

Examination Warrant Number 20-00001-72052-R1

Report of Examination of

Aetna Health Insurance Company  
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 20-00001-72052-R1, dated August 10, 2020, an examination was made of

**Aetna Health Insurance Company, NAIC Code: 72052**

a Pennsylvania domiciled, multi-state, life, accident and health insurance company 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. § 32.5(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 Insurance Company

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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 Inc.	95109	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

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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 under the laws of the State of Minnesota on July 7, 1938 and commenced business on or about December 1, 1956. On July 18, 1997, after a few name changes, the Company redomesticated and was granted a certificate of authority in Pennsylvania under the name Corporate Health Insurance Company. Effective January 1, 2008, the Company changed its name to Aetna Health Insurance Company.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382(a)(1) Life and Annuities and (a)(2) Accident and Health.

### MANAGEMENT AND CONTROL

#### CAPITALIZATION

As of December 31, 2020, the Company's total capital was \$34,873,649, consisting of 25,010 capital shares of issued and outstanding common stock with a par value of \$100.00 per share amounting to \$2,501,000; \$127,516,449 in gross paid in and contributed surplus; and (\$95,143,800) in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$1,100,000 in capital and \$550,000 in surplus. The Company has met all governing requirements throughout the examination period.

#### STOCKHOLDER

The Company is 100% owned by its immediate holding company, 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 dividend to AHH during the examination period.

<u>Year</u>	<u>Type</u>	<u>Amount</u>
2018	Extraordinary	\$15,000,000

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The Company received the following capital contributions from Aetna during the examination period.

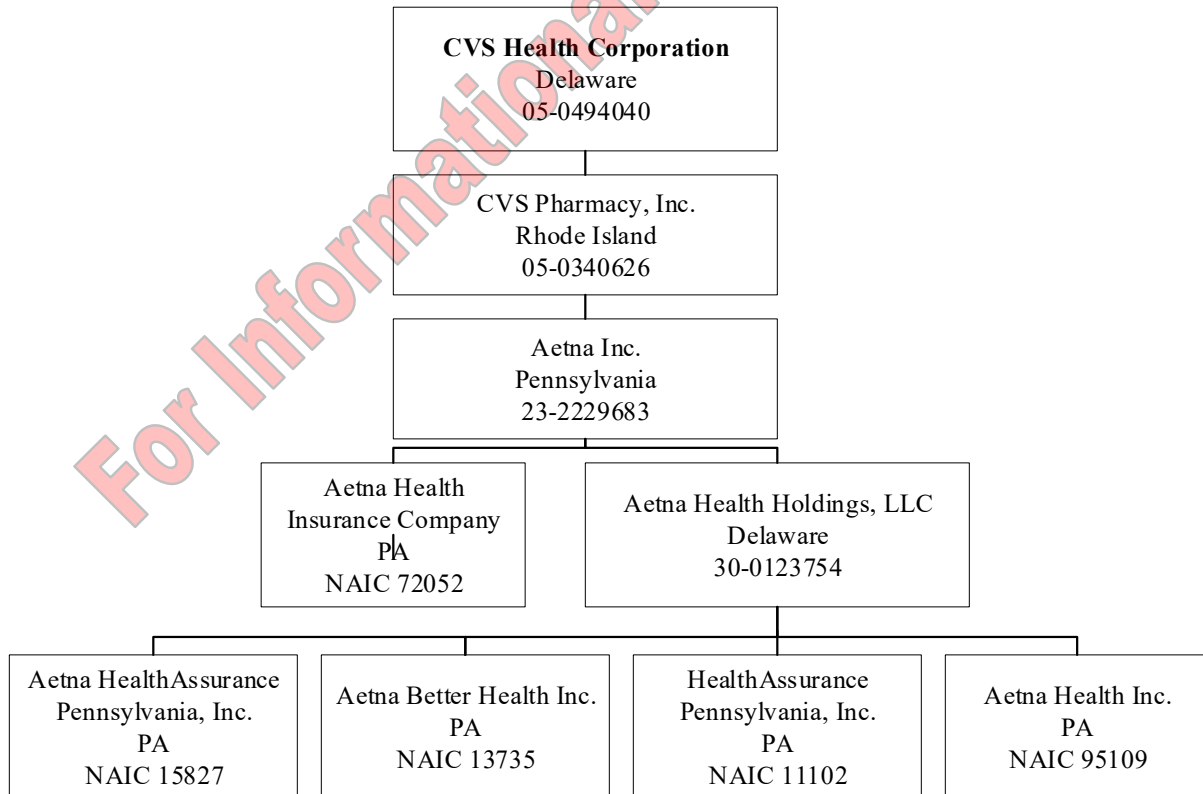
<u>Year</u>	<u>Amount</u>
2019	\$25,000,000
2020	\$80,000,000

The Company reported the dividend paid to AHH and all capital contributions received from Aetna to the Department in accordance with the requirements of 40 P.S. § 991.1405 or 40 P.S. § 1404(e). The Department approved the extraordinary dividend 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:

<b>Name and Address</b>	<b>Principal Occupation</b>
Martha L. Carlson Pittsburgh, Pennsylvania	Associate Vice President, Aetna CVS Health
John P. Elliott Blue Bell, Pennsylvania	Attorney Elliott, Greenleaf, P.C.
Robert S. Healy West Hartford, Connecticut	Executive Director, Capital Management CVS Health
Mara P. Jacobowitz North Woodmere, New York	Homemaker
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 appointed an audit committee. Membership of this committee is as follows:

**Audit Committee**  
Robert S. Healy, Chair  
Gregory S. Martino

## **OFFICERS**

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

<b>Name</b>	<b>Title</b>
Michael G. Cole	President
Robert J. Parslow	Principal Financial Officer and Controller
Gregory S. Martino	Vice President and Secretary
Frank F. Chronister III	Assistant Controller
Peter Keller	Assistant Controller
Bryan J. Lane	Assistant Controller
Whitney D. Lavoie	Assistant Controller

Nancy D. Perrone  
Tracy L. Smith

Assistant Controller  
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**

Effective September 2, 2016, the Company made one minor amendment to its Articles of Incorporation to change its statutory home office address.

### **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 agreement was in place during the examination period.

#### **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.



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

### REINSURANCE

#### CEDED

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

#### ASSUMED

The Company assumed a small amount of business from six separate affiliates during the examination period none of which was material for the Company's examination.

### TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the District of Columbia and all 50 states except California, Connecticut, Mississippi, and New York and writes comprehensive (hospital and medical) and Medicare Supplement insurance.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
<b>December 31, 2020</b>				
Comprehensive (hospital and medical)	\$ 2,592,676	\$ 0	\$ 2,592,676	1.0%
Medicare Supplement	243,387,860	0	243,387,860	99.0%
Totals	<u>\$ 245,980,536</u>	<u>\$ 0</u>	<u>\$ 245,980,536</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:

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	2020	2019	2018	2017	2016
Admitted Assets	\$ 103,340,269	\$ 40,778,010	\$ 23,065,162	\$ 43,808,967	\$ 43,106,530
Liabilities	\$ 68,466,620	\$ 26,895,691	\$ 8,739,017	\$ 8,672,676	\$ 8,344,333
Capital and Surplus Funds	\$ 34,873,649	\$ 13,882,319	\$ 14,326,146	\$ 35,136,291	\$ 34,762,197
Net Premium Income	\$ 245,980,536	\$ 61,804,777	\$ 29,673,254	\$ 15,786,547	\$ 34,841,359
Benefits to Members	\$ 184,051,495	\$ 48,221,846	\$ 22,396,945	\$ 12,639,180	\$ 28,650,371
Net Investment Income	\$ 897,914	\$ 325,158	\$ 930,298	\$ 1,064,785	\$ 1,204,326
Net Income	\$ (36,468,075)	\$ (8,158,189)	\$ (2,447,580)	\$ (212,195)	\$ 647,070

## 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	\$ 47,993,875	\$ 5,529,398	\$ 12,496,226	\$ 35,028,880	\$ 32,416,735
Cash, cash equivalents and short-term investments	50,929,518	19,561,306	10,279,594	7,415,271	6,352,652
Subtotal, cash and invested assets	98,923,393	25,090,704	22,775,820	42,444,151	38,769,387
Investment income due and accrued	337,173	18,918	64,640	257,163	279,579
Premiums and considerations	795,314	329,848	70,378	22,550	0
Amounts recoverable from reinsurers	13,735	5,275	0	0	0
Other amounts receivable under reinsurance contracts	162,944	97,815	6,501	11,735	13,491
Current federal and foreign income tax recoverable and interest thereon	2,980,333	0	0	0	0
Net deferred tax asset	0	444	2,027	453,432	3,288
Guaranty funds receivable or on deposit	127,377	141,175	138,720	156,666	0
Receivable from parent, subsidiaries and affiliates	0	15,011,340	3,910	429,242	4,024,265
Aggregate write-ins for other than invested assets	0	82,491	3,166	34,028	16,520
<b>Total</b>	<b>\$ 103,340,269</b>	<b>\$ 40,778,010</b>	<b>\$ 23,065,162</b>	<b>\$ 43,808,967</b>	<b>\$ 43,106,530</b>
Claims unpaid	\$ 35,044,128	\$ 9,346,146	\$ 3,633,075	\$ 2,662,362	\$ 5,263,616
Unpaid claims adjustment expenses	528,079	87,889	50,071	34,085	91,046
Aggregate health policy reserves	5,075,758	2,064,668	699,397	240,617	0
Aggregate health claim reserves	2,374	6,623	17,650	32,523	86,837
Premiums received in advance	7,120,435	3,344,074	733,276	381,623	0
General expenses due or accrued	4,372,860	252,029	850,523	1,295,559	1,493,725
Current federal and foreign income tax payable and interest thereon	0	306,997	240,183	2,262,142	1,409,109
Remittances and items not allocated	409,586	300,573	62,442	46,984	0
Amounts due to parent, subsidiaries and affiliates	15,802,601	11,145,671	2,450,425	0	0
Payable for securities	0	0	0	1,716,757	0
Liability for amounts held under uninsured plans	2,712	4,150	1,316	24	0
Aggregate write-ins for other liabilities	108,087	36,871	659	0	0
<b>Total liabilities</b>	<b>68,466,620</b>	<b>26,895,691</b>	<b>8,739,017</b>	<b>8,672,676</b>	<b>8,344,333</b>
Aggregate write-ins for special surplus funds	0	1,240,500	0	275,000	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	127,516,449	47,516,449	22,516,449	37,516,449	37,516,449
Unassigned funds (surplus)	(95,143,800)	(37,375,630)	(10,691,303)	(5,156,158)	(5,255,252)
<b>Total capital and surplus</b>	<b>34,873,649</b>	<b>13,882,319</b>	<b>14,326,146</b>	<b>35,136,291</b>	<b>34,762,197</b>
<b>Totals</b>	<b>\$ 103,340,269</b>	<b>\$ 40,778,010</b>	<b>\$ 23,065,163</b>	<b>\$ 43,808,967</b>	<b>\$ 43,106,530</b>

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

	2020	2019	2018	2017	2016
Net premium income	\$ 245,980,536	\$ 61,804,777	\$ 29,673,254	\$ 15,786,547	\$ 34,841,359
Change in unearned premium reserves and reserve for rate credits	(3,011,089)	(1,365,271)	(458,781)	(240,617)	0
Aggregate write-ins for other health care related revenues	562,464	129,269	49,069	7,370	0
Total revenues	<u>243,531,911</u>	<u>60,568,775</u>	<u>29,263,542</u>	<u>15,553,300</u>	<u>34,841,359</u>
Hospital/medical benefits	183,001,434	48,142,809	22,267,235	11,284,703	27,229,468
Other professional services	818,317	0	55	0	0
Emergency room and out-of-area	719	10,270	21,515	105,185	94,305
Prescription drugs	231,025	68,767	108,140	1,249,292	1,326,598
Subtotal (hospital and medical)	<u>184,051,495</u>	<u>48,221,846</u>	<u>22,396,945</u>	<u>12,639,180</u>	<u>28,650,371</u>
Net reinsurance recoveries	0	0	0	0	8,861
Total hospital and medical	<u>184,051,495</u>	<u>48,221,846</u>	<u>22,396,945</u>	<u>12,639,180</u>	<u>28,641,510</u>
Claims adjustment expenses, including cost containment expenses	52,906	273,133	50,675	294,250	744,948
General administrative expenses	100,305,191	21,287,975	10,157,249	4,046,523	7,548,714
Total underwriting deductions	<u>284,409,592</u>	<u>69,782,954</u>	<u>32,604,869</u>	<u>16,979,953</u>	<u>36,935,172</u>
Net underwriting gain or (loss)	<u>(40,877,681)</u>	<u>(9,214,179)</u>	<u>(3,341,327)</u>	<u>(1,426,653)</u>	<u>(2,093,813)</u>
Net investment income earned	897,914	325,158	930,298	1,064,785	1,204,326
Net realized capital gains or (losses)	(22,375)	106,791	(63,806)	(144,669)	627,449
Net investment gains or (losses)	875,539	431,949	866,492	920,116	1,831,775
Aggregate write-ins for other income or expenses	(266)	(1,450)	(2,063)	(33)	0
Net income or (loss) before federal income taxes	<u>(40,002,408)</u>	<u>(8,783,680)</u>	<u>(2,476,898)</u>	<u>(506,570)</u>	<u>(262,038)</u>
Federal income taxes incurred	(3,534,333)	(625,491)	(29,318)	(294,375)	(909,108)
Net income (loss)	<u>\$ (36,468,075)</u>	<u>\$ (8,158,189)</u>	<u>\$ (2,447,580)</u>	<u>\$ (212,195)</u>	<u>\$ 647,070</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	\$ 13,882,319	\$ 14,326,146	\$ 35,136,291	\$ 34,762,197	\$ 32,279,594
Net income or (loss)	(36,468,075)	(8,158,189)	(2,447,580)	(212,195)	647,070
Change in net unrealized capital gains and (losses)	0	6,936	(6,936)	0	21,731
Change in net deferred income tax	(444)	261	(453,249)	450,144	31,595
Change in nonadmitted assets	(22,540,151)	(17,292,835)	(2,902,380)	(2,012,392)	0
Surplus adjustments:					
Paid in	80,000,000	25,000,000	(15,000,000)	0	0
Aggregate write-ins for gains or (losses) in surplus	0	0	0	2,148,537	1,782,207
Net change in capital and surplus	20,991,330	(443,827)	(20,810,145)	374,094	2,482,603
Capital and surplus, December 31, current year	<u>\$ 34,873,649</u>	<u>\$ 13,882,319</u>	<u>\$ 14,326,146</u>	<u>\$ 35,136,291</u>	<u>\$ 34,762,197</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	\$ 249,259,533	\$ 64,157,643	\$ 29,974,987	\$ 18,593,697	\$ 36,969,523
Net investment income	600,069	359,894	1,224,663	1,279,660	1,639,669
Miscellaneous Income	562,464	129,269	49,069	7,370	0
Total	<u>250,422,066</u>	<u>64,646,806</u>	<u>31,248,719</u>	<u>19,880,727</u>	<u>38,609,192</u>
Benefit and loss related payments	158,366,222	42,525,077	21,441,105	15,294,748	31,270,861
Commissions, expenses paid and aggregate write-ins for deductions	118,276,055	24,455,427	10,669,280	5,905,231	8,157,346
Federal and foreign income taxes paid (recovered)	(232,698)	(661,844)	2,045,017	154,013	(2,181,576)
Total deductions	<u>276,409,579</u>	<u>66,318,660</u>	<u>34,155,402</u>	<u>21,353,992</u>	<u>37,246,631</u>
Net cash from operations	<u>(25,987,513)</u>	<u>(1,671,854)</u>	<u>(2,906,683)</u>	<u>(1,473,265)</u>	<u>1,362,561</u>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	7,109,456	8,169,121	31,092,316	10,013,795	18,036,599
Net gain or (loss) on cash, cash equivalents and short term investments	2,161	(16)	(98)	46	(3)
Miscellaneous proceeds	0	0	0	1,716,757	0
Total investment proceeds	<u>7,111,617</u>	<u>8,169,105</u>	<u>31,092,218</u>	<u>11,730,598</u>	<u>18,036,596</u>
Cost of investments acquired (long-term only):					
Bonds	49,604,574	1,045,259	8,681,614	12,819,215	10,515,032
Miscellaneous applications	0	0	1,716,757	0	0
Total investments acquired	<u>49,604,574</u>	<u>1,045,259</u>	<u>10,398,371</u>	<u>12,819,215</u>	<u>10,515,032</u>
Net cash from investments	<u>(42,492,957)</u>	<u>7,123,846</u>	<u>20,693,847</u>	<u>(1,088,617)</u>	<u>7,521,564</u>
<b>Cash from Financing and Miscellaneous Sources</b>					
Cash provided (applied):					
Capital and paid in surplus, less treasury stock	80,000,000	10,000,000	(15,000,000)	0	0
Other cash provided or (applied)	19,848,682	(6,170,281)	77,160	3,624,501	(3,684,304)
Net cash from financing and miscellaneous sources	<u>99,848,682</u>	<u>3,829,719</u>	<u>(14,922,840)</u>	<u>3,624,501</u>	<u>(3,684,304)</u>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	31,368,212	9,281,711	2,864,324	1,062,619	5,199,821
Cash and short-term investments:					
Beginning of the year	19,561,306	10,279,595	7,415,271	6,352,652	1,152,831
End of the year	<u>\$ 50,929,518</u>	<u>\$ 19,561,306</u>	<u>\$ 10,279,595</u>	<u>\$ 7,415,271</u>	<u>\$ 6,352,652</u>

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**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:

	<b>Amount</b>	<b>Percentage</b>
Bonds	\$ 47,993,875	48.5%
Cash	47,885,286	48.4%
Cash equivalents	3,044,232	3.1%
Totals	<u>\$ 98,923,393</u>	<u>100.0%</u>

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

<b>NAIC Designation</b>	<b>Amount</b>	<b>Percentage</b>
1 - highest quality	\$ 26,325,981	51.6%
2 - high quality	17,873,920	35.0%
3 - medium quality	5,833,463	11.4%
4 - low quality	1,003,218	2.0%
Totals	<u>\$ 51,036,582</u>	<u>100.0%</u>

<b>Years to Maturity</b>	<b>Amount</b>	<b>Percentage</b>
1 year or less	\$ 3,924,770	7.7%
2 to 5 years	24,675,120	48.3%
6 to 10 years	19,884,353	39.0%
11 to 20 years	1,284,930	2.5%
over 20 years	1,267,409	2.5%
Totals	<u>\$ 51,036,582</u>	<u>100.0%</u>

As of December 31, 2020, total cash and investments make up about 95.7% of the Company's total admitted assets. The Company maintained 86.6% of its bond portfolio in NAIC-1 (highest quality) and NAIC-2 (high quality) securities. Approximately, 95.0% 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 \$35,044,128; Unpaid Claims Adjustment Expenses \$528,079; Aggregate Health Policy Reserves \$5,075,758; and Aggregate Health Claims Reserves \$2,374.

John M. Stenson, FSA, MAAA, Qualified Actuary employed by the Company, was the Company's appointed actuary ("AA") in 2016, 2017 and 2018.

Jeffrey J. Drzazgowski, FSA, MAAA, Vice President and Valuation Actuary employed by the Company, 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**

In 2021, the Company received quarterly capital contributions from its parent, Aetna, Inc., in the amounts of \$45,000,000, \$70,000,000, \$30,000,000, and \$125,000,000 for a total of \$270,000,000.

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 Insurance Company, as of December 31, 2020, was determined to be as follows:

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	\$ 103,340,269	100.0 %
Liabilities	\$ 68,466,620	66.3 %
Capital and Surplus	34,873,649	33.7 %
Total liabilities, capital and surplus	\$ 103,340,269	100.0 %

Since the previous examination, made as of December 31, 2015, the Company's assets increased by \$44,378,971, its liabilities increased by \$41,784,916, and its surplus increased by \$2,594,055.

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 (Jun 27, 2022 12:32 EDT)

Shannon Hopkins, CFE  
Examination Manager

  
F. Laurence Lindberg (Jun 27, 2022 12:30 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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