

Examination Warrant Number 20-00001-15827-R1

**Report of Examination of**

**Aetna HealthAssurance Pennsylvania, Inc.  
Blue Bell, Pennsylvania**

**As of December 31, 2020**

*For Informational Purposes Only*

**TABLE OF CONTENTS**

<b>Subject</b>	<b>Page</b>
Salutation .....	1
Scope of Examination .....	1
History .....	3
Management and Control:	
Capitalization .....	3
Stockholder .....	3
Insurance Holding Company System .....	4
Board of Directors .....	4
Committees .....	5
Officers .....	5
Corporate Records:	
Minutes .....	5
Articles of Incorporation .....	6
By-Laws .....	6
Service and Operating Agreements .....	6
Reinsurance:	
Ceded .....	7
Assumed .....	7
Territory and Plan of Operations .....	7
Significant Operating Trends .....	7
Pending Litigation .....	7
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds .....	9
Comparative Statement of Income .....	10
Comparative Statement of Capital and Surplus .....	11
Comparative Statement of Cash Flow .....	12
Summary of Examination Changes .....	13
Notes to Financial Statements:	
Assets:	
Investments .....	13
Liabilities:	
Claims Reserves .....	14
Subsequent Events .....	15
Recommendations:	
Prior Examination .....	15
Current Examination .....	15
Conclusion .....	15

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 20-00001-15827-R1, dated August 10, 2020, an examination was made of

**Aetna HealthAssurance Pennsylvania, Inc., NAIC Code: 15827**

a Pennsylvania domiciled, single-state, risk-assuming preferred provider organization, which is not a licensed insurer (“RANLI-PPO”), 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

## Aetna Health Assurance Pennsylvania, Inc.

-2-

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 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 Insurance Company	72052	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

## Aetna HealthAssurance Pennsylvania, Inc.

-3-

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 June 3, 2015, approved by the Department on November 24, 2015 and commenced business on or about that date.

The Company is currently authorized to transact business as a RANLI-PPO pursuant to 40 P.S. § 764a and 31 Pa. Code § 152.1 et seq.

### MANAGEMENT AND CONTROL

#### CAPITALIZATION

As of December 31, 2020, the Company's total capital was \$66,041,477, consisting of 1 capital share of issued and outstanding common stock with a par value of \$1.00 per share amounting to \$1.00; \$55,000,000 in gross paid in and contributed surplus; and \$11,041,476 in unassigned funds (surplus).

The Company's minimum capital requirement, pursuant to 31 Pa. Code § 152.9, is to maintain admitted assets in excess of liabilities by at least the minimum capital and surplus required of a stock casualty insurer with accident and health authority. The minimum capital and surplus for a stock casualty insurer with accident and health authority is \$750,000 in capital and \$375,000 in surplus pursuant to 40 P.S. § 386. 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.

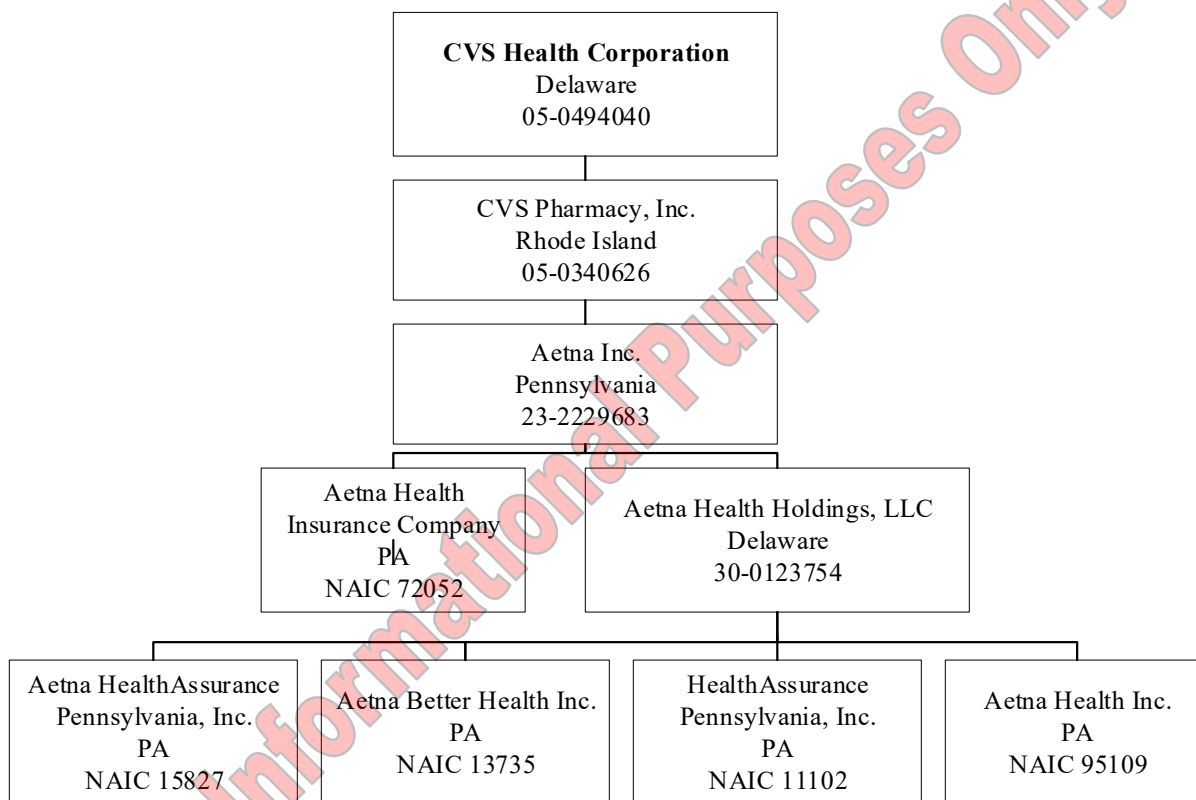
The Company paid no dividends to its parent, AHH, during the examination period.

The Company did receive capital contributions from AHH on August 14, 2017 in the amount of \$15,000,000 and on December 29, 2017 in the amount of \$35,000,000.

**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**

Gregory S. Martino  
Hummelstown, Pennsylvania

Robert T. O’Connor  
Pittsburgh, Pennsylvania

**Principal Occupation**

Assistant Vice President,  
State Government Affairs  
CVS Health

Vice President, Aetna Medicare  
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:

<b>Name</b>	<b>Title</b>
Michael G. Cole	Chief Executive Officer and President
Robert J. Parslow	Principal Financial Officer and Controller
Edward C. Lee	Secretary and Vice President
Kevin J. Casey	Senior Investment Officer
Peter Keller	Assistant Controller
Bryan J. Lane	Assistant Controller
Whitney D. Lavoie	Assistant Controller
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.

## **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, 2016, 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 is to remit a percentage of its earned 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 fees 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 did not cede any business during the examination period.

### ASSUMED

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

## TERRITORY AND PLAN OF OPERATIONS

The Company is only licensed only in PA and is writing only comprehensive health (hospital and medical).

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
<b>December 31, 2020</b>				
Comprehensive (hospital and medical)	\$ 181,859,969	\$ 0	\$ 181,859,969	100.0%
Health subtotal	181,859,969	0	181,859,969	100.0%
Totals	\$ 181,859,969	\$ 0	\$ 181,859,969	100.0%

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	\$ 89,046,847	\$ 81,996,656	\$ 84,409,730	\$ 102,338,706	\$ 26,874,097
Liabilities	\$ 23,005,370	\$ 22,449,954	\$ 32,887,550	\$ 52,525,953	\$ 16,939,640
Capital and Surplus Funds	\$ 66,041,477	\$ 59,546,702	\$ 51,522,180	\$ 49,812,753	\$ 9,934,457
Net Premium Income	\$ 181,859,969	\$ 238,269,090	\$ 294,912,549	\$ 284,878,699	\$ 73,217,578
Benefits to Members	\$ 150,656,068	\$ 204,923,822	\$ 253,211,574	\$ 250,672,358	\$ 54,406,915
Net Investment Income	\$ 2,556,902	\$ 2,951,414	\$ 2,557,262	\$ 56,238	\$ (13,716)
Net Income	\$ 6,780,338	\$ 10,178,374	\$ 1,927,562	\$ (6,397,583)	\$ 4,940,872

## 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.

**For Informational Purposes Only**

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

	2020	2019	2018	2017	2016
Bonds	\$ 74,360,273	\$ 67,367,897	\$ 75,431,246	\$ 5,942,045	\$ 0
Cash, cash equivalents and short-term investments	8,292,114	10,847,777	517,956	60,595,604	13,792,205
Receivable for securities	0	0	274,850	0	0
Subtotal, cash and invested assets	<u>82,652,387</u>	<u>78,215,674</u>	<u>76,224,052</u>	<u>66,537,649</u>	<u>13,792,205</u>
Investment income due and accrued	610,917	600,783	728,178	10,552	0
Premiums and considerations	611,991	1,617,465	2,360,914	2,429,805	8,107,759
Amounts receivable relating to uninsured plans	0	0	736	0	0
Current federal and foreign income tax recoverable and interest thereon	0	0	0	0	265,520
Net deferred tax asset	173,441	109,387	130,352	110,339	60,015
Receivable from parent, subsidiaries and affiliates	2,300,029	0	4,183,702	32,419,726	4,142,003
Health care and other amounts receivable	522,306	652,693	781,796	830,635	506,595
Aggregate write-ins for other than invested assets	2,175,776	800,654	0	0	0
Total	<u>\$ 89,046,847</u>	<u>\$ 81,996,656</u>	<u>\$ 84,409,730</u>	<u>\$ 102,338,706</u>	<u>\$ 26,874,097</u>
Claims unpaid	\$ 16,851,370	\$ 17,612,510	\$ 26,324,520	\$ 26,660,310	\$ 10,684,911
Accrued medical incentive pool and bonus amounts	4,178,360	2,696,784	3,108,613	0	0
Unpaid claims adjustment expenses	289,999	0	421,990	436,522	0
Aggregate health policy reserves	2,998	40,103	0	4,089,439	1,703,239
Aggregate health claim reserves	176,990	277,010	392,716	391,469	140,424
Premiums received in advance	0	0	119,989	185,932	0
General expenses due or accrued	81,449	84,510	660,232	133,972	1,009,015
Current federal and foreign income tax payable and interest thereon	967,373	781,638	788,293	3,931,053	0
Amounts withheld or retained for the account of others	456,831	607,282	0	0	0
Amounts due to parent, subsidiaries and affiliates	0	350,117	1,071,197	16,697,256	3,402,051
Total liabilities	<u>23,005,370</u>	<u>22,449,954</u>	<u>32,887,550</u>	<u>52,525,953</u>	<u>16,939,640</u>
Aggregate write-ins for special surplus funds	0	4,799,100	0	5,661,000	0
Common capital stock	1	1	1	1	0
Gross paid in and contributed surplus	55,000,000	55,000,000	55,000,000	55,000,000	5,000,000
Unassigned funds (surplus)	11,041,476	(252,399)	(3,477,821)	(10,848,248)	4,934,457
Total capital and surplus	<u>66,041,477</u>	<u>59,546,702</u>	<u>51,522,180</u>	<u>49,812,753</u>	<u>9,934,457</u>
Totals	<u>\$ 89,046,847</u>	<u>\$ 81,996,656</u>	<u>\$ 84,409,730</u>	<u>\$ 102,338,706</u>	<u>\$ 26,874,097</u>

For Informational Purposes Only

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

	2020	2019	2018	2017	2016
Net premium income	\$ 181,859,969	\$ 238,269,090	\$ 294,912,549	\$ 284,878,699	\$ 73,217,578
Change in unearned premium reserves and reserve for rate credits	37,130	252,405	4,322,493	(4,151,493)	(1,594,278)
Aggregate write-ins for other health care related revenues	0	0	0	5,531	0
Total revenues	<u>181,897,099</u>	<u>238,521,495</u>	<u>299,235,042</u>	<u>280,732,737</u>	<u>71,623,300</u>
Hospital/medical benefits	109,830,318	149,958,944	185,225,088	181,108,333	32,748,669
Other professional services	148,890	227,854	70,131	6,505,531	7,741,617
Outside referrals	928,274	1,117,200	1,782,070	0	0
Emergency room and out-of-area	8,324,150	11,352,692	13,335,655	0	0
Prescription drugs	27,388,699	40,317,995	49,719,422	62,585,407	13,916,629
Incentive pool, withhold adjustments and bonus amounts	4,035,737	1,949,137	3,079,208	473,087	0
Subtotal (hospital and medical)	<u>150,656,068</u>	<u>204,923,822</u>	<u>253,211,574</u>	<u>250,672,358</u>	<u>54,406,915</u>
Total hospital and medical	<u>150,656,068</u>	<u>204,923,822</u>	<u>253,211,574</u>	<u>250,672,358</u>	<u>54,406,915</u>
Claims adjustment expenses, including cost containment expenses	2,474,492	4,260,167	4,628,051	4,458,473	1,262,805
General administrative expenses	21,790,073	20,939,643	40,036,840	38,923,559	8,280,239
Total underwriting deductions	<u>174,920,633</u>	<u>230,123,632</u>	<u>297,876,465</u>	<u>294,054,390</u>	<u>63,949,959</u>
Net underwriting gain or (loss)	6,976,466	8,397,863	1,358,577	(13,321,653)	7,673,341
Net investment income earned	2,556,902	2,951,414	2,557,262	56,238	(13,716)
Net realized capital gains or (losses)	49,663	381,659	(299,113)	(29,904)	0
Net investment gains or (losses)	<u>2,606,565</u>	<u>3,333,073</u>	<u>2,258,149</u>	<u>26,334</u>	<u>(13,716)</u>
Net income or (loss) before federal income taxes	9,583,031	11,730,936	3,616,726	(13,295,319)	7,659,625
Federal income taxes incurred	2,802,693	1,552,562	1,689,164	(6,897,736)	2,718,753
Net income (loss)	<u>\$ 6,780,338</u>	<u>\$ 10,178,374</u>	<u>\$ 1,927,562</u>	<u>\$ (6,397,583)</u>	<u>\$ 4,940,872</u>

For Informational Purposes Only

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

	2020	2019	2018	2017	2016
Capital and surplus, December 31, previous year	\$ 59,546,702	\$ 51,522,180	\$ 49,812,753	\$ 9,934,457	\$ 4,996,804
Net income or (loss)	6,780,338	10,178,374	1,927,562	(6,397,583)	4,940,872
Change in net unrealized capital gains and (losses)	16,098	602,003	(623,639)	0	0
Change in net deferred income tax	68,333	139,061	(145,764)	(348,190)	60,015
Change in nonadmitted assets	(369,994)	137,341	11,626	(231,520)	(63,234)
Surplus adjustments:					
Paid in	0	0	0	50,000,000	0
Aggregate write-ins for gains or (losses) in surplus	0	(3,032,257)	539,642	(3,144,412)	0
Net change in capital and surplus	6,494,775	8,024,522	1,709,427	39,878,296	4,937,653
Capital and surplus, December 31, current year	<u>\$ 66,041,477</u>	<u>\$ 59,546,702</u>	<u>\$ 51,522,180</u>	<u>\$ 49,812,753</u>	<u>\$ 9,934,457</u>

For Informational Purposes Only

### 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	\$ 182,495,474	\$ 239,322,399	\$ 295,160,177	\$ 288,745,772	\$ 65,155,547
Net investment income	2,561,776	2,949,250	1,749,156	45,242	(13,716)
Miscellaneous Income	0	0	0	5,531	0
<b>Total</b>	<b>185,057,250</b>	<b>242,271,649</b>	<b>296,909,333</b>	<b>288,796,545</b>	<b>65,141,831</b>
Benefit and loss related payments	149,905,265	214,034,264	250,388,665	234,769,954	44,088,175
Commissions, expenses paid and aggregate write-ins for deductions	25,352,749	26,997,440	44,153,899	43,820,553	8,534,029
Federal and foreign income taxes paid (recovered)	2,641,774	942,917	4,826,788	(10,694,763)	2,982,552
<b>Total deductions</b>	<b>177,899,788</b>	<b>241,974,621</b>	<b>299,369,352</b>	<b>267,895,744</b>	<b>55,604,756</b>
<b>Net cash from operations</b>	<b>7,157,462</b>	<b>297,028</b>	<b>(2,460,019)</b>	<b>20,900,801</b>	<b>9,537,075</b>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	10,668,705	22,578,662	33,701,896	0	0
Net gain or (loss) on cash, cash equivalents and short term investments	38	(3)	(415)	3,277	0
Miscellaneous proceeds	0	274,850	0	0	0
<b>Total investment proceeds</b>	<b>10,668,743</b>	<b>22,853,509</b>	<b>33,701,481</b>	<b>3,277</b>	<b>0</b>
Cost of investments acquired (long-term only):					
Bonds	17,581,272	13,110,258	104,193,863	5,973,750	0
Miscellaneous applications	0	0	274,850	0	0
<b>Total investments acquired</b>	<b>17,581,272</b>	<b>13,110,258</b>	<b>104,468,713</b>	<b>5,973,750</b>	<b>0</b>
<b>Net cash from investments</b>	<b>(6,912,529)</b>	<b>9,743,251</b>	<b>(70,767,232)</b>	<b>(5,970,473)</b>	<b>0</b>
<b>Cash from Financing and Miscellaneous Sources</b>					
Cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	50,000,001	(1)
Other cash provided or (applied)	(2,800,597)	289,543	13,149,603	(18,126,930)	(744,870)
<b>Net cash from financing and miscellaneous sources</b>	<b>(2,800,596)</b>	<b>289,542</b>	<b>13,149,603</b>	<b>31,873,071</b>	<b>(744,871)</b>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	(2,555,663)	10,329,821	(60,077,648)	46,803,399	8,792,204
Cash and short-term investments:					
Beginning of the year	10,847,777	517,956	60,595,604	13,792,205	5,000,001
End of the year	<b>\$ 8,292,114</b>	<b>\$ 10,847,777</b>	<b>\$ 517,956</b>	<b>\$ 60,595,604</b>	<b>\$ 13,792,205</b>

For Informational Purposes Only

**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	\$ 74,360,273	90.0%
Cash	2,318,901	2.8%
Cash equivalents	5,973,213	7.2%
Totals	<u>\$ 82,652,387</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	\$ 49,942,641	62.2%
2 - high quality	18,288,814	22.7%
3 - medium quality	10,105,242	12.6%
4 - low quality	1,996,051	2.5%
Totals	<u>\$ 80,332,748</u>	<u>100.0%</u>

<b>Years to Maturity</b>	<b>Amount</b>	<b>Percentage</b>
1 year or less	\$ 17,786,824	22.1%
2 to 5 years	50,386,360	62.7%
6 to 10 years	11,613,591	14.5%
11 to 20 years	545,973	0.7%
Totals	<u>\$ 80,332,748</u>	<u>100.0%</u>

As of December 31, 2020, total cash and investments make up about 92.8% of the Company's total admitted assets. The Company maintained 84.9% of its bond portfolio in NAIC-1 (highest quality) and NAIC-2 (high quality) securities. Approximately, 99.3% 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 \$16,851,370; Accrued Medical Incentive Pool and Bonus Amounts \$4,178,360; Unpaid Claims Adjustment Expenses \$289,999; Aggregate Health Policy Reserves \$2,998; and Aggregate Health Claim Reserves \$176,990.

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 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 \$6,700,000 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 HealthAssurance Pennsylvania, Inc., as of December 31, 2020, was determined to be as follows:

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	\$ 89,046,847	100.0 %
Liabilities	\$ 23,005,370	25.8 %
Capital and Surplus	66,041,477	74.2 %
Total liabilities, capital and surplus	\$ 89,046,847	100.0 %

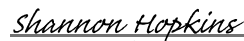
Since the previous examination, made as of December 31, 2015, the Company's assets increased by \$84,045,125, its liabilities increased by \$23,000,452, and its surplus increased by \$61,044,673.

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 12:27 EDT)

Shannon Hopkins, CFE  
Examination Manager



F. Laurence Lindberg (Jun 27, 2022 12:26 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.

For Informational Purposes Only