



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

ALTIUS HEALTH PLANS, INC.

of

South Jordan, Utah

as of

December 31, 2012



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January 31, 2014

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2012, has been made of the financial condition and business affairs of:

ALTIUS HEALTH PLANS, INC.
South Jordan, 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 last exam was completed as of December 31, 2009. The current examination covers the period from January 1, 2010 through December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (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 when applicable to domestic state regulations.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

There was no outstanding issue from the prior examination.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Issues discovered during the course of this examination that are not considered to be material weaknesses were presented to management, in a Management Letter, for their consideration.

Items of significance commented on in this report are summarized below:

The Organization's custodial agreements with Wells Fargo Bank, N.A. was not in compliance with Utah Administrative Code (U.A.C.) R590-178.

Upon receipt of our finding, the Organization re-executed a compliant agreement with Wells Fargo Bank, N.A.

SUBSEQUENT EVENTS

On May 7, 2013, Coventry Health Care, Inc. (Coventry) was acquired by Aetna Inc. (Aetna), making Aetna the ultimate controlling entity of the Organization.

Subsequent to the acquisition, the Organization changed its external audit firm from Earnst & Young LLP to KPMG LLP. The Organization also changed its investment custodian from Citibank, N.A. to State Street Bank and Trust Company.

ORGANIZATION HISTORY

General

On July 1, 1987, the Organization was incorporated under the laws of Utah as FHP of Utah, Inc., a wholly owned subsidiary of FHP, Inc.

In March 1997, PacifiCare Health Systems, Inc. (PHSI) acquired FHP, Inc., making PHSI the ultimate controlling entity of the Organization. After the acquisition, PHSI changed the Organization's name to PacifiCare of Utah, Inc.

In September 1998, the Organization was bought out by Elan Health Partners LLC, a Utah limited liability Organization.

On September 1, 2003, Coventry Health Care, Inc. purchased 100 percent of the Organization's preferred and common stock. Coventry was the ultimate controlling entity of the Organization throughout the examination period.

Dividends and Capital Contributions

The Organization did not receive any capital contributions during this examination period.

The Organization declared and issued the following dividends to Coventry:

2010	\$ 5,208,281
2011	14,000,000
2012	12,000,000
2013	8,000,000
Total:	<u>\$ 39,208,281</u>

Mergers and Acquisitions

On May 7, 2013, Aetna acquired Coventry and all of its subsidiaries, including the Organization.

CORPORATE RECORDS

The previous examination report as of December 31, 2009, was filed as a public document on March 16, 2011.

During the period covered by this examination, directors and officers of the Organization appropriately completed conflict of interest statements. The minutes of the Board of Directors indicate the Organization operates within the scope of its authority. The minutes also showed appropriate and active involvement of the Board of Directors and management in the business affairs of the Organization.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Organization's bylaws do not indicate a specific number of directors, however it is noted that the number is in compliance with Utah Code Annotated (U.C.A.) § 31A (5).

The following persons served as directors of the Organization as of December 31, 2012:

Name and Location	Principal Occupation
Michael D. Bahr, Chairman Rockville, Maryland	Executive Vice President Coventry Health Care, Inc.
Thomas A. Davis Atlanta, Georgia	President & Chief Executive Officer Coventry Health Care of Georgia, Inc.
Todd D. Trettin Salt Lake City, Utah	President & Chief Executive Officer Altius Health Plans, Inc.

Subsequent to the acquisition, Mr. Bahr and Mr. Davis resigned. Two new board members were elected to replace them.

The following persons served as directors of the Organization subsequent to the examination date:

Name and Location	Principal Occupation
Charles R. Stark, Chairman Phoenix, Arizona	Vice President Western Region of Aetna Inc.
Dennis T. Harston South Jordan, Utah	Vice President of Medical Affairs Altius Health Plans, Inc.
Todd D. Trettin Salt Lake City, Utah	President & Chief Executive Officer Altius Health Plans, Inc.

Officers as of December 31, 2012, were as follows:

Name	Title
Todd D. Trettin	President & Chief Executive Officer
Brett R. Clay	Chief Financial Officer & Treasurer
Shirley R. Smith	Secretary
John J. Ruhlmann	Corporate Controller
Jonathan D. Weinberg	Assistant Secretary
Melinda L. Tuozzo	Assistant Treasurer
Isaac M. Christensen	Actuary

The acquisition did not result in a significant change of the principle officers.

All committees are at the parent company level; the Organization did not have its own committees.

The following members served on the Audit Committee as of December 31, 2012:

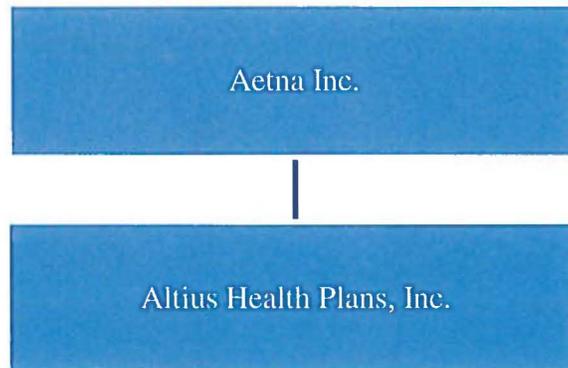
Audit Committee
Lawrence N. Kugelman, Chair
L. Dale Crandall
Elizabeth E. Tallett

Holding Company

As of the examination date, the Organization was a wholly owned subsidiary of Coventry Health Care, Inc. The following chart summarizes the organization structure.



Subsequent to the examination, the Organization became a wholly owned subsidiary of Aetna Inc. due to Aetna’s acquisition of Coventry and all of its subsidiaries. The following chart summarizes the organization structure.



FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity insurance recommended by the NAIC for the Organization size is between \$1,000,000 and \$1,250,000. As of the examination date, the Organization had fidelity insurance coverage with an aggregate limit of liability of \$20,000,000 with CHC Casualty Risk Retention Group.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization’s employees are eligible to participate in a 401(k) defined contribution plan sponsored by Coventry. Employees become eligible to participate upon their first day of employment. Subject to certain limitations, employees may contribute 75 percent of their salary which the Organization matches at a rate of 100 percent up to the first three percent, and fifty percent of the next three percent to a maximum of 4.5

percent of their total salary. The Organization contributed \$376,892, \$322,752, and \$343,063 to the 401(k) plan in 2012, 2011, and 2010, respectively.

TERRITORY AND PLAN OF OPERATION

As of the examination date, the Organization is licensed as a health maintenance organization (HMO) in Utah, Nevada, and Wyoming, and as a managed care organization in Idaho. The Organization is also licensed as a third party administrator in Nevada. As an HMO, the Organization furnished health care services to enrollees through arrangements with providers, in return for prepaid periodic payments.

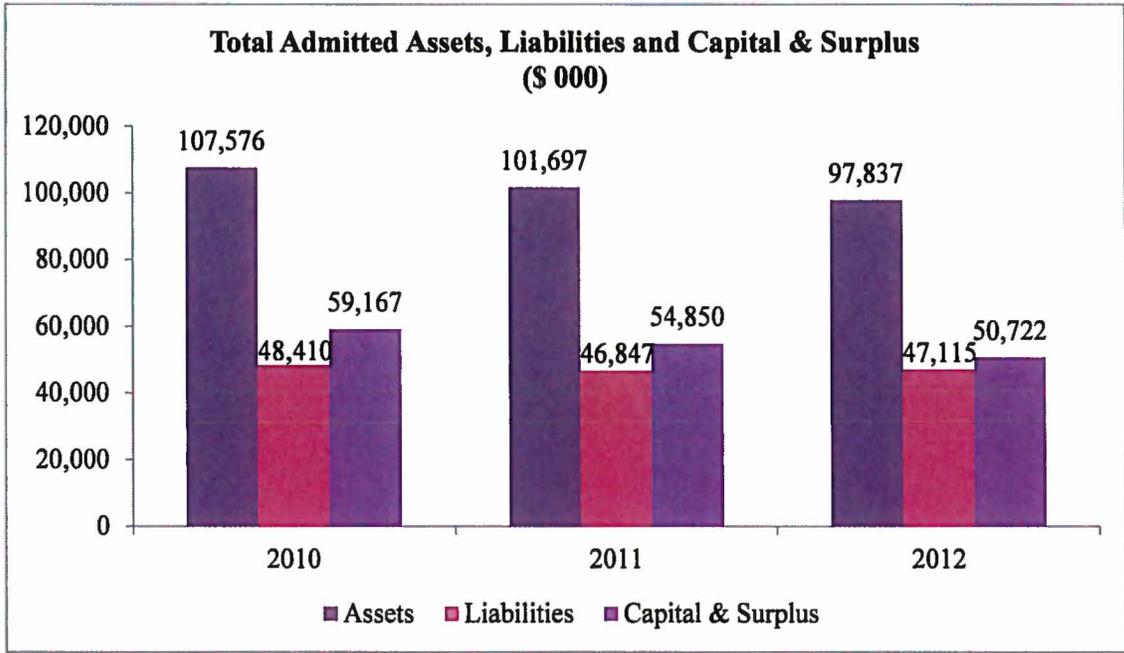
The Organization offers employer group and individual products. Options are available for members under several types of products. In general, these options are: (1) gatekeeper product in which members have to choose a primary care physician, (2) open access in which members are not required to choose a primary care physician, (3) open access where members are required to choose a primary care physician, and (4) an open access high deductible health plan in which members are not required to choose a primary care physician.

The Organization also administers the Federal Employees Health Benefit Plan and various self-funded groups, with sales territories and services areas residing in the States of Idaho, Nevada, Utah, and Wyoming.

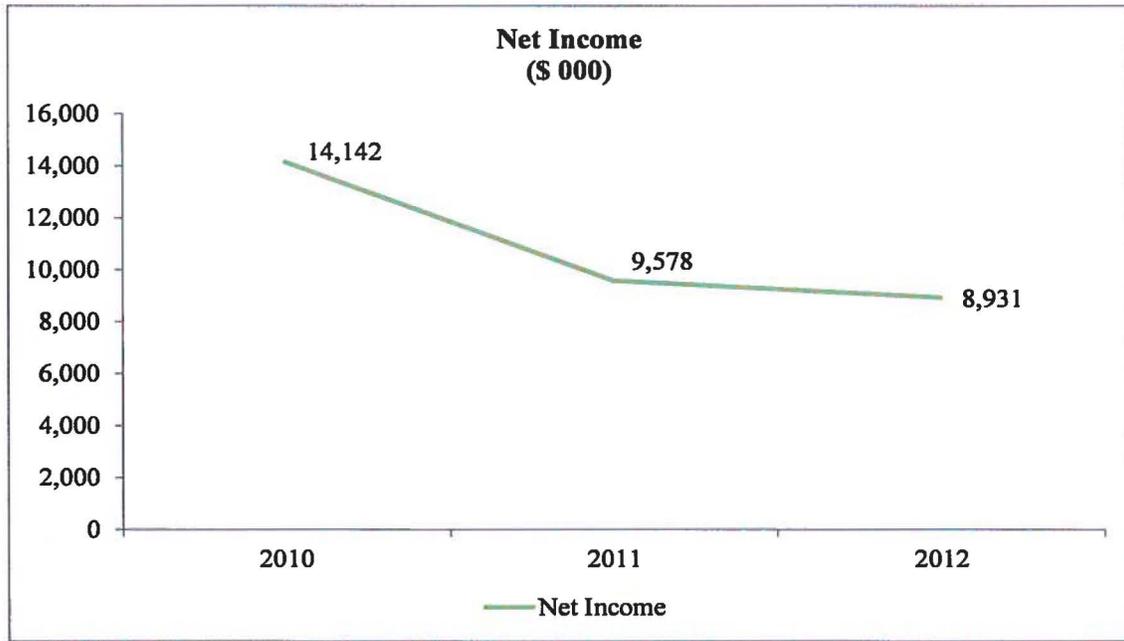
The main method of marketing is through brokers and agents with very little use of advertising. The Organization uses the following types of sales materials; magazines and trade publications, telephone directories, sports sponsorships, limited internet banner ads, internet link from employer's websites to the Organization's website, community activities, sales representation slides, and enrollment season mailing kits. In 2012, the Organization focused on electronic media and improved its web-site accessibility for its members and the community at large. This equated to significant savings on printing and postage costs. In addition, the Organization recently launched a Facebook social media account.

GROWTH OF ORGANIZATION

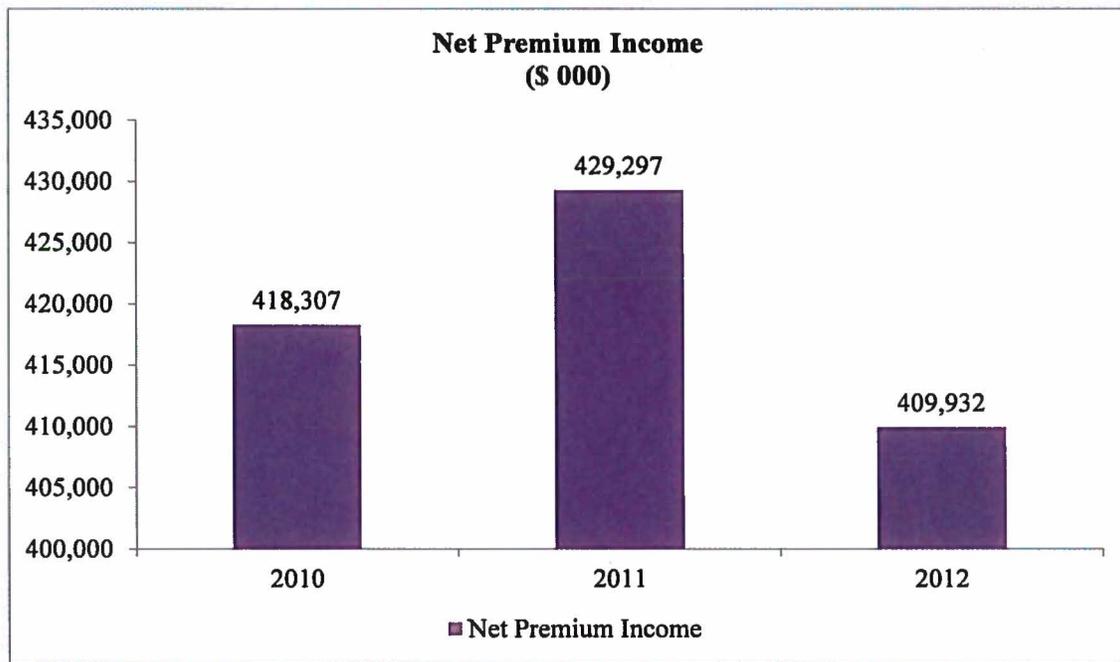
The Organization's admitted assets decreased at approximately four to five percent each year over the three year period of this exam. The decrease in assets corresponds with the decrease in capital & surplus, which was the result of dividends paid to Coventry.



The Organization's net income also decreased throughout the period of the examination as reflected in the graph below.



Net premium income fluctuated from year to year, a reflection of the economic recession and the slow recovery.



MORTALITY AND LOSS EXPERIENCE

The Organization primarily provides prepaid medical coverage for employer groups and individuals policyholders in Idaho, Utah, and Wyoming, as well as Medicare Advantage in Utah, and Wyoming. Loss ratios for hospital and medical claims have been very stable in aggregate over the last five years ranging from a low of 82.5 percent to a high of 85.4 percent.

Reserves for unpaid claims are estimated using claim lag methods for major portions of these reserves. Follow-up studies and re-cast reserves indicate that these methods have generally produced conservative reserves with redundancies ranging from 2.9 percent to 21.1 percent over the last four years.

REINSURANCE

During the examination period, the Organization had an Excess Risk Reinsurance Agreement (Agreement) with Coventry Health and Life Insurance Company (CHLIC). The Organization and CHLIC are wholly owned subsidiaries of Coventry Health Care, Inc.

The Agreement provides that the deductible amount for eligible charges be \$250,000 for each member. CHLIC will then reinsure ninety percent of each member's

eligible charges in excess of the deductible amount. The maximum reinsurance coverage payable under the Agreement for eligible charges as to any one member shall be \$1,000,000.

ACCOUNTS AND RECORDS

The Organization’s accounts and records consisted of a general ledger, registers and other subsidiary records, which were maintained electronically. An examination trial balance was prepared from the Organization’s computerized general ledger. Account balances were traced to the annual statement exhibits and schedules. Individual material account balances for the examination period were examined as deemed necessary.

Earnst & Young LLP, an independent certified public accounting (CPA) firm, audited the Organization’s records during the period covered by this examination. Audit reports and work-papers prepared by the CPA were made available for the examiners’ use.

STATUTORY DEPOSITS

As of the examination date, the Organization’s statutory deposit requirement was \$4,199,316, pursuant to U.C.A § 31A-8-211. The amount of the Organization’s statutory deposit held in the State of Utah is confirmed to be adequate.

Deposits maintained for the benefit of all policyholders as of December 31, 2012 were as follows:

State	Description	Par Value	MKT Value
Utah	U.S. Treasury Note	\$3,185,000	\$3,186,497
	U.S. Treasury Note	367,000	367,202
	U.S. Treasury Note	350,000	350,970
	U.S. Treasury Note	100,000	100,059
	U.S. Treasury Note	390,000	390,168
	FDIC Wells Fargo	1,000	1,000
Total:		\$4,393,000	\$4,395,896

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization’s accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

ALTIUS HEALTH PLANS, INC.

ASSETS

as of December 31, 2012

	<u>Net Admitted Assets</u>
Bonds	\$ 87,654,138
Preferred stocks	0
Common stocks	0
Mortgage loans on real estate	0
Cash and short-term investments	<u>(2,742,354)</u>
Subtotal cash and invested assets	84,911,784
Investment income due and accrued	856,718
Uncollected premiums and agents balances	6,506,638
Accrued retrospective premiums	1,366,301
Amounts recoverable from reinsurers	13,467
Amounts receivable relating to uninsured plans	148,124
Current federal and foreign income tax recoverable	2,023,250
Net deferred tax asset	1,524,192
Receivables from parent, subsidiaries and affiliates	430,180
Health care and other amounts receivables	532
Aggregate write-ins for other than invested assets	55,693
Total assets	<u>\$ 97,836,879</u>

ALTIUS HEALTH PLANS, INC.
LIABILITIES, CAPITAL AND SURPLUS
as of December 31, 2012

		Current Year
LIABILITIES		
Claims unpaid	\$	34,511,496
Accrued medical incentive pool and bonus amounts		1,132,452
Unpaid claims adjustment expenses		635,582
Aggregate health policy reserves		2,290,653
Premiums received in advance		2,270,719
General expenses due or accrued		4,393,769
Amounts withheld or retained for the account of others		18,634
Remittances and items not allocated		434,746
Amounts due to parent, subsidiaries and affiliates		678,220
Liability for amounts held under insured plans		730,992
Aggregate write-ins for other liabilities		18,111
Total liabilities		47,115,374
 CAPITAL AND SURPLUS		
Common capital stock		3,509,000
Gross paid in and contributed surplus		36,572,042
Unassigned funds (surplus)		10,640,463
Total capital and surplus		50,721,505
Total liabilities, capital and surplus	\$	97,836,879

ALTIUS HEALTH PLANS, INC.
STATEMENT OF REVENUE AND EXPENSES
as of December 31, 2012

	Current Year
Net premium income	\$ <u>409,931,564</u>
Total revenues	409,931,564
Hospital and medical benefits	295,539,847
Other professional services	1,241,316
Emergency room and out-of-area	3,556,638
Prescription drugs	48,421,088
Incentive pool, withhold adjustments and bonus amounts	<u>985,875</u>
Subtotals	349,744,764
Less: Net reinsurance recoveries	<u>1,627,533</u>
Total hospital and medical	348,117,231
Claims adjustment expenses	18,143,592
General administrative expenses	<u>37,456,462</u>
Total underwriting deductions	403,717,285
Net underwriting gain (loss)	6,214,279
Net investment gains (losses)	3,909,808
Net gain (loss) from agents' or premium balances charged off	(61,143)
Aggregate write-ins for other income or expenses	<u>17,722</u>
Net income (loss) before all other federal income taxes	10,080,666
Federal and foreign income taxes incurred	<u>1,149,797</u>
Net income (loss)	\$ <u><u>8,930,869</u></u>

ALTIUS HEALTH PLANS, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2010 through 2012

	2010	2011	2012
Capital and surplus prior reporting year	\$ <u>50,087,099</u>	\$ <u>59,166,669</u>	\$ <u>54,850,401</u>
Net income or (loss)	14,141,719	9,577,826	8,930,869
Change in net deferred income tax	(4,637)	239,709	331,323
Change in non-admitted assets	150,769	(133,800)	(1,391,088)
Dividends to stockholders	<u>(5,208,281)</u>	<u>(14,000,000)</u>	<u>(12,000,000)</u>
Net change in capital and surplus	<u>9,079,570</u>	<u>(4,316,268)</u>	<u>(4,128,896)</u>
Capital and surplus, current year	\$ <u><u>59,166,669</u></u>	\$ <u><u>54,850,401</u></u>	\$ <u><u>50,721,505</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Capital and surplus

\$50,721,505

The Organization's capital and surplus was determined to be the same as that reported in the Organization's annual statement as of December 31, 2012. The capital and surplus significantly exceeded the authorized control level risk-based capital of \$14,490,378. No financial adjustments were determined necessary for examination purposes.

ACKNOWLEDGEMENT

Mike Presley, FSA, MAAA, of AGI Services, performed the actuarial review of the examination. Donald Catmull, CFE, Assistant Chief Examiner, supervised the examination. In addition, Sheri Kenney, CFE, formerly of Highland Clark, LLC, Tracy Gates, CISA, CFE, CPA, of Highland Clark, LLC, and Cory Starley, Financial Examiner, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Organization.

Respectfully Submitted,



Malis Rasmussen, CFE, SPIR
Examiner-in-Charge
Utah Insurance Department