REPORT OF MEDICAL LOSS RATIO EXAMINATION

OF THE

AETNA LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

Dave Jones

Insurance Commissioner

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Los Angeles, California
March 5, 2014

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, a Medical Loss Ratio examination was made of the

Aetna Life Insurance Company

(hereinafter also referred to as the Company) at its main administrative office located at 151 Farmington Avenue, Hartford, Connecticut 06156.

SCOPE OF EXAMINATION

We have performed a Medical Loss Ratio (MLR) examination of Aetna Life Insurance Company to determine compliance with California Insurance Code (CIC) Section 10112.25 related to minimum MLR requirements. CIC Section 10112.25 grants the Insurance Commissioner authority to adopt regulations to implement the medical loss ratio as described under Section 2718 of the federal Public Health Service Act, which authorizes the U.S. Code of Federal Regulation CFR Title 45 (45 CFR) – Public Welfare Part 158 to be implemented. This examination covers the twelve months ending December 31, 2011.

We examined the MLR Annual Reporting Form as completed by the Company and submitted to the U.S. Department of Health & Human Services (HHS) for the 2011 MLR reporting year, to ensure the validity of the underlying data, accuracy of the calculation, and accuracy and timeliness of the rebate payments made and reported in compliance with 45 CFR Part 158. 45 CFR §158.403(a)(2) permits the HHS to accept the State's audit provided it, amongst other things, reports on the validity of the data regarding expenses and premiums that the issuer reported to the Secretary of HHS, including the appropriateness of the allocations of expenses used in such reporting and whether the activities associated with the issuer's reported expenditures for quality-improving activities meet the definition of such activities. 45 CFR §158.403(a)(3) further permits the HHS to accept the State's audit provided it also, amongst other things, reports on the accuracy of rebate calculations and the timeliness and accuracy of rebate payments.

Although the Company is licensed to write accident and health business in multiple states, the MLR examination of the Company is limited only to business written in California and does not include business written in other states where the Company is required to submit an MLR Annual Reporting Form to the HHS.

OWNERSHIP

The Company, domiciled in the state of Connecticut, is a wholly-owned subsidiary of Aetna Inc., a publicly traded insurance holding company.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and accident and health insurance in all 50 states and the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands and Canada. Operations are conducted within three business segments: health care, group insurance, and large case pensions.

The health care segment, which contributes the bulk of the company's revenue stream, consists of medical, pharmacy benefits management, dental, behavioral health, and vision plans. Medical products include point of service (POS), preferred provider organization (PPO), indemnity benefit, and health savings account plans. In addition, the Company offers Medicare Advantage plans on a PPO basis, Medicare Part D Prescription Drug Programs to individuals and employer groups, and private fee-for-service Medicare plans.

The direct written premiums in 2011 which were subject to the California MLR calculation totaled $1.9 billion. The total includes an upward manual adjustment in the amount of $23.6 million which was necessitated to correct noted situs and pool designation errors. The bulk of the reported premium volume pertains to various POS and PPO plan option coverages.

MEDICAL LOSS RATIO REPORTING FORM

Title 45 of the U.S. Code of Federal Regulations (45 CFR) §158.110(b) requires that a report for each Medical Loss Ratio (MLR) reporting year be submitted to the Secretary of the U.S. Department of Health and Human Services by June 1st of the year following the end of an MLR reporting year, on a form and in the manner prescribed by the Secretary. Based on our review, the Company filed an acceptable form by June 1, 2012 for the 2011 reporting year and is in compliance with 45 CFR §158.110(b).

45 CFR §158.210(a) requires that an issuer must provide a rebate to enrollees if the issuer has a Medical Loss Ratio (MLR) of less than 85% for the large group market. 45 CFR §158.210(b) and (c) requires that an issuer must provide a rebate to enrollees if the issuer has an MLR of less than 80% for the small group market and the individual market. The Company's MLR and rebate calculations from the MLR Annual Reporting Form, Part 5 (California only) are as follows:

MLR Components	Individual	Small Group	Large Group	Notes
Adjusted Incurred Claims	$191,174,636	$277,594,843	$718,395,670	
Plus: Quality Improvement Expenses	$1,450,509	$2,028,680	$5,176,721	
MLR Numerator	$192,625,145	$279,623,523	$723,572,391	(1)
Premium Earned	$244,602,934	$342,477,490	$870,740,677	
Less: Federal & State Taxes and Licensing or Regulatory Fees	$10,174,609	$1,672,810	$15,953,009	
MLR Denominator	$234,428,325	$340,804,681	$854,787,668	(2)
Preliminary MLR Before Credibility Adjustment	82.2%	82.0%	84.6%	
Credibility Adjustment	N/A	N/A	N/A	(3)
Credibility Adjusted MLR	82.2%	82.0%	84.6%	(4)
MLR Standard	80.0%	80.0%	85.0%	
Rebate Amount	$0	$0	$3,419,151	(5)

COMMENTS ON MEDICAL LOSS RATIO CALCULATION

(1) Medical Loss Ratio Numerator

According to Title 45 of the U.S. Code of Federal Regulations (45 CFR) §158.221(b), the numerator of the Medical Loss Ratio (MLR) calculation is comprised of adjusted incurred claims, as defined in 45 CFR §158.140, plus expenditures for activities that improve health care quality, as defined in 45 CFR §158.150, and 45 CFR §158.151. We verified the data used to calculate the adjusted incurred claims. Based on our review, the Company included appropriately adjusted incurred claims in the MLR numerator.

We reviewed the reasonableness of the health care quality improvement expenses including confirming that the methodology complies with the narrative provided within the Part 4 - Expense Allocation portion of the MLR Reporting Form and conforms to the definition of Healthcare Quality Improvement Expenses as defined by 45 CFR §158.150, and 45 CFR §158.151. Based on our review, the Company's allocation methodology and health care quality improvement expenses reported in the MLR numerator are reasonable and conform to the regulations.

(2) Medical Loss Ratio Denominator

According to 45 CFR §158.221(c), the denominator of the MLR calculation is comprised of premium revenue, as defined in 45 CFR §158.130, minus federal and state taxes and licensing and regulatory fees, described in 45 CFR §158.161(a), and 45 CFR §158.162(a)(1) and (b)(1). We verified the data used to calculate the premium revenue. Based on our review, the Company included appropriate premiums earned in the MLR numerator.

We reviewed the reasonableness and appropriateness of the federal and state taxes and regulatory fees including the appropriateness of allocations and the definition of such activities. Based on our review, the Company's allocation methodology, federal and state taxes, and regulatory fees reported in the MLR denominator are reasonable and conform to the regulations.

(3) Credibility Adjustment

According to 45 CFR §158.232, the credibility adjustment is the product of the base credibility factor multiplied by the deductible factor. The experience for all market segments were fully credible, therefore, there were no credibility adjustments. Based on our review, the Company appropriately calculated the credibility adjustments.

(4) Credibility Adjusted Medical Loss Ratio

According to 45 CFR §158.221(a), the calculation of MLR is the ratio of the numerator to the denominator, subject to the applicable credibility adjustment, if any. Based on our review, the Company appropriately calculated the MLR for each market segment.

(5) Rebate Amount, Calculation and Distribution

According to 45 CFR §158.240, a rebate is required if an issuer's MLR is less than the minimum MLR standard. Based on our review, the Company's MLR exceeded the minimum percentage for the individual and small group segments, but not the large group segment. The Company issued rebates totaling $3,419,151 for the large group segment. The Company appropriately calculated and timely issued rebates for its large group segment enrollees.

REBATE NOTICE

According to Title 45 of the U.S. Code of Federal Regulations §158.250(a) and (b), a notice of rebate is required when the medical loss ratios do not exceed the minimum percentage. The Company's medical loss ratios did not exceed the minimum percentage for the large group segment. Based on our review, the Company appropriately and timely issued rebate notices to its enrollees.

MLR INFORMATION NOTICE

According to Title 45 of the U.S. Code of Federal Regulations §158.251(a), a one-time notice of Medical Loss Ratio (MLR) information is required when the MLR exceeds the minimum MLR standard. The Company's MLR exceeded the minimum MLR standard for the individual and small group segments but did not meet the minimum MLR standard for the large group segment. Based on our review, the Company appropriately issued MLR information notices to its enrollees.

REBATE PAYMENTS ON SOLVENCY

According to Title 45 of the U.S. Code of Federal Regulations §158.270(a), rebate payments having any adverse impact to the Company's Risk Based Capital (RBC) level requires notification by the California Department of Insurance to the Secretary of the

U.S. Department of Health & Human Services (HHS). Based on our review, the rebates did not have an adverse impact on the RBC level that would warrant notification to the Secretary of HHS.

SUMMARY OF COMMENTS, FINDINGS AND RECOMMENDATIONS

Current Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

David A. Fischman CFE
Examiner-In-Charge
Department of Insurance
State of California