

REPORT ON EXAMINATION
OF
AETNA BETTER HEALTH OF KANSAS INC.
9401 INDIAN CREEK PARKWAY
OVERLAND PARK, KANSAS 66210
AS OF
DECEMBER 31, 2020

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Overland Park, KS
May 3, 2022

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

AETNA BETTER HEALTH OF KANSAS INC.

with both its statutory home office and main administrative office at:

**9401 INDIAN CREEK PARKWAY
OVERLAND PARK, KANSAS 66210**

hereinafter referred to as the "Company" or "ABH-KS". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of Aetna Better Health of Kansas Inc., a Kansas domiciled health insurance company. This is the first examination of the Company that covers the five-year period from January 1, 2016, through December 31, 2020. This examination was performed as part of the multi-state coordinated examination of the CVS-Aetna Group ("CVS-Aetna" or "Group") of regulated entities wherein Connecticut was the lead state.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department ("Department") and the observed guidelines and procedures contained in the National Association of Insurance

Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, 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. Activities considered in the examination as key to the Company included the following: Financial Reporting, Reinsurance – Ceding, Related Party, Investments, Capital and Surplus, Underwriting (Commercial and Medicaid), Reserves/Claims Handling (Commercial and Medicaid), and Actuarial Reserving/Pricing (Commercial and Medicaid). 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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by Ernst & Young LLP of Indianapolis, Indiana, for the years ending December 31, 2019, and December 31, 2020. The Company was exempt from being audited for the years ending December 31, 2016, through December 31, 2018. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its operations, and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during this examination.

Actuarial Review

The Company's Appointed Actuary who issued the December 31, 2020 Statement of Actuarial Opinion was Katie L. Panasci, ASA, MAAA, Actuarial Director of Aetna, an employee of Aetna Resources LLC, Hartford, Connecticut.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

The Company was incorporated on July 25, 2016, and received its certificate of authority on December 21, 2016. The Company is organized as a for-profit HMO in the state of Kansas pursuant to K.S.A. 40-3201. The certificate of authority provides for a perpetual existence.

On November 28, 2018, CVS Health Corporation's ("CVS Health") wholly-owned subsidiary CVS Pharmacy, Inc. ("CVS Pharmacy") acquired 100% of the common stock of Aetna Inc ("Aetna") via a subsidiary. Aetna is the immediate parent of Aetna Health Holdings, LLC ("AHH"), and AHH is the immediate parent of the Company. Both Aetna and AHH are subsidiaries of CVS Pharmacy with CVS Health being the ultimate controlling party ("UCP").

Capital Stock

The Company's articles of incorporation authorize the issuance of 10,000 shares of common capital stock with no par value. As of December 31, 2020, 1,000 shares had been issued and were outstanding, resulting in a total paid-up common capital stock amount of \$0. As of December 31, 2020, AHH owned 100% of the Company's stock.

Dividends and Capital Contributions

The Company received capital contributions of \$2,000,000 in 2016, \$135,000,000 in 2019 and \$5,000,000 in 2020 from its parent, AHH. The Company did not distribute any dividends during the period under review.

COPORATE RECORDS

A review of the Company's bylaws and articles of incorporation determined there were no amendments made during the period under examination.

MANAGEMENT AND CONTROL

Shareholders

Article II, Section 1 of the Company's Bylaws provides, "Annual meetings of shareholders shall be held in the principal office of the Corporation, or at such other location as determined by the Board of Directors, on such dates and at such times as

may be fixed by the Board of Directors and stated in the notice of the meeting. At each annual meeting, shareholders shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting.”

Board of Directors

Article V, Section 3 of the Company’s Bylaws provides, “The business of the Corporation shall be managed by or under the direction of its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by aw or by the articles of incorporation or by these bylaws directed or required to be exercised or done by the shareholders.”

Article V, Section 1 of the Company’s Bylaws provides that: “The number of directors shall be not less than three and not more than fifteen. Except for the initial Board of Directors, each director shall be elected at the annual meeting of shareholders, except as provided in Section 2 of this Article, and each director elected shall hold office until his successor is elected and qualified. Directors need not be shareholders. Any director may be removed from office, at any time and for any reason, upon a vote of the shareholders holding a majority of the issued and outstanding capital stock of the Corporation.” The Board of Directors was comprised of three directors throughout the period of examination.

The directors elected and serving as of December 31, 2020, were as follows:

<u>Name</u>	<u>Position(s) Held</u>
Debra Jean Bacon	Vice President, Chief Operating Officer Aetna Medicaid, CVS Health
Kelli Kathleen Smith	Chief Financial Officer Aetna Better Health of Kansas Inc. Executive Director, Controller, Aetna Medicaid, CVS Health

David Keith Livingston*

Chief Executive Officer and President
Aetna Better Health of Kansas Inc.
Vice President, Aetna Medicaid, CVS Health

* David Keith Livingston was removed as Director, Chief Executive Officer and President, effective April 27, 2022, and was replaced by Kimberly S. Foltz as Director, and Lisa Baird as Chief Executive Officer and President, effective as of the same date.

Committees

The Company's Bylaws indicate that the Board may designate one or more committees of the Board. The Audit Committee of the Company's parent, AHH, is designated to act as the Company's Audit Committee.

Officers

Article IX, Section 1 of the Company's Bylaws provides, "The officers of the Corporation shall be chosen by the Board of Directors and include a president, a vice-president, a secretary and a treasurer. The Board of Directors may also choose additional vice-presidents, and one or more assistant secretaries and assistant treasurers. Any number of offices may be held by the same person, unless the articles of incorporation or these bylaws otherwise provide."

Article IX, Section 2 of the Company's bylaws provides that: "The Board of Directors at its first meeting after each annual meeting of shareholders shall appoint officers to hold office until their successors are chosen and qualify. Any officer appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors as provided herein." The officers elected and serving as of December 31, 2020, were as follows:

Name

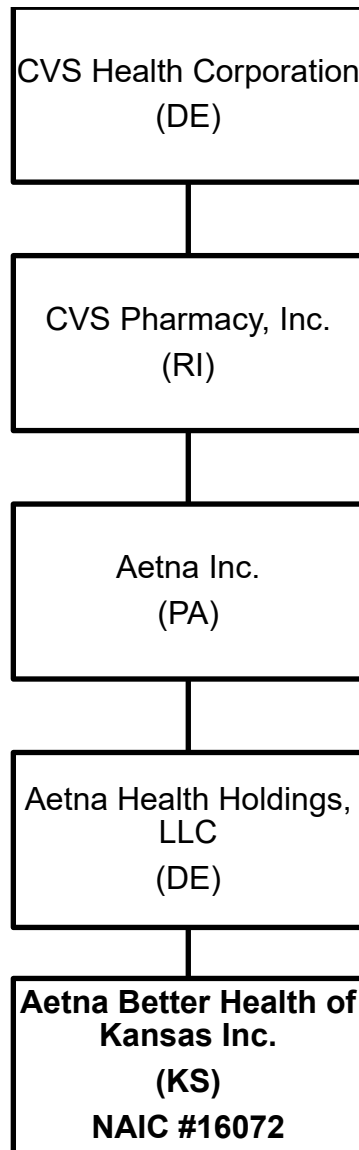
Position(s) Held

David Livingston*	Chief Executive Officer and President
Tracy Smith	Vice President and Treasurer
Robert Kessler	Vice President and Secretary
Kelli Smith	Chief Financial Officer

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The Company’s parent is Aetna Health Holdings, LLC, which in turn is 100% owned by the Aetna Inc., which in turn is 100% owned by CVS Pharmacy, Inc, which in turn is 100% owned by CVS Health Corporation, the ultimate parent of the holding company system. The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2020.



Aetna Better Health of Kansas Inc. is a Kansas company wholly-owned directly by Aetna Health Holdings, LLC and ultimately owned by CVS Health Corporation.

Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2020:

Administrative Services Agreement: The Company entered into an Administrative Services Agreement with Aetna Medicaid Administrators, LLC (“AMA”) effective January 1, 2018. AMA provides certain administrative services including accounting and processing of premiums and claims to the Company. Pursuant to the agreement, the Company pays a percentage of its earned premium revenue as a fee to AMA. Effective January 15, 2019, the agreement was amended and effective January 1, 2020, the agreement was amended to further allow AMA to arrange for other Aetna and CVS Health corporations to provide services to the Company. The Company paid \$77,182,003 to the AMA during 2020.

Insolvency Agreement: The Company entered into an Insolvency Agreement with Aetna Health Insurance Company (“AHIC”), effective October 1, 2016. Under this agreement, in the event the Company ceases operations or becomes insolvent, AHIC agrees to continue plan benefits for members confined as inpatients on the date of insolvency until their discharge. Further, the agreement provides that AHIC will continue benefits for any member until the end of the contract period for which premium has been paid, but for no longer than thirty-one days. AHIC will also make available to members, for a period of thirty-one days, replacement insurance policies.

Tax Sharing Agreement: Effective January 1, 2019, the Company entered into a written tax sharing agreement with CVS Health. In accordance with this agreement, the Company’s current federal income tax liability is generally computed as if the Company were filing a separate federal income tax return; current income tax benefits, including those resulting from net operating losses, are recognized to the extent realized in the consolidated return. Pursuant to this agreement, the Company has the enforceable right

to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company is authorized to transact business in the states of Kansas, New Mexico, and Texas. In 2020, the Company reported premium income of \$958,283,305 in the state of Kansas. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

The Company was formed to conduct business exclusively with the KanCare program to provide a comprehensive array of services by collaborating with local providers in all regions within the state to provide integrated physical, behavioral, and social support services. The Company was awarded a KanCare contract by the Kansas Department of Health and Environment on June 19, 2018. The contract became effective on January 1, 2019, and has a 3-year term with 2 one-year renewal options. Under the contract, the Company provides health benefits to Medicaid, Home and Community Based waiver, and Children's Health Insurance Program ("CHIP") members. Beginning in 2020, the Company also offers Pediatric Children Network ("PCN") coverage.

The Company became licensed in Texas on March 31, 2020 and received approval from the Centers for Medicare & Medicaid Services to market and issue Medicare Advantage policies, with coverage effective dates of January 1, 2021.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial amounts for the period of December 31, 2016 through December 31, 2020. The financial amounts were obtained

from annual statements filed by the Company.

<i>(in thousands)</i>	2016	2017	2018	2019	2020
Admitted Assets	\$ 2,000	\$ 2,011	\$ 2,038	\$ 231,392	\$ 299,000
Liabilities	-	4	5	103,372	172,588
Capital and Surplus	2,000	2,007	2,033	128,020	126,413
Net Underwriting Gain/(Loss)	-	-	(3)	(14,034)	(8,738)
Net Income (Loss)	-	7	26	(7,115)	(8,180)
Direct Written Premium	-	-	-	860,449	958,283
Total Revenues	-	-	-	859,300	958,283

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000 omitted)</i>					
Premium Type	2016	2017	2018	2019	2020
Direct Written Premium	\$0	\$0	\$0	\$860,449	\$958,283
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	0	0	0	1,148	0
Net Premiums Written	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$859,300</u>	<u>\$958,283</u>

Assumed Reinsurance

The Company assumes no business from other insurance carriers.

Ceded Reinsurance

The Company entered into a reinsurance agreement with United States Fire Insurance Company effective from January 1, 2019, through December 31, 2019. The reinsurance agreement was an excess of loss (stop loss) with the Company paying its retention of the first \$500,000 of loss or losses incurred. The amount reimbursable was 90% of eligible loss and losses incurred by covered persons in excess of the Company's

retention. The maximum reimbursement was \$5,000,000 of coverage excess of the retention for each covered person during the reinsurance agreement year. This agreement was not renewed for the year 2020, due to a determination by the Company on the need of reinsurance as part of its annual reinsurance review process.

Subsequent to the examination period in 2021, as the Company writes Medicare Advantage plans in the state of Texas, it participates in a quota share reinsurance agreement with Fresenius Medical Care Reinsurance Company, an unauthorized reinsurer. Under this Agreement, the Company cedes 100% of eligible expenses incurred per program participant per agreement year for end-stage renal disease (ESRD) Medicare Advantage product offerings including but not limited to: Aetna Medicare Plan (HMO), Aetna Medicare Plan (HMO) Open Access, Aetna Medicare Plan (PPO), and Coventry Medicare Advantage Plans. Pursuant to the Agreement, Fresenius will (i) validate Aetna Medicare Advantage beneficiaries who have ESRD and who have also been identified by Aetna, and (ii) strive to improve clinical outcomes while reducing the cost of care. Fresenius utilizes both population health management and focused clinical intervention tools to improve clinical outcomes and reduce (a) the overall cost of care for Aetna MA ESRD Members; (b) hospitalizations and readmissions; (c) SNF admissions, and (d) overall utilization of acute care and emergency services.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements

filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. Any accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

**AETNA BETTER HEALTH OF KANSAS INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2020**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 186,906,096	\$ -	\$ 186,906,096
Cash and cash equivalents	36,233,296		36,233,296
Investment income due & accrued	1,705,017		1,705,017
Uncollected premiums and agents balances	72,743,782		72,743,782
Amounts recoverable from reinsurers	240,549		240,549
Net deferred tax asset	1,092,735		1,092,735
Health care and other amounts receivable	1,363,684	1,284,343	79,341
Aggregate write-ins for other than invested assets	5,012	5,012	-
	<u>\$ 300,290,171</u>	<u>\$ 1,289,355</u>	<u>\$ 299,000,816</u>

**AETNA BETTER HEALTH OF KANSAS INC.
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2020**

Claims unpaid	\$ 115,770,151
Accrued medical incentive pool	372
Unpaid claims adjustment expenses	3,699,572
Premiums received in advance	4,620
General expenses due or accrued	5,619,134
Current federal and foreign income tax payable	1,007,417
Remittances and items not allocated	483,438
Amounts due to parent, subsidiaries and affiliates	44,666,445
Payable for securities	1,075,396
Aggregate write-ins for other liabilities	261,678
Total liabilities	<u>\$ 172,588,223</u>
Common capital stock	\$ -
Gross paid in and contributed surplus	142,000,000
Unassigned funds	<u>(15,587,407)</u>
Surplus as regards policyholders	<u>\$ 126,412,593</u>
Totals	<u><u>\$ 299,000,816</u></u>

AETNA BETTER HEALTH OF KANSAS INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

Member months	1,316,915
Net premium income	\$ 958,283,305
Total revenues	\$ 958,283,305
<u>Hospital and Medical:</u>	
Hospital/medical benefits	\$ 515,132,555
Other professional services	174,549,450
Outside referrals	13,391,315
Emergency room and out-of-area	12,271,275
Prescription drugs	102,312,061
Incentive pool, withhold adjustment and bonus amounts	372
Subtotal	\$ 817,657,028
<u>Less:</u>	
Net reinsurance recoveries	821,460
Total hospital and medical	\$ 816,835,568
Claims adjustment expenses	42,729,769
General and administrative expenses	107,456,110
Total underwriting deductions	\$ 967,021,447
Net underwriting loss	\$ (8,738,142)
Net investment income earned	\$ 4,431,003
Net realized capital losses	(913,433)
Net investment gains (losses)	\$ 3,517,570
Net income (loss) after capital gains tax, before fed income tax	\$ (5,220,572)
Federal income taxes incurred	2,958,971
Net income (loss)	\$ (8,179,543)

AETNA BETTER HEALTH OF KANSAS INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2015			\$ -
Net income (loss)	2016	\$ -	
	2017	6,930	
	2018	26,235	
	2019	(7,115,252)	
	2020	<u>(8,179,543)</u>	(15,261,630)
Change in net unrealized capital gains (losses)	2016	\$ -	
	2017	-	
	2018	-	
	2019	(11,141)	
	2020	<u>(90,893)</u>	(102,034)
Change in net deferred income tax	2016	\$ -	
	2017	-	
	2018	-	
	2019	5,636	
	2020	<u>1,059,976</u>	1,065,612
Change in nonadmitted assets	2016	\$ -	
	2017	-	
	2018	-	
	2019	(1,892,499)	
	2020	<u>603,144</u>	(1,289,355)
Surplus adjustments	2016	\$ 2,000,000	
Paid in	2017	-	
	2018	-	
	2019	135,000,000	
	2020	<u>5,000,000</u>	142,000,000
Surplus as regards policyholders, December 31, 2020			<u><u>\$ 126,412,593</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2020, was \$126,412,593, which was the same amount reported by the Company in its 2020 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, David Palmer, CFE, Exam Manager and Karen Elsom, FSA, MAAA, Consulting Exam Actuary Lewis & Ellis, Inc., Overland Park, Kansas, both representing the Department, participated in this examination.

Respectfully submitted,



Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
representing the Kansas Insurance
Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.



Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

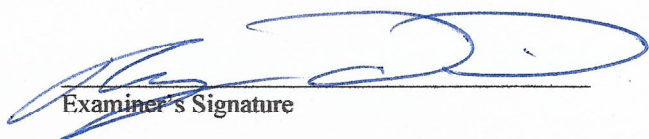
State of Mississippi,

County of Madison,

Ryne Davison, being duly sworn, states as follows:

1. I have authority to represent the kansas Insurance Department in the examination of Aetna Better Health of Kansas Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Aetna Better Health of Kansas Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by original identification 26 on this May day of May, 20 22.
26th

(SEAL)

Marlee Hughes
Notary Public



My commission expires October 24, 2025 [date].