



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

April 4, 2018

**Via email: (tfarber@lockelord.com)**

Tim Farber, Esq.  
Locke Lord, LLP  
111 South Wacker Drive  
Chicago, IL 60606

**Re: Proposed Acquisition of Control of Aetna Life Insurance Company, Aetna Insurance Company of Connecticut, Aetna Health and Life Insurance Company, Aetna Health Inc. (a Connecticut corporation) and Aetna Better Health Inc. (a Connecticut corporation) Subsidiaries of Aetna Inc. (the "Domestic Insurers") by CVS Health Corporation Docket # EX 18-03**

Dear Attorney Farber:

The Connecticut Insurance Department ("Department") has completed a preliminary review of the Form A Statement regarding the proposed acquisition of control ("Proposed Acquisition") of Aetna Life Insurance Company, Aetna Insurance Company of Connecticut, Aetna Health and Life Insurance Company, Aetna Health Inc. (a Connecticut corporation) and Aetna Better Health Inc. (a Connecticut corporation) Subsidiaries of Aetna Inc. ("Companies", "Domestic Insurers" or "Aetna") by CVS Health Corporation, received January 18, 2018, and supplements through March 2018, (the "Application"). As a result of the review, it was determined that the information requested below is necessary to complete the filing. Please provide in hard copy and on a thumb drive amended and restated clean and black lined versions of the Form A rather than standalone amendments. This should include any new exhibits resulting from the amendments and restatements. You should also reflect any amendments to the Application resulting from any discussions with the Department which you may have subsequent to this letter being issued.

**ITEM 1. INSURER AND METHOD OF ACQUISITION**

1. As a result of the inclusion of biographical affidavits for the Directors and Officers of CVS Pharmacy, Inc. in the Application, should CVS Pharmacy, Inc. be included as an Applicant to the Application?
2. Please provide all Disclosure Schedules to Exhibit 1, Agreement and Plan of Merger dated as of December 3, 2017.

**ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT**

The Department has no questions but please update the information as appropriate.

**ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT**

1. Please provide charts in the following format for officers and directors for each of the five Domestic Insurers on a post-acquisition basis.

Directors

Name	Title

Officers

Name	Title

2. In addition to the above charts, please provide biographical affidavits for the officers and directors for each of the five Domestic Insurers on a post-acquisition basis.

3. The Application states three vacancies on the CVS Health Board will be filled by Mark Bertolini and two other individuals who are serving on the board of directors of Aetna immediately prior to the closing of the Transaction. Have those two individuals been identified? If so, please provide such names and biographical affidavits.

4. While we have not requested them, the Department reserves the right to receive credit histories for all individuals associated with the Applicants.

**ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION**

1. Although throughout the Application there is robust discussion around the Bridge Facility, Joinder to the Bridge Facility and Term Loan Agreement, there is minimal discussion around a more long term solution for financing. Provide an update as to where you are in this process.

2. Please provide the combined company's Debt/EBITDA ratio post-closing. In addition, please define AM Best's reference to "leverage" as found on page 1 of its report in Exhibit 18-B. It is stated that the leverage is expected to be approximately 60% post-

closing.

3. Are you aware of any potential regulatory violations resulting from CVS Health's Total Consolidated Debt/Total Equity ratio increasing post-closing?

4. On page 8 of the Form A Application you state that "CVS Health will suspend its share repurchase program and will suspend shareholder dividend increases in order to achieve the desired leverage." Please provide responses to the following:

- Please confirm that shareholder dividends will continue.
- What is your desired leverage ratio?
- Please provide a three year history indicating the amount of dollars spent in the share repurchase program and dividends to shareholders.

#### **ITEM 5. FUTURE PLANS OF INSURER**

1. The Application states that the Domestic Insurers will run independently from CVS Health. Please describe the compatibility of the Corporate Governance and Enterprise Risk Management ("ERM") culture of Aetna and CVS. Also provide comments on any changes contemplated by CVS Health in either area.

2. Provide high level information regarding CVS Health's ERM framework. Specifically, (either through narrative or flow charts) the ERM structure including reporting responsibilities.

3. Will any of the individuals directly involved with either the CVS Health ERM Program or CVS Health Corporate Governance be involved in the day to day management of any of the Domestic Insurers?

4. Provide all other proposed integration plans including but not limited to IT, financial, and operating systems.

5. The Application states that CVS Health has a proven track record of successfully integrating acquired companies and achieving cost savings. Please provide an example of a recent acquisition along with successful integration details. In addition, as to this Transaction, do you foresee any obstacles or impediments to a successful integration?

6. Please describe more fully how you anticipate achieving synergies of approximately \$700M, as stated in the Application. If this includes employee reduction in overlapping areas provide the area and estimate such employee reductions per area.

7. It has come to the Department's attention that Aetna Health Insurance Company of New York will be merged into Aetna Life Insurance Company. If so, please provide

details, including but not limited to the anticipated timing of the merger. Please note that prior approval must be requested pursuant to Conn. Gen. Stat. section 38a-153.

8. Item 5 of the Application states that "CVS Health has no present plans or proposals following closing of the Transaction to cause the Domestic Insurers to declare any extraordinary dividends." However, it is noted that the projections provide for three out of the five Domestic Insurers with negative unassigned funds for various years. Be reminded that any dividends intended to be paid out of unearned surplus would be considered extraordinary and require prior approval of the Insurance Commissioner pursuant to Conn. Gen. Stat. section 38a-136(h)(3).

9. Projections for Aetna Life Insurance Company show no change in any liability account for 2018-2020 yet the income statement shows premium and benefits changing and the capital and surplus account show unassigned funds changing. Please re-file with liability accounts more reflective of the remainder of the projections.

10. On page 2 of the three year business plan of Aetna Health Inc. (a Connecticut corporation), under the caption Service Agreement, it states that "[t]he Company is a party to an agreement that 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." Please describe if there are any anticipated changes to this agreement post-closing.

11. Aetna Inc. recently announced that all pharmaceutical manufacturer rebates will be passed along to customers at the point of sale in the pharmacy. Will this continue to occur post-closing?

12. Exhibit 14 indicates that Aetna Health and Life Insurance Company is currently writing Medicare Supplement in Connecticut while Exhibit 16 states that "Aetna does not issue coverage reported under Medicare Supplement in Connecticut." Please provide details around this discrepancy.

13. Post-closing, will the Domestic Insurers be part of the consolidated CVS Health when analyzed for rating agency purposes? If so, do you anticipate changes in operational philosophy at the Aetna group level?

14. Provide or explain the "proposed operating model for the combined company" described on page 97 of Exhibit 17.

15. If or when available, please provide a proposed plan for the distribution of employee retention payments which is noted on page 201 of Exhibit 17.

**ITEM 6. VOTING SECURITIES TO BE ACQUIRED**

The Department has no questions but please update the information as appropriate.

**ITEM 7. OWNERSHIP OF VOTING SECURITIES**

The Department has no questions but please update the information as appropriate.

**ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER**

The Department has no questions but please update the information as appropriate.

**ITEM 9. RECENT PURCHASES OF VOTING SECURITIES**

The Department has no questions but please update the information as appropriate.

**ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE**

The Department has no questions but please update the information as appropriate.

**ITEM 11. AGREEMENTS WITH BROKER-DEALERS**

The Department has no questions but please update the information as appropriate.

**ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS**

1. Please provide financial statements as of December 31 2017 for the Domestic Insurers. Please file all appropriate year end 2017 filings for CVS Health.

**ITEM 13. AGREEMENTS REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT**

The Department has no questions but please update the information as appropriate.

**ITEM 14. OTHER INFORMATION**

1. On page 158 of Exhibit 13 under Adjusted Aetna Projections, it states that "CVS Health made certain adjustments to the assumptions and estimates underlying the Aetna projections in light of, among other things, the due diligence CVS Health conducted on Aetna, the potential impact of the transaction pursuant to the terms of the merger agreement and other effects of the transaction, and certain macroeconomic and industry trends." Please provide details justifying all such adjustments made.

2. Exhibit 16 provides a high level competitive impact analysis of the transaction in the State of Connecticut. Please respond to the following:

a. The Application states that it is anticipated that consumers will see lower costs as a result of this proposed merger. Please provide your estimate of the impact consumers may see in the form of lower health premiums.

b. The Application describes that through the use of new forms of patient interactions to supplement physician office visits consumers will benefit. Please describe what you envision these benefits to be (i.e., decrease in physician visits, ease of proximity, etc.).

c. The Application notes that CVS Health currently operates approximately 1,100 MinuteClinics. Please provide details as to how currently consumers are realizing savings through utilizing these settings.

d. It is discussed that services will be increased at CVS MinuteClinics post-closing. Provide details as to how you will facilitate such increase in services (i.e., alteration, expansion, addition, etc.). Has there been a cost-benefit analysis done as to this and, if so, please provide? In addition, include any proposed changes to debt/equity ratio along with any rating agency comments as a result.

e. Although there will be several other carriers in Connecticut writing Medicare Part D, please explain how the Domestic Insurers will not have a competitive advantage being part of the CVS Health umbrella related to all PBM services.

f. It appears that CVS Health has PBM service contracts with other health insurance companies that the Domestic Insurers directly compete with. Provide an analysis which demonstrates that there will not be a competitive disadvantage to such competitors.

g. Please provide Exhibit X which is referenced on page 1 of Exhibit 16 as being attached. Such exhibit was not included in the Application.

3. Please provide copies of all other regulatory filings made by the Applicant in connection with the Proposed Acquisition. A list is not appropriate. With regard to other state and international insurance regulators the equivalent of our Form A, without exhibits, is appropriate and will comply with this requirement. In addition please provide a copy of the Applicant's Hart-Scott Rodino filing, without exhibits, and any federal responses associated with such filing.

4. Please identify, if applicable, any potential material litigation of which CVS Health is aware, which are currently not reflected in the Form A, which could affect the Domestic Insurers.

5. In Exhibit 10-A, there are several risk factors discussed in the 2016 10-K which include, but are not limited to, disruption of IT systems, information security systems or infrastructure to support businesses. Please provide responses to the following:

- What plans or controls has CVS put into place to mitigate these risk factors?
- Have the IT systems ever been compromised such that plans were initiated to correct? If so, provide examples where appropriate.
- Do you have dedicated personnel assigned to cyber risks?

6. Page 6 of the 2017 Form 10-K (received by the Department in March 2018) discusses pharmacy services clients, one of which is Aetna. Aetna has represented an increasing percentage of revenue for CVS of 12.3% for 2017, 11.7% for 2016 and 10% for 2015. Is this growth expected to continue or is it expected to be stronger with the proposed acquisition?

7. There are several health insurance companies under the CVS Health umbrella as identified in Exhibit 3-A. Please provide future strategic initiatives regarding these entities post-closing.

8. Please provide any updates on rating agency information.

#### **ITEM 15. SIGNATURE AND CERTIFICATION**

The Department has no questions but please be aware of the requirement that all persons who signed the Form A Application are required to be present at the hearing.

We look forward to receiving this information at your earliest opportunity. If you feel it beneficial, we are agreeable to meeting by phone or in person to discuss this letter or your proposed responses. Please be aware that further information may be requested as we continue to review and evaluate your submissions therefore we recommend that you provide detailed and complete responses to avoid our having to seek further information which may delay the process.

If you have any questions, or would like to discuss, please let me know.

Sincerely,



Jared T. Kosky  
Counsel, Connecticut Insurance Department

cc: Kathy Belfi, CID  
Lynn Hein, CID