

Report on Examination

of

Aetna Health Inc.

(a Florida corporation)

Tampa, Florida

as of

December 31, 2012



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Aetna Health Inc. (a Florida corporation) as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
March 21, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Aetna Health Inc. (a Florida corporation) (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2008 through December 31, 2012 and took place primarily in the Company's Tampa, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

COMPANY HISTORY

The Company was incorporated in Florida on June 4, 1984 and licensed by the Office as an HMO on July 1, 1985. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$157.1 million, \$86.3 million, \$80.0 million, \$74.7 million, and \$105.0 million in years 2008 through 2012, respectively. It did not receive capital contributions during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors meetings. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

The Company was wholly owned by Aetna Health Holdings, LLC, a wholly owned subsidiary of Aetna Inc. With principal offices in Hartford, Connecticut, Aetna Inc. was a diversified health care benefits company. The common stock of Aetna Inc. traded on the New York Stock Exchange.

The Company's senior officers and directors were:

Senior Officers

Name	Title
Mark R. LaBorde	President
Edward C. Lee	Vice President and Secretary
Elaine R. Cofrancesco	Vice President and Treasurer
Robert M. Kropp, M.D.	Vice President and Senior Medical Director
Gregory S. Martino	Vice President
Kevin J. Casey	Senior Investment Officer
Jennifer A. Palma	Principal Financial Officer and Controller

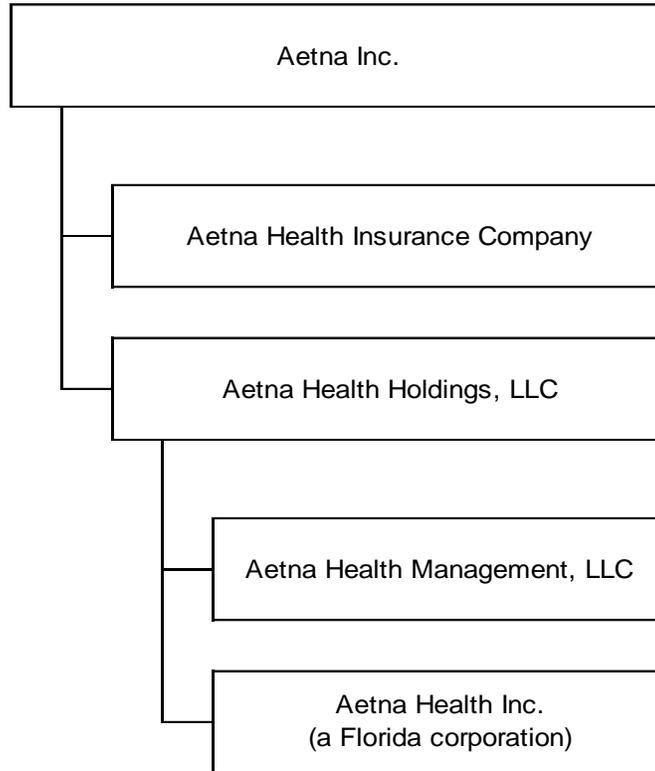
Board of Directors

Name	Location
Gregory E. Arnold	Atlanta, Georgia
Robert M. Kropp, M.D.	Tampa, Florida
Mark R. LaBorde	Jacksonville, Florida

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on March 27, 2013.

An abbreviated organizational chart reflecting a holding company system is shown below.

Aetna Health Inc.
(a Florida corporation)
Abbreviated Organizational Chart
December 31, 2012



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

Administrative Services Agreement

Aetna Health Management, LLC (“AHM”), provided administrative services to the Company pursuant to an administrative services agreement effective January 1, 2004 and later amended. The services included accounting and processing of premiums and claims and were in return for fees based on a percentage of earned premiums. Fees payable to AHM under the agreement amounted to \$243.9 million, \$230.5 million, \$210.8 million, \$176.0 million, and \$149.7 million in the years 2008 through 2012, respectively. In addition, the Company received manufacturers’

pharmacy rebates from AHM and remitted a percentage of the rebates to AHM as a fee. The Company received manufacturers' pharmacy rebates from AHM in the amounts \$38.0 million, \$39.1 million, \$28.6 million, \$25.8 million, and \$24.0 million in years 2008 through 2012, respectively. Pharmacy rebate fees remitted to AHM by the Company amounted to \$3.8 million, \$3.9 million, \$2.8 million, \$2.7 million, and \$2.4 million in years 2008 through 2012, respectively.

Tax Sharing Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Aetna Inc. pursuant to a tax sharing agreement originally entered into on January 1, 2006. Under the agreement, the Company was liable for payments of federal income tax 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.

Insolvency Agreement

The Company and Aetna Health Insurance Company ("AHIC") entered into an insolvency agreement dated January 1, 2008. The agreement provided that, in the event the Company ceases operations or becomes insolvent, AHIC will continue to pay benefits for any members confined as inpatients on the date of insolvency until their discharge. It also provided that AHIC will continue benefits for any member until the end of the contract period for which premiums have been paid, but for no longer than 31 days, and will make available to members, for a period of 31 days, replacement insurance policies.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Company maintained an adequate amount of professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. The policies provided for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company maintained a fidelity bond issued by a licensed Florida insurer in the amount of \$2 million, which satisfied the requirement of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company operated as an IPA model HMO solely in the State of Florida. At December 31, 2012, it provided benefits to 301,618 members of whom 98.8% were comprehensive and 1.2% were Medicare members. Approximately 35% of the comprehensive members were small group members, 51% were large group members, and 14% were individual members. The Company marketed its products primarily through brokers, consultants, and general agents. 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, 2014. The Company was authorized to operate in the following Florida counties:

Alachua	Highlands	Osceola
Baker	Hillsborough	Palm Beach
Bradford	Indian River	Pasco
Brevard	Lake	Pinellas
Broward	Lee	Polk
Charlotte	Leon	Putnam
Citrus	Manatee	Saint Johns
Clay	Marion	Saint Lucie
Collier	Martin	Sarasota
Duval	Miami-Dade	Seminole
Flagler	Nassau	Volusia
Hardee	Okeechobee	
Hernando	Orange	

COMPANY GROWTH

The Company reported the following for years 2008 through 2012:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Member months	6,377,733	5,895,811	4,623,769	4,005,728	3,705,160
Year-end enrollment	528,002	473,746	364,282	326,859	301,618
<i>(In millions)</i>					
Premiums	\$ 2,062.9	\$ 1,988.4	\$ 1,640.9	\$ 1,477.5	\$ 1,374.8
Revenues	\$ 2,062.8	\$ 1,988.1	\$ 1,641.4	\$ 1,477.8	\$ 1,374.2
Underwriting deductions	\$ 1,920.8	\$ 1,961.6	\$ 1,566.2	\$ 1,364.0	\$ 1,305.3
Net income	\$ 135.4	\$ 43.9	\$ 75.8	\$ 91.4	\$ 59.8
Stockholder dividends	\$ 157.1	\$ 86.3	\$ 80.0	\$ 74.7	\$ 105.0
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 391.5	\$ 372.4	\$ 342.0	\$ 341.6	\$ 310.4
Liabilities	\$ 204.5	\$ 224.4	\$ 194.8	\$ 175.9	\$ 207.2
Capital and surplus	\$ 187.0	\$ 148.1	\$ 147.1	\$ 165.7	\$ 103.2

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 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.

Aetna Health Inc.
(a Florida corporation)
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$286,515,833	\$ -	\$286,515,833
Common stocks	65,108	-	65,108
Cash, cash equivalents and short-term investments	4,514,749	-	4,514,749
	291,095,690	-	291,095,690
Investment income due and accrued	3,326,451	-	3,326,451
Uncollected premiums and agents' balances	15,765,896	-	15,765,896
Aggregate write-ins for other than invested assets	209,695	-	209,695
Total admitted assets	\$310,397,732	\$ -	\$310,397,732
Liabilities			
Claims unpaid	\$ 162,646,812	\$ -	\$ 162,646,812
Accrued medical incentive pool and bonuses	61,080	-	61,080
Unpaid claims adjustment expenses	2,473,053	-	2,473,053
Aggregate health policy reserves	28,806,031	-	28,806,031
Aggregate health claim reserves	1,658,378	-	1,658,378
Premiums received in advance	1,638,427	-	1,638,427
General expenses due or accrued	2,716,323	-	2,716,323
Current income tax payable	5,860,434	-	5,860,434
Amounts withheld or retained for others	1,107,044	-	1,107,044
Aggregate write-ins for other liabilities	228,607	-	228,607
Total liabilities	207,196,189	-	207,196,189
Capital and Surplus			
Common capital stock	1,091	-	1,091
Gross paid in and contributed surplus	140,537,300	-	140,537,300
Unassigned funds (deficit)	(37,336,848)	-	(37,336,848)
Total capital and surplus	103,201,543	-	103,201,543
Total liabilities, capital and surplus	\$ 310,397,732	\$ -	\$ 310,397,732

Aetna Health Inc.
(a Florida corporation)
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	\$ 1,374,815,206
Change in reserves and rate credits	(594,774)
Total revenue	1,374,220,432
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Hospital and medical benefits	778,835,330
Other professional services	18,109
Outside referrals	23,062,632
Emergency room and out-of-area	69,870,221
Prescription drugs	281,470,334
Incentive pool, withhold adjustments and bonuses	336,516
Total hospital and medical	1,153,593,142
Claims adjustment expenses	27,353,238
General administrative expenses	129,255,806
Increase in reserves	(4,891,559)
Total underwriting deductions	1,305,310,627
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Net underwriting gain	68,909,805
Net investment gains	14,777,933
Income before federal income tax	83,687,738
Federal income tax	23,866,540
Net income	\$ 59,821,198

Aetna Health Inc.
(a Florida corporation)
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2012

Capital and surplus - December 31, 2007	\$ 188,429,985
Net income	135,390,897
Change in net unrealized capital gains and losses	(71,727)
Change in net deferred income tax	3,716,247
Change in nonadmitted assets	13,953,132
Dividends to stockholder	(157,100,000)
Aggregate write-ins for gains or in surplus	2,673,138
<hr/>	
Capital and surplus - December 31, 2008	186,991,672
Net income	43,865,719
Change in net unrealized capital gains and losses	42,481
Change in net deferred income tax	(657,982)
Change in nonadmitted assets	4,130,861
Dividends to stockholder	(86,300,000)
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Capital and surplus - December 31, 2009	148,072,751
Net income	75,818,280
Change in net unrealized capital gains and losses	(7,808)
Change in net deferred income tax	(7,652,979)
Change in nonadmitted assets	10,917,208
Dividends to stockholder	(80,000,000)
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Capital and surplus - December 31, 2010	147,147,452
Net income	91,352,122
Change in net unrealized capital gains and losses	(2,614)
Change in net deferred income tax	(878,738)
Change in nonadmitted assets	2,789,738
Dividends to stockholder	(74,700,000)
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Capital and surplus - December 31, 2011	165,707,960
Net income	59,821,198
Change in net unrealized capital gains and losses	8,965
Change in net deferred income tax	6,207,631
Change in nonadmitted assets	(23,544,211)
Dividends to stockholder	(105,000,000)
<hr/>	
	103,201,543
Examination adjustments	-
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Capital and surplus - December 31, 2012	<u>\$ 103,201,543</u>

Aetna Health Inc.
(a Florida corporation)
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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, 2012 - per annual statement			\$ 103,201,543
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total admitted assets	\$ 310,397,732	\$ 310,397,732	\$ -
Total liabilities	\$ 207,196,189	\$ 207,196,189	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2012 - per examination			\$ 103,201,543

SUBSEQUENT EVENTS

For the year ended December 31, 2013, the Company reported premium income, net income, and the distribution of stockholder dividends in the amounts of \$1,219.1 million, \$77.7 million, and \$85.0 million, respectively.

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. (a Florida corporation) consistent with the insurance laws of the State of Florida.

At December 31, 2012, the Company's capital and surplus was \$103,201,543 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Kerry Krantz, Actuary.

Respectfully submitted,

Robert Y. Meszaros, AFE
Financial Specialist
Florida Office of Insurance Regulation