

EXAMINATION REPORT OF  
AETNA HEALTH OF IOWA INC.  
URBANDALE, IOWA  
AS OF DECEMBER 31, 2020

Urbandale, Iowa  
April 28, 2022

HONORABLE DOUG OMMEN  
Insurance Commissioner  
State of Iowa  
Des Moines, Iowa

Commissioner Ommen:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

AETNA HEALTH OF IOWA INC.

UBANDALE, IOWA

AS OF DECEMBER 31, 2020

at its statutory home office located at 4320 NW 114<sup>th</sup> Street, Urbandale, Iowa.

#### INTRODUCTION

Aetna Health of Iowa Inc., hereinafter referred to as the “Company”, was last examined as of December 31, 2015.

#### SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the period from January 1, 2016 to the close of business on December 31, 2020, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted 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, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

## HISTORY

The Company was incorporated February 7, 1985 under the name HMO Iowa, Inc., under the laws of Iowa. An amendment to the articles of incorporation dated August 31, 1993 changed the name of the Company to Principal Health Care of Iowa, Inc. Another amendment to the articles of incorporation dated November 3, 1999 changed the name of the Company to Coventry Health Care of Iowa, Inc. Another amendment to the articles of incorporation dated July 1, 2015 changed the name to Aetna Health Inc. A final amendment to the articles of incorporation dated February 1, 2016 changed the name to its current title, Aetna Health of Iowa Inc.

Aetna Health of Iowa Inc. is a wholly owned subsidiary of Aetna Health Holdings, LLC, whose ultimate parent is CVS Health Corporation, who acquired Aetna in November 2018.

The Company is a health maintenance organization (“HMO”). The Company was formed to manage and insure the health care benefits of subscribers under employee benefit plans in the private and public sectors. Services are typically provided under one-year contracts with employers under which the Company will insure the health benefits of employees who select HMO coverage. The HMO members also receive services under the standard contract, which includes utilization management, network management and claims services. As of 2020, the Company’s focus has been in the Medicare market.

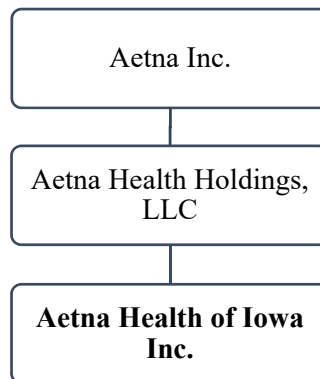
## CAPITAL STOCK AND DIVIDENDS

The Amended Articles of Incorporation provide that the number of shares authorized is one million (1,000,000) shares, all of which shall be common stock and shall have a \$5.00 par value. On December 31, 2020, the Company had 253,567 shares of common stock issued and outstanding with a total stated value of \$1,267,835, and \$27,901,617 of gross paid in and contributed surplus. The Company’s parent, Aetna Health Holdings, LLC, owns 100% of the stock issued by the Company.

During the exam period, the Company paid an ordinary dividend of \$4,200,000 to its shareholder in 2020.

## HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Chapter 521A, Code of Iowa. A simplified organizational chart as of December 31, 2020, reflecting the ultimate parent and holding company system, is shown below.



## MANAGEMENT AND CONTROL

### SHAREHOLDERS

The Bylaws of the Company state that the annual meeting of the shareholders shall be held during the first six months of each year. At each such meeting the shareholders shall elect a Board of Directors and transact such other business as may properly be brought before the meeting.

Special meetings of the shareholders may be called by the Board, the Chairman, and the President or by the holders of not less than a majority of all of the outstanding shares of the Company entitled to vote at the meeting.

The Board of Directors may designate any place, either within or without the State of Iowa, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting be otherwise called, the place of the meeting shall be the registered office of the corporation.

Written notice stating the place, day, and hour of the meeting, and in the case of a special meeting, the purpose, or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the president, or the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting.

### BOARD OF DIRECTORS

The Bylaws state that the business and the affairs of the Company shall be managed under the direction of its Board of Directors. The Board of Directors may authorize any officer or officers, agent, or agents, to enter into any contract or execute and delivery any instrument in the name of and on behalf of the Company, and such authority may be general or confined to specific instances.

The number of directors which shall consist of not less than three and not more than fifteen directors, the number to be determined from time to time by a majority of the entire Board of Directors. Not less than thirty percent (30%) of the members of the board of directors shall be enrollees of Aetna Health of Iowa Inc. These enrollee members shall not be providers or be associated with providers of health care services. The directors shall be chosen by election by a majority of votes cast at such election by or on behalf of any shareholder present or represented at the annual meeting. Each Director shall hold office until the next annual meeting of the shareholders or until a successor shall have been duly elected and qualified or until his or her earlier death, resignation or removal. Directors need not be residents of the State of Iowa or shareholders of the Company.

The Board of Directors may at any meeting elect from its number a Chairman of the Board to serve at the pleasure of the Board. The Chairman of the Board shall, if present, preside at meetings of the Board of Directors and shareholders.

A regular meeting of the Board of Directors shall be held without other notice, immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place, whether within or without the State of Iowa, for the holding of additional regular meetings without other notice than such resolution.

Special meetings of the Board of Directors may be called at the request of the Chairman, the President or any two (2) of the directors. The person or persons authorized to call special meetings of the Board of

Directors may fix any place within or without the State of Iowa for holding any special meetings of the Board of Directors.

A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Any action required or permitted to be taken by the Board of Directors at a meeting or by resolution, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors entitled to vote with respect to the subject matter thereof.

Elected directors on December 31, 2020 were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
James B. Boyman West Hollywood, California	Vice President, Market President CVS Health Corporation	2021
James D. Christensen Ankeny, Iowa	Controller Karl Chevrolet, Inc.	2021
Richard N. Sloma Des Moines, Iowa	Executive Director, Medicare General Manager & Coach CVS Health Corporation	2021

#### COMMITTEES

The Board of Directors may designate two or more directors to constitute an executive committee, which committee shall have and may exercise, when the Board of Directors is not in session, the powers of the Board of Directors in the management of the business and affairs of the Company, except action in respect to dividends to shareholders, the filling of vacancies in the Board of Directors or the committee created pursuant to this section, or amending the Bylaws. Other committees of the Board of Directors or of the Company may be appointed and their respective functions and duties prescribed from time to time by the Chairman, subject, except ad hoc committees, to the approval of the Board.

The Company does not have any committees. All committees are at the parent, Aetna Health Holdings, LLC.

#### OFFICERS

The Bylaws prescribe that the officers of the Corporation shall be a President, a Secretary, a Treasurer and any such other officers, assistant officers and acting officers as may be deemed necessary. Any two or more offices may be held by the same person.

The following officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders: the President, the Treasurer, and the Corporate Secretary. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. The remaining officers of the Company shall be elected either by the Board of Directors in the manner described above or by a Management Resources Committee and approved by the Board of Directors at its first meeting held after each annual meeting of shareholders. Each officer shall hold office until a successor shall have been duly elected and shall have qualified or until the officer's death, resignation or removal in the manner hereinafter provided.

Elected Officers serving as of December 31, 2020 were as follows:

<u>Name</u>	<u>Title</u>
Christopher A. Ciano	Senior Vice President, CEO of Medicare
James B. Boyman	President
Tracy L. Smith	Vice President and Treasurer
Edward C. Lee	Vice President and Secretary
David H. Reinecke	Chief Financial Officer
Kevin J. Casey	Senior Investment Officer
Robert J. Parslow	Corporate Controller
Frank F. Chronister III	Assistant Controller
Peter Keller	Assistant Controller
Bryan J. Lane	Assistant Controller
Whitney D. Nazarko	Assistant Controller

The Company does not directly pay the salary of officers as they are not employees of the Company.

#### CONFLICT OF INTEREST STATEMENTS

The Company has a Conflict of Interest policy that requires certain colleagues to sign an annual conflict of interest certification. Examiners reviewed the Company's process.

#### CORPORATE RECORDS

The unanimous written consent of the shareholder and Board of Directors meetings were reviewed for the period under examination. The unanimous written consents of the Board adequately documented its meetings and approval of Company transactions and events.

The Board minutes did not document the receipt or approval of the prior exam report dated as of December 31, 2015 as required by Iowa law. It was subsequently corrected when the Board executed a written board consent dated August 19, 2021 acknowledging the receipt and approval of the prior exam report.

Effective February 1, 2016, the Company ratified the amended the Articles of Incorporation and Bylaws. The Articles of Incorporation and Bylaws have been filed with the Iowa Insurance Division as required by Iowa Code Section 514B.3A.

#### AFFILIATED AGREEMENTS

The following agreements are in effect between the Company and its affiliates:

The Company and Aetna Health Management, LLC ("AHM") are parties to an administrative services agreement, under which AHM provides certain administrative services, including accounting and

processing of premiums and claims. Under this agreement, the Company remits a percentage of its earned commercial and Medicare premium revenue to AHM as a fee.

The Company is a party to an agreement which enables the Company to receive manufacturers' pharmacy rebates from AHM under which the Company remits a percentage of its earned pharmaceutical rebates to AHM as a fee.

Aetna Inc., and its wholly owned subsidiaries are included in the consolidated federal income tax return of its ultimate parent company, CVS Health, pursuant to the terms of a tax sharing agreement. All federal income tax receivables/payables are due from/due to CVS Health.

The Company has a Management Services & Global Capitation Network Agreement with Group Dental Services, Inc. to administer coverage for Medicare Advantage, self-funded group, and individual plans that enroll for dental business. The agreement was effective as of January 1, 2009.

The Company was a party to an agreement with Coventry Prescription Management Services, Inc. (CPMS). For the Company's commercial business, CPMS paid pharmacy claims on the Company's behalf. The agreement was effective as of January 1, 2011 and was terminated on January 1, 2018.

The agreement with MHNNet Specialty Services, L.L.C. (MHNNet), a related party, that provided mental health services to the Company's members was terminated on December 1, 2020.

#### FIDELITY BONDS AND OTHER INSURANCE

The Company's ultimate parent, CVS Health Corporation, maintains fidelity bond coverage up to \$60,000,000, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC.

#### EMPLOYEES' WELFARE

The Company does not have direct employees.

#### REINSURANCE

##### Ceded

Health Care Reform established a temporary three-year reinsurance program that expired at the end of 2016, under which all issuers of major medical commercial insurance products and self-insurance plan sponsors are required to contribute funding in amounts set by the U.W. Department of Health and Human Services ("HHS"). A portion of the funds collected will be utilized to reimburse issuers' high claims costs incurred for qualified individual members. The expense related to this required funding is reflected in insurance, taxes, license, and fees for all of the Company's insurance products with the exception of products associated with qualified individual members; this expense for qualified individual members is reflected as a reduction of premium revenue. When annual claim costs incurred by the Company's qualified individual members exceed premium revenue. When annual claim costs incurred by the Company's qualified individual members exceed a specified attachment point, the Company is entitled to certain reimbursements from this program. The Company records amounts recoverable for claims paid and unpaid and ceded claim benefit recoveries to reflect its estimate of these recoveries.

Effective March 1, 2016, the Company participates in a quota share reinsurance agreement with Fresenius Medical Care Reinsurance Company (Cayman) Ltd. Reinsurance coverage is for ESRD (End Stage Renal Disease) program participants receiving treatment at a participating Fresenius center. The

agreement provides for the Company to be reimbursed 100% for eligible expenses under the Medicare Advantage Plans.

#### STATUTORY DEPOSIT

As of December 31, 2020, the Company is not required to hold any special deposits by the State of Iowa.

#### TERRITORY AND PLAN OF OPERATION

The Company is licensed in Iowa and is authorized to transact health maintenance organization insurance. In 2020, the Company began writing dual eligible special needs plan (“DSPN”) business. A DSPN is a Medicare Advantage coordinated care plan specifically designed to enroll individuals who are entitled to both Medicare and medical assistance from a state plan under Medicaid.

#### ACCOUNTS AND RECORDS

The Company’s accounting records were maintained on a computerized system. The Company’s balance sheet accounts were verified with the line items of the annual statement submitted to the Division of Insurance.

During the course of the examination, no material statutory compliance issues were noted, nor aggregate surplus differences identified from the amount reflected in the financial statements, as presented in the annual statement on December 31, 2020.

#### SUBSEQUENT EVENTS

##### COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.



FINANCIAL STATEMENTS  
AND COMMENTS THEREON

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2020 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 33,922,548		\$ 33,922,548
Cash & cash equivalents	22,770,456		22,770,456
Investment income due and accrued	290,452		290,452
Premiums and considerations:			
Uncollected premium	77,940	2,198	75,742
Accrued retrospective premium	583,498		583,498
Amounts receivable relating to uninsured plans	1,395,413		1,395,413
Net deferred tax asset	115,273	41,116	74,157
Health care receivables	457,115		457,115
Aggregate write-ins :			
Recoverable state premium taxes	56,106		56,106
Guaranty fund assessments	82,877		82,877
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Total Assets	\$ 59,751,678	\$ 43,314	\$ 59,708,364

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$ 4,006,085
Accrued medical incentive pool and bonus amounts	39,722
Unpaid claims adjustment expenses	53,628
Aggregate health policy reserves	5,500,830
Aggregate health claim reserves	690
Premiums received in advance	50,142
General expenses due or accrued	180,974
Current federal and foreign income tax payable	1,720,001
Amounts withheld or retained for the account of others	2,843
Remittances and items not allocated	22,067
Amounts due parent and affiliates	1,054,971
Payable for securities	250,000
Funds held under reinsurance treaties	12,601
Aggregate write-ins - Abandoned property liability	<u>4,017</u>
 Total Liabilities	 <u>\$ 12,898,571</u>
 Common capital stock	 \$ 1,267,835
Gross paid in and contributed surplus	27,901,617
Unassigned funds (surplus)	<u>17,640,341</u>
 Total capital and surplus	 <u>\$ 46,809,793</u>
 Total liabilities, capital and surplus	 <u>\$ 59,708,364</u>

STATEMENT OF REVENUE AND EXPENSES

<u>Member Months</u>		<u>20,175</u>
<u>Revenues</u>		
Net premium income		\$ 31,627,791
Change in unearned premium reserves		<u>240,680</u>
Total revenues		\$ 31,868,471
<u>Hospital and Medical</u>		
Hospital/medical benefits	\$ 14,620,300	
Other professional services	2,216,880	
Outside referrals	598,396	
Emergency room and out-of area	1,232,480	
Prescription drugs	3,107,565	
Incentive pool, withhold adjustments and bonus amounts	(3,143,120)	
<u>Less</u>		
Net reinsurance recoveries	98,368	
Claim adjustment expenses	553,587	
General administrative expenses	3,392,399	
Increase in reserves for life and accident and health contracts	<u>(80,450)</u>	
Total underwriting deductions		<u>22,399,667</u>
Net underwriting gain		\$ 9,468,804
Net investment income earned	\$ 864,802	
Net realized capital gains	<u>1,186</u>	
Net investment gains		865,988
Net income after capital gains tax and before all other federal income taxes		\$10,334,792
Federal income taxes incurred		<u>1,987,612</u>
Net income		<u>\$ 8,347,180</u>

CAPITAL & SURPLUS ACCOUNT

Capital and surplus prior reporting year	<u>\$ 42,633,508</u>
<u>Gains and (losses) in surplus</u>	
Net Income	8,347,180
Change in net deferred income tax	(108,122)
Change in nonadmitted assets	137,227
Dividends to stockholders	<u>(4,200,000)</u>
Net change in capital and surplus	<u>\$ 4,176,285</u>
Capital and surplus end of reporting period	<u>\$ 46,809,793</u>



CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, the following participated in the examination: James Menck, CFE, Eide Bailly LLP.

Respectfully submitted,

/s/ Michael Nadeau  
Michael Nadeau, CFE  
Examiner in Charge  
Eide Bailly LLP on behalf of the  
Iowa Insurance Division

/s/ Daniel Mathis  
Daniel Mathis, CFE  
Chief Examiner  
Iowa Insurance Division  
State of Iowa