



Janet T. Mills
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

May 31, 2019

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. §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, 2017

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS, a Verified Report of Examination of Aetna Health Inc. (a Maine corporation) dated May 31, 2019 was delivered to that insurer on July 15, 2019 and;


WHEREAS Aetna Health Inc. (a Maine corporation) and Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination, and

WHEREAS I find such modifications proper, 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 and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226 (3).

Dated: 8-7-19



Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

Aetna Health Inc. (a Maine corporation) (the “Company” or “AHI-ME”) was last examined as of December 31, 2013, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2014, to December 31, 2017, and was conducted by Examination Resources, LLC.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2018 Financial Condition Examiners Handbook (FCEH) and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2017. The examination also included the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

This examination was coordinated with the State of Georgia Department of Insurance (GADOI), which concurrently examined the Georgia domestic insurance companies of Aetna, Inc. (Aetna), the Company's ultimate parent. The GADOI served as the lead state on the examination. The MBOI and the Texas Department of Insurance (TXDOI) accepted the invitation to participate on the coordinated examination of the Aetna Group, serving in the capacity of participating states. KPMG, LLP (KPMG) performed the 2017 external audit of AHI-ME and all insurance affiliates. KPMG work papers were utilized for this examination to the extent deemed appropriate. The MBOI utilized the work of the GADOI and TXDOI when appropriate in order to enhance the effectiveness and efficiency of this examination.

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. §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

None noted.

CURRENT EXAMINATION

The Company was not able to provide evidence of compliance with 24-A M.R.S. § 4303(22), which states, in its current form, that a carrier may not deny payment for any health care service covered under an enrollee's health plan based solely on the basis that the enrollee's referral was made by a provider who is not a member of the carrier's provider network. While the Company has stated that they are in the process of modifying their IT systems, forms, policies and procedures to align with the requirements of the statute, as modified by the recently enacted amendment (PL 2019, ch. 178), this amendment takes effect several months in the future. The Company has not developed a satisfactory plan for processing claims based on referrals made between the effective date of the statute, on January 1, 2018, and the effective date of the amendment, which has not yet been determined.

THE COMPANY

HISTORY

The Company was incorporated in the State of Maine on October 3, 1995. In accordance with 24-A M.R.S. §4203, the Company was organized as a for-profit, privately held health maintenance organization (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.

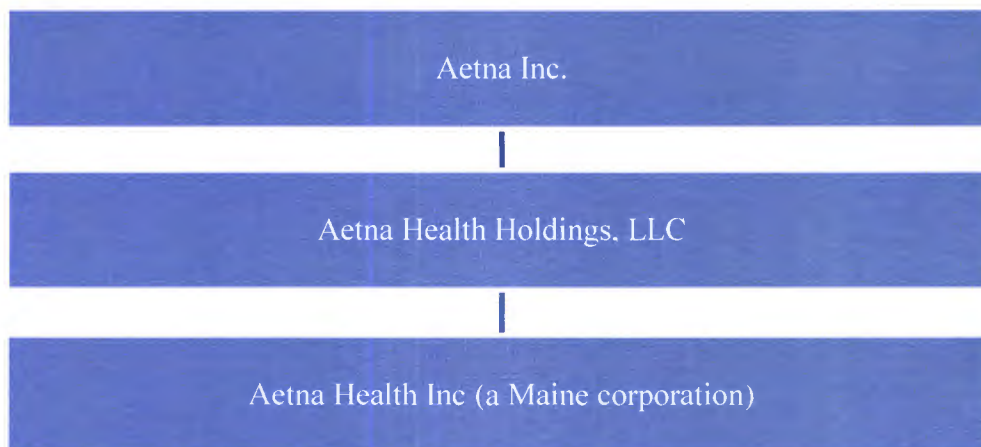
On June 14, 2002, the Company changed its name from Aetna U.S. Healthcare Inc. to Aetna Health Inc. (a Maine corporation).

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

CORPORATE OWNERSHIP

The Company is a wholly-owned subsidiary of AHH whose ultimate parent is Aetna.

An abbreviated organizational chart as of December 31, 2017 is presented below:



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, 2017, the board of directors of the Company consisted of the following members:

<u>Name</u>	<u>Title</u>
Mark Costa Santos	Chair
Gilbert Edward Keegan*	Director
Louise Alta McCleery	Director

As of December 31, 2017, the officers of the Company included the following individuals:

<u>Name</u>	<u>Title</u>
Mark Costa Santos	President
John Patrick Maroney*	Vice President and Treasurer
Edward Chung-I Lee	Vice President and Secretary
Gregory Stephen Martino	Vice President
Melissa B. Pavlovich*	Vice President

* On January 24, 2018, Spence W. Papke replaced Gilbert Edward Keegan as Director; on March 20, 2018, Melissa B. Pavlovich's title was changed to Vice President and Assistant Secretary; and on April 1, 2019, Tracy L. Smith replaced John Patrick Maroney as Vice President and Treasurer.

TRANSACTIONS WITH AFFILIATES

The Company is party to an Administrative Services Agreement with Aetna Health Management, LLC, (AHM) under which AHM provides certain administrative services including accounting and processing of premiums and claims. Also under this Agreement, the Company receives pharmaceutical manufacturer rebates from AHM, and the Company remits a percentage of earned pharmaceutical rebates to AHM as a fee.

The Company has an Insolvency Agreement with Aetna Health Insurance Company (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.

The Company participates in a Tax Sharing Agreement with Aetna and Aetna's other subsidiaries, under which the tax provisions are generally computed as if the Company were filing a separate tax return.

The Company has a Guaranty Agreement with Aetna under which Aetna guarantees that the Company will maintain a minimum capital and surplus as required by Maine Law.

On October 29, 2015, the Company declared an ordinary dividend of \$2,400,000 which was paid to its parent, AHH, on December 9, 2015. On October 30, 2017, the Company declared an ordinary dividend of \$2,450,000 which was paid to AHH on November 16, 2017.

TERRITORY & PLAN OF OPERATION

The Company offers health insurance and managed care products, as well as coverage under the Medicare program regulated by the Centers for Medicare & Medicaid Services. The Company is only licensed in the State of Maine.

REINSURANCE

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

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 MBOI and thus the MBOI does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2017**

Assets

Bonds	\$ 24,939,445
Cash, Cash Equivalents, and Short Term Investments	18,485
Investment income due and accrued	102,837
Uncollected premiums in the course of collection	2,190,164
Accrued retrospective premiums	502,677
Amounts recoverable from reinsurers	15,734
Amounts receivable relating to uninsured plans	117,883
Current federal and foreign income tax recoverable	380,345
Net deferred tax asset	92,581
Health care receivable	267,843
Aggregate write-ins for other than invested assets	<u>233,184</u>
Total assets	<u>\$ 28,861,178</u>

Liabilities

Claims unpaid less reinsurance ceded	\$ 5,980,497
Accrued medical incentive pool and bonus amounts	1,945,005
Unpaid claims adjustment expenses	88,616
Aggregate health policy reserves	2,182,405
Aggregate health claim reserves	39,111
Premiums received in advance	26,921
General expenses due or accrued	26,761
Amounts due to parent, subsidiaries and affiliates	677,428
Funds held under reinsurance treaties	48,534
Liability for amounts held under uninsured plans	<u>298,744</u>
Total liabilities	<u>11,314,022</u>

Capital and Surplus

Aggregate write-ins for special surplus funds	1,564,000
Common capital stock	1,000,000
Gross paid in & contributed surplus	8,700,000
Unassigned funds	<u>6,283,156</u>
Total Capital and Surplus:	<u>17,547,156</u>
Total Liabilities, Capital and Surplus	<u>\$28,861,178</u>

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017

Member Months	133,929
Net premium income	\$ 79,027,743
Change in unearned premium reserves	<u>(1,221,117)</u>
Total revenues	<u>77,806,626</u>
Hospital/medical benefits	46,450,140
Outside referrals	1,106,074
Emergency room and out-of-area	3,158,478
Prescription drugs	10,338,525
Incentive pool, withhold adjustments and bonus amounts	<u>621,721</u>
Subtotal	<u>61,674,938</u>
Less:	
Net reinsurance recoveries	<u>274,148</u>
Total hospital and medical	<u>61,400,790</u>
Claims adjustment expenses	1,308,288
General administrative expenses	<u>9,311,687</u>
Total underwriting deductions	<u>72,020,765</u>
Net underwriting gain	<u>5,785,861</u>
Net investment income earned	589,771
Net realized capital gains	<u>13,789</u>
Net investment gains	<u>603,560</u>
Net income after capital gains tax, before federal tax	<u>6,389,421</u>
Federal and foreign income taxes incurred	<u>1,800,566</u>
Net income	<u><u>\$ 4,588,855</u></u>

**STATEMENT OF CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2017**

Capital and surplus, December 31, 2016	\$ 15,522,822
Net income	4,588,855
Change in net deferred income tax	(115,623)
Change in nonadmitted assets	1,102
Dividends to stockholders	<u>(2,450,000)</u>
Net change in capital and surplus	<u>2,024,334</u>
Capital and surplus, December 31, 2017	<u>\$ 17,547,156</u>

COMMENTS ON THE FINANCIAL STATEMENTS

NOTE 1 - RESERVES

Lewis & Ellis, Inc. (“consulting actuary”) was engaged to provide actuarial assistance with the financial examination of AHI-ME as of December 31, 2017. The consulting actuary’s actuarial opinion is included as Appendix A attached hereto.

NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the four-year period since the MBOI’s last examination of the Company, dated December 31, 2013:

Capital and surplus, December 31, 2013	\$ 13,908,387
Net income	8,463,221
Change in net deferred income tax	(998,596)
Change in nonadmitted assets	217,678
Dividends to stockholders	(4,850,000)
Aggregate write-ins for gains or (losses) in surplus	<u>806,466</u>
Capital and surplus, December 31, 2017	<u>\$ 17,547,156</u>

SUBSEQUENT EVENTS

On January 1, 2018, the Company was subject to an annual fee under Section 9010 of the Federal Affordable Care Act (ACA). This annual fee is allocated to individual health insurers based on the ratio of the entity's premiums written during the preceding year to the amount of health insurance for any U.S. health risk that is written in the preceding 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 of the year the fee is due. As of December 31, 2017, the Company had written health insurance subject to the ACA assessment, expected to conduct health insurance business in 2018, and estimated their portion of the annual health insurance industry fee to be payable September 30, 2018 in the amount of \$1,564,000. The Company disclosed in its Annual Statement for the year ended December 31, 2018 that the amount paid for the health insurer fee in 2018 was \$1,563,536. In January 2018, a moratorium was imposed on the health insurer fee for calendar year 2019, and therefore, there is no health insurer fee due in September 2019.

In December 2017, CVS Health (CVS) and Aetna announced the execution of a merger agreement under which CVS would acquire all outstanding shares of Aetna for a combination of cash and stock. As a condition of their approval of the CVS and Aetna merger, the US Department of Justice (DOJ) required that Aetna's Medicare Part D prescription drug plan business for individuals be divested, as did the Connecticut Insurance Department, the lead regulator of the Aetna holding company system. The MBOI's approval of the Form A application by CVS to acquire control of the Company was conditioned on CVS obtaining final approval from the DOJ and from the Connecticut Insurance Department. While the acquisition was completed on November 28, 2018,

and the required divestiture of Aetna's Medicare Part D business to WellCare has taken place, a Washington D.C. District Court judge has not completed the required Tunney Act merger review. As of the date of this report, the Tunney Act review is ongoing.

On November 30, 2018, a Form D – Prior Notice of a Transaction Involving an Affiliate, dated November 30, 2018, was filed with the MBOI. This Form D relates to a proposed CVS Health Tax Sharing Agreement between the Company, CVS, and CVS's subsidiaries that are owned at least 80% by CVS, to be effective January 1, 2019, with the taxes calculated under the proposed agreement to begin during the tax period in which the Company became a member of CVS Health. On December 27, 2018, the MBOI issued a letter noting no objections to the Form D filing or the Tax Sharing Agreement, and noting that the Agreement will become effective upon its execution and shall apply to the taxable year ending December 31, 2018.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company implement an adequate process to ensure that payment is not denied for any health care service covered under an enrollee's health plan based solely on the basis that the enrollee's referral was made by a provider who is not a member of the carrier's provider network, in accordance with 24-A M.R.S. § 4303(22) in its current form.

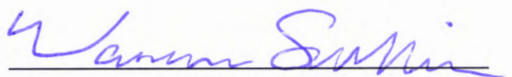
**STATE OF MAINE
COUNTY OF KENNEBEC, SS**

Vanessa J. Sullivan, 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, she has made an examination of the condition and affairs of the

AETNA HEALTH INC. (A MAINE CORPORATION)

located in South Portland, Maine as of December 31, 2017, 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 MBOI performed the examination. The following examiners from the MBOI assisted:

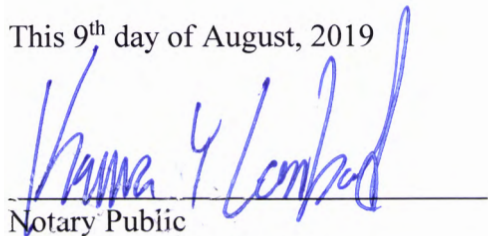
Audrey L. Wade, CFE, CISA



Vanessa J. Sullivan, CFE

Subscribed and sworn to before me

This 9th day of August, 2019

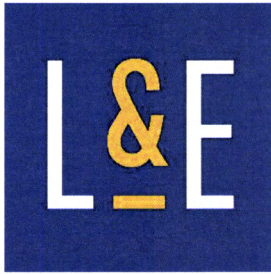


Notary Public

My Commission Expires:

**KARMA LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2023**

APPENDIX A – STATEMENT OF ACTUARIAL OPINION



LEWIS & ELLIS

Actuaries and Consultants

11225 College Blvd.
Suite 320
Overland Park, KS 66210

913.491.3388
LewisEllis.com

AETNA HEALTH INC. (A MAINE CORPORATION)

Statement of Actuarial Opinion
As of December 31, 2017

I, Karen E. Elsom, am a Vice President with Lewis & Ellis, Inc., Actuaries and Consultants, and am a member of the American Academy of Actuaries. I meet the Academy qualification standards for rendering this opinion and am familiar with the valuation requirements for Health Plans. As part of the financial examination process by the Maine Bureau of Insurance, I participated in the examination of Aetna Health Inc. I recalculated and verified certain actuarial items appearing in the Annual Statement as of December 31, 2017 of Aetna Health Inc., South Portland, Maine as prepared for filing with state regulatory officials.

I have examined the actuarial assumptions and actuarial methods used in determining loss reserves, actuarial liabilities and related items listed below, as shown in the NAIC Annual Statement of the Company at December 31, 2017.

(A) Claims Unpaid (Page 3, Item 1)	\$5,980,497
(B) Accrued Medical Incentive Pool and Bonus Amounts (Page 3, Item 2)	1,945,005
(C) Unpaid Claim Adjustment Expenses (Page 3, Item 3)	88,616
(D) Aggregate Health Policy Reserves (Page 3, Item 4)	2,182,405
(G) Aggregate Health Claim Reserves (Page 3, Item 7)	39,111
(I) Accrued Retrospective Premiums (Page 2, Item 15.3)	502,677

My examination included such review of the actuarial assumptions and actuarial methods used by the Company and such tests of the actuarial calculations as I considered necessary. I relied upon in force and claims data supplied by Aetna Health Inc. The claims data was tested for completeness and accuracy by the Maine examiners and me.

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

- (A) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;
- (B) are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;
- (C) meet the requirements of the insurance laws and related rules and regulations of the state of Maine;
- (D) make good and sufficient provision in aggregate for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements, except as may be noted in the following report;
- (E) are, to the best of my knowledge, computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year end except as may be noted in the following report; and
- (F) include appropriate provision, in the aggregate, for all actuarial items which ought to be established, except as may be noted in the following report.

The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board which standards form the basis of this statement of opinion.

The actuarial liabilities and certain actuarial related items referred to in this opinion are estimates based on the claims data provided by the Company. The exact liabilities will not be known until a sufficient passage of time permits the filing and payment of all outstanding claims.



Karen E. Elsom, FSA, MAAA

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June 12, 2019
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