outstanding capital stock of Merger Sub.

9. No person controls 10% or more of Aetna’s issued and outstanding capital stock.

**Acquisition Filing**

10. 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. §§991.1401-991.1413 (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.

11. On September 13, 2012, 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 Domestic Insurers.

12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
Department Procedures

13. On September 22, 2012, 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 30 days following the date of the publication (“Comment Period”).

14. The Department received one comment regarding the Application during the Comment Period (“Public Comment”).

15. The Public Comment expressed concern that Aetna would not provide the same level of service currently provided by Coventry.

16. Aetna provided a satisfactory response to the Public Comment.

Description of the Proposed Acquisition

17. As described in the Application, effective August 19, 2012, Aetna, Coventry and Merger Sub entered into an Agreement and Plan of Merger (“Agreement”) whereby Merger Sub would merge with and into Coventry, with Coventry the survivor of the merger (“Merger”).

18. As described in the Application and pursuant to the Agreement, Aetna would become the sole ultimate controlling person of Domestic Insurers as a result of Merger.

Standards for Review

19. 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.

Licensing Requirements

20. 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 insurer being acquired.

21. Specifically, the Department reviews whether the acquirer would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition. 40 P.S. §991.1402(f)(1)(i).

22. The requirements for licensure of HMOs are set out in the Health Maintenance Organization Act (40 P.S. §§1551-1567) and Chapter 301 of the Pennsylvania Code (31
23. The minimum net worth required of a HMO is set out in Section 301.121 of the Pennsylvania Code (31 Pa. Code §301.121).

24. In accordance with 31 Pa. Code §301.121, Domestic HMOs are required to maintain a minimum net worth of $1 million or three months uncovered health care expenditures for Pennsylvania enrollees as reported on the most recent financial statement filed with the Commissioner to write the classes of insurance for which it is presently licensed.

25. Upon completion of the transaction, Domestic HMOs will have net worth in an amount that will satisfy the statutory minimum required of a licensed HMO.

26. The requirements for licensure of a RANLI PPO are set out in Section 630 of the Insurance Company Act (40 P.S. §764a) and Chapter 152 of the Pennsylvania Code (31 Pa. Code. §§152.1-152.25).

27. The minimum net worth required of a RANLI PPO is set out in Section 152.9 of Chapter 31 of the Pennsylvania Code (31 Pa. Code. §152.9).

28. In accordance with 31 Pa. Code §152.9 HealthAssurance is required to maintain a minimum net worth of $1,125,000 to write the classes of insurance for which it is presently licensed.

29. Upon completion of the transaction, HealthAssurance will have net worth in an amount that will satisfy the statutory minimum required of a licensed RANLI PPO.

**Competitive Impact**

30. The acquisition of control of a Pennsylvania domiciled 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 of Domestic Insurers would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein. 40 P.S. §991.1402(f)(1)(ii)(the “competitive standard”).

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

32. 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.
33. 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.

34. 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) Medicare Title XVIII Tax Exempt
   b) Health Only Reporters
      i) Comprehensive Individual
      ii) Comprehensive Group
      iii) Federal Employees HBP
      iv) Title XVIII Medicare

35. The Department examined whether the lines of business listed in paragraph 34 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.

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

37. For none of the lines of business listed in paragraph 34 above, does the trend of market concentration establish a prima facie violation of the competitive standard of Section 1403(d)(2)(ii) of the Insurance Holding Companies Act. The trend of market concentration has lessened in all affected product lines during the relevant five and ten year time periods, indicating their competitive nature.

38. With respect to the lines of business listed in paragraph 34(a)(i), (b)(ii), and (b)(iv) above, although there is a prima facie violation of the competitive standard of Section 1403(d)(2) of the Insurance Holding Companies Act, Aetna has submitted substantial evidence pursuant to Section 1403(d)(2)(iv) to support the absence of anti-competitive effect of the proposed acquisition of control.

39. For each of the lines of business where a prima facie violation existed, Aetna submitted data and analysis, some of which was designated as confidential, that the Department relied upon in concluding that the proposed acquisition of control would not substantially lessen competition in the Commonwealth. Examples of publicly available
information reviewed and relied upon by the Department included, but were not limited to, the following:

a) With regard to Life and Health Reporters-Medicare Title XVIII Tax Exempt and Health only Reporters – Title XVIII Medicare, Applicant has provided data from the Centers for Medicare and Medicaid Services indicating that there are numerous and varied competitors in the Medicare Advantage product line, which includes both Life and Health Reporters and Health Only Reporters. In addition, the federally regulated nature of this product line facilitates switching of consumers between competing carriers and reduces barriers to entry of new competitors. Changes in market share among the competitors reflect competitive conditions.

b) With regard to Health Only Reporters – Comprehensive Group, the Application data drawn from the National Association of Insurance Commissioners Supplemental Healthcare Exhibit, which includes premium data from both Life and Health Reporters and Health Only Reporters, reflects both competition and volatility in this line of business. Looking at regional market shares, the largest competitors in each of the four regions are Pennsylvania-based Blue Cross Blue Shield entities. The proposed acquisition positions the merged entity to be a more effective competitor with the Blue Cross Blue Shield entities and the other competitors.

40. Even where a transaction may present a prima facie violation of the competitive standard, Section 1403(d)(3) provides that an order may not be entered disapproving the transaction if the factors of 1403(d)(3)(i) and (ii) are present. With respect to the lines of business listed in paragraph 38, above, Aetna has submitted substantial 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 Coventry’s lower cost structure and relationships with local hospitals and physician groups in certain lines of business with Aetna’s distribution channels in certain regions, consumer transparency tools and technological capabilities. The combined entity will have greater financial strength.

Financial Condition of Applicant

41. 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).
42. The Department has reviewed the annual financial statement submitted by Aetna as of December 31, 2011.

43. The financial condition of Aetna will not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurers.

Plans for the Acquired Insurer

44. 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.

45. In particular, the Department reviewed the transaction as set forth in the Application to determine whether it is:

   a) Unfair or unreasonable or fails to confer a benefit upon policyholders.

   b) Not in the public interest.

46. As stated in the Application, Aetna has no future plans or proposals to liquidate Domestic Insurer, 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.

47. As stated in the Application, Aetna has no present plans or proposals to make any changes to the Domestic Insurers’ businesses (including office locations and employees), corporate structure or senior management.

48. There is no basis in the record from which it may be concluded the proposed transaction is unfair or unreasonable or fails to confer a benefit upon policyholders or is not in the public interest.

Management

49. 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.

50. Biographical affidavits for all directors and executive officers of Aetna were reviewed by the Department.
51. The Department is satisfied that the persons who would control the operations of Domestic Insurer 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

52. When analyzing an application for a merger involving a domestic insurer under Section 1402(f)(1)(vi) 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.

53. There is no indication that the projected future business of the Applicant would impose a financial burden upon policyholders.

54. Likewise, there is no indication that the transaction would result in the company being in impaired financial condition.

55. Nor is there a threat regarding the ability of policyholders to enforce their insurance contracts.

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

Compliance with the Pennsylvania Laws

57. When analyzing an application for a merger involving a domestic insurer 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.

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

59. 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 Domestic Insurers.

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 write the line or lines of business for which it is 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 party 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 any other material change in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and fail to confer a benefit on policyholders and are 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;
   f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or
   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 Domestic Insurer.
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA


DECISION AND 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. in support of the request for approval to acquire control of Coventry Health Care of Pennsylvania, Inc., HealthAssurance Pennsylvania, Inc. and HealthAmerica Pennsylvania, Inc. as set forth in the application, is hereby approved, subject to this Order and the following conditions:

(1) Aetna Inc. 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 a period of two (2) years after the consummation of the transaction, Aetna Inc shall provide written notice to the Department of any planned or proposed reductions in staff that would affect more than ten percent (10%) of the individuals who were employees of Coventry Health Care of Pennsylvania, Inc., HealthAssurance of Pennsylvania Inc. and HealthAmerica Pennsylvania, Inc. or their subsidiaries principally located in Pennsylvania as of the consummation of the transaction. For purposes of this condition, as of any date, the ten percent (10%) threshold shall be determined based upon a rolling twelve (12) month
Such notice, which shall specify the reasons for the reduction in force, shall be filed with the Department at least sixty (60) days prior to any such planned or proposed reductions.

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 (1) year limitation does not apply to any conditions prescribed by the Department in the Order.

Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania