

Examination Warrant Number 20-00001-13735-R1

**Report of Examination of**

**Aetna Better Health Inc.  
Blue Bell, Pennsylvania**

**As of December 31, 2020**

**For Informational Purposes Only**

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Harrisburg, Pennsylvania  
May 4, 2022

Honorable Melissa L. Greiner  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 20-00001-13735-R1, dated August 10, 2020, an examination was made of

**Aetna Better Health Inc., NAIC Code: 13735**

a Pennsylvania domiciled, single-state, health maintenance organization (“HMO”), hereinafter referred to as the “Company.” The examination was conducted remotely.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Company, which was last examined as of December 31, 2015. This examination covered the five-year period from January 1, 2016 through December 31, 2020.

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”) *Financial Condition Examiners Handbook* (“Handbook”).

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer’s 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.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

## Aetna Better Health Inc.

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conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For the years 2016, 2017, and 2018, the certified public accounting firm of KPMG LLP and for the years 2019 and 2020 the certified public accounting firm of Ernst & Young LLP (“E&Y”) provided an unmodified audit opinion based on statutory accounting principles. Relevant work performed by E&Y, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers

The Connecticut Insurance Department was Lead State of this multi-state, coordinated examination, which was split into 5 sub-groups comprising 26 states. The Company was examined as part of Sub-Group #3 – Medicaid. The Exam Facilitator of this sub-group was Pennsylvania (“PA”).

The following companies were also examined as part of Sub-Group #3:

<u>Company</u>	<u>NAIC Code</u>	<u>State of Domicile</u>
Aetna Better Health Inc.	13174	Connecticut
Aetna Better Health Inc.	12328	Georgia
Aetna Better Health of Illinois Inc.	14053	Illinois
Aetna Better Health Inc.	14229	Ohio
Aetna Better Health Inc.	15616	Louisiana
Aetna Better Health Inc.	15611	New Jersey
Aetna Better Health of Kansas Inc.	16072	Kansas
Aetna Better Health of Michigan Inc.	12193	Michigan
Aetna Better Health of Missouri Inc.	95318	Missouri
Aetna Better Health of North Carolina Inc.	16558	North Carolina
Aetna Better Health of Washington Inc.	16242	Washington
Aetna Health of Ohio Inc.	15805	Ohio
Aetna Better Health Premier Plan MMAI Inc.	14043	Illinois
Aetna Better Health of Texas	95040	Texas

The following PA domestic affiliated insurance companies were also examined concurrently in the group examination but as part of other sub-groups:

<u>Company</u>	<u>NAIC Code</u>	<u>Sub-Group</u>
Aetna Health Insurance Company	72052	1
Aetna Health Inc.	95109	1
Aetna HealthAssurance Pennsylvania, Inc.	15827	1
HealthAssurance Pennsylvania, Inc.	11102	2

## HISTORY

The Company was incorporated on June 28, 2005, licensed by the Department on January 25, 2010 and commenced business on April 1, 2010.

The Company is currently authorized to transact business in PA as an HMO pursuant to 40 P.S. § 1554.

## **MANAGEMENT AND CONTROL**

### **NET WORTH**

As of December 31, 2020, the Company's total capital was \$152,743,758 consisting of 10,000 capital shares of issued and outstanding common stock with a par value of \$0.01 per share amounting to \$100; \$63,899,900 in gross paid in and contributed surplus; and \$88,843,758 in unassigned funds (surplus).

The Company's minimum net worth required to conduct the business as an HMO pursuant to 31 Pa. Code § 301.121(b)(2) is \$21,759,094 as of December 31, 2020. The Company has met all governing requirements throughout the examination period.

### **STOCKHOLDER**

The Company is 100% owned by its immediate holding company, Aetna Health Holdings, LLC ("AHH"), which is a wholly owned subsidiary of Aetna Inc. ("Aetna"). Effective November 28, 2018, the Company became part of the insurance holding company system currently controlled by CVS Health Corporation ("CVS Health"), as a result of a merger transaction between Aetna and a subsidiary of CVS Pharmacy, Inc., which is itself a direct subsidiary of CVS Health.

The Company paid the following dividends to AHH during the examination period.

<u>Year</u>	<u>Type</u>	<u>Amount</u>
2016	Extraordinary	\$28,100,000
2017	Ordinary	\$29,800,000
2017	Ordinary	\$28,400,000
2018	Ordinary	\$34,500,000
2018	Ordinary	\$28,400,000
2019	Ordinary	\$27,500,000
2019	Ordinary	\$10,000,000

The Company reported to the Department all dividends to AHH in accordance with the requirements of 40 P.S. § 991.1405 or 40 P.S. § 1404(e). The Department approved all extraordinary dividends pursuant to 40 P.S. § 991.1405(b)(1) or 40 P.S. § 991.1405(a)(2)(i) during the examination period.

### **INSURANCE HOLDING COMPANY SYSTEM**

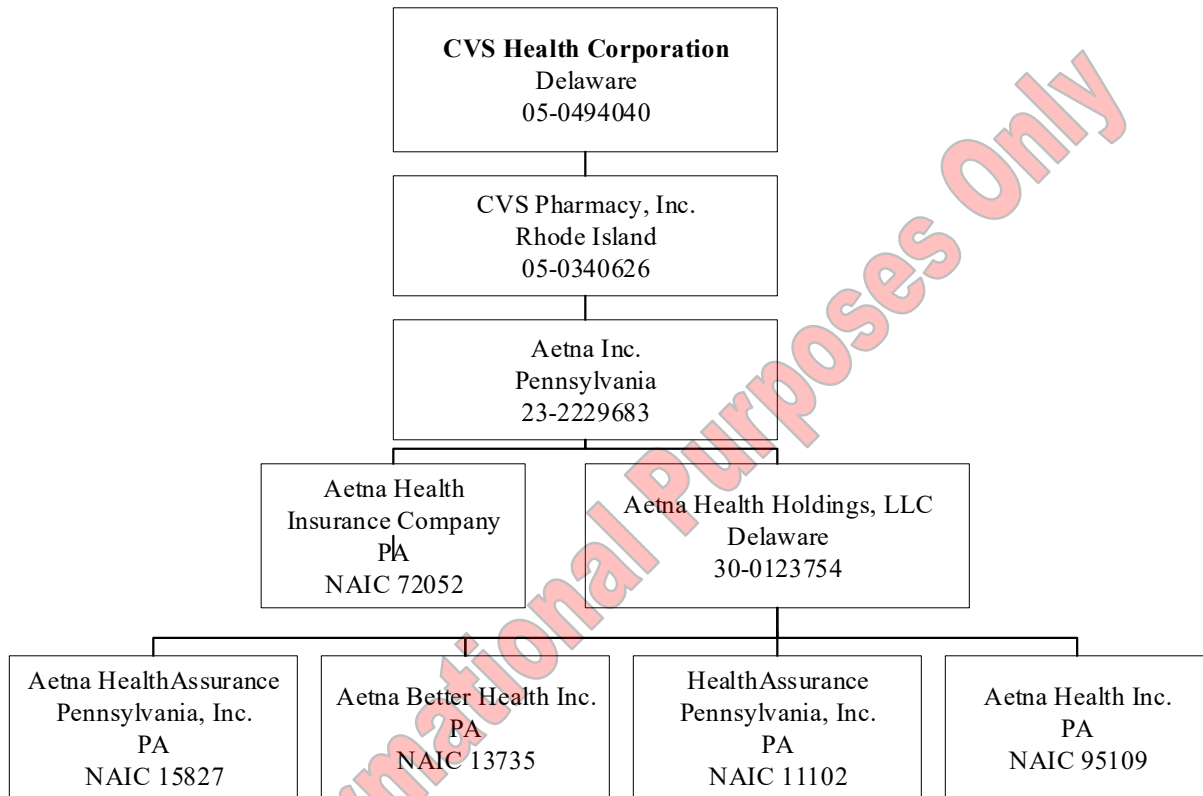
The Company meets the requirements for filing an insurance holding company system annual registration statement ("Annual Registration Statement"), in accordance with 40 P.S. §

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991.1404. For each year of the examination period, the Company filed the required Annual Registration Statement on or around March 31.

CVS Health is named as the ultimate controlling entity/person of the holding company system. This holding company has over a hundred subsidiaries, so the following chart represents the relationship of the Company and its four other domestic subsidiaries to its ultimate parent in the holding company system.



## 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, 2020:

### Name and Address

Juanita Monserrate Gonzalez-Cuiba  
Hawley, Pennsylvania

George D. Shafer  
Mooresville, North Carolina

### Principal Occupation

Paralegal  
Self-Employed

President and Chief Executive Officer  
Exec. Director, Aetna Medicaid Operation  
Aetna Better Health Inc.

Kelli K. Smith  
Phoenix, Arizona

Chief Financial Officer  
Executive Director, Aetna Medicaid Finance  
Aetna Better Health Inc.

All directors are elected at the Company's annual meeting and serve for a term of one year.

## **COMMITTEES**

As of December 31, 2020, the Company does not have any direct committees of the Board; however, it utilizes the Audit Committee of AHH, its direct parent. Membership of this committee is as follows:

### **Audit Committee**

John P. Maroney, Chair  
Robert S. Healy

## **OFFICERS**

As of December 31, 2020, the following officers were appointed and serving in accordance with the Company's by-laws:

<b><u>Name</u></b>	<b><u>Title</u></b>
George D. Shafer	Chief Executive Officer and President
Kelli K. Smith	Chief Financial Officer
Robert M. Kessler	Secretary and Vice President
Kevin J. Casey	Senior Investment Officer
Peter Keller	Assistant Controller
Bryan J. Lane	Assistant Controller
Gregory S. Martino	Vice President
Whitney D. Lavoie	Assistant Controller
Cara S. Mullen	Assistant Controller
Robert J. Parslow	Principal Financial Officer and Controller
Tracy L. Smith	Vice President and Treasurer

## **CORPORATE RECORDS**

### **MINUTES**

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its by-laws.
- The stockholder elects directors at such meetings in compliance with the by-laws.

- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- All directors attend Board meetings regularly.

## **ARTICLES OF INCORPORATION**

There were no changes to the Company's Articles of Incorporation during the examination period.

## **BY-LAWS**

There were no changes to the Company's by-laws during the examination period.

## **SERVICE AND OPERATING AGREEMENTS**

The Company is party to various service and operating agreements, which includes intercompany and related-party agreements. The following significant agreements were in place during the examination period.

### **Administrative Services Agreement**

Effective November 1, 2009, the Company entered into an administrative services agreement with Aetna Medicaid Administrators LLC ("AMA"). AMA provides certain administrative services, including cash management and accounting and processing of premiums and claims. Under this agreement, the Company remits a percentage of its earned premium revenue, as applicable, to AMA as a fee.

Effective January 1, 2020, this agreement was amended to allow AMA to arrange for other Aetna and CVS Health affiliates to provide services to the Company as well as the fees for those services.

### **Consolidated Tax Allocation Agreement**

Effective January 1, 2019, the Company terminated its prior tax sharing agreement with Aetna and entered into a written tax sharing agreement with CVS Health. In accordance with this written tax sharing agreement, the Company's current federal income tax liability is generally computed as if the Company were filing a separate federal income tax return; current income tax benefits, including those resulting from net operating losses, are recognized to the extent realized in the consolidated return. Pursuant to this agreement, the Company has the enforceable right to recoup its net losses carried forward as an offset to future net income subject to Federal income taxes.

Effective January 1, 2019, an addendum was added to this tax sharing agreement to



ensure compliance with PA statutory requirements regarding receivership or seizure by the Commissioner.

The agreements described above meet the fair and reasonable standards pursuant to 40 P.S. § 991.1405(a)(1)(i).

## REINSURANCE

### CEDED

#### Pennsylvania High Risk Pool

The Company participated in the Pennsylvania High Risk Pool (“HRP”) in 2016 and 2017. The HRP is a state sponsored program to assist individuals with a history of medical problems to purchase health insurance coverage.

The Company did not cede any business in years 2018, 2019, or 2020.

### ASSUMED

The Company did not assume any business during the examination period.

## TERRITORY AND PLAN OF OPERATIONS

The Company is licensed and only writes Medicaid business in PA.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
<b>December 31, 2020</b>				
Title XIX - Medicaid	\$ 1,176,425,730	\$ 0	\$ 1,176,425,730	100.0%
Totals	<u>\$ 1,176,425,730</u>	<u>\$ 0</u>	<u>\$ 1,176,425,730</u>	<u>100.0%</u>

In Pennsylvania, insurance products are marketed through a combination of digital advertising (television and social media) and home advertising (billboards and bus signage).

## SIGNIFICANT OPERATING TRENDS

The following table indicates the growth of the Company during the period covered by this examination:

	2020	2019	2018	2017	2016
Admitted Assets	\$ 422,294,545	\$ 339,912,930	\$ 353,846,617	\$ 480,454,239	\$ 574,820,731
Liabilities	\$ 269,550,787	\$ 225,875,531	\$ 222,235,069	\$ 339,271,478	\$ 433,492,951
Capital and Surplus Funds	\$ 152,743,758	\$ 114,037,399	\$ 131,611,548	\$ 141,182,761	\$ 141,327,780
Net Premium Income	\$ 1,176,425,730	\$ 1,004,539,499	\$ 1,015,975,999	\$ 874,049,596	\$ 982,129,439
Benefits to Members	\$ 925,823,032	\$ 865,791,091	\$ 777,316,895	\$ 744,213,772	\$ 648,644,110
Net Investment Income	\$ 6,748,060	\$ 7,312,652	\$ 8,483,391	\$ 9,669,395	\$ 7,818,069
Net Income	\$ 36,678,321	\$ 17,433,696	\$ 56,064,713	\$ 62,980,926	\$ 58,210,193

## **PENDING LITIGATION**

As of the date of this examination report, Company Management attested that the Company was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

## **FINANCIAL STATEMENTS**

The financial condition of the Company, as of December 31, 2020, 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;  
Comparative Statement of Cash Flow

\*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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

	2020	2019	2018	2017	2016
Bonds	\$ 250,768,227	\$ 175,782,537	\$ 210,025,070	\$ 310,158,311	\$ 386,323,353
Common stocks	0	0	962,914	4,311,443	5,886,799
Mortgage loans on real estate	6,113,723	6,234,811	11,350,285	14,947,906	0
Cash, cash equivalents and short-term investments	45,994,321	19,237,868	3,035,193	(907,882)	105,062,601
Subtotal, cash and invested assets	302,876,271	201,255,216	225,373,462	328,509,778	497,272,753
Investment income due and accrued	2,273,713	1,569,355	1,898,951	2,900,603	3,033,507
Premiums and considerations	110,396,004	111,896,351	119,845,286	84,394,832	10,611,574
Amounts recoverable from reinsurers	0	0	0	30,173,925	39,203,740
Current federal and foreign income tax recoverable and interest thereon	0	1,335,441	0	0	0
Net deferred tax asset	2,902,675	2,019,984	4,752,487	4,778,380	8,090,005
Receivable from parent, subsidiaries and affiliates	0	15,308,588	269,247	462,135	187,809
Health care and other amounts receivable	0	766,756	1,707,184	29,234,586	16,421,343
Aggregate write-ins for other than invested assets	3,845,882	5,761,239	0	0	0
<b>Total</b>	<b>\$ 422,294,545</b>	<b>\$ 339,912,930</b>	<b>\$ 353,846,617</b>	<b>\$ 480,454,239</b>	<b>\$ 574,820,731</b>
Claims unpaid	\$ 142,696,594	\$ 138,371,401	\$ 107,691,964	\$ 147,289,019	\$ 171,863,783
Accrued medical incentive pool and bonus amounts	7,193,916	5,422,518	4,801,714	5,171,341	4,464,230
Unpaid claims adjustment expenses	4,086,248	3,177,515	3,344,707	1,757,683	1,740,236
Aggregate health policy reserves	63,277,377	54,386,415	54,386,415	51,859,951	114,320,067
General expenses due or accrued	18,209,093	12,343,228	16,088,770	14,359,348	12,576,336
Current federal and foreign income tax payable and interest thereon	9,001,168	0	1,214,381	4,754,900	3,808,122
Ceded reinsurance premiums payable	0	0	0	34,661,156	42,386,150
Amounts withheld or retained for the account of others	0	0	0	0	10,675,265
Remittances and items not allocated	1,075,581	1,632,187	854,200	1,262,203	812,482
Amounts due to parent, subsidiaries and affiliates	13,382,516	0	28,721,095	77,726,973	38,737,529
Payable for securities	0	0	0	154,940	12,278,394
Aggregate write-ins for other liabilities	10,628,294	10,542,267	5,131,823	273,964	19,830,357
<b>Total liabilities</b>	<b>269,550,787</b>	<b>225,875,531</b>	<b>222,235,069</b>	<b>339,271,478</b>	<b>433,492,951</b>
Aggregate write-ins for special surplus funds	0	18,917,900	0	17,560,000	0
Common capital stock	100	100	100	100	100
Gross paid in and contributed surplus	63,899,900	63,899,900	63,899,900	63,899,900	63,899,900
Unassigned funds (surplus)	88,843,758	31,219,499	67,711,548	59,722,761	77,427,780
<b>Total capital and surplus</b>	<b>152,743,758</b>	<b>114,037,399</b>	<b>131,611,548</b>	<b>141,182,761</b>	<b>141,327,780</b>
<b>Totals</b>	<b>\$ 422,294,545</b>	<b>\$ 339,912,930</b>	<b>\$ 353,846,617</b>	<b>\$ 480,454,239</b>	<b>\$ 574,820,731</b>

### Comparative Statement of Income For the Year Ended December 31,

	2020	2019	2018	2017	2016
Net premium income	\$ 1,176,425,730	\$ 1,004,539,499	\$ 1,015,975,999	\$ 874,049,596	\$ 982,129,439
Change in unearned premium reserves and reserve for rate credits	(6,638,942)	0	(2,090,646)	62,460,116	(114,320,067)
Total revenues	<u>1,169,786,788</u>	<u>1,004,539,499</u>	<u>1,013,885,353</u>	<u>936,509,712</u>	<u>867,809,372</u>
Hospital/medical benefits	494,153,356	558,973,436	490,598,787	474,669,040	401,152,073
Other professional services	110,724,811	34,565,410	35,571,613	33,692,492	33,055,546
Outside referrals	16,384,229	16,067,643	19,156,494	20,838,809	19,398,302
Emergency room and out-of-area	43,108,781	44,665,061	40,490,799	39,748,341	33,256,726
Prescription drugs	251,500,475	204,388,443	189,969,482	175,286,328	161,862,506
Incentive pool, withhold adjustments and bonus amounts	9,951,380	7,131,098	1,529,720	(21,238)	(81,043)
Subtotal (hospital and medical)	<u>925,823,032</u>	<u>865,791,091</u>	<u>777,316,895</u>	<u>744,213,772</u>	<u>648,644,110</u>
Net reinsurance recoveries	0	0	0	36,718,983	40,185,229
Total hospital and medical	<u>925,823,032</u>	<u>865,791,091</u>	<u>777,316,895</u>	<u>707,494,789</u>	<u>608,458,881</u>
Claims adjustment expenses, including cost containment expenses	39,489,208	36,358,970	34,807,403	30,692,108	23,618,453
General administrative expenses	157,628,364	95,900,722	135,238,924	120,694,759	155,479,773
Increase in reserves for life accident and health contracts	2,687,838	0	0	0	0
Total underwriting deductions	<u>1,125,628,442</u>	<u>998,050,783</u>	<u>947,363,222</u>	<u>858,881,656</u>	<u>787,557,107</u>
Net underwriting gain or (loss)	<u>44,158,346</u>	<u>6,488,716</u>	<u>66,522,131</u>	<u>77,628,056</u>	<u>80,252,265</u>
Net investment income earned	6,748,060	7,312,652	8,483,391	9,669,395	7,818,069
Net realized capital gains or (losses)	(362,067)	1,803,328	(644,045)	395,634	256,228
Net investment gains or (losses)	<u>6,385,993</u>	<u>9,115,980</u>	<u>7,839,346</u>	<u>10,065,029</u>	<u>8,074,297</u>
Aggregate write-ins for other income or expenses	0	0	0	0	(2,333)
Net income or (loss) before federal income taxes	<u>50,544,339</u>	<u>15,604,696</u>	<u>74,361,477</u>	<u>87,693,085</u>	<u>88,324,229</u>
Federal income taxes incurred	13,866,018	(1,829,000)	18,296,764	24,712,159	30,114,036
Net income (loss)	<u>\$ 36,678,321</u>	<u>\$ 17,433,696</u>	<u>\$ 56,064,713</u>	<u>\$ 62,980,926</u>	<u>\$ 58,210,193</u>

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

	2020	2019	2018	2017	2016
Capital and surplus, December 31, previous year	\$ 114,037,399	\$ 131,611,548	\$ 141,182,761	\$ 141,327,780	\$ 111,361,141
Net income or (loss)	36,678,321	17,433,696	56,064,713	62,980,926	58,210,193
Change in net unrealized capital gains and (losses)	(183,562)	613,605	(1,268,297)	321,548	989,027
Change in net deferred income tax	668,150	(2,321,572)	(363,035)	(3,525,840)	979,477
Change in nonadmitted assets	1,543,450	4,200,122	(1,104,594)	(1,721,653)	(2,112,058)
Surplus adjustments:					
Paid in	0	0	0	0	(28,100,000)
Dividends to stockholders	0	(37,500,000)	(62,900,000)	(58,200,000)	0
Net change in capital and surplus	<u>38,706,359</u>	<u>(17,574,149)</u>	<u>(9,571,213)</u>	<u>(145,019)</u>	<u>29,966,639</u>
Capital and surplus, December 31, current year	<u>\$ 152,743,758</u>	<u>\$ 114,037,399</u>	<u>\$ 131,611,548</u>	<u>\$ 141,182,761</u>	<u>\$ 141,327,780</u>

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

	2020	2019	2018	2017	2016
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 1,177,490,259	\$ 1,012,488,434	\$ 946,300,207	\$ 792,541,344	\$ 1,070,435,855
Net investment income	7,112,944	8,639,435	10,892,263	12,519,348	9,376,740
Miscellaneous Income	0	0	0	0	(368,778)
<b>Total</b>	<b>1,184,603,203</b>	<b>1,021,127,869</b>	<b>957,192,470</b>	<b>805,060,692</b>	<b>1,079,443,817</b>
Benefit and loss related payments	917,581,981	829,101,706	760,892,390	736,878,011	683,333,568
Commissions, expenses paid and aggregate write-ins for deductions	188,427,617	141,933,665	166,729,881	169,305,908	152,940,211
Federal and foreign income taxes paid (recovered)	3,600,961	1,153,127	21,491,361	23,731,834	26,525,205
<b>Total deductions</b>	<b>1,109,610,559</b>	<b>972,188,498</b>	<b>949,113,632</b>	<b>929,915,753</b>	<b>862,798,984</b>
<b>Net cash from operations</b>	<b>74,992,644</b>	<b>48,939,371</b>	<b>8,078,838</b>	<b>(124,855,061)</b>	<b>216,644,833</b>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	80,357,159	110,632,312	168,506,132	130,489,220	89,061,776
Stocks	0	964,616	3,162,953	1,574,324	9,345,374
Mortgage loans	121,088	4,932,537	5,295,618	0	0
Net gain or (loss) on cash, cash equivalents and short term investments	4,089	272	325	(128)	(213)
Miscellaneous proceeds	0	0	32,085	0	12,278,394
<b>Total investment proceeds</b>	<b>80,482,336</b>	<b>116,529,737</b>	<b>176,997,113</b>	<b>132,063,416</b>	<b>110,685,331</b>
Cost of investments acquired (long-term only):					
Bonds	156,939,052	73,343,303	72,218,263	56,354,614	226,682,200
Stocks	0	0	0	0	13,267,333
Mortgage loans	0	0	1,670,000	14,947,906	0
Miscellaneous applications	0	773	154,940	12,155,539	0
<b>Total investments acquired</b>	<b>156,939,052</b>	<b>73,344,076</b>	<b>74,043,203</b>	<b>83,458,059</b>	<b>239,949,533</b>
<b>Net cash from investments</b>	<b>(76,456,716)</b>	<b>43,185,661</b>	<b>102,953,910</b>	<b>48,605,357</b>	<b>(129,264,202)</b>
<b>Cash from Financing and Miscellaneous Sources</b>					
Cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	0	(28,100,000)
Dividends to stockholders	0	37,500,000	62,900,000	58,200,000	0
Other cash provided or (applied)	28,220,525	(38,422,357)	(44,189,673)	28,479,221	18,691,306
<b>Net cash from financing and miscellaneous sources</b>	<b>28,220,525</b>	<b>(75,922,357)</b>	<b>(107,089,673)</b>	<b>(29,720,779)</b>	<b>(9,408,694)</b>
<b>Reconciliation of cash and short-term investments:</b>					
<b>Net change in cash and short-term investments</b>	<b>26,756,453</b>	<b>16,202,675</b>	<b>3,943,075</b>	<b>(105,970,483)</b>	<b>77,971,937</b>
Cash and short-term investments:					
Beginning of the year	19,237,868	3,035,193	(907,882)	105,062,601	27,090,664
<b>End of the year</b>	<b>\$ 45,994,321</b>	<b>\$ 19,237,868</b>	<b>\$ 3,035,193</b>	<b>\$ (907,882)</b>	<b>\$ 105,062,601</b>

## 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 ITEMS

### ASSETS

### INVESTMENTS

As of December 31, 2020, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 250,768,227	82.8%
Mortgage loans on real estate	6,113,723	2.0%
Cash	239,781	0.1%
Cash equivalents	42,754,540	14.1%
Short-term investments	3,000,000	1.0%
Totals	<u>\$ 302,876,271</u>	<u>100.0%</u>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 190,085,544	64.1%
2 - high quality	56,653,639	19.1%
3 - medium quality	35,898,973	12.1%
4 - low quality	13,883,546	4.7%
Totals	<u>\$ 296,521,702</u>	<u>100.0%</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 65,586,471	22.1%
2 to 5 years	159,827,417	53.9%
6 to 10 years	60,417,819	20.4%
11 to 20 years	7,206,510	2.4%
over 20 years	3,483,485	1.2%
Totals	<u>\$ 296,521,702</u>	<u>100.0%</u>

As of December 31, 2020, total cash and investments make up about 71.7% of the Company's total admitted assets. The Company maintained 83.2% of its bond portfolio in NAIC-1 (highest quality) and NAIC-2 (high quality) securities. Approximately, 96.4% of the Company's bond portfolio has maturity dates of 10 years or less.

At December 31, 2020, all of the Company's securities were held under a custodial agreement with State Street Bank and Trust Company ("State Street"). A review of this

agreement during field work noted it was not in compliance with the standards for custodial agreements pursuant to 31 Pa. Code § 148a.3. Subsequent to the examination period, on November 10, 2021, the Company amended its custodial agreement with State Street which brought it into full compliance with 31 Pa. Code §148a.3.

The Company has a written investment policy as required by 40 P.S. § 501.1(c). The investment policy is reviewed and approved at least annually by the Board. The Company was following its investment policy at December 31, 2020.

## **LIABILITIES**

### **CLAIMS RESERVES**

The Company reported the following reserve amounts on its December 31, 2020 Annual Statement: Claims Unpaid \$142,696,594; Accrued Medical Incentive Pool and Bonus Amounts \$7,193,916; Unpaid Claims Adjustment Expenses \$4,086,248; and Aggregate Health Policy Reserves \$63,277,377.

William R. Jones, FSA, MAAA, Vice President and Valuation Actuary employed by Aetna Resources LLC (“ARL”), was the Company’s appointed actuary (“AA”) in 2016 and 2017.

Jeffrey J. Drzazgowski, FSA, MAAA, Vice President and Valuation Actuary employed by ARL, was the Company’s AA in 2018.

Katie Lau Panasci, ASA, MAAA, Actuarial Director employed by ARL, was the Company’s AA in 2019 and 2020.

The AAs issued Statements of Actuarial Opinion for the Company concluding the amounts carried in the balance sheet identified above:

- are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;
- are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;
- meet the requirements of the laws of the state of PA, and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;
- make good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements;
- are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the preceding year-end;
- include appropriate provision for all actuarial items that ought to be established.



For the examination team to gain an adequate comfort level with the reserve estimates for the Company, the Department utilized the actuarial staff from Lewis & Ellis, Inc. (“L&E Actuaries”), who were engaged by the Lead State, to assist with a risk-focused review of the Company’s reserving and pricing processes. Certain risks within these processes required detailed examination procedures.

Based upon the procedures performed and results obtained, the examination team obtained evidence to support the conclusion that loss reserves and actuarial liabilities for the Company are reasonably stated as of December 31, 2020.

### **SUBSEQUENT EVENTS**

On June 2, 2021, the Company paid an ordinary dividend in the amount of \$36,600,000 to its parent.

The COVID-19 pandemic has continued to develop throughout 2021 and 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination team noted no significant financial impact to the Company as result of COVID-19. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position including its Pandemic Plan. The Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

### **RECOMMENDATIONS**

#### **PRIOR EXAMINATION**

The prior examination report contained no recommendations.

#### **CURRENT EXAMINATION**

As a result of the current examination, no recommendation are being made.

### **CONCLUSION**

As a result of this examination, the financial condition of Aetna Better Health Inc., as of December 31, 2020, was determined to be as follows:

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	\$ 422,294,545	100.0 %
Liabilities	\$ 269,550,787	63.8 %
Capital and Surplus	152,743,758	36.2 %
Total liabilities, capital and surplus	\$ 422,294,545	100.0 %

Since the previous examination, made as of December 31, 2015, the Company's assets increased by \$3,277,689, its liabilities decreased by \$38,104,928, and its surplus increased by \$41,382,617.

This examination was conducted by Alexis Welsh and Mark Swearingen, CFE of the Department, and F. Laurence Lindberg, CFE, CPA of The Thomas Consulting Group with the latter in charge.

Respectfully submitted,



Matthew C. Milford, CFE  
Director  
Bureau of Financial Examinations

Shannon Hopkins  
Shannon Hopkins (Jun 27, 2022 12:31 EDT)

Shannon Hopkins, CFE  
Examination Manager

F. Laurence Lindberg  
F. Laurence Lindberg (Jun 27, 2022 12:28 EDT)

F. Laurence Lindberg, CFE, CPA  
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.

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