

Report of Examination of

CIGNA HealthCare of Ohio, Inc.
Columbus, Ohio

As of December 31, 2007

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Columbus, Ohio
March 17, 2009

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

CIGNA HealthCare of Ohio, Inc.

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Plan.” The examination was conducted at the Plan’s office located at 440 Polaris Parkway, Columbus, Ohio.

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Plan as of December 31, 2002. The current full scope examination covers the intervening period to and including December 31, 2007.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Plan’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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 Plan were considered in accordance with the risk-focused examination process.

For each year during the period under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP (“PWC”) provided an unqualified opinion based on

statutory accounting principles. Relevant work performed by PWC during its annual audit of the Plan was reviewed during the examination and incorporated into the examination work papers.

The Department's health actuary was retained to review the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

Management and Control

Board of Directors

Management of the Plan is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<u>Name</u>	<u>Principal Occupation</u>
Joseph C. Gregor	President & General Manager, CIGNA HealthCare – Great Lakes Market
Aslam M. Khan, M.D.	Provider Contracting Senior Director, CIGNA HealthCare
David Goldberg	Financial Analysis Director, CIGNA Financial

Officers

As of the examination date, the following officers were elected and serving in accordance with the Plan's Bylaws:

<u>Name</u>	<u>Title</u>
Joseph C. Gregor	President
Scott R. Lambert	Treasurer
Deborah L. Young	Secretary
Scott R. Neumann	Assistant Secretary

Insurance Holding Company System

The Plan is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the ownership of the Plan as of December 31, 2007. All entities are wholly owned unless otherwise indicated.

CIGNA Corporation

CIGNA Holdings, Inc.

Connecticut General Corporation

CIGNA Health Corporation

Healthsource, Inc.

CIGNA HealthCare of Ohio, Inc.

Territory and Plan of Operations

The Plan is licensed as a Health Insuring Corporation (HIC) operating as a traditional HMO with active licenses in Ohio, Kansas and Missouri. Currently, all business is written in Kansas and Missouri.

Significant Operating Results

The following schedule summarizes the operating results during the examination period:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medical loss ratio	81.65%	88.00%	67.36%	63.06%	105.58%
Administrative expense ratio	<u>14.93%</u>	<u>15.98%</u>	<u>13.53%</u>	<u>21.33%</u>	<u>-.79%</u>
Combined ratio	<u>96.58%</u>	<u>103.98%</u>	<u>80.89%</u>	<u>84.39%</u>	<u>104.79%</u>
Premium revenue PMPM	285.23	255.10	230.33	223.11	216.52
Medical / hosp. exp. PMPM	232.90	224.49	155.15	140.69	228.60

Reinsurance

Ceded

Reinsurer: Connecticut General Life Insurance Company
Type of contract: Excess of loss coverage
Effective date: January 1, 1994
Term: Shall continue in effect until terminated as provided per contract
Business covered: Hospital and related services provided to individual plan members
Plan's retention: \$150,000 per individual health plan member per calendar year
Reinsurance limits: 80% of covered charges per member per calendar year in excess of \$150,000

The contract contains an insolvency clause, confidentiality clause and meets the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Plan with the Department and audited by the Plan's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Capital and Surplus

December 31, 2007

Admitted assets

Cash and invested assets:

Bonds	\$ 5,842,097
Cash and short-term investments	362,081
Total cash and invested assets	<u>6,204,178</u>

Accrued investment income	88,351
Accident and health premiums due and unpaid	55,096
Net deferred tax asset	94,476
Receivables from parent, subsidiaries and affiliates	97,676
Current state income tax	60,307
Total admitted assets	<u>\$ 6,600,084</u>

Liabilities, capital and surplus

Liabilities:

Claims unpaid	\$ 762,000
Unpaid claims adjustment expenses	17,479
Federal and foreign income tax payable and interest thereon	66,603
Remittance and items not allocated	82
Amounts due to parent, subsidiaries and affiliates	1,411,958
Structured claims settlement	1,190,852
Other liabilities	150,151
Total liabilities	<u>3,599,125</u>

Capital and surplus:

Common capital stock	1,075
Gross paid in and contributed surplus	28,051,375
Unassigned funds	(25,051,491)
Total capital and surplus	<u>3,000,959</u>
Total liabilities, capital and surplus	<u>\$ 6,600,084</u>

Statement of Revenue and Expenses

December 31, 2007

Revenue:	
Net premium income	\$ 11,408,591
Total revenue	<u>11,408,591</u>
Hospital and Medical:	
Hospital / medical benefits	6,558,692
Other professional services	360,067
Outside referrals	217,161
Emergency room and out-of-area	668,638
Prescription drugs	1,583,623
Subtotal	<u>9,388,181</u>
Less:	
Net reinsurance recoveries	72,248
Total hospital and medical	<u>9,315,933</u>
Claims adjustment expenses	407,953
General administrative expenses	1,294,707
Total underwriting deductions	<u>11,018,593</u>
Net underwriting gain	<u>389,998</u>
Net investment income earned	404,295
Net realized capital gains less capital gains tax	6,716
Net investment gains	<u>411,011</u>
Net income after capital gains	801,009
Federal income taxes incurred	204,748
Net income	<u>\$ 596,261</u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus Dec. 31, prior year	\$5,077	\$5,090	\$7,495	\$7,641	\$3,686
Net income (loss)	(67)	1,995	2,019	86	596
Change in net deferred income tax	(154)	(28)	(90)	14	(11)
Change in non-admitted assets	234	438	217	445	(409)
Dividends to stockholders			(2,000)	(4,500)	(900)
Aggregate write-ins					39
Net change in capital and surplus	13	2,405	146	(3,955)	(685)
Capital and surplus Dec. 31, current year	<u>\$5,090</u>	<u>\$7,495</u>	<u>\$7,641</u>	<u>\$3,686</u>	<u>\$3,001</u>

Notes to Financial Statements

Investments

At December 31, 2007, the Plan's investments were in compliance with ORC 3925.08 and with the Plan's investment policy. In addition, the investments were properly valued in accordance with relevant Statements of Statutory Accounting Principles.

Claims Unpaid

David A. Tobin, FSA, MAAA, Actuarial Senior Director, an officer of Connecticut General Life Insurance Company (a CIGNA HealthCare, Inc. affiliate), certified the actuarially determined reserves as of December 31, 2006 and December 31, 2007. The Department's health actuary, Alan Furan, FSA, MAAA, reviewed the detailed calculations for the reserves as of December 31, 2007.

On the basis of the above-mentioned analysis, it was determined that the reserves for claims and claims adjustment expenses unpaid were reasonable as of December 31, 2007.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Plan as of December 31, 2007, and is summarized as follows:

Total Admitted Assets	<u>\$ 6,600,084</u>
Liabilities	\$ 3,599,125
Capital and Surplus	3,000,959
Total Liabilities, Capital and Surplus	<u>\$ 6,600,084</u>

Acknowledgement

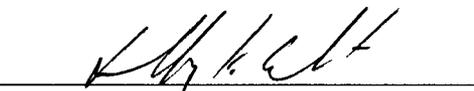
Appreciation is expressed for the assistance extended by the officers and employees of the Plan during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Ed Nagorny, CFE, CPA and Ryan S. Gibson, CFE.

Respectfully,



Nicholas J. Kostoff, CFE
Examiner-In-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2007.

Nicholas J. Kostoff 3/17/09
Examiner-In-Charge Date

Jeffrey K. Ebert 3/17/09
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 17 day of March, 2009.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 17 day of MARCH, 2009.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires