



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

, Andrew N. Mais Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of **CIGNA HEALTHCARE OF CONNECTICUT, INC.** (the "Company") as of December 31, 2018, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

#### TO WIT:

1. I, Andrew N. Mais, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On May 1, 2020, the verified Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 27, 2020, the Company notified the Insurance Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

**NOW, THEREFORE**, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.
3. **Section 38a-14(e)(4)(A) of the CGS requires that:**

*“The secretary of the board of directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the commissioner, in writing, that a copy of the report or summary has been provided to each director.”*

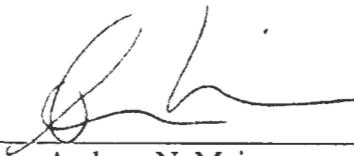
**Please address the certification to the commissioner but send[ing] to the care/attention of William Arfanis, Supervising Examiner, of the Financial Regulation Division.**

4. **Section 38a-14(e)(4)(B) of the CGS requires that:**

*“Not later than one hundred twenty days after receiving the report or summary, the chief executive officer or the chief financial officer of the entity examined shall present the report or summary to the entity's board of directors or similar governing body at a regular or special meeting.”*

**This will be verified by the Insurance Department either through analysis or examination follow-up.**

Dated at Hartford, Connecticut, this 4th day of June, 2020.



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Andrew N. Mais  
Insurance Commissioner

Exhibit A

**EXAMINATION REPORT**

**OF THE**

**CIGNA HEALTHCARE OF CONNECTICUT, INC.  
(NAIC #95660)**

**AS OF**

**DECEMBER 31, 2018**

**BY THE**

**CONNECTICUT INSURANCE DEPARTMENT**



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May 1, 2020

The Honorable Andrew N. Mais  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has conducted a financial examination of the condition and affairs of:

**CIGNA HEALTHCARE OF CONNECTICUT, INC.**

(hereinafter referred to as the Company or CHCCT), a capital stock corporation incorporated under the laws of the State of Connecticut and having its main administrative office located at 900 Cottage Grove Road, Bloomfield, CT. The report of such examination is submitted herewith.

**SCOPE OF EXAMINATION**

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department) as of December 31, 2013. The current examination, which covers the subsequent five year period through December 31, 2018, was conducted at the Company's statutory home office in Bloomfield, CT.

The current examination was conducted as part of a multi-state examination, in which the Department served as the lead state. As the lead state, the Department coordinated the examination of Cigna entities comprised of seven subgroups of thirty-seven (37) regulated entities domiciled in seventeen (17) states (the Group). The coordinated examination not only provided information on each insurer individually but also provided a structure for regulators to understand and evaluate risks of the companies within the holding company as a whole.

The other Connecticut domiciled entities examined concurrently were: Connecticut General Life Insurance Company (CGLIC), Cigna Health and Life Insurance Company (CHLIC) and Cigna Arbor Life Insurance Company (CALIC).

As a part of the examination planning procedures, the Department reviewed the following documentation submitted by the Company for the period under examination:

- Board of Director (Board) and other committee minutes (through the latest 2019 minutes);
- statutory audit reports completed by the Company's independent certified public accountants, PricewaterhouseCoopers, LLC (PwC);
- Management's Discussion and Analysis;

## CIGNA HEALTHCARE OF CONNECTICUT, INC.

- Statements of Actuarial Opinion;
- documentation supporting Section 404 of the Sarbanes-Oxley Act of 2002 (SOX);
- Form 10-K reports filed with the Securities and Exchange Commission;
- Annual Statements filed with the Department; and
- reports of the Internal Audit Department (IA).

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as the independent audit reports, all of which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by PwC, as of December 31, 2018, in connection with its annual statutory audits were reviewed and relied upon to the extent deemed appropriate.

Lewis and Ellis, Inc. (L&E) was engaged by the Department to assist in the review of the Group's reserving, pricing and underwriting, and reinsurance risks. L&E also reviewed certain aspects of the Patient Protection and Affordable Care Act (ACA).

Noble Consulting, Inc. (Noble) was engaged by the Department to assist in the review of the Group's information technology (IT) general controls.

JP Consulting (JPC) was engaged by the Department to assist in the review of the Group's investment risks.

Risk and Regulatory Consulting, LLC (RRC) was engaged by the Department to perform a review of the Group's commercial medical loss ratio.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company and evaluating 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 compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Annual Statement Instructions (Instructions).

The examination considered prospective risks, those risks that existed at the balance sheet date that will impact future operations or risks associated with future business plans of the Company. Examination procedures were performed as deemed appropriate to evidence actions that the Company had taken to mitigate these risks.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

## CIGNA HEALTHCARE OF CONNECTICUT, INC.

### HISTORY

The Company was incorporated on June 26, 1985, under Chapter 648a-part I of the CGS, licensed by the Insurance Commissioner of the State of Connecticut on January 27, 1986, and commenced business on May 1, 1986. CHCCT was federally qualified as a Health Maintenance Organization (HMO) on December 24, 1986.

On June 25, 1997, Cigna Corporation (Cigna) acquired all of Healthsource, Inc. (Healthsource) outstanding common stock. Healthsource was a New Hampshire based company that operated a large indemnity book of business and a number of HMOs licensed in various states. A plan of merger between the Company and Healthsource, Inc. was filed with the Department on July 24, 1998. Effective April 1, 1999, the merger resulted in CHCCT as the surviving company.

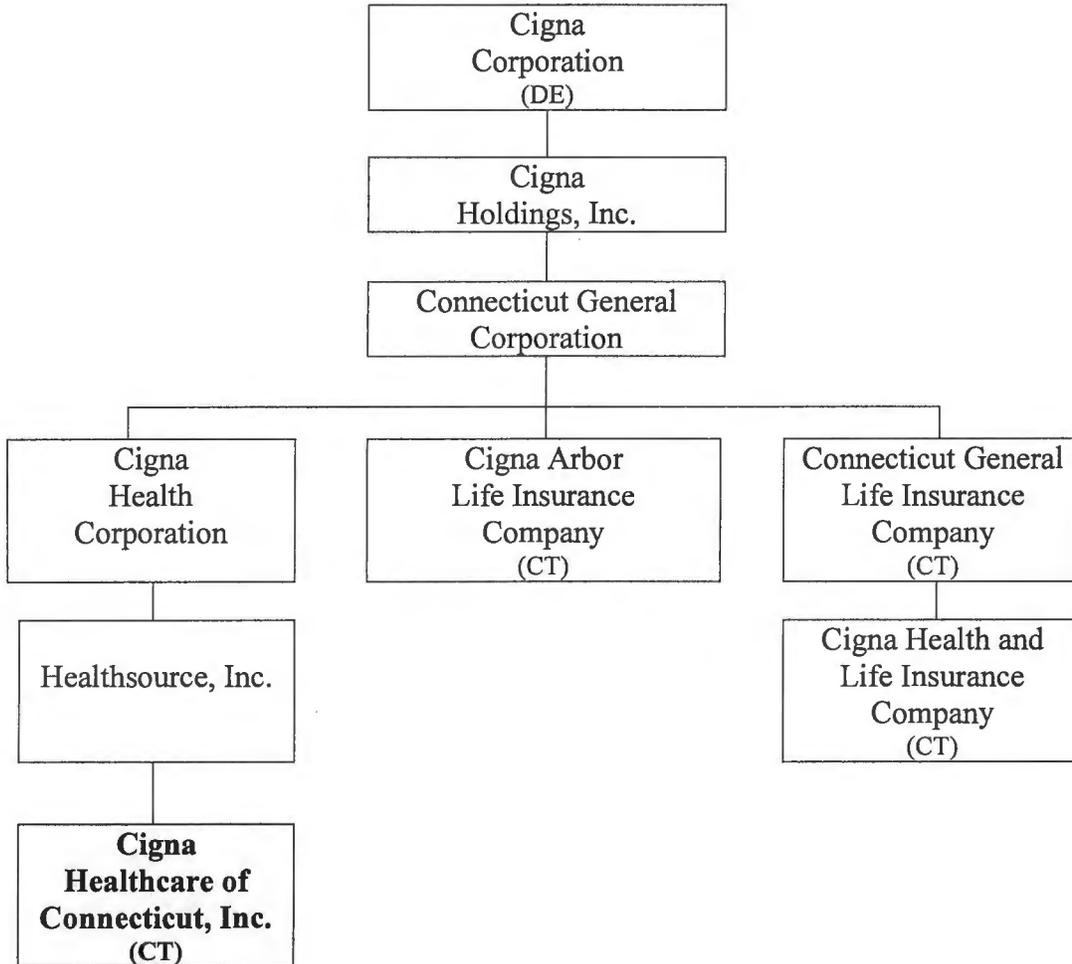
On December 20, 2018, the Company's ultimate parent entity, Cigna, acquired Express Scripts Holding Company in a cash and stock transaction valued at \$52.8 billion.

The Company is a wholly-owned subsidiary of Healthsource, which is a wholly-owned subsidiary of Cigna Health Corporation (CHC), which is an indirect, wholly-owned subsidiary of Cigna.

CIGNA HEALTHCARE OF CONNECTICUT, INC.

ORGANIZATIONAL CHART

A partial organizational chart of the insurance holding company system at the end of the examination period is as follows:



MANAGEMENT AND CONTROL

The annual meeting of the shareholders is held on any date and place that the directors may designate, and if so designated, notices thereof need not be given. Special meetings may be called at any time by the chairman, the president or the Board upon written request of the holders of not less than ten percent (10%) of all the shares entitled to vote at the meeting.

The holder of a majority of the shares issued and outstanding and entitled to vote at such meeting shall constitute a quorum.

The bylaws provide that the property, business and affairs of the Company be managed by its Board. The number of directors shall be not less than one nor more than nine as the Board shall from time to time determine. Where the issued and outstanding shares are owned beneficially and of record by three or more shareholders, the number of directorship shall not be less than three.

CIGNA HEALTHCARE OF CONNECTICUT, INC.

Where the issued and outstanding shares are owned by less than three shareholders, the number may not be less than the number of shareholders. Regular or special meetings of the Board may be held either within or without the State of Connecticut. The Board may designate members of the Board to constitute committees.

A majority of the directors shall constitute a quorum at all meetings of the Board.

Directors serving the Company at December 31, 2018, were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Wendy Sherry	Market Leader, Cigna
Michael T. Crompton	Accounting Managing Director, Cigna
Peter W. McCauley, MD	Medical Managing Director, Cigna

Officers serving the Company at December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
Wendy Sherry	President
Scott R. Lambert	Treasurer
Anna Krishtul	Secretary
Glenn M. Gerhard	Vice President
Mark P. Fleming	Vice President
Joanne R. Hart	Vice President
Michael T. Compton	Vice President
Kathleen O'Neil	Vice President
Aslam M. Khan, M.D., M.M	Vice President
Maureen H. Ryan	Vice President
Timothy S. Sheridan	Vice President
Edward V. Stacey, Jr.	Vice President

## CIGNA HEALTHCARE OF CONNECTICUT, INC.

### RELATED PARTY TRANSACTIONS

The Company is a party to numerous related party transaction agreements. The significant agreements are as follows:

#### Investment Advisory Agreement:

Effective February 19, 2010, the Company entered into an agreement with Cigna Investments, Inc. to provide investment management and advisory services.

#### Management Services Agreement:

The Company entered into a Management Services Agreement as amended effective July 1, 2012, with CHC and certain affiliates to provide management services.

#### Fee Sharing Agreement

Several of Cigna's subsidiaries are subject to the Health Insurance Providers Fee. CHCCT entered into the Fee Sharing Agreement on November 13, 2015, and has consented to select Cigna as its "designated entity" for the payment of this fee.

#### Dental Care Agreement

The Dental Care Agreement, effective April 30, 2003, by and between the Company, CGLIC and Cigna Dental Health (CDH) whereby CDH provides certain administration services in conjunction with the administration of dental plans.

#### Cigna Behavioral Health, Inc. (CBH) Agreement

The Company also entered into agreements with CBH to receive utilization review and other administrative services from CBH in connection with group coverage for mental health and substance abuse. CBH also develops provider networks and acts as the preferred or exclusive provider organization and administers fully insured contracts with employer groups under a third party administrative agreement.

#### Line of Credit Agreement (LOC Agreement)

The LOC Agreement between the Company and CHC would allow CHC to loan funds to the Company from time to time to ensure the Company will be able to meet its operational cash obligations while earning additional investment income. There was no liability associated with this agreement as of December 31, 2018.

#### Consolidated Federal Income Tax Agreement (Tax Agreement)

The Company is included in the consolidated federal income tax return filed by Cigna, pursuant to the amended and restated Tax Agreement. Federal income taxes are allocated to the Company as if it were filing on a separate return basis.

## CIGNA HEALTHCARE OF CONNECTICUT, INC.

### INSURANCE COVERAGES

The Company is covered by a fidelity bond maintained by Cigna for itself and other affiliates and subsidiaries. The aggregate limit of liability provides fidelity coverage above the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts in the Handbook. In addition to the fidelity insurance policy, Cigna maintains various other types of insurance coverages.

### TERRITORY AND PLAN OF OPERATION

As a federally qualified HMO its principal products and services include managed care products and services. The majority of membership is for dental. Comprehensive membership decline over the years is as a result of commercial members terminating or migrating to other non-HMO Cigna products with affiliates. CHCCT expects some employers to continue requesting access to traditional HMO coverage. The Company plans to keep marketing channels open to such coverage and renew existing HMO accounts as requested with no imposed migration to other affiliates.

### INFORMATION TECHNOLOGY CONTROLS

The Department engaged Noble to assist in conducting a review of the Groups' IT controls environment in accordance with the guidelines and procedures set forth in Exhibit C of the Handbook (Exhibit C). The objectives were achieved through a combination of reviewing the Group's policies and procedures, testing in key areas related to Exhibit C, interviewing senior IT management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by PwC, IA, and SOX/Model Audit Rule documentation.

Based upon the risk-based assessment and review, the IT general control environment was determined to be effective.

### ACCOUNTS AND RECORDS

The Company utilizes the Oracle general ledger (GL) of which access is restricted through Cigna's Role-Based Access Controls (RBAC) process. User RBAC roles are semi-annually reviewed and approved by managers, and Oracle GL users' access reviews are conducted quarterly, whereby all Oracle users' access is reviewed and signed off by the users' managers.

General ledger account balances were reconciled and traced to the amounts reported in the annual statement for 2018. Further detailed analyses were performed on individual accounts throughout the examination.

CIGNA HEALTHCARE OF CONNECTICUT, INC.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2018. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$534,222		\$534,222
Cash, cash equivalents and short-term investments	3,965,027		3,965,027
Investment income due and accrued	2,297		2,297
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	813,988	\$5,106	808,882
Receivable from parent, subsidiaries and affiliates	290,150		290,150
Aggregate write-ins for other than invested assets	60,412		60,412
Total	<u>\$5,666,096</u>	<u>\$5,106</u>	<u>\$5,660,990</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$445,138
Unpaid claims adjustment expenses	4,497
Aggregate health policy reserves	110
Premiums paid in advance	36,227
General expenses due or accrued	42,928
Current federal and foreign income tax payable and interest thereon	120,675
Net deferred tax liability	25,131
Ceded reinsurance premiums payable	127
Remittances and items not allocated	4,888
Amounts due to parent, subsidiaries and affiliates	29,136
Aggregate write-ins for other liabilities	40
Total liabilities	<u>708,897</u>
Common capital stock	1,000
Unassigned funds (surplus)	4,951,095
Total capital and surplus	<u>4,952,095</u>
Total liabilities, capital and surplus	<u>\$5,660,992</u>

CIGNA HEALTHCARE OF CONNECTICUT, INC.

STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$9,481,309
Total revenues	9,481,309
Hospital and Medical:	
Hospital/medical benefits	46,965
Other professional services	5,337,274
Outside referrals	2,139
Emergency room and out-of-area	7,476
Prescription drugs	5,968
Incentive pool, withhold adjustments, and bonus amounts	390
Subtotal	5,400,212
Less:	
Claims adjustment expenses	77,249
General administrative expenses	1,091,171
Increase in reserves for life and accident and health contracts	(180)
Total underwriting deductions	6,568,452
Net underwriting gain or (loss)	2,912,857
Net investment income earned	52,588
Net realized capital gains (losses)	(61,267)
Net investment gains (losses)	(8,679)
Net gain or (loss) from agents' or premium balances charged off	286
Net income or (loss) after capital gains tax and before all other federal income taxes	2,904,464
Federal and foreign income taxes incurred	632,407
Net income	<u>\$2,272,057</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year	\$2,644,098
Net income	2,272,057
Change in deferred income tax	31,855
Change in nonadmitted assets	4,083
Net change in capital and surplus	2,307,995
Capital and surplus end of reporting period	<u>\$4,952,095</u>

CIGNA HEALTHCARE OF CONNECTICUT, INC.

<u>CLAIMS UNPAID</u>	<u>\$445,138</u>
<u>UNPAID CLAIMS ADJUSTMENT EXPENSES</u>	<u>\$4,497</u>

L&E conducted an assessment of the Group’s reserving, pricing and underwriting, and reinsurance risks. L&E also reviewed certain aspects of the ACA. Although no material issues were noted during the review of these risks the following were noted:

- The Actuarial Opinion (Opinion) and Actuarial Memorandum (Memorandum) did not fully meet all the requirements as outlined in the Instructions. According to the Instructions, “The Actuarial Opinion and the supporting Actuarial Memorandum and work papers must conform to the appropriate Actuarial Standards of Practice as promulgated by the Actuarial Standards Board”. It is recommended that the Company revise its Opinion and Memorandum, as applicable, to be in full compliance with the Instructions.
- The Company did not fully comply with the NAIC Health Reserve Guidance Manual (Guidance Manual), the Premium Deficiency Reserves (PDR) Discussion Paper (March 2007), and SSAP No. 54R of the Manual, in its PDR analysis and calculations to be performed. The reserve should be calculated using reasonable enrollment and rate increase assumptions and incorporate claim trends. Expenses for a particular grouping should represent a reasonable allocation of all the reporting entity’s expenses. The Company should disclose each contract grouping that had a positive PDR value. All other contract groupings’ reserve value for testing premium deficiency should be documented. It is recommended that the Company comply with the Guidance Manual, the PDR Discussion Paper, and the Manual when determining the PDR.

CAPITAL AND SURPLUS

The reconciliation of surplus for the period under examination was as follows:

Surplus, as of December 31, 2013	\$30,586,176
Net income	11,586,416
Change in net deferred income tax	(64,926)
Change in non-admitted assets	456
Dividends to stockholders	(37,000,000)
Aggregate write-ins for gains and losses in surplus	(156,029)
Net change in capital and surplus	(25,634,083)
Surplus, December 31, 2018	<u>\$4,952,093</u>

The decrease in surplus during the examination period was primarily attributable to a \$37 million dividend payment to HealthSource in 2017, partially offset by net income.

RECOMMENDATIONS

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10 CLAIMS UNPAID AND UNPAID CLAIMS ADJUSTMENT EXPENSES

- It is recommended that the Company revise its Opinion and Memorandum, as applicable, to be in full compliance with the Instructions.
- It is recommended that the Company comply with the Guidance Manual, the PDR Discussion Paper, and the Manual when determining the PDR.

SUBSEQUENT EVENTS

- As a result of the failed 2017 merger between parent Cigna and Anthem Inc., Cigna is seeking a \$1.85 billion reverse termination fee from Anthem, with the Cigna-Anthem litigation expected to be resolved in mid-2020.
- In December 2019, Cigna entered into a definitive agreement to sell its Group Disability and Life insurance business to New York Life Insurance Company for \$6.3 billion. The sale is expected to close in the third quarter of 2020 following applicable regulatory approvals and other customary closing conditions.
- On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department has been in communication with Cigna regarding the impact of COVID-19 on its business operations and the financial position, including its Pandemic Preparedness Plan and material Third Party Vendors business continuity plans. For example, Cigna has created an Emerging Virus Workgroup to make COVID-19 related benefits and coverage recommendations to the Enterprise COVID-19 Command Center, that determines whether they should be implemented. No current material operational, solvency or liquidity concerns resulted from the high level assessment of Cigna's operational and solvency position as a result of COVID-19.

## CIGNA HEALTHCARE OF CONNECTICUT, INC.

- Effective March 2, 2020, Carrie Casciani joined Cigna in the role of Senior Vice President, Corporate Audit. She will also serve as the Chief Risk Officer.
- On April 27, 2020, the U.S. Supreme Court ruled that the U.S. government must pay health insurers who absorbed excessive early losses from their ACA marketplace plan offerings. Under the ACA's risk corridors program, insurers were promised that the federal government would help cover the excessive costs from the individual plan claims for three years as a way to encourage insurers to offer plans. The three-year risk corridors program closed in 2016 with an approximate \$12 billion shortfall. The amount of reimbursement to individual insurers have yet to be determined.

### CONCLUSION

The results of this examination disclosed that, as of December 31, 2018, the Company had admitted assets of \$5,660,990, liabilities of \$708,897, and surplus of \$ 4,952,095. During the period under examination, admitted assets decreased \$25,909,029, liabilities decreased \$274,948, and surplus as regards policyholders decreased \$25,634,083.

CIGNA HEALTHCARE OF CONNECTICUT, INC.

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: William Arfanis, CFE; Mike Estabrook, CFE; Ronald Jankoski, CFE; Grace Jiang, CFE; Chiffon King, AFE; Keith Kleindienst, CFE; Kent Krajick, CFE; Daniel Levine, AFE, CPA; Ellen McCarthy, AFE; Susan Pulaski, CPA; William Tacy, CFE, CIA, CISA; Andrew Greenhalgh, FSA, MAAA; and the professional services firms of Noble, JPC, RRC, and L&E.

I, Kevin Beaudoin, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2018, to the best of my information, knowledge and belief.

Respectfully submitted,



Kevin Beaudoin, CFE  
Insurance Certified Financial Examiner  
State of Connecticut  
Insurance Department

State of Connecticut            ss

County of Hartford

Subscribed and sworn before me, Jane J. Murphy, Notary Public/Commissioner of the Superior Court, on this 27<sup>th</sup> day of April, 2020.

  
Notary Public/Commissioner of the Superior Court

My Commission Expires July 31, 2023

**JANE J. MURPHY**  
**NOTARY PUBLIC**  
**MY COMMISSION EXPIRES JULY 31, 2023**