



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

CIGNA HEALTHCARE OF UTAH, INC.

of

Salt Lake City, Utah

as of

December 31, 2007

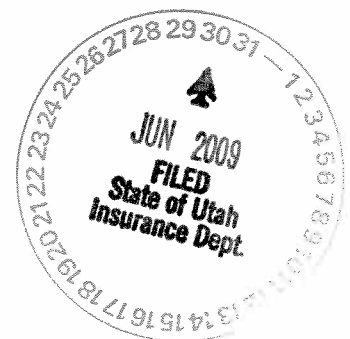


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May 28, 2009

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Morris J. Chaves, Superintendent
Secretary, Western Zone, NAIC
New Mexico Department of Insurance
PO Drawer 1269
Santa Fe, New Mexico 87504-1269

Honorable D. Kent Michie, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, UT 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2007, has been made of the financial condition and business affairs of:

CIGNA HEALTHCARE OF UTAH, INC.
Salt Lake City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2005, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Organization's management at the initiation and conclusion of the examination.

Examination Procedure Employed

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions in accordance with the laws, rules and procedures prescribed by the State of Utah.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process; and included a general review and analysis of the Organization's operations and the manner in which its business was conducted.

The Organization retained the services of a certified public accounting (CPA) firm to audit its financial records for the years under examination. CPA work papers or audit reports were available for examiner review and use and were relied upon as deemed necessary.

A letter of representation obtained from management certified that all significant matters were disclosed and all records were provided for examination.

Status of Prior Examination Findings

Adverse findings noted in the prior report of examination were adequately addressed by the Organization.

HISTORY

General

The Organization was issued a certificate of incorporation under the name of HCA Care of Utah, Inc., by the Office of the Lieutenant Governor of the state of Utah. The certificate was dated January 30, 1985, and authorized the issuance of 1,000 shares of stock at a par value of \$1.00. The Organization commenced business as a health maintenance organization (HMO) on January 1, 1986.

On October 1, 1986, the Organization was acquired by Equicor-Equitable HCA Corporation, a joint venture of Equitable Life Assurance Society of the United States, a New York Mutual Life Insurance Company, and Hospital Corporation of America, a Tennessee corporation.

On March 29, 1990, CIGNA Corporation, the ultimate parent, purchased the Organization. At December 31, 1994, 100% of the Organization's issued and outstanding shares of stock were owned by CIGNA HealthCare Inc. On July 3, 1995, CIGNA HealthCare, Inc. merged with CIGNA Health Corporation. Effective April 1, 1998, CIGNA HealthCare Corporation contributed 100% of the shares of the Organization to its wholly owned subsidiary, Healthsource, Inc., a New Hampshire corporation. Healthsource, Inc. became the sole shareholder of the Organization.

The Organization's articles of incorporation were adopted in January 1985 and amended on June 23, 1987, April 1, 1991, and September 1, 1993, changing the Organization's name to EQUICOR Health Plan of Utah, Inc., CIGNA Healthplan of Utah, Inc. and CIGNA HealthCare of Utah, Inc., respectively. The last amendment made as of June 1996 increased the aggregate number of shares issued to 100,000 shares of common stock with a par value of \$1.00.

Capital Stock

As of December 31, 2007, the Organization had 100,000 shares of common stock, which were authorized, issued and outstanding at a par value of \$1.00. Healthsource, Inc. owns 100% of the issued and outstanding common stock of the Organization. The Organization is ultimately controlled by CIGNA Corporation.

Dividends to Stockholders

The Organization paid dividends of \$1,500,000 to the parent on October 20, 2006. No other dividends were paid during the examination period.

Management

The bylaws of the Organization indicated the number of directors shall be not less than three or more than twelve.

The following persons served as directors of the Organization as of December 31, 2007:

<u>Name</u>	<u>Principal Occupation</u>
David Goldberg	CIGNA Health Corporation, Vice President
James Ke-Cheng Wang, M.D.	CIGNA Healthcare of California, Regional Medical Director
Aslam Mohammad Khan M.D., M.M.	CIGNA Healthcare of Illinois, Inc., Medical Officer

The Organization's bylaws provide for principal officers to consist of a Chairman of the Board, who shall be the Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Treasurer and such officers as the Board of Directors or the Chief Executive Officer may from time to time determine.

The officers of the Organization as of December 31, 2007, were as follows:

<u>Principal Officer</u>	<u>Office</u>
Daryl Wayne Edmonds	President
David Goldberg	Vice President
Edward P. Potanka	Secretary
Scott Ronald Lambert	Treasurer

According to minutes of the meetings of the board of directors, no committees were appointed during the examination period.

Conflict of Interest Procedure

The examination accepts the certification of the corporate audit department of the Organization's ultimate controlling person, CIGNA Corporation, that person's of the Organization submitted conflict of interest statements for review and that no exceptions exist.

Corporate Records

Organization records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors. The minutes contained detailed information about the Organization including current events, officer and governor elections, investment transactions and regulatory issues. The minutes adequately approved and supported the Organization's transactions and events.

The prior examination report as of December 31, 2004 was distributed to the board of directors on July 17, 2006.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Organization during the examination period.

Surplus Debentures

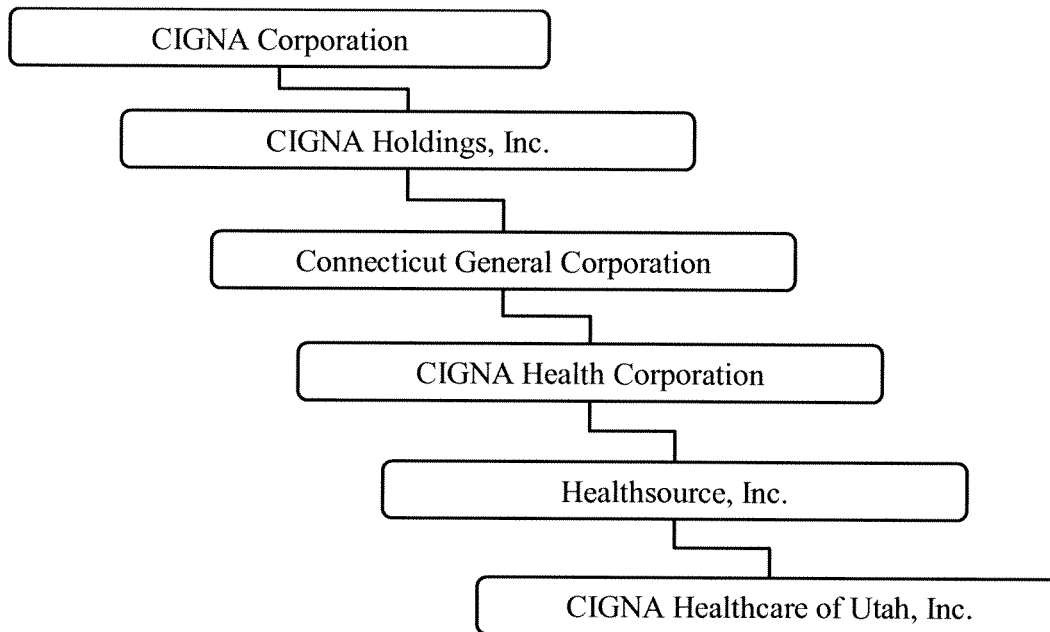
The Organization has one outstanding surplus note in the principal amount of \$6,770,000, with accrued interest of \$3,488,371, due to CIGNA Holdings, Inc. as of December 31, 2007.

Effective August 1, 2000, the Department approved discontinuation of accrued interest on the surplus note. Any repayments made under the surplus note will be applied to the outstanding principal amount and the holder will reduce the amount of accrued interest by an amount equal to the repayment of principal. The reduction of the interest amount by the holder will be an addition to the reduction of principal resulting from repayment and will constitute a forgiveness of that portion of the debt due under the surplus note. The surplus note cannot be amended without the prior written consent of the Utah Insurance Commissioner.

AFFILIATED COMPANIES

The Organization is wholly owned and controlled by CIGNA Corporation, a holding company. CIGNA Corporation and its subsidiaries constitute one of the largest investor-owned health service organizations in the United States.

The following identifies the Organization's relationship within the holding company system:



Transactions with Affiliates

The following identifies the Organization's management and administrative agreements with affiliates, which define and control various aspects of the Organization's transactions and operations:

- Management Services Agreement, effective January 1, 1994, with CIGNA Health Corporation provides management services, premium billing and collection.
- Investment Advisory Agreement, effective March 1, 1995, with TimesSquare Capital Management, Inc. (formerly CIGNA Investments, Inc.), provides investment advisory services.
- Dental Consultation Agreement, effective October 1, 2000, with CIGNA Dental Health, Inc. provides dental consultations with respect to select dental cases.
- CIGNA Health Access Premium Billing Authorization, effective June 1, 1996, with Connecticut General Life Insurance Company, facilitates the use of single premium billing for customers using the CIGNA Health access product.
- Intracorp Service Agreement, effective January 1, 2001, between International Rehabilitation Associates, Inc. and Connecticut General Life Insurance Company, provides the Organization and affiliates with services regarding the Health Information Line and Centralized Transplant Case Management.
- Consolidated Federal Income Tax Agreement, effective January 1, 1997, with CIGNA Corporation, facilitates the filing of consolidated federal income taxes as an affiliated group.

In addition, the Organization maintained the following affiliate provider agreements:

- Network Access Agreement, effective June 12, 2001, with CIGNA Corporation and affiliates, allows participating HMO's to utilize networks of participating providers of other participating HMO's.
- Agreement for Provision of Mental Health and substance abuse, effective January 1, 1990, with CIGNA Behavioral Health, Inc., provides services to participating affiliated health plans.
- Participating Pharmacy Agreement, effective October 1, 1994, with Tel-Drug Inc., and affiliates, provides services to participating affiliated health plans. Effective January 1, 2005, this agreement was superseded and replaced by the Participating Mail Order Pharmacy agreement. This new agreement provides mail order pharmaceutical services to participating enrollees of affiliated health plans.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an HMO of the Organization's size and premium volume is not less than \$100,000. As of the examination date, the Organization participated in fidelity bond coverage of \$25,000,000 through the parent CIGNA Corporation. The Organization also had additional general liability insurance protection.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization had no employees and thus had no employee benefit programs or life and health insurance plans for employees.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$550,000 pursuant to U.C.A. § 31A-8-211(1). The following security was held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Organization.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
Utah	US Treasury Note	\$ 580,000	\$ 586,073

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2007, the Organization provided health care services including basic physician and hospital services, emergency room treatment, mental health and substance abuse treatment, and preventive health and well-baby care.

Underwriting consisted of criteria requirements and eligibility guidelines within the Organization's covered services. The Organization's risk retention limit was \$150,000. The Organization was reimbursed 80% by its affiliate, Connecticut General Life Insurance Company, for risks exceeding the retention limit.

The policy forms issued during the examination period were consistent with Department approved forms.

Territory and Plan of Operation

The Organization is licensed to operate as an HMO in the state of Utah.

Products and services are primarily distributed through independent producers. CIGNA Corporation has a sales employee work force of producers who are appointed in Utah.

Independent of these financial examination proceedings, the Organization made a business decision to exit the Utah HMO market in accordance with U.C.A. § 31A-8-402.3(3)(e). Pursuant to U.C.A. § 31A-4-115 the Organization made a filing of its plan for orderly withdrawal, effective December 31, 2009. The plan for orderly withdrawal was approved by the Department on June 2, 2009.

Advertising and Sales Material

The Organization did not advertise the Utah plan at a local level, and it had no local advertising policy or budget. Advertising consisted of two brochures distributed at health fairs and enrollment meetings.

Treatment of Members

During the examination period, there were no complaints filed with the Department. During the examination period, the examiners encountered no items of concern regarding treatment of policyholders. The Organization demonstrated that it maintains control over policyholder complaints

REINSURANCE

Assumed

The Organization neither maintained nor entered into any assumed reinsurance arrangements during the examination period.

Ceded

As of December 31, 2007, the Organization maintained a ceding agreement with its affiliate Connecticut General Life Insurance Company. This affiliate was authorized to conduct business in the state of Utah. Under provisions contained in the agreement, the Organization was reimbursed 80% of the excess retention limit of \$150,000 for hospital services per member per calendar year.

ACCOUNTS AND RECORDS

The Organization's accounting system was maintained electronically on a general ledger, sub-ledgers, journal registers and other computerized reports created from source documents. Most of the Organization's accounting functions and procedures were maintained on electronic data processing systems, owned and operated by its parent and affiliate companies located at the Organization's office in Bloomfield, Connecticut.

A deficiency identified by the examination relating to accounts and records as follows:

1. As of December 31, 2007, the Organization held its invested securities, pursuant to U.C.A. § 31A-4-108, under a custodial agreement with Wells Fargo Bank, N.A. The agreement did not comply with Utah Administrative Code (U.A.C.) Rule R590-178, because provisions were added to the Rule in 2006.

On January 9, 2009, the Organization revised the custodial agreement to comply with the requirements of U.A.C. Rule R590-178. The Board of Directors approved the agreement on March 17, 2009.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2007

STATEMENT OF REVENUE AND EXPENSES for the Year Ended
December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – 2004 through 2007

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

CIGNA HEALTHCARE OF UTAH, INC.
BALANCE SHEET
as of December 31, 2007

ASSETS

	<u>Net Admitted Assets</u>
Bonds	\$ 2,353,862
Cash and short-term investments	1,492,840
Investment income due and accrued	37,277
Uncollected premiums and agents' balances	228,195
Federal and foreign income tax recoverable and interest thereon	179,884
Rounding	(1)
Total assets	<u><u>\$ 4,292,057</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$ 505,000
Unpaid claims adjustment expenses	11,944
Premiums received in advance	27,379
Net deferred tax liability	1,126,091
Amounts due to parent, subsidiaries and affiliates	235,839
Aggregate write-ins for other liabilities: Commission Payable	10,179
Aggregate write-ins for other liabilities: Credit Balances Due Policy Holders	3,278
Aggregate write-ins for other liabilities: Escheat Payable	948
Total liabilities	<u>1,920,658</u>
Common capital stock	100,000
Gross paid in and contributed surplus	6,225,614
Surplus notes	6,770,000
Unassigned funds (surplus)	(10,724,215)
Total capital and surplus	<u>2,371,399</u>
Total liabilities, capital and surplus	<u><u>\$ 4,292,057</u></u>

CIGNA HEALTHCARE OF UTAH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2007

	Total
Net premium income	\$ 4,161,238
Total revenues	4,161,238
Medical and Hospital:	
Hospital/medical benefits	2,571,592
Other professional services	128,404
Outside referrals	82,669
Emergency room and out-of-area	230,786
Prescription drugs	592,058
Subtotal	3,605,509
Less:	
Net reinsurance recoveries	0
Total medical and hospital	3,605,509
Claims adjustment expenses	186,832
General administrative expenses	509,893
Total underwriting deductions	4,302,234
Net underwriting gain or (loss)	(140,996)
Net investment income earned	189,891
Net realized captial gain (loss)	6
Net investment gains or (losses)	189,897
Net income or (loss) before federal income taxes	48,901
Federal and foreign income taxes incurred	(4,636)
Net income (loss)	\$ 53,537

CIGNA HEALTHCARE OF UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2004 through 2007

	2004	2005	2006	Per Exam 2007
Capital and surplus prior reporting year	\$ 1,920,764	\$ 3,241,514	\$ 3,636,540	\$ 2,316,282
Net income or (loss)	1,246,593	401,667	190,485	53,537
Change in net deferred income tax	(25,485)	(22,135)	(15,988)	6,785
Change in nonadmitted assets	99,642	15,494	5,245	(5,208)
Dividends to stockholders	-	-	(1,500,000)	-
Rounding				3
Net change in capital and surplus	1,320,750	395,026	(1,320,258)	55,117
Capital and surplus end of reporting year	<u>\$ 3,241,514</u>	<u>\$ 3,636,540</u>	<u>\$ 2,316,282</u>	<u>\$ 2,371,399</u>

NOTES TO FINANCIAL STATEMENT

There were no adjustments to the financial statements and it was determined that comments were not necessary.

CAPITAL AND SURPLUS

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$2,371,399, which significantly exceeded the company action level risk-based capital (RBC) requirement of \$323,846.

SUMMARY OF EXAMINATION FINDINGS

As of December 31, 2007, the Organization held its invested securities, pursuant to U.C.A. § 31A-4-108, under a custodial agreement with Wells Fargo Bank, N.A. The custodial agreement did not comply with U.A.C. Rule R590-178.

On January 9, 2009, the Organization revised the custodial agreement to comply with the requirements of U.A.C. Rule R590-178. The Board of Directors approved the agreement on March 17, 2009. (ACCOUNTS AND RECORDS)

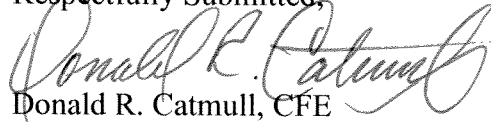
SIGNIFICANT SUBSEQUENT EVENT

Independent of these financial examination proceedings, the Organization made a business decision to exit the Utah HMO market in accordance with U.C.A. § 31A-8-402.3(3)(e). Pursuant to U.C.A. § 31A-4-115 the Organization made a filing of its plan for orderly withdrawal, effective December 31, 2009. The plan for orderly withdrawal was approved by the Department on June 2, 2009. (INSURANCE PRODUCTS AND RELATED PRACTICES-Territory and Plan of Operation)

ACKNOWLEDGEMENT

Walter C. Marsh, FSA, MAAA, of the actuarial firm of Marsh Actuarial Consulting, Inc. performed the actuarial phases of the examination. David Flores, CPA, CFE (fraud) and Teresa Trusty, APIR, participated in the examination representing the Utah Insurance Department. Colette M. Hogan Sawyer, CFE, Assistant Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Donald R. Catmull". The signature is written in black ink and is positioned above the printed name and title.

Donald R. Catmull, CFE
Utah Insurance Department