

Examination Warrant Number 20-00001-95109-R1

Report of Examination of

**Aetna 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 20-00001-95109-R1, dated August 10, 2020, an examination was made of

Aetna Health Inc., NAIC Code: 95109

a Pennsylvania domiciled, multi-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 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 #1 – Commercial. The Exam Facilitator of this sub-group was Connecticut.

The following companies were also examined as part of Sub-Group #1:

<u>Company</u>	<u>NAIC Code</u>	<u>State of Domicile</u>
Banner Health and Aetna Health Plan Inc.	16059	Arizona
Banner Health and Aetna Health Insurance Company	16058	Arizona
Aetna Health and Life Insurance Company	78700	Connecticut
Aetna Health Inc. (a Connecticut corporation)	95935	Connecticut
Aetna Insurance Company of Connecticut	36153	Connecticut
Aetna Life Insurance Company	60054	Connecticut
Aetna Health Inc. (a Florida corporation)	95088	Florida
Aetna Health Inc. (a Georgia corporation)	95094	Georgia
Aetna Health of Michigan Inc.	95756	Michigan
Allina Health and Aetna Insurance Company	16194	Minnesota
Aetna Health Inc. (a Maine corporation)	95517	Maine
Aetna Dental Inc. (a New Jersey corporation)	11183	New Jersey
Aetna Health Inc. (a New Jersey corporation)	95287	New Jersey
Aetna Health Inc. (a New York corporation)	95234	New York
Aetna Health Insurance Company of New York	84450	New York
Aetna Health Insurance Company	72052	Pennsylvania
Aetna Health Assurance Pennsylvania, Inc.	15827	Pennsylvania
Aetna Dental Inc. (a Texas corporation)	95910	Texas
Aetna Health Inc. (a Texas corporation)	95490	Texas
Texas Health + Aetna Health Insurance Company	16121	Texas
Texas Health + Aetna Health Plan Inc.	16132	Texas
Innovation Health Insurance Company	15097	Virginia
Innovation Health Plan, Inc.	15098	Virginia
Health Re, Inc.	13980	Vermont

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>
HealthAssurance Pennsylvania, Inc.	11102	2
Aetna Better Health Inc.	13735	3

HISTORY

The Company was incorporated on May 7, 1981, licensed by the Department on March 4, 1976 and commenced business on September 18, 1981.

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 \$562,202,243, consisting of 3,000,000 shares of common capital stock, of which 2,764,533 is issued and outstanding, with a par value of \$0.50 per share amounting to \$1,382,270; \$384,681,900 in gross paid in and contributed surplus; and \$174,638,073 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 \$68,798,595 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.

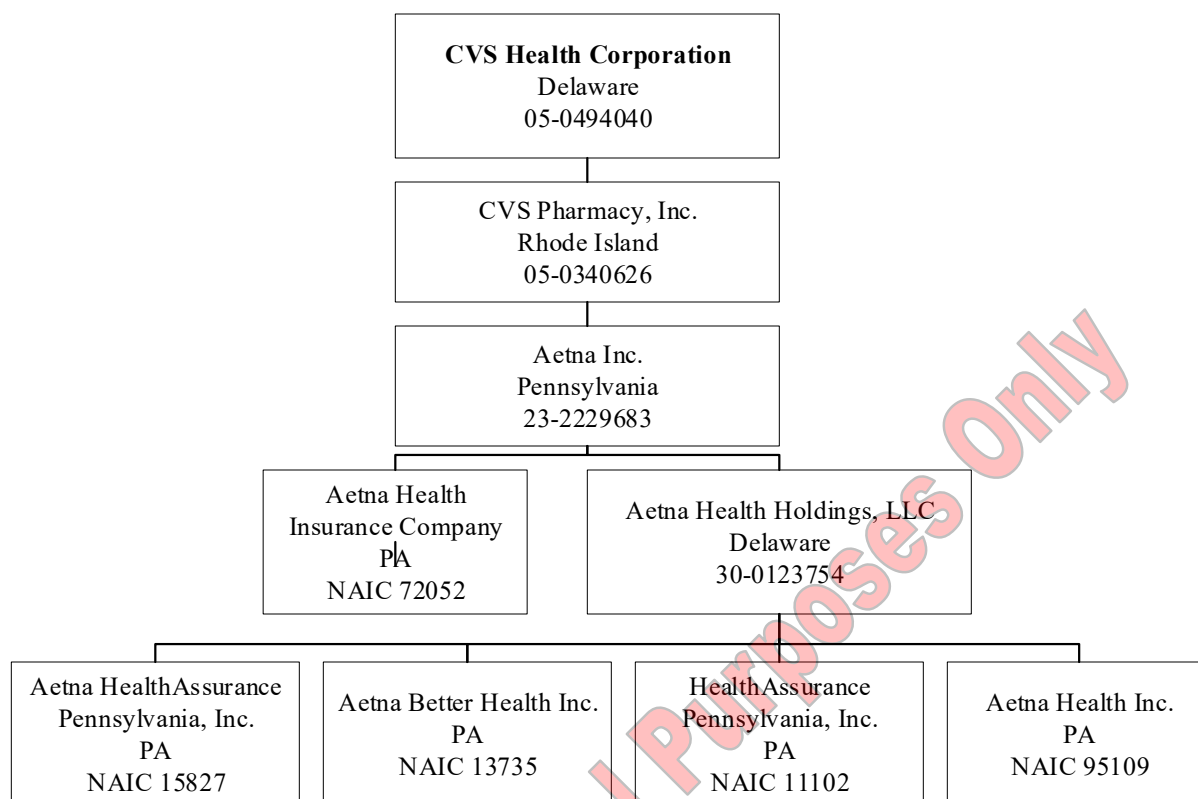
<u>Year</u>	<u>Type</u>	<u>Amount</u>
2016	Extraordinary	\$100,000,000
2016	Extraordinary	\$125,000,000
2016	Extraordinary	\$80,400,000
2017	Extraordinary	\$100,000,000
2018	Ordinary	\$29,000,000
2018	Ordinary	\$100,300,000
2019	Ordinary	\$95,000,000
2020	Ordinary	\$30,000,000
2020	Extraordinary	\$143,500,000

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. § 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	Principal Occupation
Debra J. Bacon Scottsdale, Arizona	Chief Operating Officer and Vice President, Aetna Medicaid CVS Health
Rebecca A. Chiocca Venetia, Pennsylvania	Retired
Robert A. Chiocca Venetia, Pennsylvania	Retired
John P. Elliott Blue Bell, Pennsylvania	Attorney Elliott, Greenleaf, P.C.
Gregory S. Martino Hummelstown, Pennsylvania	Assistant Vice President, State Government Affairs CVS Health
Robert T. O’Connor Pittsburgh, Pennsylvania	Vice President, Aetna Medicare CVS Health

Remy L. Richman
Blue Bell, Pennsylvania

Vice President, Aetna
CVS Health

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:

Name	Title
Michael G. Cole	President
Robert J. Parslow	Principal Financial Officer and Controller
Edward C. Lee	Vice President and Secretary
Kevin J. Casey	Senior Investment Officer
Peter Keller	Assistant Controller
Bryan J. Lane	Assistant Controller
Whitney D. Lavoie	Assistant Controller
Gregory S. Martino	Vice President
Cara S. Mullen	Assistant 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.

- The Company's Board minutes show approval of its reinsurance contracts.

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 January 1, 2004, the Company entered into an administrative services agreement with Aetna Health Management, LLC ("AHM"). AHM provides certain administrative services, including accounting and processing of premiums and claims. Under this agreement, 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. This agreement also enables the Company to receive manufacturers' pharmacy rebates from AHM under which the Company remits a percentage of its earned pharmaceutical rebates to AHM as a fee. AHM Waived the collection of the rebates fee effective January 1, 2020.

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

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

The Company's ceded premium for 2020 was \$169,230,391 which is approximately 30% of its surplus. The Company's net credit for ceded reinsurance in 2020 was \$174,521. As of December 31, 2020, the Company had \$1,253,787 outstanding due recoverables from its reinsurers.

Quota Share Agreement

Effective January 1, 2013, the Company entered into a quota share agreement with The Canada Life Assurance Company ("Canada Life"). The contract will remain in effect until all liabilities and obligations under the policies reinsured have expired or been terminated. Under the terms of this agreement, the Company cedes 25% of its comprehensive hospital and medical business to Canada Life.

The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
75%	25%	Hospital and Medical

Quota Share Agreement

Effective April 1, 2014, the Company participates in a quota share reinsurance agreement with Fresenius Medical Care Reinsurance Company (Cayman) LTD. ("Fresenius"). The term of the contract was for 1 year but will automatically renew for successive 1 year terms unless terminated earlier by the parties in accordance with the terms of the agreement.

The agreement provides for the Company to be reimbursed the Percentage Payable of Eligible Expenses Incurred per Program Participant per Agreement Year under the Company's Medicare Advantage Plans as specified under Schedule A to the agreement.

Medicare Advantage Reinsurance Agreement

Effective January 1, 2018, the Company entered into an agreement with its affiliate, Innovation Health Plan, Inc ("Innovation"). The term of the contract is noted as expiring on the date on which none of the coinsured policies remains in force. Under the terms of this contract, the Company automatically cedes to Innovation, on an indemnity coinsurance basis, the coinsured liabilities. All settlement amounts are handled through calculations specified under Schedules A and B to the agreement. The policies covered under this agreement are group and individual Medicare Advantage Plans.

The agreement with Innovation described above meets the fair and reasonable standards pursuant to 40 P.S. § 991.1405(a)(1)(i).

All reinsurance contracts contain the proper insolvency and arbitration clauses. Additionally, all contracts transfer risk as outlined in SSAP No. 61R.

ASSUMED

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

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the following jurisdictions writing comprehensive (hospital and medical), dental, Medicare, Medicaid and the Federal Employees Health Benefit program.

Alabama	Kentucky	Oklahoma
Arizona	Maryland	Pennsylvania
Colorado	Massachusetts	South Carolina
Delaware	Missouri	Tennessee
District of Columbia	Nebraska	Virginia
Illinois	Nevada	Washington
Indiana	North Carolina	West Virginia
Kansas	Ohio	

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
December 31, 2020				
Comprehensive (hospital and medical)	\$ 694,406,669	\$ 129,412,603	\$ 564,994,066	16.4%
Dental only	9,566,083	0	9,566,083	0.3%
Fed employees health benefits program premium	629,185,095	0	629,185,095	18.3%
Title XVIII - Medicare	2,083,971,960	39,381,742	2,044,590,218	59.4%
Title XIX - Medicaid	192,030,328	436,046	191,594,282	5.6%
Totals	<u>\$ 3,609,160,135</u>	<u>\$ 169,230,391</u>	<u>\$ 3,439,929,744</u>	<u>100.0%</u>

The Company distributes its products through brokerage agreements with either individual producers or agencies with a small amount handled through direct employees or agents of a plan sponsor. In Pennsylvania, insurance products are marketed through a combination of digital advertising (television and social media), home advertising (billboards and bus signage), and direct mail to consumers.

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	\$1,313,172,247	\$1,190,263,790	\$1,064,297,845	\$1,152,622,925	\$1,380,004,306
Liabilities	\$ 750,970,004	\$ 680,300,033	\$ 574,786,009	\$ 627,345,247	\$ 921,798,459
Capital and Surplus Funds	\$ 562,202,243	\$ 509,963,757	\$ 489,511,836	\$ 525,277,678	\$ 458,205,847
Net Premium Income	\$3,439,929,744	\$3,366,893,543	\$3,123,062,574	\$3,533,821,181	\$3,984,261,545
Benefits to Members	\$2,789,553,821	\$2,959,935,828	\$2,755,582,951	\$3,223,854,698	\$3,738,837,161
Net Investment Income	\$ 23,044,897	\$ 26,607,055	\$ 27,788,774	\$ 30,674,965	\$ 33,599,781
Net Income	\$ 201,700,456	\$ 126,982,751	\$ 96,319,039	\$ 129,475,325	\$ 83,382,290

PENDING LITIGATION

As of the date of this examination report, Company Management attested that the Company is involved in pending litigation but was not able to provide an evaluation of the potential losses at this time. As such, it is not known if this pending litigation could have a material adverse effect on the Company's 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.

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

	2020	2019	2018	2017	2016
Bonds	\$ 902,419,289	\$ 769,036,108	\$ 726,932,514	\$ 790,598,228	\$ 985,119,346
Common stocks	74,447,620	73,978,982	63,626,379	61,256,813	11,615,428
Mortgage loans on real estate	13,208,214	16,980,068	13,211,820	0	0
Cash, cash equivalents and short-term investments	102,659,042	62,161,734	43,138,255	3,403,445	3,036,706
Other invested assets	6,937,141	8,192,067	0	0	15,678,347
Receivable for securities	0	0	0	503,954	1,136,007
Subtotal, cash and invested assets	1,099,671,306	930,348,959	846,908,968	855,762,440	1,016,585,834
Investment income due and accrued	7,632,699	7,492,961	7,679,391	7,861,820	8,913,591
Premiums and considerations	127,962,912	158,326,167	152,201,347	202,657,480	183,550,480
Amounts recoverable from reinsurers	1,253,787	1,255,870	6,528,616	12,135,243	37,863,109
Amounts receivable relating to uninsured plans	27,265,279	32,079,434	12,306,226	21,412,821	37,092,223
Current federal and foreign income tax recoverable and interest thereon	0	10,876,280	4,708,098	13,637,919	43,439,142
Net deferred tax asset	17,252,950	17,419,262	11,767,068	14,625,879	25,730,692
Receivable from parent, subsidiaries and affiliates	82,911	4,412,389	3,018,833	248,068	189,412
Health care and other amounts receivable	27,306,341	21,449,618	16,733,152	11,288,871	12,885,947
Aggregate write-ins for other than invested assets	4,744,062	6,602,850	2,446,146	12,992,384	13,753,876
Total	\$ 1,313,172,247	\$ 1,190,263,790	\$ 1,064,297,845	\$ 1,152,622,925	\$ 1,380,004,306
Claims unpaid	\$ 377,140,968	\$ 321,068,579	\$ 288,890,287	\$ 342,860,356	\$ 440,641,044
Accrued medical incentive pool and bonus amounts	41,681,037	22,384,054	20,684,490	25,649,754	20,427,268
Unpaid claims adjustment expenses	5,944,464	5,700,957	4,767,030	6,055,454	8,251,797
Aggregate health policy reserves	163,560,484	90,386,877	88,338,069	133,989,575	264,198,954
Aggregate health claim reserves	1,284,402	1,630,137	2,258,143	3,813,669	5,366,710
Premiums received in advance	18,913,955	13,468,537	7,311,338	3,125,000	13,686,303
General expenses due or accrued	14,393,281	11,262,194	9,592,705	13,614,715	29,072,067
Current federal and foreign income tax payable and interest thereon	29,062,499	0	0	0	0
Ceded reinsurance premiums payable	3,805,743	4,260,322	8,064,531	9,028,418	2,802,455
Amounts withheld or retained for the account of others	507,597	510,473	563,649	502,614	852,003
Remittances and items not allocated	1,700,346	128,523	147,123	680,535	1,772,401
Amounts due to parent, subsidiaries and affiliates	44,677,351	162,331,588	91,215,237	18,333,229	51,204,298
Payable for securities	1,500,000	0	0	2,881,276	9,633,305
Funds held under reinsurance treaties	24,013,448	22,882,211	28,946,120	42,684,710	58,231,016
Reinsurance in unauthorized and certified companies	846,264	2,742,735	940,104	984,985	235,847
Liability for amounts held under uninsured plans	3,396,136	3,488,175	4,427,944	3,763,047	4,529,899
Aggregate write-ins for other liabilities	18,542,029	18,054,671	18,639,239	19,377,910	10,893,092
Total liabilities	750,970,004	680,300,033	574,786,009	627,345,247	921,798,459
Aggregate write-ins for special surplus funds	0	71,456,100	0	78,922,000	0
Common capital stock	1,382,270	1,382,270	1,382,270	1,382,270	1,382,270
Gross paid in and contributed surplus	384,681,900	384,681,900	384,681,900	384,681,900	457,003,872
Aggregate write-ins for other than special surplus funds	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Unassigned funds (surplus)	174,638,073	50,943,487	101,947,666	58,791,508	(1,680,295)
Total capital and surplus	562,202,243	509,963,757	489,511,836	525,277,678	458,205,847
Totals	\$ 1,313,172,247	\$ 1,190,263,790	\$ 1,064,297,845	\$ 1,152,622,925	\$ 1,380,004,306

Comparative Statement of Income For the Year Ended December 31,

	2020	2019	2018	2017	2016
Net premium income	\$ 3,439,929,744	\$ 3,366,893,543	\$ 3,123,062,574	\$ 3,533,821,181	\$ 3,984,261,545
Change in unearned premium reserves and reserve for rate credits	(73,507,171)	5,020,426	30,393,824	(12,680,430)	(32,626,251)
Aggregate write-ins for other health care related revenues	410,363	(2,470)	(3,792)	15,440	39,977
Total revenues	<u>3,366,832,936</u>	<u>3,371,911,499</u>	<u>3,153,452,606</u>	<u>3,521,156,191</u>	<u>3,951,675,271</u>
Hospital/medical benefits	1,825,375,782	2,143,370,535	1,938,036,356	2,148,791,037	2,565,397,264
Other professional services	164,878,392	49,742,936	42,537,202	39,709,658	46,846,615
Outside referrals	49,316,698	50,688,394	52,859,901	80,773,891	85,971,111
Emergency room and out-of-area	141,601,618	175,006,800	165,085,862	181,904,433	233,013,494
Prescription drugs	559,696,005	516,629,139	538,132,220	742,974,115	787,456,468
Incentive pool, withhold adjustments and bonus amounts	48,685,326	24,498,024	18,931,410	29,701,564	20,152,209
Subtotal (hospital and medical)	<u>2,789,553,821</u>	<u>2,959,935,828</u>	<u>2,755,582,951</u>	<u>3,223,854,698</u>	<u>3,738,837,161</u>
Net reinsurance recoveries	147,264,094	159,523,980	223,140,409	378,797,007	509,752,570
Total hospital and medical	<u>2,642,289,727</u>	<u>2,800,411,848</u>	<u>2,532,442,542</u>	<u>2,845,057,691</u>	<u>3,229,084,591</u>
Claims adjustment expenses, including cost containment expenses	66,640,918	78,237,582	63,842,436	68,112,178	79,011,508
General administrative expenses	412,338,479	375,008,987	457,967,476	469,251,728	558,538,134
Increase in reserves for life accident and health contracts	0	0	(7,897,412)	7,897,412	(330,000)
Total underwriting deductions	<u>3,121,269,124</u>	<u>3,253,658,417</u>	<u>3,046,355,042</u>	<u>3,390,319,009</u>	<u>3,866,304,233</u>
Net underwriting gain or (loss)	<u>245,563,812</u>	<u>118,253,082</u>	<u>107,097,564</u>	<u>130,837,182</u>	<u>85,371,038</u>
Net investment income earned	23,044,897	26,607,055	27,788,774	30,674,965	33,599,781
Net realized capital gains or (losses)	(345,411)	1,823,784	(1,251,703)	477,848	1,116,535
Net investment gains or (losses)	22,699,486	28,430,839	26,537,071	31,152,813	34,716,316
Aggregate write-ins for other income or expenses	(39,351)	(19,812)	965,123	(115,842)	(123,838)
Net income or (loss) before federal income taxes	<u>268,223,947</u>	<u>146,664,109</u>	<u>134,599,758</u>	<u>161,874,153</u>	<u>119,963,516</u>
Federal income taxes incurred	66,523,491	19,681,358	38,280,719	32,398,828	36,581,226
Net income (loss)	<u>\$ 201,700,456</u>	<u>\$ 126,982,751</u>	<u>\$ 96,319,039</u>	<u>\$ 129,475,325</u>	<u>\$ 83,382,290</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	\$ 509,963,757	\$ 489,511,836	\$ 525,277,678	\$ 458,205,847	\$ 421,403,811
Net income or (loss)	201,700,456	126,982,751	96,319,039	129,475,325	83,382,290
Change in net unrealized capital gains and (losses)	13,585,867	17,577,866	(2,387,934)	47,184,090	944,915
Change in net deferred income tax	(73,107)	5,775,735	(2,193,631)	(11,258,077)	4,785,717
Change in nonadmitted assets	8,628,799	(33,081,800)	1,751,802	2,419,631	7,559,106
Change in unauthorized and certified reinsurance	1,896,471	(1,802,631)	44,882	(749,138)	(105,608)
Surplus adjustments:					
Paid in	0	0	0	(72,321,972)	0
Dividends to stockholders	(173,500,000)	(95,000,000)	(129,300,000)	(27,678,028)	(305,400,000)
Aggregate write-ins for gains or (losses) in surplus	0	0	0	0	(5,248,187)
Net change in capital and surplus	<u>52,238,486</u>	<u>20,451,921</u>	<u>(35,765,842)</u>	<u>67,071,831</u>	<u>(214,081,767)</u>
Capital and surplus, December 31, current year	<u>\$ 562,202,243</u>	<u>\$ 509,963,757</u>	<u>\$ 489,511,836</u>	<u>\$ 525,277,678</u>	<u>\$ 458,205,847</u>

For Informational Purposes Only

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

	2020	2019	2018	2017	2016
Cash from Operations					
Premiums collected net of reinsurance	\$ 3,483,678,982	\$ 3,334,781,676	\$ 3,166,256,820	\$ 3,364,739,761	\$ 4,003,065,284
Net investment income	28,583,878	31,188,656	31,176,082	41,047,895	46,991,665
Miscellaneous Income	410,363	(2,470)	(3,792)	15,440	957,697
Total	<u>3,512,673,223</u>	<u>3,365,967,862</u>	<u>3,197,429,110</u>	<u>3,405,803,096</u>	<u>4,051,014,646</u>
Benefit and loss related payments	2,573,433,401	2,766,467,560	2,593,099,917	2,911,877,378	3,181,552,279
Commissions, expenses paid and aggregate write-ins for deductions	469,063,250	475,532,646	505,837,494	540,673,852	630,301,258
Federal and foreign income taxes paid (recovered)	26,635,868	26,820,897	29,306,696	3,257,708	59,517,042
Total deductions	<u>3,069,132,519</u>	<u>3,268,821,103</u>	<u>3,128,244,107</u>	<u>3,455,808,938</u>	<u>3,871,370,579</u>
Net cash from operations	<u>443,540,704</u>	<u>97,146,759</u>	<u>69,185,003</u>	<u>(50,005,842)</u>	<u>179,644,067</u>
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	228,584,762	346,331,741	315,934,926	534,211,681	553,624,450
Stocks	13,823,025	5,234,843	1,520,562	2,211,178	11,681,264
Mortgage loans	3,791,919	181,752	38,115	0	0
Other invested assets	1,271,912	584,009	53,031	11,564,902	0
Net gain or (loss) on cash, cash equivalents and short term investments	536	657	(735)	(2,573)	676
Miscellaneous proceeds	1,500,000	0	503,954	632,053	6,712,209
Total investment proceeds	<u>248,972,154</u>	<u>352,333,002</u>	<u>318,049,853</u>	<u>548,617,241</u>	<u>572,018,599</u>
Cost of investments acquired (long-term only):					
Bonds	369,250,963	386,504,839	259,490,712	343,079,839	450,410,760
Stocks	0	0	0	0	15,014,085
Mortgage loans	0	3,950,000	13,249,935	0	0
Other invested assets	16,986	8,776,076	53,031	468,970	13,401,115
Miscellaneous applications	0	0	2,881,276	6,752,029	0
Total investments acquired	<u>369,267,949</u>	<u>399,230,915</u>	<u>275,674,954</u>	<u>350,300,838</u>	<u>478,825,960</u>
Net cash from investments	<u>(120,295,795)</u>	<u>(46,897,913)</u>	<u>42,374,899</u>	<u>198,316,403</u>	<u>93,192,639</u>
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	(72,321,972)	0
Dividends to stockholders	173,500,000	95,000,000	129,300,000	27,678,028	305,400,000
Other cash provided or (applied)	(109,247,601)	63,774,633	57,474,908	(47,943,822)	(7,924,358)
Net cash from financing and miscellaneous sources	<u>(282,747,601)</u>	<u>(31,225,367)</u>	<u>(71,825,092)</u>	<u>(147,943,822)</u>	<u>(313,324,358)</u>
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	40,497,308	19,023,479	39,734,810	366,739	(40,487,652)
Cash and short-term investments:					
Beginning of the year	62,161,734	43,138,255	3,403,445	3,036,706	43,524,358
End of the year	<u>\$ 102,659,042</u>	<u>\$ 62,161,734</u>	<u>\$ 43,138,255</u>	<u>\$ 3,403,445</u>	<u>\$ 3,036,706</u>

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	\$ 902,419,289	82.1%
Common stocks	74,447,620	6.8%
Mortgage loans on real estate	13,208,214	1.2%
Cash	8,878,235	0.8%
Cash equivalents	93,780,807	8.5%
Other invested assets	6,937,141	0.6%
Totals	<u>\$ 1,099,671,306</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	\$ 733,653,190	73.6%
2 - high quality	188,581,597	18.9%
3 - medium quality	54,370,874	5.5%
4 - low quality	19,593,573	2.0%
Totals	<u>\$ 996,199,234</u>	<u>100.0%</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 157,322,725	15.8%
2 to 5 years	496,913,753	49.8%
6 to 10 years	305,594,975	30.7%
11 to 20 years	14,581,364	1.5%
over 20 years	21,786,417	2.2%
Totals	<u>\$ 996,199,234</u>	<u>100.0%</u>

As of December 31, 2020, total cash and investments make up about 83.7% of the Company's total admitted assets. The Company maintained 92.5% of its bond portfolio in NAIC-1 (highest quality) and NAIC-2 (high quality) securities. Approximately, 96.3% 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 \$377,140,968; Accrued Medical Incentive Pool and Bonus Amounts \$41,681,037; Unpaid Claims Adjustment Expenses \$5,944,464; Aggregate Health Policy Reserves \$163,560,484; and Aggregate Health Claim Reserves \$1,284,402.

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.

Paul Conlin, FSA, MAAA, Senior Actuarial Director employed by ARL, was the Company's AA in 2019 and 2020.

The AA 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 \$55,000,000 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 recommendations are being made.

CONCLUSION

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

	Amount	Percentage
Admitted assets	\$ 1,313,172,247	100.0 %
Liabilities	\$ 750,970,004	57.2 %
Capital and Surplus	562,202,243	42.8 %
Total liabilities, capital and surplus	\$ 1,313,172,247	100.0 %

Since the previous examination, made as of December 31, 2015, the Company's assets increased by \$473,024,981, its liabilities increased by \$332,226,549, and its surplus increased by \$140,798,432.

This examination was conducted by Alexis Welsh and Mark Swearingen, CFE of the Department, and F. Laurence Lindberg, CPA, CFE 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 12:34 EDT)

Shannon Hopkins, CFE
Examination Manager

F. Laurence Lindberg
F. Laurence Lindberg (Jun 27, 2022 12:33 EDT)

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Examiner-in-Charge