



Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

September 24, 2015

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S.A. §4215 and in conformity with your instructions, a financial examination has been made of

AETNA HEALTH INC. (A MAINE CORPORATION)

at its statutory home office in South Portland, Maine. The following report is respectfully submitted.



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REPORT OF EXAMINATION

**AETNA HEALTH INC.
(a Maine corporation)**

AS OF

DECEMBER 31, 2013

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of Aetna Health Inc. (a Maine corporation) dated September 24, 2015 was delivered to that insurer on October 9, 2015 and

WHEREAS no hearing with respect to the report of examination has been requested by Aetna Health Inc. (a Maine corporation),

NOW THEREFORE, I accept the report of examination as modified and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226 (3).

This report has been reviewed.

Dated: *October 30, 2015*



Eric A. Cioppa
Superintendent

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SCOPE OF EXAMINATION

Aetna Health Inc. (a Maine corporation) (hereinafter, "Company") was last examined as of December 31, 2010, by the State of Maine Bureau of Insurance. This examination covered the period from January 1, 2011, to December 31, 2013 and was performed by Examination Resources, LLC.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (hereinafter, "NAIC"), and consisted of a review of the Company's operations, controls, and corporate governance, assessment of current and prospective risk, valuation of assets, and determination of liabilities at December 31, 2013, in conformity with statutory accounting practices, NAIC guidelines, the 2014 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S.A. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION COMMENTS

Comment:

Certain provider contracts contain a continuation of benefits clause, or contract language that do not comply with 24-A M.R.S.A. §4204 (7). Provider contracts, so noted, included Affiliated Laboratory Inc. and Greater Brunswick Physical Therapy.

Recommendation:

The Company should review all provider contracts to ensure that they include a continuation of benefits clause in compliance with all terms and conditions of 24-A M.R.S.A. §4204 (7).

Status:

The Company has adequately responded to this comment.

CURRENT EXAMINATION COMMENTS

None noted.

THE COMPANY

HISTORY

The Company was incorporated in the State of Maine on October 3, 1995. In accordance with 24-A M.R.S.A. §4203, the Company was organized as a for-profit, privately held health maintenance organization (hereinafter, "HMO") to provide health care benefits and managed care services. The Company was established as a direct subsidiary of NYLCare Health Plans, Inc. with the ultimate parent being New York Life Insurance Company. The Company was licensed to conduct business as an HMO on April 10, 1996.

On July 15, 1998, Aetna Inc., a Connecticut corporation acquired all the outstanding common stock of the Company's immediate parent, NYLCare Health Plans, Inc., and transferred ownership to Aetna U.S. Healthcare Inc., a Pennsylvania corporation, whose ultimate parent was Aetna Inc., a Connecticut corporation. Effective December 28, 1998, the Company's name was changed from NYLCare Health Plans of Maine, Inc. to Aetna U.S. Healthcare Inc., and its ultimate parent remained Aetna Inc., a Connecticut corporation.

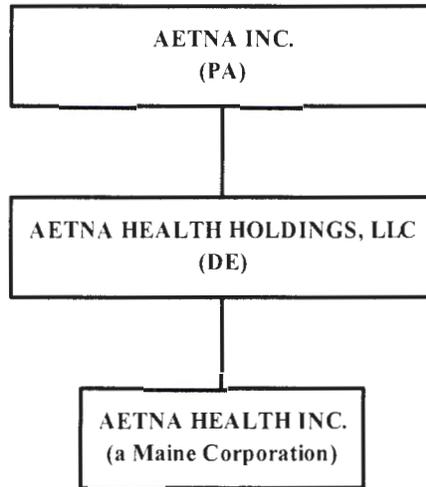
On December 13, 2000, Aetna Inc., a Connecticut corporation simultaneously sold its non-health business and spun-off the health care business to shareholders in the form of cash and shares in Aetna U.S. Healthcare Inc., a Pennsylvania corporation. Aetna U.S. Healthcare Inc., a Pennsylvania corporation, was then renamed Aetna Inc., a Pennsylvania corporation (hereinafter, "Aetna").

On June 14, 2002, the Company changed its name from Aetna U.S. Healthcare Inc. to Aetna Health Inc. (a Maine corporation).

Effective October 1, 2009, the Company became a wholly-owned subsidiary of Aetna Health Holdings, LLC, a Delaware corporation (hereinafter, "AHH) whose ultimate parent is Aetna.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of AHH whose ultimate parent is Aetna. Following is an abbreviated organizational chart.



CORPORATE RECORDS

The Company’s articles of incorporation, bylaws, and minutes of the Board of Directors’ meetings held during the period under examination were reviewed.

CORPORATE GOVERNANCE

The Company is governed and overseen by its Board of Directors and the management team of the Company as well as the Board of Directors of Aetna and AHH and committees thereof.

As of December 31, 2013, the Board of Directors of the Company consisted of the following members:

<u>Name</u>	<u>Title</u>
Robert Kenneth Downs	Director
David Bradley Morse*	Director
Martha Reardon Temple*	Director

*As of the date of this report Mark Costa Santos has replaced Martha Reardon Temple as Director. Gilbert Edward Keegan has replaced David Bradley Morse as Director.

As of December 31, 2013, the officers of the Company consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Martha Reardon Temple*	President
Edward Chung-I Lee	Vice President and Secretary
Jennifer Anne Palma*	Principal Financial Officer and Controller
Elaine Rose Cofrancesco	Treasurer
Gregory Stephen Martino	Vice President
Kevin James Casey	Senior Investment Officer
Dawn Marie Schoen*	Assistant Controller

*As of the date of this report Mark Costa Santos has replaced Martha Reardon Temple as President. Dawn Marie Schoen has replaced Jennifer Anne Palma as Principal Financial Officer and Controller. Steven Matthew Conte has replaced Dawn Marie Schoen as Assistant Controller.

TRANSACTIONS WITH AFFILIATES

The Company had the following agreements with affiliates at December 31, 2013:

- Administrative Services Agreement with Aetna Health Management, LLC, (hereinafter, "AHM") under which AHM provides certain administrative services including accounting and processing of premiums and claims.
- Pharmacy Rebate Agreement with AHM under which the Company remits 10% of earned pharmaceutical rebates to AHM as a fee.
- Insolvency Agreement with Aetna Health Insurance Company (hereinafter, "AHIC") under which, in the event the Company ceases operations or becomes insolvent, AHIC will continue to pay member benefits until the member is discharged.
- Tax Sharing Agreement with Aetna, under which the tax provisions are generally computed as if the Company were filing a separate tax return with current credit for net operating losses utilized in the consolidated tax return.
- Guaranty Agreement with Aetna under which the Company will maintain a minimum capital and surplus as required by Maine Law.

TERRITORY & PLAN OF OPERATION

The Company received its license to operate as a for-profit health maintenance organization on April 10, 1996. The Company offers a variety of health insurance and managed care products to individuals and groups. Additionally, the Company offers coverage under the Medicare program regulated by the Centers for Medicare & Medicaid Services. The Company is only licensed in the State of Maine.

REINSURANCE

The Company entered into an insolvency agreement effective January 1, 2008, whereby AHIC guarantees, in the event of insolvency of the Company, that AHIC will continue plan benefits for its members.

FINANCIAL STATEMENTS

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS
AS OF DECEMBER 31, 2013**

Assets

Bonds	\$ 24,937,774
Cash equivalents & short-term investments	4,573,603
Investment income due and accrued	153,772
Uncollected premiums and agents balances	2,804,537
Net deferred tax asset	985,089
Health care receivables	281,328
Aggregate write-ins for other than invested assets	417,185
Total assets	<u>\$ 34,153,288</u>

Liabilities

Claims unpaid	\$ 9,110,256
Accrued medical incentive pool and bonus	231,372
Unpaid claims adjustment expenses	169,805
Aggregate health policy reserves	2,150,943
Aggregate health claim reserves	54,939
Premiums received in advance	18,114
General expenses due or accrued	31,666
Current federal and foreign income tax payable	232,853
Amounts due to affiliates	4,151,258
Payable for securities	3,935,836
Aggregate write-ins for other liabilities	157,859
Total liabilities	<u>20,244,901</u>

Capital and Surplus

Common capital stock	1,000,000
Gross paid in and contributed surplus	8,700,000
Unassigned funds	4,208,387
Total capital and surplus	<u>13,908,387</u>
Total liabilities, capital and surplus	<u>\$ 34,153,288</u>

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2013

Member months	210,993
Net premium income	\$ 98,180,276
Change in unearned premium reserves and reserve for rate credits	<u>98,675</u>
Total revenues	<u>98,278,951</u>
Hospital medical benefits	64,770,798
Outside referrals	1,134,882
Emergency room and out-of-area	3,974,516
Prescription drugs	14,174,737
Incentive pool, withhold adjustments, and bonus amounts	<u>396,015</u>
Subtotal	84,450,948
Less: net reinsurance recoveries	-
Total hospital and medical	<u>84,450,948</u>
Claims adjustment expenses, including cost containment expenses	2,421,320
General administrative expenses	11,010,883
Increase in reserves for life and accident and health contracts	<u>2,036,283</u>
Total underwriting deductions	<u>99,919,434</u>
Net underwriting loss	<u>(1,640,483)</u>
Net investment income earned	581,902
Net realized capital loss net of capital gains tax	<u>(732,695)</u>
Net investment losses	<u>(150,793)</u>
Net income (loss) after capital gains tax and before federal income taxes	(1,791,276)
Federal income taxes incurred	<u>(425,705)</u>
Net income (loss)	<u>\$ (1,365,571)</u>

STATEMENT OF CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2013

Capital and surplus, December 31, 2012	\$ 14,818,026
Net income (loss)	(1,365,571)
Change in net deferred income tax	650,521
Change in nonadmitted assets	<u>(194,589)</u>
Net change in capital and surplus	<u>(909,639)</u>
Capital and surplus, December 31, 2013	<u>\$ 13,908,387</u>

COMMENTS ON FINANCIAL STATEMENTS

NOTE 1 - RESERVES

AGI Services (hereinafter, "AGI") was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2013. The reserves as reported by the Company were determined to be reasonable based on the review performed by AGI.

NOTE 2 - CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the three year period since the Maine Bureau of Insurance's last examination of the Company, dated December 31, 2010:

Capital and surplus, December 31, 2010	\$	14,931,099
Net income		11,691,445
Change in net deferred income tax		(715,517)
Change in nonadmitted assets		529,606
Surplus adjustments - paid in		(1,000,000)
Dividends to stockholders		(10,900,000)
Aggregate write-ins for gains (losses) in surplus		<u>(628,246)</u>
Capital and surplus, December 31, 2013	\$	<u>13,908,387</u>

SUBSEQUENT EVENTS

Effective April 1, 2014, the Company entered into an administrative agreement with Fresenius Medical Care Holdings, Inc. and concurrent execution of a reinsurance agreement with Fresenius Medical Care Reinsurance Company (Cayman) Ltd, for a Medicare Advantage End Stage Renal Disease program.

The Company included the following disclosure in its Annual Statement for the period ending December 31, 2013:

"On January 1, 2014, the Company will be subject to an annual fee under section 9010 of the Affordable Care Act ("ACA"). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2014. As of December 31, 2013, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2014 to be \$1,470,000."

The Company disclosed in its Annual Statement for the period ending December 31, 2014 that the ACA fee paid in 2014 was \$1,449,400. The Company also disclosed an ACA fee assessment payable for 2015 of \$2,000,000.

SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

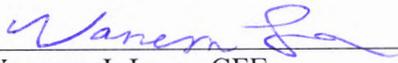
**STATE OF MAINE
COUNTY OF KENNEBEC, SS**

Vanessa J. Leon, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, an examination of the condition and affairs of

Aetna Health Inc. (a Maine corporation)

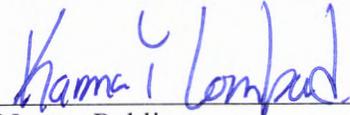
located in South Portland, Maine has been made as of December 31, 2013, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. Examination Resources, LLC, under contract with the Maine Bureau of Insurance performed the examination. The following examiners from Examination Resources, LLC assisted:

Joanne Campanelli, CFE, ARC, MCM
Michael Morrissey, AES, CISA, CISSP, MCM
Steven Sigler, CISA, AES, CFE
James Gowins, CISA, AFE
Rick Buchwald, CFE, CFE (fraud), MCM
John Humphries, ASA, MAAA, CFE, CISA, AES, MCM
Mike Presley, FSA, MAAA



Vanessa J. Leon, CFE

Subscribed and sworn to before me
This 30th day of October, 2015



Notary Public
My Commission Expires:

KARMA Y. LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2016