

EXAMINATION REPORT OF  
COVENTRY HEALTH CARE OF IOWA, INC.  
OMAHA, NEBRASKA  
AS OF DECEMBER 31, 2014

Urbandale, Iowa  
September 16, 2016

HONORABLE NICK GERHART  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa 50319

Commissioner Gerhart:

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

COVENTRY HEALTH CARE OF IOWA, INC.

Omaha, Nebraska

AS OF DECEMBER 31, 2014

at its branch office located at 3333 Farnam Street, Suite 300, Omaha, Nebraska.

INTRODUCTION

Coventry Health Care of Iowa, Inc., hereinafter referred to as the "Company", was last examined, as of December 31, 2009.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from December 31, 2009 to the close of business on December 31, 2014, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with procedures recommended by the Financial Condition (E) Committee of the N.A.I.C., and other generally accepted insurance examination standards. A general review and survey was made of the Company's operations and business transactions conducted during the stated period. Accounting methods, internal control procedures, records and other supporting evidences were examined or tested by appropriate methods to the extent deemed necessary. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2014.

HISTORY

The Company was incorporated February 7, 1985 under the name HMO Iowa, Inc., under the laws of Iowa. In September 1987, the Company was purchased by Principal Financial Group, Inc. and Principal Mutual Life Insurance Company. On May 1, 1993, Principal Holding Company, a wholly owned subsidiary of Principal Mutual Life Insurance Company, acquired all the outstanding shares of the Company. On August 10, 1993, the Company name was changed to Principal Health Care of Iowa, Inc. On September 1, 1993, United Health Care of Iowa merged into Principal Health Care of Iowa, Inc. On April 1, 1998, Principal Health Care, Inc. merged into Coventry Corporation to form Coventry Health Care, Inc. and the Company changed its name to Coventry Health Care of Iowa, Inc. effective January 1, 2000. On May 7, 2013, the Coventry Corporation was purchased by

Aetna, Inc. On July 1, 2015, the Company changed its name to Aetna Health, Inc. (an Iowa corporation). On February 1, 2016, Aetna Health, Inc. changed its name to Aetna Health of Iowa, Inc.

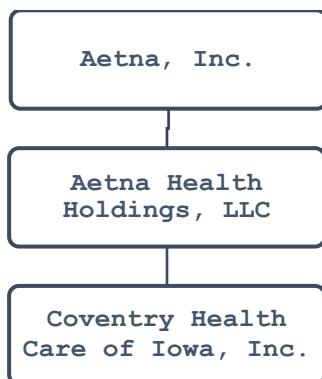
#### CAPITAL STOCK AND DIVIDENDS

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 par value. At December 31, 2014, the Company had 253,567 shares of common stock issued and outstanding with a total stated value of \$1,267,835 and \$11,901,617 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 declared and paid dividends of \$9.4 million and \$0 to its shareholder, in 2013 and 2014 respectively.

#### 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, 2014, reflecting the ultimate parent and holding company system, is shown below. Schedule Y of the Company's 2014 annual statement provided a list of all related companies of the holding company group.



#### MANAGEMENT AND CONTROL

##### SHAREHOLDERS

The Amended and Restated Bylaws of the Company state that the annual meeting of the shareholders shall be held during the first six months of each year, at the time stated in the notice of such meeting, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be.

In the event that an annual meeting is not held on the date designated herein, a meeting on a subsequent date may be held in lieu thereof and any business transacted

or elections held at such meeting shall be valid as if transacted and held at the annual meeting.

BOARD OF DIRECTORS

The Amended and Restated Bylaws state that except where the law, the Articles or the Bylaws and Regulations otherwise provide, 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 deliver 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 not be less than three nor more than fifteen. Not less than 30% of the members of the board shall be enrollees of the Coventry Health Care 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 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 at December 31, 2014 were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Dale G. Mackel Omaha, Nebraska	President and Chief Executive Officer Coventry Health Care of Iowa
David Fields Sewickley, Pennsylvania	President, Mid-America Region Aetna
James Christensen Johnston, Iowa	Controller Charles Gabus Ford, Inc.

COMMITTEES

The Board of Directors, by resolution, adopted by the affirmative vote of a majority of the number 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. The Board of Directors may elect one or more of its members as alternate members at any meeting of such committee, upon request by the Chairman or upon request by the Chairman of such committee. The committee shall fix its own rules governing the conduct of its activities (except as the Board of Directors may otherwise provide) and shall report its actions to the Board of Directors.

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, Coventry Health Care Inc.

#### OFFICERS

The Amended and Restated Bylaws prescribe that the officers of the Company shall be a President, a Secretary, a Treasurer and 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 the 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.

Any officer or agent elected or appointed by the Board of Directors may be removed by a majority vote of the Board of Directors whenever in its judgment the best interests of the Company would be served thereby.

A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

Elected Senior Officers serving as of December 31, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Dale G. Mackel	President and CEO
Randy Oursler	Chief Financial Officer
Frank F. Chronister III	Corporate Controller
Timothy J. McGonigal	Vice President, Regional Sales
Edward C. Lee	Vice President and Secretary
Michael Portnoy	Assistant Secretary
Alan R. Gard	Actuary
Jerry J. Bellizzi	Vice President
Elaine R. Cofrancesco	Vice President and Treasurer

Nancy S. Haase	Assistant Treasurer
Eric S. Trafton	Assistant Treasurer
<u>Name</u>	<u>Title</u>
Michael M. Sinisgalli	Assistant Treasurer
N. Natasha Redding	Assistant Secretary
Thomas Rowling	Assistant Secretary
Sandra M. Coombes	Assistant Secretary
Melissa B. Pavlovich	Assistant Secretary
Jennie Ekdahl	Assistant Secretary
Valerie B. Sideris	Assistant Secretary
Stephen A. Stites	Assistant Secretary
Kevin J. Casey	Senior Investment Officer

CHC IA does not pay the salary of these officers as they are not employees of CHC IA. These employees are performing services for CHC IA via an intercompany service agreement with Aetna Health Management, LLC.

#### CONFLICT OF INTEREST STATEMENTS

The Company has a Conflict of Interest policy that requires the officer or director to complete a conflict of interest statement annually. The annual Conflict of Interest questionnaires were reviewed, and it was noted that each of the officers and directors had completed and signed a questionnaire.

#### 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.

Effective September 29, 2010, the Company ratified the amended the Articles of Incorporation and amended and restated Bylaws as of June 4, 2009. The Amended and Restated Bylaws have been filed with the Iowa Insurance Division as required by Iowa Code Section 514B.3A

The Board of Directors minutes were silent as to the review and acceptance of the Iowa Insurance Division's Examination Report as of December 31, 2009.

#### AFFILIATED AGREEMENTS

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

The Company has a guarantor agreement with Aetna. The agreement provides that in the event of the Company's insolvency, Aetna will pay all expenses and claims incurred by the Company during insolvency pursuant to the obligation with employer and subscribers until the end of the subscription contract period for which premiums have been received.

The Company and 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, Medicaid and Medicare premium revenue, as applicable, to AHM as a fee, subject to an annual true-up mechanism as defined in the agreement. This agreement

began on January 1, 2014. Under the agreement, this true-up is due to be settled with the affiliate by April 15 of the following contract year (which is January 1 to December 31 annually). The terms of settlement require that these amounts be settled within 45 days after the end of the calendar quarter.

The Company participates in a tax sharing agreement with Aetna and Aetna's other subsidiaries. All federal income tax receivables/payables are due from/due to Aetna.

The Company has a Pharmacy Benefit Administration Agreement with Coventry Health and Life Insurance Company and Coventry Prescription Management Services, Inc. to administer coverage for enrollees for outpatient prescription drugs. The agreement was effective as of January 1, 2011.

The Company has a Pharmacy Benefit Administration Agreement with Coventry Health and Life Insurance Company and Coventry Prescription Management Services, Inc. to administer coverage for Medicare beneficiaries the Medicare Advantage Prescription Drug (MA-PD) program. The agreement was effective as of January 1, 2011.

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.

#### FIDELITY BONDS AND OTHER INSURANCE

The Company's ultimate parent, Aetna Inc., maintains fidelity bond coverage up to \$20,000,000, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintains property, general liability, and automobile coverages.

#### EMPLOYEES' WELFARE

Effective December 31, 2013, the Coventry Health Care, Inc. Retirement Savings Plan (the Coventry Plan) was frozen. All elective deferrals, employer matching contributions and rollovers ceased to the Coventry Plan for payroll periods after December 31, 2013. The Coventry Plan merged with and into the Aetna 401(k) Plan in late 2014. Effective January 1, 2014, the participants in the Coventry Plan were eligible to participate in the Aetna 401(k) Plan.

Prior to 2014 the Company's employees participated in the Coventry Plan, which qualified under the Internal Revenue Code Section 401(k). Under the terms of the Coventry Plan, subject to certain limitations, employees could contribute up to 75% of their salary to the Coventry plan, which the Company matched by making contributions of (1) Coventry's common stock equal to 100% of the employee's contribution up to the first 3% of the employee's compensation deferral and (2) an amount equal to 50% of the employee's contribution on the second 3% of the employee's compensation deferral. The Company contributed approximately \$144,000 to the Coventry Plan during 2013.

#### REINSURANCE

##### Assumed

The Company does not assume any reinsurance.

##### Ceded

Health Care Reform established a temporary three-year reinsurance program, 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.S. 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 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.

The Company carried reinsurance coverage for instances in which medical costs for an individual member exceeded certain limitations. This agreement was terminated for all members as of January 1, 2014. For the year ended December 31, 2013, total reinsurance premiums paid to CHL, and affiliate, of \$1,848,005 are included as a reduction of premium revenues, and reinsurance recoveries from CHL of \$680,149 are included as a reduction of health benefits expense.

#### STATUTORY DEPOSIT

As of December 31, 2014, 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. The Company is authorized to transact health maintenance organization insurance.

#### GROWTH OF COMPANY

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Direct Premiums	198,295,934	120,479,182	112,268,084	143,050,561	147,912,746
Net Underwriting Gain/(Loss)	(6,286,595)	9,045,651	11,004,433	9,282,723	8,057,480
Net Income/(Loss)	(3,628,282)	6,323,285	9,420,433	7,200,329	5,228,542
Total Admitted Assets	70,866,030	46,503,996	43,146,146	48,881,204	45,710,589
Total Liabilities	45,308,055	25,434,157	18,869,744	22,715,057	20,961,572
Capital and Surplus	25,557,975	21,069,839	24,276,402	26,166,150	24,749,019

#### ACCOUNTS AND RECORDS

The Company maintains its principal operational offices in Omaha, Nebraska. The Company maintains several service agreements that include key operations performed at additional locations. This examination was conducted remotely with cooperation with the Company and the Iowa Insurance Division.



KPMG LLP, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2013 through 2014. Ernst & Young, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2010 through 2012.

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.

Eide Bailly LLP relied on the performed evaluation of the information technology and computer systems of the Company during the Aetna Group examination. Results of the evaluation were noted in the workpapers of the examination.

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 at December 31, 2014. The only issue arising from the examination is that the Company is not following all of the documentation requirements of the Underwriting Manual. The examination revealed that the Peer Review process was not being documented as outlined in the manual. This issue will be discussed with the Company and reviewed in subsequent examinations.

F I N A N C I A L   S T A T E M E N T S

A N D   C O M M E N T S   T H E R E O N

Note: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2014 and the assets and liabilities as of that date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 29,192,356	\$	\$ 29,192,356
Cash & Short term investments	5,504,127		5,504,127
Investment income due and accrued	322,757		322,757
Premiums and considerations:			
Uncollected premium	9,296,873	388,361	8,908,512
Accrued retrospective premium	119,511		119,511
Reinsurance:			
Amounts recoverable from reinsurers	16,210,166		16,210,166
Amounts receivable relating to uninsured	943,728		943,728
Current federal and foreign income tax r	644,635		644,635
Net deferred tax asset	1,901,297	308,236	1,593,061
Furniture and equipment, incl health car	101,521	101,521	0
Receivable from parent, subsidiaries and	6,818,089		6,818,089
Aggregate write-ins :			
Recoverable state premium taxes	575,989		575,989
Prepaid expenses	52,546	52,546	0
Recoverable state income taxes	33,099		33,099
Deposits	6,000	6,000	0
Prepaid Assessments	2,872,285	2,872,285	0
	<hr/>	<hr/>	<hr/>
Total assets	\$ 74,594,979	\$ 3,728,949	\$ 70,866,030

Liabilities, Capital and Surplus

Claims unpaid	\$ 24,581,428
Accrued medical incentive pool and bonus amounts	2,251,046
Unpaid claims adjustment expenses	831,172
Aggregate health policy reserves	310,144
Aggregate health claims reserves	271,538
Premiums received in advance	1,977,359
General expenses due and accrued	3,789,695
Amounts withheld or retained for the account of others	163,110
Remittances and items not allocated	129,260
Amounts due parent and affiliates	2,079,909
Liability for amounts held under uninsured plans	26,611
Aggregate write-ins -	
OPM payable	1,068,074
Abandon property liability	2,582
Affordable care act risk adjustment payable	7,527,766
Cost share reduction	201,819
Other medicare liability	96,542
	<hr/>
Total Liabilities	\$ 45,308,055
	<hr/>
Aggregate write-in - Estimated 2015 Health insurer fee accrual	\$3,900,000
Common capital stock	1,267,835
Gross paid in and contributed surplus	11,901,617
Unassigned funds (surplus)	8,488,523
	<hr/>
Total capital and surplus	\$ 25,557,975
	<hr/>
Total liabilities, capital and surplus	\$ 70,866,030
	<hr/> <hr/>

Statement of Revenue and Expenses  
ONE-YEAR PERIOD ENDING DECEMBER 31, 2014

<u>Member Months</u>		641,951
 <u>Revenues</u>		
Net Premium Income		\$ 197,414,766
Change in unearned premium reserves		1,109,004
Aggregate write-in for other health care related reserves		(249)
 <u>Hospital and Medical</u>		
Hospital/medical benefits	\$ 150,712,546	
Other professional services	221,972	
Outside referrals	904,622	
Emergency room and out-of-area	13,328,846	
Prescription drugs	26,609,136	
Incentive pool, withhold adjustments and bonus amounts	2,216,595	
 <u>Less</u>		
Net reinsurance recoveries	(16,593,356)	
Claims adjustment expenses	2,873,462	
General administrative expenses	24,536,293	
Total underwriting deductions		204,810,116
Net underwriting gain or (loss)		\$ (6,286,595)
Net investment income earned	\$ 736,077	
Net realized capital gains	50,656	
Net investment gains (losses)		786,733
Net loss from agents or premium balances charged off		\$ -
Net income before Federal income tax		\$ (5,499,862)
Federal & foreign income taxes		(1,871,580)
Net Income		\$ (3,628,282)
 <u>Capital and Surplus Account</u>		
Capital and Surplus prior reporting year		\$ 21,069,839
<u>Gains and (Losses) ins Surplus</u>		
Net Income		\$ (3,628,282)
Change in net deferred income tax		1,357,267
Change in non-admitted assets		(3,240,849)
Surplus adjustments - paid in		10,000,000
Net change in capital and surplus		\$ 4,488,136
Capital and Surplus end of reporting period		\$ 25,557,975

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$189,593,984	
Net investment income	960,100	
Miscellaneous income	(249)	
Total	<u>                        </u>	\$ 190,553,835
Benefit and loss related payments	176,091,008	
Commissions, expenses paid and aggregate write-ins	27,163,234	
Federal income taxes paid (recovered)	(1,004,675)	
Total	<u>                        </u>	<u>202,249,567</u>
Net cash from operations		<u>\$ (11,695,732)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 6,962,356	
Total investment proceeds		\$ 6,962,356
Cost of investments acquired (long-term only):		
Bonds	\$ 7,782,976	
Total investments acquired		<u>7,782,976</u>
Net cash from investments		<u>\$ (820,620)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):		
Capital and paid in surplus, less treasury stock	\$10,000,000	
Other cash provided (applied)	<u>(2,332,359)</u>	
Net cash from financing and miscellaneous sources		<u>\$ 7,667,641</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ (4,848,711)
Cash and short-term investments:		
Beginning of year		<u>10,352,838</u>
End of year		<u>\$ 5,504,127</u>

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Coventry Health Care of Iowa, Inc. as of December 31, 2014, consistent with the insurance laws of the State of Iowa.

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

Respectfully submitted,

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