

Report on Examination
of
Aetna Health Inc.
(a Florida corporation)
Tampa, Florida
as of
December 31, 2007

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

April 9, 2009

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

Aetna Health Inc.
4630 Woodland Corporate Blvd.
Tampa, Florida 33614

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2007. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2004.

Planning for the current examination began on July 21, 2008. The fieldwork commenced on July 28, 2008 and concluded on February 11, 2009. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2007 annual statement. Transactions subsequent to December 31, 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for all admitted asset and liability accounts other than 'ceded reinsurance premiums payable' and 'due to stockholder'.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The prior examination report as of December 31, 2004 did not contain any significant adverse regulatory disclosures or findings related to the Company's solvency.

HISTORY

GENERAL

The Company was incorporated in Florida on June 4, 1984 as Physicians Health Plan of Florida, Inc. Its name was changed on January 8, 1990 to Partners Health Plan of Florida, Inc.; on May 6, 1991 to Aetna Health Plans of Florida, Inc.; on April 10, 1997 to Aetna U.S. Healthcare, Inc.; and on February 14, 2002 to Aetna Health Inc. The Company commenced business on July 1, 1985.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2007, the Company's capitalization was as follows:

	Common Stock
Shares authorized	20,000
Shares issued and outstanding	10,906
Total capital stock	\$1,091
Par value per share	\$0.10

At December 31, 2007, the Company was wholly-owned and controlled by Aetna Health Holdings, LLC, which in turn was wholly-owned by Aetna Inc. An abbreviated organizational chart appears on page 7.

PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	546,620	563,302	581,346
In millions:			
Net premiums	\$1,987.6	\$2,020.9	\$1,886.7
Total revenues	\$1,987.5	\$2,020.4	\$1,886.2
Net income	\$100.1	\$61.6	\$148.0
Total capital and surplus	\$188.4	\$149.5	\$231.6

DIVIDENDS

In 2007, the Company paid \$42.2 million in extraordinary dividends, all of which constituted a return of capital. In 2006, the Company paid \$59.9 million in extraordinary dividends and \$87.9 million in ordinary dividends. In 2005, the Company paid \$131.2 million in ordinary dividends.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2007 were:

Directors	
<u>Name and Location</u>	<u>Principal Occupation</u>
William E. Hauser, Jr., M.D. Atlanta, Georgia	Senior Medical Director of the Company
Clarence C. King, II Dallas, Texas	President of the Company
Deborah M. Wightman Marietta, Georgia	Vice President of the Company

The following were the Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Clarence C. King, II	President
Edward C. Lee	Vice President and Secretary
Alicia H. Bolton	Principal Financial Officer and Controller
William E. Hauser, Jr., M.D.	Senior Medical Director
Gregory S. Martino	Vice President
Elaine R. Cofrancesco	Treasurer
Kevin J. Casey	Senior Investment Officer
Steven M. Conte	Assistant Controller

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S. A review of the prior report of examination by the Office was not documented in the minutes of the Board.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on March 28, 2008.

The following agreements were in force between the Company and its affiliates:

Administrative Services Agreement

Pursuant to a January 1, 2004 agreement, Aetna Health Management, LLC (AHM) provided substantially all management, marketing, financial and administrative services to the Company, including accounting and processing of premiums and claims. Fees for the services amounted to \$252.0 million, \$300.1 million, and \$214.7 million in years 2005, 2006, and 2007, respectively.

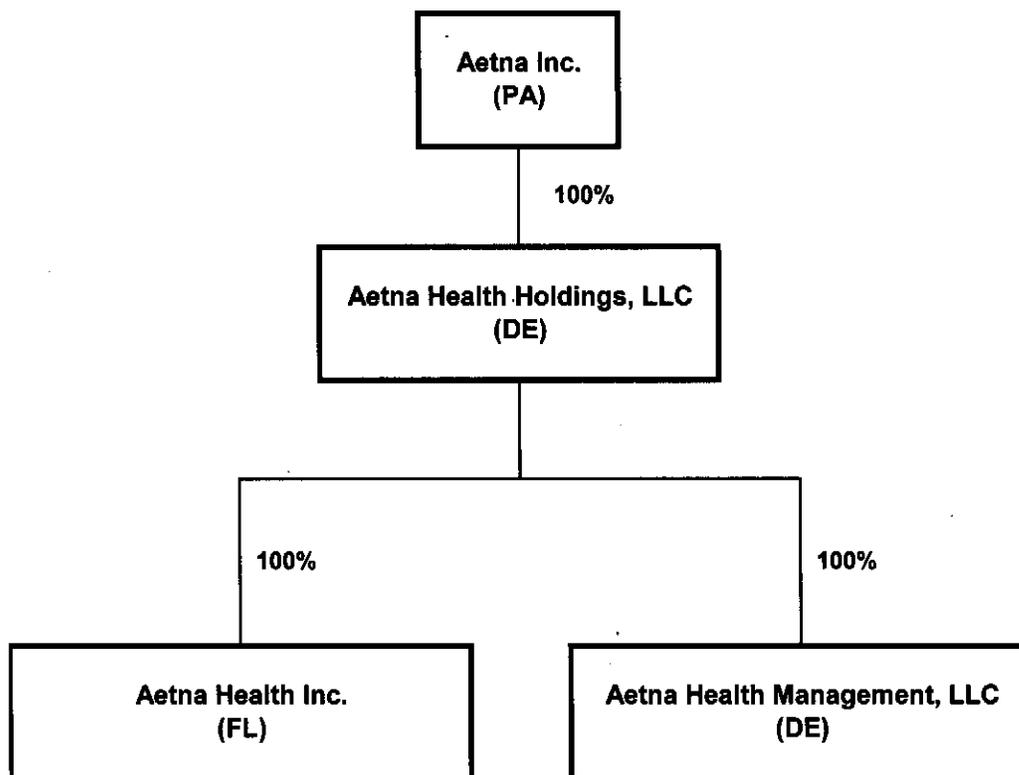
Pursuant to the agreement, the Company received manufacturers' pharmacy rebates from AHM in the amounts of \$42.1 million, \$39.2 million, and \$35.0 million in years 2005, 2006, and 2007, respectively, and remitted 10% of its earned pharmacy rebates to AHM as a fee, which amounted to \$4.2 million, \$3.9 million, and \$3.5 million in years 2005, 2006, and 2007, respectively.

Tax Sharing Agreement

The results of the Company's operations were included in the consolidated federal income tax return of Aetna Inc. pursuant to a tax sharing agreement dated January 1, 2006. The Company was liable for payments determined as if it had filed a separate return, and was reimbursed to the extent that any of its tax assets were used to reduce consolidated taxable income. The agreement did not contain a provision that the contract shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown below. Schedule Y of the Company's 2007 annual statement provided the names of all related companies in the holding company group.

**Aetna Health Inc.
Organizational Chart
December 31, 2007**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance in compliance with Rule 69O-191.069, F.A.C., but did not have a blanket fidelity bond in the amount of \$100,000 as required by Section 641.22(7), F.S. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no direct employees and, as a result, offered no pension or other employee benefit plans.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$2.3 million in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration, pursuant to Part III of Chapter 641, F.S., valid until May 9, 2010.

The Company utilized a network of 8,804 general agents and brokers, and operated as an IPA model. It provided health care services to comprehensive and Medicare members. Its total membership at December 31, 2007 was 546,620, of which 99.8% was comprehensive.

The Company operated in the Florida counties of Alachua, Baker, Brevard, Broward, Charlotte, Clay, Collier, Duval, Flagler, Hernando, Hillsborough, Indian River, Lake, Lee, Leon, Manatee, Marion, Martin, Miami-Dade, Nassau, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, St. Johns, St. Lucie, and Volusia.

TREATMENT OF MEMBERS

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreement reviewed was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

Ceded

The Company entered into a specific excess of loss reinsurance agreement with Corporate Health Insurance Company, an authorized Florida insurer domiciled in Pennsylvania and a wholly-owned subsidiary of Aetna Inc., effective January 1, 2000. The agreement, which was filed with and approved by the Office, provided for the reimbursement of 100% of eligible paid losses in excess of \$500,000 per member per contract year. The agreement was terminated effective December 31, 2007.

Assumed

The Company did not assume business for the period under review.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2005, 2006, and 2007, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted. A significant portion of its books and records were located in Blue Bell, Pennsylvania.

The following agreements were in effect between the Company and non-affiliates:

Custodial Agreement

The Company contracted with State Street Bank and Trust Company to maintain custody of the Company's investments. Under the agreement, the Company loaned certain securities to other institutions for short periods. The Company loaned securities with a fair value of approximately \$21.0 million, \$5.5 million, and \$27.6 million in years 2005, 2006, and 2007, respectively.

Independent Auditor Agreement

The Company and its affiliates contracted with KPMG for conducting annual audits of its statutory basis financial statements for years 2005, 2006, and 2007.

Provider and Physician Agreements

The Company contracted with various health care providers in order to procure health care services for its subscribers.

Third Party Administrator Agreement

Trust Management Group, Inc. provided premium billing and collection, enrollment and related services to the Company pursuant to a December 7, 2006 agreement. The agreement did not contain a provision that the contract shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

Sub-Delegated Claims Agreements

The Company contracted with various health care providers to provide claims management services to its subscribers. The agreements did not contain provisions for cancellation upon issuance of an order by the Office as required by Section 641.234(3), F.S. Pursuant to the agreements, the Company was not obligated to compensate the providers.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Aetna Health Inc.
Assets
December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$349,788,748	\$0	\$349,788,748
Common stocks	99,262	0	99,262
Cash, cash equivalents and short-term investments	27,598,890	0	27,598,890
	<u>377,486,900</u>	<u>0</u>	<u>377,486,900</u>
Investment income due and accrued	4,263,415	0	4,263,415
Uncollected premiums and agents' balances	27,253,782	0	27,253,782
Aggregate write-ins for other than invested assets	43,254	0	43,254
	<u>409,047,351</u>	<u>\$0</u>	<u>\$409,047,351</u>
Total assets	<u><u>\$409,047,351</u></u>	<u><u>\$0</u></u>	<u><u>\$409,047,351</u></u>

Aetna Health Inc.
Liabilities, Capital and Surplus
December 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$163,026,332	\$0	\$163,026,332
Unpaid claims adjustment expenses	3,040,049	0	3,040,049
Aggregate health policy reserves	36,201,132	0	36,201,132
Aggregate health claim reserves	3,999,701	0	3,999,701
Premiums received in advance	994,119	0	994,119
General expenses due or accrued	1,888,383	0	1,888,383
Current federal income tax payable	10,963,416	0	10,963,416
Ceded reinsurance premiums payable	382,634	0	382,634
Due to stockholder	121,600	0	121,600
Total liabilities	<u>220,617,366</u>	<u>0</u>	<u>220,617,366</u>
Capital and Surplus			
Common capital stock	1,091	0	1,091
Gross paid in and contributed surplus	140,537,300	0	140,537,300
Unassigned funds	47,891,594	0	47,891,594
Total capital and surplus	<u>188,429,985</u>	<u>0</u>	<u>188,429,985</u>
Total liabilities, capital and surplus	<u>\$409,047,351</u>	<u>\$0</u>	<u>\$409,047,351</u>

Aetna Health Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2007

Net premium income		\$1,987,644,803
Change in unearned premium reserves		<u>(140,461)</u>
Total revenues		1,987,504,342
Hospital and medical benefits	\$1,255,549,492	
Other professional services	13,261	
Outside referrals	43,939,172	
Emergency room and out-of-area	77,941,764	
Prescription drugs	<u>234,971,834</u>	
	1,612,415,523	
Net reinsurance recoveries	<u>7,636,091</u>	
Total hospital and medical	1,604,779,432	
Claims adjustment expenses	33,860,726	
General administrative expenses	195,546,717	
Increase in reserves	<u>3,468,632</u>	
Total underwriting deductions		<u>1,837,655,507</u>
Net underwriting gain		149,848,835
Net investment income earned	18,264,198	
Net realized capital gains (losses)	<u>(2,478,351)</u>	
Net investment gains		<u>15,785,847</u>
Income before income taxes		165,634,682
Federal income taxes		<u>65,499,488</u>
Net income		<u><u>\$100,135,194</u></u>

Aetna Health Inc.
Capital and Surplus Account
For The Year Ended December 31, 2007

Capital and surplus - December 31, 2006	\$149,495,060
Net income	100,135,194
Change in net unrealized capital gains	22,371
Change in net deferred income tax	6,753,737
Change in nonadmitted assets	(25,776,377)
Extraordinary dividends	(42,200,000)
	<u>188,429,985</u>
Examination adjustments	<u>0</u>
Capital and surplus - December 31, 2007	<u><u>\$188,429,985</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$206,267,214

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

Aetna Health Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2007

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2007 - per annual statement			\$188,429,985
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Total assets	\$409,047,351	\$409,047,351	\$0
Total liabilities	\$220,617,366	\$220,617,366	\$0
Net change in capital and surplus			0
Capital and surplus, December 31, 2007 - per examination			\$188,429,985

SUBSEQUENT EVENTS

The Company declared dividends in the amounts of \$53.9 million and \$31.6 million on January 28, 2008 and May 16, 2008, respectively. The dividends were approved by the Office on January 18, 2008 and May 7, 2008, respectively.

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

There were no directives or significant findings from the prior examination on which to comment.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

Cancellation Provision

As reported on pages 6 and 12, certain of the Company's agreements did not contain provisions that the contracts shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. **We recommend that the Company amend the agreements and add the cancellation provision required by 641.234(3), F.S.**

Fidelity Bond

As reported on page 8, the Company did not have a blanket fidelity bond in the amount of \$100,000 as required by Section 641.22(7), F.S. **We recommend that the Company obtain the bond required by Section 641.22(7), F.S.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Aetna Health Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$188,429,985 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$39,752,896.

In addition to the undersigned, the following participated in this examination: Thomas I. Cook, CISA, Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Darlene L. Lenhart-Schaeffer, AFE, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

Christine N. Afolabi, Financial Specialist
Florida Office of Insurance Regulation