

Report on Examination
of
Aetna Health Inc. (a Florida corporation)
Tampa, Florida
as of
December 31, 2015



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, 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, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation
March 28, 2017

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Aetna Health Inc. (a Florida corporation) (the "Company"), a Florida health maintenance organization (HMO). Our examination covered the period of January 1, 2013 through December 31, 2015 and took place primarily in Aetna's Blue Bell, Pennsylvania office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2012.

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 current and 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) and general information about the insurer 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 were separately communicated to other regulators and/or the Company.

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, F.S.

Mergers and Acquisitions

Effective June 1, 2015, the Company entered into a Sale and Purchase Agreement with Coventry Health Plan of Florida, Inc., (CHP-FL) an indirectly wholly-owned subsidiary of Aetna Inc., whereby the Company purchased all of the assets and liabilities related to the CHP-FL operation of Medicare Advantage plans, whether arising before or after the date of the agreement.

CORPORATE RECORDS

The minutes of the meetings of the Company's stockholder and board of directors were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions, including authorization of investments as required by Section 641.35(7), F.S. It was noted during 2014 there was no discussion of the actuarial opinion with the board of directors as outlined in the annual statement instructions.

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$85 million, \$45 million and \$24 million in years 2013, 2014 and 2015, respectively. The Company received a \$30 million capital contribution during 2015.

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.

Its senior officers and directors were:

Senior Officers

<u>Name</u>	<u>Title</u>
Christopher A. Ciano	President
Gregory S. Martino	Vice President
Edward Chung-I Lee	Vice President & Secretary
Elaine R. Cofrancesco	Treasurer

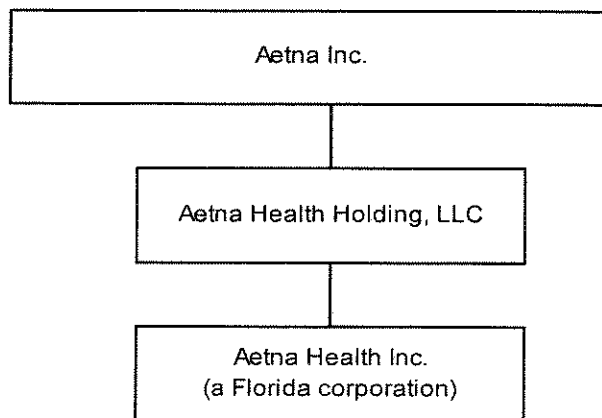
Board of Directors

<u>Name</u>	<u>Location</u>
Christopher A. Ciano	Ft. Lauderdale, Florida
Robert J. Finkelman	Coral Springs, Florida
William S. Wood	Odessa, 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 17, 2016.

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

**Aetna Health Inc. (a Florida corporation)
Abbreviated Organizational Chart
December 31, 2015**



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 \$126.3 million in 2015. 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 amount of \$35.3 million in 2015. Pharmacy rebate fees remitted to AHM by the Company amounted to \$3.4 million in 2015.

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 accordance with 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 carrier in the amount of \$10 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, 2015, it provided benefits to 280,850 members of whom 75.5% were comprehensive and 24.5% were Medicare members. Approximately 34% of the comprehensive members were small group members, 48% were large group members, and 18% 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, 2016. The Company was authorized to operate in the following Florida counties: Alachua, Baker, Bradford, Brevard, Broward, Charlotte, Citrus, Clay, Collier, Dade, DeSoto, Duval, Flagler, Hardee, Hernando, Highlands, Hillsborough, Indian River, Lake, Lee, Leon, Manatee, Marion, Martin, Nassau, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Sarasota, Seminole, Saint Johns, Saint Lucie and Volusia.

COMPANY GROWTH

The Company reported the following for years 2013 through 2015:

(Dollars are in millions.)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Member months	3,286,224	2,745,981	3,165,929
Year-end enrollment	265,578	220,609	280,850
Premiums	\$ 1,219.1	\$ 1,100.3	\$ 1,631.1
Revenues	\$ 1,220.0	\$ 1,101.5	\$ 1,631.5
Underwriting deductions	\$ 1,137.2	\$ 1,033.6	\$ 1,576.7
Net income	\$ 77.7	\$ 53.9	\$ 41.3
Shareholder dividends	\$ 85.0	\$ 45.0	\$ 24.0
Paid in surplus received	\$ -	\$ -	\$ 30.0
Admitted assets	\$ 273.7	\$ 266.5	\$ 512.6
Liabilities	\$ 157.3	\$ 136.1	\$ 332.6
Capital and surplus	\$ 116.4	\$ 130.4	\$ 180.0

REINSURANCE

The Company is party to the transitional Affordable Care Act reinsurance program with the U.S. Department of Health and Human Services.

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.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements. Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

Aetna Health Inc. (a Florida Corporation)
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 372,775,481	\$ -	\$ 372,775,481
Cash, cash equivalents and short-term investments	(4,486,379)	-	(4,486,379)
	368,289,102	-	368,289,102
Investment income due and accrued	3,383,851	-	3,383,851
Uncollected premiums and agents' balances	48,159,588	-	48,159,588
Amounts recoverable from reinsurers	8,672,340	-	8,672,340
Other amounts receivable under reinsurance contracts	33,374,458	-	33,374,458
Current income tax recoverable	12,828,868	-	12,828,868
Net deferred tax asset	7,887,235	-	7,887,235
Aggregate write-ins for other than invested assets	30,000,000	-	30,000,000
Total admitted assets	\$ 512,595,442	\$ -	\$ 512,595,442
Liabilities			
Claims unpaid	\$ 185,911,024	\$ -	\$ 185,911,024
Accrued medical incentive pool and bonus amounts	22,517,609	-	22,517,609
Unpaid claims adjustment expenses	2,785,869	-	2,785,869
Aggregate health policy reserves	35,151,219	-	35,151,219
Aggregate health claim reserves	1,248,266	-	1,248,266
Premiums received in advance	2,931,789	-	2,931,789
General expenses due or accrued	9,888,591	-	9,888,591
Amounts withheld or retained for the account of others	1,630,554	-	1,630,554
Remittances and items not allocated	80,308	-	80,308
Amounts due to parent, subsidiaries and affiliates	66,131,984	-	66,131,984
Funds held under reinsurance treaties with reinsurers	10,254	-	10,254
Liability for amounts held under uninsured plans	1,683,582	-	1,683,582
Aggregate write-ins for other liabilities	2,634,023	-	2,634,023
Total liabilities	332,605,072	-	332,605,072
Capital and Surplus			
Aggregate write-ins for special surplus funds	29,750,000	-	29,750,000
Common capital stock	1,091	-	1,091
Gross paid in and contributed surplus	170,537,300	-	170,537,300
Unassigned funds (deficit)	(20,298,021)	-	(20,298,021)
Total capital and surplus	179,990,370	-	179,990,370
Total liabilities, capital and surplus	\$ 512,595,442	\$ -	\$ 512,595,442

Aetna Health Inc. (a Florida corporation)
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2015

Net premium income	\$ 1,631,085,032
Change in unearned premium reserves	461,880
	<u>1,631,546,912</u>
Hospital and medical benefits	889,579,798
Other professional services	16,094,374
Outside referrals	53,312,574
Emergency room and out-of-area	92,827,298
Prescription drugs	275,863,648
Incentive pool, withhold adjustments and bonus amounts	34,208,377
	<u>1,361,886,069</u>
Net reinsurance recoveries	10,568,264
Total hospital and medical	1,351,317,805
Claims adjustment expenses	25,419,985
General administrative expenses	199,942,744
Increase in reserves	0
Total underwriting deductions	<u>1,576,680,534</u>
Net underwriting gain	54,866,378
Net investment gains	8,670,742
Aggregate write-ins for other income or expenses	(60,606)
Income before federal income tax	63,476,514
Federal income tax	22,187,932
Net income	<u>\$ 41,288,582</u>

Aetna Health Inc. (a Florida corporation)
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2015

Capital and surplus - December 31, 2012	\$ 103,201,543
Net income	77,661,417
Net change in unrealized capital gains and (losses)	(113,751)
Change in net deferred income tax	(16,848,223)
Change in nonadmitted assets	37,485,877
Dividends to stockholder	(85,000,000)
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Capital and surplus - December 31, 2013	\$ 116,386,863
Net income	53,897,679
Net change in unrealized capital gains and (losses)	113,545
Change in net deferred income tax	(4,292,359)
Change in nonadmitted assets	(1,591,749)
Dividends to stockholder	(45,000,000)
Aggregate write-ins for gains or (losses)	10,903,870
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Capital and surplus - December 31, 2014	130,417,849
Net income	41,228,582
Change in net deferred income tax	1,571,608
Change in nonadmitted assets	712,330
Surplus adjustment: Paid in	30,000,000
Dividends to stockholder	(24,000,000)
<hr/>	
	179,930,370
Examination adjustments	-
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Capital and surplus - December 31, 2015	\$ 179,930,370
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Aetna Health Inc. (a Florida corporation)
Comparative Analysis of Changes in Capital and Surplus
December 31, 2015

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, 2015 - per annual statement			\$ 179,990,370
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Capital</u> <u>& Surplus</u>
Total assets	\$ 512,595,442	\$ 512,595,442	\$ -
Total liabilities	\$ 332,605,072	\$ 332,605,072	\$ -
Capital and surplus, December 31, 2015 - per examination			<u><u>\$ 179,990,370</u></u>

SUMMARY OF RECOMMENDATIONS

Corporate Records

As reported on page 2, there was no evidence the board of directors were presented with the actuarial opinion or actuarial memorandum for 2014. **We recommend the Company comply with the annual statement instructions. The board of directors must show evidence of the appointed actuary presenting the actuarial opinion and the actuarial memorandum to the Board annually.**

SUBSEQUENT EVENTS

Effective June 1, 2016, the Company entered into a Sale and Purchase Agreement with Aetna Health of Iowa, Inc.(AHI-IA), indirectly a wholly-owned subsidiary of Aetna Inc., whereby, AHI-IA assigned, sold, transferred and set over to the Company all of their assets and liabilities arising out of or relating to AHI-IA's operation of Medicare Advantage plans, whether arising before, on or after the date of the agreement.

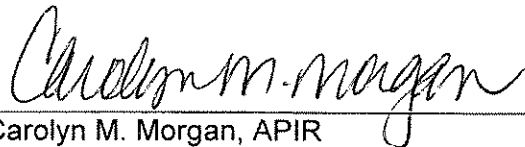
CONCLUSION

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, 2015, the Company's capital and surplus was \$179,990,370 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: Joanne Campanelli, CFE of Examination Resources, LLC. We also recognize Marshay Spencer, APIR, Financial Specialist; Lisa Parker, Actuary; Luke Stavenau, AFE, Financial Examiner Supervisor, participating in the examination.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation