

CIGNA HEALTHCARE OF MAINE, INC.

REPORT OF EXAMINATION

AS OF

DECEMBER 31, 2005

I hereby certify that the attached report of examination dated September 21, 2006 shows the condition and affairs of CIGNA HEALTHCARE OF MAINE, INC., Falmouth, Maine as of December 31, 2005 and has been filed in the Bureau of Insurance as a public document.

This report has been reviewed.



Kendra Godbout, CPA, CFE
Director of Financial Analysis

This 1st day of February, 2007

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September 21, 2006

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

Dear Sir:

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

CIGNA HEALTHCARE OF MAINE, INC.

hereinafter referred to as the "Company". The Company's primary administrative offices are located at 900 Cottage Grove Road, Bloomfield, Connecticut.

This report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2002 by the State of Maine Bureau of Insurance. This examination covered the period from January 1, 2003 through December 31, 2005.

The examination consisted of a survey of the Company's business policies and underwriting practices, a review of corporate minutes, a verification of assets and a determination of liabilities at December 31, 2005 in conformity with statutory accounting practices, NAIC guidelines, and the laws, rules and regulations prescribed by the Maine Bureau of Insurance.

To the extent deemed appropriate, we utilized workpapers of the independent auditors for the year ending December 31, 2005. In conjunction with these workpapers, we extended testing where deemed appropriate in order to achieve a confidence level commensurate with risk assessed through utilization of the NAIC Examiners Handbook. The NAIC database and NAIC Jumpstart (investment) reports were also utilized in our examination.

The Company's loss and loss adjustment expense reserves were evaluated for the period under examination. Loss payments, case reserves, dates of service, report dates and reinsurance credits taken from claim files to statistical loss reports were verified. Incurred but not reported (IBNR) reserves were also reviewed as to the reasonability of current IBNR reserves.

To the extent deemed necessary, we also reviewed transactions occurring subsequent to our examination date that were material or unusual in nature. The results of the current examination present the financial condition of the Company at December 31, 2005 as determined by the examiners. For purposes of this report, comments on various balance sheet items may be limited to matters involving a departure from laws, rules or regulations, a significant change in the amount of the item, or where an explanation, comment and/or recommendation is warranted.

DESCRIPTION OF THE COMPANY

History

The Company, CIGNA HealthCare of Maine, Inc., formerly Healthsource Maine Inc., was purchased by CIGNA Health Corporation from Healthsource, Inc in June of 1997. The former company, Healthsource Maine Inc., was incorporated in the State of Maine on March 5, 1986, pursuant to former Title 13-A M.R.S.A. § 403, and authorized to transact the business of a health maintenance organization (HMO) on January 30, 1987 under Title 24-A M.R.S.A.

Chapter 56. On April 14, 2000, the Company's Articles of Incorporation were amended to change the Company's name to CIGNA HealthCare of Maine, Inc.

Management and Control

The Company's Bylaws, Article III, Section 2, sets the number of directors to be not less than one nor more than thirty-three. As of December 31, 2005, there were three directors serving and were as follows:

Directors:

Donald M. Curry, President
Aslam M. Khan M.D., M.M., V. President
Vincent L. Shreckengast, V. President

Officers elected by the Board of Directors and serving at December 31, 2005 were as follows:

Officers:

Donald M. Curry	President
Scott R. Lambert	V. President & Treasurer
Barry R. McHale	V. President & Asst. Treasurer
Vincent L. Shreckengast	V. President
Timothy Burton	V. President
Allan E. Hanssen	V. President
Aslam M. Khan M.D, M.M.	V. President
Jeffery L. Novak	V. President
Leslie N. Campbell	V. President
John P. Frey	V. President
Kathleen M. Hockmuth	V. President
Robert D. Picinich	V. President
Joseph E. Turgeon III	V. President
Karen E. Ferrell	V. President
Glenn M. Gerhard	V. President
Robert P. Hockmuth M.D.	V. President
David M. Porcello	V. President
James V. Vasquenza Jr.	V. President

Conflict of Interest

Title 24-A M.R.S.A. § 3413 requires that each director and officer of the Company associate and perform in a manner that is not in conflict with the interests of the Company. The Company employs a policy of requiring all directors and officers to complete a conflict of interest statement annually to disclose any material interest or affiliation which is likely to be in conflict with his/her official duties and responsibilities with the Company. Review of the Conflict of Interest Statements for the period under exam determined that the Company is in substantial compliance with its policy and the Maine State Statute.

Corporate Records

The Articles of Incorporation, Bylaws and the Minutes of various meetings held during the period of examination were reviewed. Based on a review of these Minutes, the Company is conducting its affairs in accordance with its Charter and Bylaws.

Plan of Operation

On January 31, 1987, the Company was licensed to provide HMO benefits in the State of Maine.

The Company maintains networks of providers for its HMO products. The Company's providers consisted of the following types: primary physicians, specialist physicians, ancillary services and hospital services. Maine Title 24-A M.R.S.A. § 4204(6) requires that a "hold harmless" provision be included in HMO provider contracts. Maine Title 24-A M.R.S.A. § 4204(7) requires that a provision for continuation of benefits be included in provider contracts. The Company is in substantial compliance with both of these requirements.

INSURANCE COVERAGES

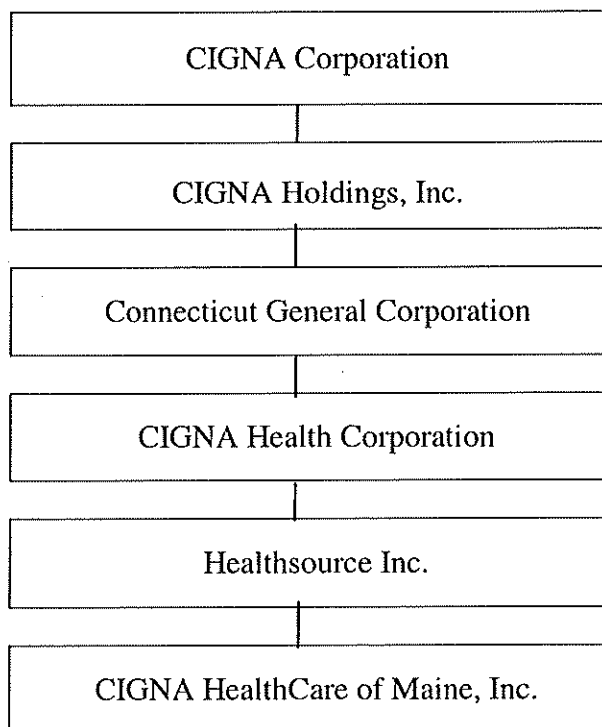
The Company maintains the following insurance coverages:

Business Auto Liability	Workers' Compensation
Commercial General Liability	Fidelity Bond Insurance
Commercial Property	Directors & Officers Liability

The fidelity bond insurance in the amount of \$5,000,000 was found to be in compliance with Title 24-A M.R.S.A. § 4204 (2-A) (H).

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system and has filed annual Form B registration statements, as required under Title 24-A M.R.S.A § 222 (8)(B). Due to the number of entities within the holding company system, this report's organizational chart presents only the Company's immediate, intermediate and ultimate parents and the affiliates with whom it has agreements. The following is an abbreviated organization chart at December 31, 2005:



INTER-COMPANY AGREEMENTS

The Company had the following major agreements with affiliates in effect at December 31, 2005:

Management Services Agreement with CIGNA Health Corporation

Effective January 1, 1994, the Company entered into a management services agreement with CIGNA Health Corporation. Under the terms of this agreement, the affiliate provides management services, which include sales support, underwriting, premium billing and collection, claims processing, personnel services, systems services, legal services, and other support services. The Company is charged a monthly fee of allocated expenses based upon a reasonable allocation methodology.

Investment Advisory Agreement with CIGNA Investments, Inc.

Effective November 18, 1997, the Company entered into an investment advisory agreement with CIGNA Investments, Inc. Under the terms of the agreement, the affiliate was authorized to purchase, exchange, subscribe or dispose of the Company's invested assets in its sole discretion in accordance with applicable law and subject to a general investment authorization. For these services, the Company, on a quarterly basis, provides consideration equaling 9.76 basis points in arrears on net average assets under management for that quarter.

On January 11, 2000, the agreement was amended to stipulate the name change of the investment advisor from CIGNA Investments, Inc. to TimesSquare Capital Management, Inc. Subsequent to the aforementioned name change and prior to January 1, 2002; CIGNA Investment Advisory Company, Inc. changed its name to CIGNA Investments, Inc. Effective

January 1, 2002, TimesSquare Capital Management assigned the investment advisory agreement to CIGNA Investments, Inc., another affiliate.

Consolidated Federal Income Tax Allocation Agreement with CIGNA Corporation

The Company, its ultimate parent and other affiliates are parties to an amended and restated consolidated federal income tax agreement. This agreement was originally effective April 1, 1982. The Company became a party to the agreement on June 26, 1997 upon its acquisition by CIGNA Corporation for the tax year beginning January 1, 1997. Tax expenses or benefits are allocated as though each entity had filed a separate return. Settlements between the affiliates are to occur quarterly with the filing of estimated tax returns; a final annual adjustment is to occur upon the filing of the consolidated tax return.

Network Access Agreement with Connecticut General Life Insurance Company

Effective June 6, 2001, the Company, Connecticut General Life Insurance Company (CGLIC) and other affiliates entered into a network agreement. This agreement's provisions allow each health maintenance organization, including the Company, to provide or receive network access to providers and certain associated administrative services for other affiliates.

Line of Credit Agreement with CIGNA Corporation

Effective October 1, 2005, the Company (borrower) entered into an agreement with Cigna Health Corporation (lender). Under this agreement, CIGNA Health Corporation would loan funds to the Company, from time to time, to ensure that the Company would be able to meet its operational cash obligations while earning additional investment income.

REINSURANCE

CIGNA Health Corporation subsidiaries, including the Company, are entered into a reinsurance agreement with CGLIC, an affiliate. The reinsurance treaty provides reinsurance

coverage for 80% of covered hospital, and related services in excess of \$250,000 retention per individual per contract year. In addition, this reinsurance provides for insolvency coverage as required by Title 24-A M.R.S.A. § 4231.

LITIGATION

The Company does not use outside counsel. The Company advised the examiners that it is not involved in any actual, pending or threatened non-claims litigation at this time that would result in a material judgment against the Company.

FINANCIAL STATEMENTS

The following financial statements show the Company's financial position at December 31, 2005 as determined by this examination. Comments on the financial statements have been made in the section of this report captioned Notes to Financial Statements.

BALANCE SHEET

December 31, 2005

BONDS (Note 1)	\$ 16,725,253
CASH (Note 2)	<u>1,150,940</u>
SUBTOTAL CASH & INVESTED ASSETS	\$ 17,876,193
A & H PREMIUMS DUE AND UNPAID (Note 3)	1,209,944
INVESTMENT INCOME DUE AND ACCRUED	293,438
FEDERAL INCOME TAX RECOVERABLE (Note 4)	1,632,534
NET DEFERRED TAX ASSET (Note 4)	<u>215,892</u>
TOTAL ASSETS	<u>\$ 21,228,001</u>
LIABILITIES, CAPITAL AND SURPLUS	
CLAIMS UNPAID (Note 5)	\$ 5,740,542
ACCRUED MED INCENTIVE POOL AND BONUS	399,270
UNPAID CLAIMS ADJUSTMENT EXPENSES	249,188
PREMIUMS RECEIVED INADVANCE (Note 6)	304,790
GENERAL EXPENSES DUE & ACCRUED	1,001,180
AMOUNTS DUE TO PARENT, SUB. AND AFFILIATES (Note 7)	2,920,279
AGGREGATE WRITE-INS FOR OTHER LIABILITIES	<u>275,469</u>
TOTAL LIABILITIES	<u>\$ 10,890,718</u>
COMMON CAPITAL STOCK	\$ 100
GROSS PAID IN & CONTRIB. SURPLUS	3,738,169
UNASSIGNED FUNDS (SURPLUS)	<u>6,599,014</u>
TOTAL CAPITAL AND SURPLUS (Note 8)	<u>\$ 10,337,283</u>
TOTAL LIABILITIES & SURPLUS	<u>\$ 21,228,001</u>

STATEMENT OF REVENUE AND EXPENSES

For the Year Ended December 31, 2005

UNDERWRITING INCOME	
NET PREMIUM INCOME	\$ 64,283,954
TOTAL REVENUE	<u>\$ 64,283,954</u>
MEDICAL AND HOSPITAL DEDUCTIONS:	
HOSPITAL/MEDICAL BENEFITS	\$ 36,686,322
OTHER PROFESSIONAL SERVICES	3,240,834
OUTSIDE REFERRALS	2,216,346
EMERGENCY ROOM AND OUT-OF-AREA	2,802,367
PRESCRIPTION DRUGS	7,443,389
AGGREGATE WRITE-INS FOR OTHER	391,593
SUBTOTAL	<u>52,780,851</u>
LESS NET REINSURANCE RECOVERIES	<u>491,015</u>
TOTAL MEDICAL AND HOSPITAL	<u>52,289,836</u>
UNDERWRITING DEDUCTIONS:	
CLAIMS ADJUSTMENT EXPENSE	2,030,711
GENERAL ADMINISTRATIVE	<u>3,377,197</u>
TOTAL U/W DEDUCTIONS	<u>5,407,908</u>
NET U/W GAIN OR LOSS	<u>\$ 6,586,210</u>
NET INVESTMENT INCOME EARNED	1,441,229
NET REALIZED CAPITAL GAIN OR LOSS	<u>252,720</u>
NET INVESTMENT GAIN OR LOSS	<u>1,693,949</u>
NET INCOME OR LOSS BEFORE FEDERAL TAXES	8,280,159
FEDERAL INCOME TAX INCURRED	<u>2,013,553</u>
NET INCOME	<u><u>\$ 6,266,606</u></u>
CAPITAL & SURPLUS ACCOUNT	
SURPLUS PRIOR YEAR	\$ 23,705,519
CORRECTION OF ERROR (Note 4)	(741,771)
NET INCOME	6,266,606
CHANGE IN DEFERRED INCOME TAX	(335,821)
CHANGE IN NON-ADMITTED ASSETS	117,750
DIVIDENDS TO STOCKHOLDERS	(18,700,000)
AGGREGATE WRITE-INS FOR GAINS IN SURPLUS	25,000
CHANGE IN SURPLUS	<u>(13,368,236)</u>
SURPLUS CURRENT YEAR	<u><u>\$ 10,337,283</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$ 16,725,253

Bonds are stated at amortized value and at December 31, 2005 consisted of the following:

	Cost	Par Value	Fair Value	Book/Carrying Value
Political Subdivisions of States, Territories, and Possessions.	\$ 4,441,659	\$ 4,280,000	\$ 4,605,366	\$ 4,442,841
Special Revenue	12,309,458	12,405,000	13,324,034	12,282,412
	<u>\$ 16,751,117</u>	<u>\$ 16,685,000</u>	<u>\$ 17,929,400</u>	<u>\$ 16,725,253</u>

As required by Title 24-A M.R.S.A. § 412, the Company maintained the required security deposit with the Treasurer of Maine.

Note 2 – Cash

\$ 1,150,940

Certifications confirming bank balances at year end were received through direct correspondence with the various depositories and reconciled with balances reported in the Company's general ledger as of December 31, 2005 with no exceptions.

Note 3 – Accident and Health Premiums Due and Unpaid

\$ 1,209,944

Accident and health premiums due and unpaid are properly reported as admitted assets in substantial compliance with NAIC Accounting Practices and Procedures Manual, SSAP 6, and Interpretation 01-01.

Note 4 – Federal Income Taxes Recoverable Net Deferred Tax Asset

\$ 1,632,534
\$ 215,892

As a result of the audit for year-end 2005 by independent auditors, PriceWaterhouseCoopers (PWC), an error was found. A restatement of financial statements for

2004 was not deemed necessary. However, PWC adjusted the statutory financial statements for year ending 2005; based on this finding, our examination has made the same adjustments.

During 2006, the Company corrected this error in the reporting of premium revenue in the amount of \$741,771, which was recorded as a charge to surplus. This adjustment was a result of membership assignment error related to a product that the Company and a related party participate. This caused premiums, net of related expenses and taxes, to be transferred to the Company from a related party.

This resulted in an adjustment to Federal Income Taxes Recoverable of \$401,689 which increased the asset to \$1,632,534.

Note 5 – Claims Unpaid

\$ 5,740,542

The Company properly reports unpaid claims and estimates of incurred but not reported claims as claims unpaid.

The Bureau of Insurance contracted with an outside actuary to perform an actuarial analysis of the Company's claims liabilities and reserves. The actuarial review determined that the reported claims unpaid are adequate. (See Appendix A for Actuarial Opinion)

Note 6 - Premiums Received in Advance

\$ 304,790

Premiums received in advance of the effective policy period are properly reported here as a liability.

Note 7 – Amounts Due to Parent, Subsidiaries and Affiliates

\$ 2,920,279

Amounts due to parent & affiliates represent amounts due under several inter-company agreements, primarily the management services agreement.

See Note 4 regarding the correction of an error. This error caused an adjustment (increase) to this account for \$1,143,460.

<u>Note 8 -Capital and Surplus</u>	<u>\$ 10,337,283</u>
Common Stock	\$ 100
Paid In Surplus	3,738,169
Unassigned Funds (Surplus)	6,599,014
Total Capital and Surplus	<u>\$ 10,337,283</u>

As of December 31, 2005, the Company had authorized 3,000,000 shares of common stock, par value \$0.10; issued and outstanding 1000 shares.

During 2005, the Company paid dividends to its Parent of \$18,700,000 with the approval of the Maine Bureau of Insurance.

Total capital and surplus at December 31, 2005 was in compliance with the minimum net worth requirement of the State of Maine per Title 24-A M.R.S.A. § 4204 (2).

See Notes 4 and 7 above regarding the correction of an error and resulting adjustments. By correcting this error in the reporting of premium revenue, an adjustment was made for \$741,771, which was recorded as a charge to surplus.

CONCLUSION

The Company's financial condition, as disclosed by this examination, is reflected in statements and supporting exhibits contained in this report. The basis of preparation of such statements conforms to law, rules and regulations prescribed and/or permitted by the Maine Bureau of Insurance.

Acknowledgment of cooperation and assistance extended to the examiners by all Company personnel is hereby expressed.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

Michael R. Nadeau, CPA, CFE, CISA, AES being duly sworn according to law deposes and says that in accordance with the authority vested in him by Eric A. Cioppa, Acting Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination of the condition and affairs of the

CIGNA HEALTHCARE OF MAINE, INC.

of Falmouth, Maine as of December 31, 2005, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief.

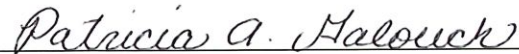
The following examiners from the Bureau of Insurance assisted:

- Jill C. Tobey, CPA, CFE
- Faith A. Talbot
- April M. Pinkham
- Debra L. Blaisdell



Michael R. Nadeau, CPA, CFE, CISA, AES
Examiner-In-Charge

Subscribed and sworn to before me this 5th day of February, 2007



Patricia Galouch
Notary Public

My Commission Expires:



APPENDIX A

STATEMENT OF ACTUARIAL OPINION

STATEMENT OF ACTUARIAL OPINION
CIGNA HEALTHCARE OF MAINE, INC.
ANNUAL STATEMENT AS OF DECEMBER 31, 2005

I, Arthur Lucker, ASA, MAAA, a member of the American Academy of Actuaries, am associated with the firm of INS Consultants, Inc (INS). INS has been retained by the Maine Bureau of Insurance to render this opinion as stated in the letter to INS dated July 17, 2006. I meet the Academy Qualification Standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies.

I have examined the actuarial assumptions and actuarial methods used in determining reserves and related balance sheet items listed below, as shown in the Annual Statement of CIGNA Healthcare of Maine, Inc. (CIGNA), as prepared for filing with the State of Maine officials, as of December 31, 2005.

Policy Reserves and Other Balance Sheet Items as of December 31, 2005 CIGNA
--

Item	Statement Reference	Amount
Claims unpaid	Page 3, Line 1	\$ 5,740,542
Accrued medical incentive pool and bonus amounts	Page 3, line 2	399,270
Unpaid claims adjustment expenses	Page 3, Line 3	249,188
Aggregate health policy reserves	Page 3, Line 4	0
Aggregate health claim reserves	Page 3, Line 7	0

In making my determination, I have relied upon listings and summaries of policies and contracts and other liabilities in force prepared by CIGNA. Maine's Bureau of Insurance has verified the accuracy and completeness of this data. In other respects, my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary. If the underlying data or information is inaccurate or incomplete, the results of my analysis may likewise be inaccurate or incomplete.

In my opinion, the amounts carried in the balance sheet on account of the actuarial items identified above:

- (1) Are computed in accordance with those presently accepted actuarial standards that specifically relate to the opinion required under this section.
- (2) Are based on actuarial assumptions that produce reserves at least as great as those called for in any contract provisions as to reserve basis and method, and are in accordance with all other contract provisions.
- (3) Meet the requirements of the insurance laws and regulations of the state of Maine and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed.
- (4) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions as noted below.
- (5) Include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate compliance guidelines as promulgated by the Actuarial Standards Board, which guidelines form the basis of this statement of opinion.
- (6) Make good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements.

It should be emphasized that actuarial liabilities referred to in this Statement of Opinion are estimates. The exact liabilities will only be determinable after a sufficient passage of time permits the settlement of potential payments under the inforce contract.



Arthur Lucker, ASA
Member, American Academy of Actuaries
December 20, 2006

INS Consultants, Inc.
NewMarket Suite, 206
419 So. 2nd Street
Philadelphia, PA 19147
(215) 625-9877



STATE OF MAINE

BUREAU OF INSURANCE

***IT IS HEREBY CERTIFIED THAT THE ANNEXED REPORT OF EXAMINATION
FOR***

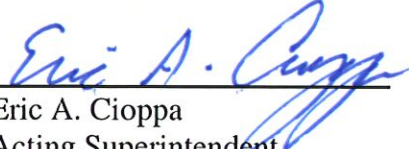
CIGNA HEALTHCARE OF MAINE, INC.

has been compared with the original on file in this bureau and that it is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF,

I have hereunto set my hand and affixed the official seal of this Office at the City of Augusta this

1st day of February, 2007


Eric A. Cioppa
Acting Superintendent
Bureau of Insurance

