

MIKE KREIDLER  
STATE INSURANCE COMMISSIONER



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. G06-40
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>AETNA HEALTH INC.</b>	)	AND ORDER ADOPTING REPORT
	)	OF EXAMINATION

A Registered Health Care Service Contractor.

**BACKGROUND**

An examination of the financial condition of **AETNA HEALTH INC.** (the Company) as of December 31, 2004, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on March 22, 2006. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 14 of the report.

AETNA HEALTH INC.  
Order Adopting Examination Report  
May 5, 2006



## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **AETNA HEALTH INC.** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

## ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-3.

1. The Company is ordered to comply with RCW 48.13.030(1) and RCW 48.13.180(2) by limiting its investments in any single entity to four percent of total assets. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statements Instructions and the AP&P. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with WAC 284-07-060(2)(a) which requires each company to include with its annual statement a statement of actuarial opinion setting forth the actuary's opinion related to the insurer's reserves and other actuarial items, prepared in accordance with the appropriate NAIC Annual Statement Instructions and the AP&P. Instruction 3, Examination Report, page 2.
4. It is ordered that the Company consider investigating the availability of aggregate catastrophe coverage which could protect against unforeseen catastrophic occurrences at a reasonable cost. Comments and Recommendations 1, Examination Report, page 3.

5. It is ordered that the Company consider keeping detailed documentation for the liabilities listed in the statement of actuarial opinion, including detailed calculations to support the statement that the reserves are computed in accordance with the accepted actuarial principles. Comments and Recommendations 2, Examination Report, page 3.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 5th day of May, 2006.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written in a cursive style.

MIKE KREIDLER  
Insurance Commissioner



INSURANCE SUPERVISOR  
COMPANY SUPERVISION

**James D. Weiss**  
Director  
Aetna Inc.  
HMO Accounting & Reporting  
980 Jolly Road, U11S  
Blue Bell, PA 19422  
Phone: 215-775-6508  
Fax: 215-775-6790  
[weissjd@aetna.com](mailto:weissjd@aetna.com)

April 13, 2006

VIA OVERNIGHT MAIL

Mr. James T. Odiorne, CPA, JD  
State of Washington Office of Insurance Commissioner  
Deputy Insurance Commissioner  
5000 Capitol Blvd  
Tumwater, WA 98501

Re: **Aetna Health Inc. (a Washington corporation) (the "Company") – Draft copy of the Report on Examination as of December 31, 2004 (the "Report") received via your letter dated March 22, 2006**

Dear Mr. Odiorne:

We appreciate the opportunity to respond and comment on the Report. Below please find the Company's comments to the Instructions on page 1 in the Report and to the Comments and Recommendations on page 3 in the Report.

The Instructions as included on page 1 in the Report have been repeated below in italics followed by the Company's response.

**Instruction 1. Investment Exceeded Limitations:**

*The Company recorded the following investments in Schedule D of its 2004 NAIC Annual Statement:*

<u>CUSIP</u>	<u>Description</u>	<u>Annual Statement Amount</u>	<u>Maximum Allowed Amount</u>	<u>Exam Adjustment</u>
683234MF2	Ontario Province	\$ 988,926	\$ 739,867	\$ 249,059
064057BF8	Bank of New York	997,772	739,867	257,905
260543BS1	Dow Chemical	995,690	739,867	255,823
339030AD0	Fleet Boston	998,347	739,867	258,480
	Total			<u>\$ 1,021,269</u>

*RCW 48.13.030(1) and RCW 48.13.180(2) limit investments in any one entity to four4% of the Company's total admitted assets unless the investment is backed by the full faith of the United States Government. The Company's total admitted assets as of December 31, 2004 was \$18,496,665 and the maximum allowed amount was \$739,867. Each of these investments exceeded the maximum allowed amount of \$739,867. Thus, the total excess amount for these securities of \$1,021,269 has been non-admitted in the examination report. (See Notes to the Financial Statements No.1)*

*The Company is instructed to comply with RCW 48.13.030(1) and RCW 48.13.180(2) by limiting its investments in any single entity to four percent of total assets.*

**Company Response:**

The Company notes that this issue had been previously resolved prior to the commencement of the statutory examination. The Company respectfully requests that the Report be modified to include a statement to indicate that this adjustment was reflected in the Company's 2004 audited financial statements and disclosed in such statements as a reconciling item to the Annual Statutory Statement in Note 17 in the Notes to Financial Statements. Such statements were filed with Office of the Insurance Commissioner on May 25, 2005.

**Instruction 2. Premium Deficiency Reserves (PDR):**

*Premium deficiency reserves were understated by approximately \$700,000. SSAP No. 54, paragraph 18 states: "when the expected claims payments or incurred costs, claims adjustment expenses, and administration costs exceed the premiums to be collected for the remainder of a contract period, a premium deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operation." (See Notes to the Financial Statements No.2)*

*The Company is instructed to comply with RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statements Instructions and the AP&P.*

**Company Response:**

The Company notes that this issue had been previously resolved prior to the commencement of the statutory examination. The Company respectfully requests that the Report be modified to include a statement to indicate that this adjustment was reflected in the Company's 2004 audited financial statements and disclosed in such statements as a reconciling item to the Annual Statutory Statement in Note 17 in the Notes to Financial Statements. Such statements were filed with Office of the Insurance Commissioner on May 25, 2005.

**Instruction 3. Statement of Actuarial Opinion:**

*The Company submitted a statement of Actuarial Opinion with the 2004 NAIC Annual Statement. However, the statement did not include a list if any actuarial liabilities that were included in page 3, line 21. This is in violation of the NAIC Annual Statement Instructions which requires the actuary to review and opine on all required items listed in the actuarial opinion section of the Health Annual Statement Instructions even if the actuarial liability amount is zero.*

*The Company is instructed to comply with WAC 284-07-060(2)(a) which requires each Company to include with its annual statement a statement of actuarial opinion setting forth the actuary's opinion related to the insurer's reserves and other actuarial items, prepared in accordance with the appropriate NAIC Annual Statement Instructions and the AP&P.*

**Company Response:**

In this particular case, there were no actuarial liabilities on page 3, line 21 (Aggregate write-ins for other liabilities) reported as of December 31, 2004. However, the Company ensures that future submitted Actuarial Opinions will include this particular line item and indicate zero, if applicable.

The Comments and Recommendations as included on page 3 in the Report have been repeated below in italics followed by the Company's response.

**Comment and Recommendation 1. Catastrophic Reinsurance:**

*The Company has no reinsurance of any type, including aggregate catastrophe coverage. Aetna is currently reducing its health insurance operations and is moving towards becoming a health care service provider but currently it still assumes risks and incurs liabilities.*

*It is recommended that the Company investigate the availability of aggregate catastrophe coverage, which could protect against unforeseen catastrophic occurrences at a reasonable cost.*

**Company Response:**

The Company respectfully notes that such reinsurance is not mandated by statute or regulation. However, the Company has from time to time reviewed its available options for obtaining aggregate catastrophe insurance coverage. Obtaining meaningful coverage of this type has been and continues to be prohibitively expensive and/or unavailable in the market.

**Comment and Recommendation 2. Completion Factors Records for the Actuarial Opinion:**

*The NAIC Annual Statement Instructions require an actuary to certify that the reserves are computed in accordance with accepted actuarial principles. The Actuarial Standard of Practice No. 41 (Section 3.6) requires the actuary to create records and other appropriate documentation supporting an actuarial communication, and to take reasonable steps to ensure that this documentation will be retained for a reasonable time and no less than the length of time necessary to comply with any statutory, regulatory, or other requirements. Such documentation should identify data, assumptions, and methods used by the actuary with sufficient clarity that another actuary qualified in the same practice area could evaluate the reasonableness of the actuary's work. The Company was not able to provide adequate documentation for completion factors and actuarial judgment underlying the unpaid claims. See unpaid claims and claim adjustment expenses section of this report for more reserves information.*

*It is recommended the Company keep detailed documentation for the liabilities listed in the statement of actuarial opinion, including detailed calculations to support the statement that the reserves are computed in accordance with the accepted actuarial principles.*

**Company Response:**

The Company respectfully notes that its actuary provided detailed calculations demonstrating how the completion factors were derived. In addition, the Company's actuary provided a description of the items where actuarial judgment is used in determining the required claim reserve. This included consideration to changes in turnaround time and claim processing which may impact the completion factors calculated, examination of cost and utilization trends, provider contracting changes, membership changes, historical seasonal patterns as well as known changes in claim backlogs and catastrophic claims.

Additionally, the Company respectfully requests that in addition to the last sentence of the first paragraph of this comment and recommendation which states "*See unpaid claims and claim adjustment expenses section of this report for more reserves information.*" that a positive statement be added that indicates that amounts estimated and reported by the Company for unpaid claims and unpaid claim adjustment expenses were within a reasonable range and no examination adjustments were recommended. Otherwise without such a positive statement in this section of the Report, an independent reader of the Report focusing on Instructions and Comments and Recommendations might infer there is a deficiency as a result of these comments.

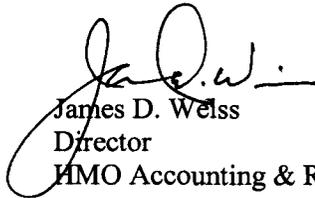
Mr. James T. Odiome, CPA, JD  
April 13, 2006  
Page 4

It is our understanding that this Company response will become part of the public record along with the Final Exam Report.

Finally, we would like to express our appreciation for the professionalism displayed by the examination team during this examination.

Please call me at 215-775-6508 if you have any questions or comments on these responses.

Sincerely,



James D. Weiss  
Director  
HMO Accounting & Reporting

cc: Patrick H. McNaughton, Chief Examiner via email: PatM@OIC.WA.GOV  
Mr. Phillip J. Haas, President  
Ms. Stephenie Ebinger  
Mr. James Gingrich, Actuary