



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of **CIGNA HEALTH AND LIFE INSURANCE COMPANY** (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 29, 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 24th day of June, 2020.



Andrew N. Mais  
Insurance Commissioner

Exhibit A

**EXAMINATION REPORT**

**OF THE**

**CIGNA HEALTH and LIFE INSURANCE COMPANY  
(NAIC #67369)**

**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 the:

**CIGNA HEALTH and LIFE INSURANCE COMPANY**

(hereinafter referred to as the Company or CHLIC), 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 HealthCare of Connecticut, Inc. (CHCCT), 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 HEALTH and LIFE INSURANCE COMPANY

- 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 (MLR).

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 HEALTH and LIFE INSURANCE COMPANY

### HISTORY

The Company was originally incorporated in the state of Florida as Orange State Life Insurance Company on May 2, 1963. On June 15, 1982, the Company's name was changed to Home Life Financial Assurance. In 1994, the Company redomesticated to Ohio.

In 1995, the Company became a wholly owned subsidiary of Anthem Insurance Companies, Inc., a subsidiary of Anthem Companies, Inc. On March 21, 1996, the Company redomesticated to Indiana and changed its name to Anthem Health & Life Insurance Company.

Effective July 8, 1998, the Company became wholly owned by Great-West Life & Annuity Insurance Company (GWL&A), a Colorado domiciled insurance company. On June 15, 1999, the Company changed its name to Alta Health & Life Insurance Company.

On April 1, 2008, the Company was acquired by CGLIC. The transaction was accounted for as a purchase under an Asset and Stock purchase agreement entered into between CGLIC and GWL&A. Concurrent with the acquisition, the Company entered into a reinsurance agreement with Life Insurance Company of North America, an affiliated company, to reinsure a portion of the Company's life and disability book of business.

On March 5, 2010, the Company redomesticated to Connecticut and simultaneously changed its name to Cigna Health and Life Insurance Company.

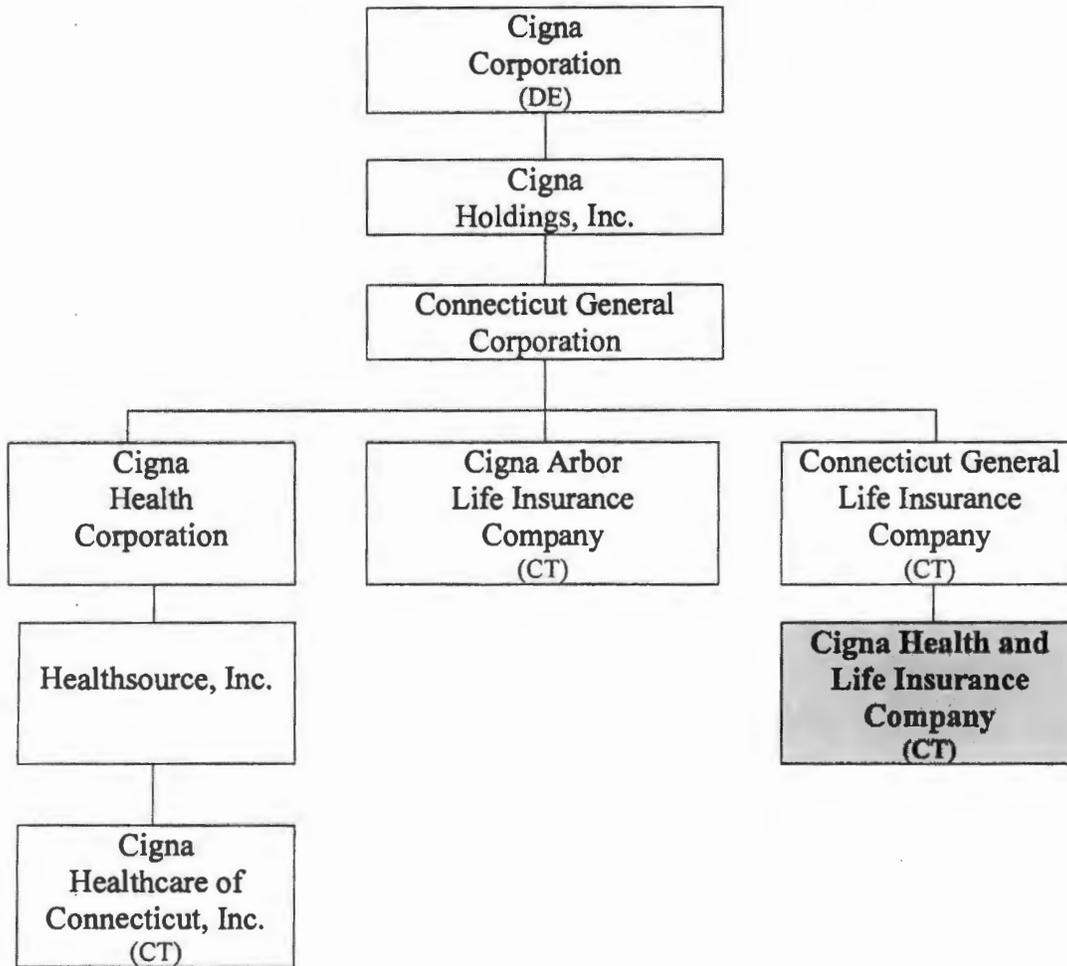
On December 20, 2018, the Company's ultimate parent entity, Cigna, acquired Express Scripts Holding Company (ESI) in a cash and stock transaction valued at \$52.8 billion. ESI is one of the leading pharmacy benefit management (PBM) companies in the U.S. ESI offers integrated PBM services to its clients, which include: network pharmacy claims processing, home delivery pharmacy, specialty pharmacy, benefit design consultation, drug utilization review and formulary management. ESI also offers specialty pharmaceutical and medical supplies distribution services to providers' clients and hospitals, medical benefit management services and consulting services for pharmaceutical and biotechnology manufacturer.

The Company is a wholly-owned subsidiary of Connecticut General Corporation (CGC), which is a wholly-owned subsidiary of Cigna Corporation (Cigna).

# CIGNA HEALTH and LIFE INSURANCE COMPANY

## 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 bylaws of the Company require annual and special meetings of the shareholders for the election of directors or for any other purpose to be held at any location, either within or outside the state of Connecticut, as shall be designated from time to time by the Board. Written notice is required to be provided to all stockholders not less than ten (10) nor more than sixty (60) days prior to the date of the meeting. Special meetings of the shareholders may be called for any purpose by the chairman, or the president, any vice president, the secretary, the assistant secretary, any officer, or the shareholders owning at least ten percent of all votes entitled to be cast.

The holders of a majority of the Company's capital stock issued and outstanding shall constitute a quorum for all meetings of the shareholders.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

The bylaws provide that the property, business and affairs of the Company to be managed by its Board, which may consist of not less than five nor more than twelve members. The Board may hold meetings at such times and places as they determine and special meetings may be called at any time by the chairman, the president, or by any director. A quorum is constituted as the majority of the entire Board or a majority of the directors constituting such committee meeting.

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

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Edward P. Potanka	Associate Chief Counsel, Cigna
Christopher S. Snow	Chief Counsel, Cigna
Julia M Huggins	Senior Vice President, U.S. Markets, Cigna
David A. Russell	Actuarial Managing Director, Cigna
David P. Bourdon	Senior Vice President, Business Financial Officer, Cigna
Timothy D. Buckley	Senior Vice President Treasury, Cigna
Frank Sataline, Jr.	Senior Vice President, Chief Investment Officer, Cigna

Committees at the holding company level consisted of:

Cigna  
Audit Committee  
Corporate Governance Committee  
Compliance Committee  
Executive Committee  
Finance Committee  
People Resources Committee

CGC  
Audit Committee

The Company also has an investment committee with other affiliates.

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

<u>Name</u>	<u>Title</u>
Julia M. Huggins	President
David P. Bourdon	Chief Financial Officer
Scott R. Lambert	Vice President and Treasurer
Janna Krishtul	Corporate Secretary
James Yablecki	Vice President and Valuation Actuary
Frank Sataline	Senior Vice President

## CIGNA HEALTH and LIFE INSURANCE COMPANY

### RELATED PARTY TRANSACTIONS

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

#### Investment Advisory Agreement:

Effective April 1, 2008, the Company entered into an agreement with Cigna Investments, Inc. (CII) to provide investment management and advisory services.

#### Investment Pooling Agreement

The Company, CII and other affiliates entered into this agreement effective April 1, 2011, to provide for the participation of short-term investments to facilitate effective cash management.

#### Amended and Restated Intercompany Service Agreement

The Company provided certain medical and utilization review services by Cigna Health Management, Inc. (CHM) (formerly International Rehabilitation Associates d/b/a Intracorp). CHLIC was added to this agreement on February 9, 2011. The agreement includes Cigna Health Corporation (CHC) on behalf of its healthplan subsidiaries. CHM is a directly wholly-owned subsidiary of CGC.

#### Administrative Services Agreement

There is an amended and restated Administrative Services Agreement between CGLIC and CHLIC effective April 1, 2013 to provide various services for each party's ongoing life and health business.

#### Line of Credit

The Company acts as a lender in a line of credit agreement with Cigna under which the maximum amount that may be loaned is \$300 million. As of December 31, 2018, there was a \$300 million outstanding receivable balance from Cigna.

#### Management Services Agreement

Effective July 1, 2012, the Company was added to the Management Services Agreement whereby the Company provides billing and other administrative series to various healthplan affiliates of Cigna Health Corporation (CHC) and is paid for these services by CHC pursuant to the Expense Sharing Agreement.

#### Network Access Agreement

Effective January 1, 2011, the Company is party to this agreement for the provision of provider networks and other administrative services for group benefit health plans insured or administered by CGLIC.

#### Mail-Order Pharmacy Agreement

Effective January 1, 2011, the Company is party to this agreement for the provision of mail-order pharmacy series under a series agreement with Tel-Drug, Inc. and other indirect subsidiaries of Cigna.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

### Cigna Behavioral Health and CGLIC Agreement for Provision of Mental Health and/or Substance Abuse Services

The Company contracts with Cigna Behavioral Health, Inc. (CBH) to provide disease management, mental health and substance abuse services to customers covered by the Company's insured and self-insured plans. CHLIC was added to this agreement effective January 1, 2011.

### Employee Assistance Program Contract

CHLIC was added to an agreement between CBH and CGLIC effective January 1, 2011. Under this agreement, CGLIC intends to provide an employee assistance program to groups who have purchased group limited benefit plans and their eligible employees and dependents.

### Assignment and Consent Agreement

As of January 1, 2011, the Company and CGLIC are parties to this agreement whereby various agreements held by CGLIC in 2011 were assigned to the Company. The agreements relate to the administration of self-funded and insured benefit plans sponsored by employers, unions, associations, trustees of multiple employer trusts and other entities.

### Master Agreement

The Company is party to a Master Agreement with CGLIC dated as of September 1, 2011, for the transfer and assumption of certain insurance policies from CGLIC to the Company. Under this agreement, the Company intends to transfer, from time to time, certain insurance policies to the Company. The Company will assume the direct obligation of performance under such insurance policies.

### Expense Sharing Agreement

On April 3, 2009, CHLIC became a party to the Expense Sharing Agreement. Cigna allocates expenses for certain shared services incurred at the corporate level to its subsidiaries, with the exception of a limited number of expenses retained the corporate level.

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

Effective April 1, 2008, 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.

### Management Agreement

Effective January 1, 2014, the Company entered into a management agreement with HealthSpring Management of America, LLC (HSMA) whereby HSMA provides managerial, administrative and financial support services to the Company's Medicare Advantage Business. The agreement was amended effective January 1, 2015, to include the Medicare Prescription Drug Plan.

### Fee Sharing Agreement

Effective September 24, 2014, several of Cigna's subsidiaries are subject to the Health Insurance Providers Fee (the Fee) which is imposed on entities engaged in the business of providing health insurance for any United States health risk. The Agreement allows Cigna to pay the Fee owed collectively by all covered entities in the group, and to perform all necessary and appropriate actions that may be required to fulfill Cigna's responsibilities as the designated entity.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

### Line of Credit

The Company acts as a lender under a line of credit with Cigna Insurance Middle East S.A.L. (CIME), an affiliate. Under the terms of the agreement the maximum amount that can be drawn is \$50 million and that balance must be paid by January 1, 2020. As of December 31, 2018, there was \$48 million outstanding from CIME.

### 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

#### Plan of Operation

The Company is a major provider of health care and related benefits in the U.S., the majority of which are offered through employers and other groups. The Company's principal product offerings are group health insurance as well as individual Medicare and life insurance. In addition, the Company has international operations that offer products (that are similar to those offered in the U.S.) to businesses and individuals in selected markets. The Company also has certain run-off operations including individual insurance, group retirement and reinsurance operations.

The Company is licensed in all states, the District of Columbia, Puerto Rico, and U.S. Virgin Islands.

In 2010, Cigna embarked on a multi-year legal entity alignment project to migrate the healthcare business out of CGLIC and establish CHLIC as Cigna's flagship healthcare company. Healthcare membership and insurance policies have been migrating/repapering to CHLIC with nearly all policies migrated as of December 31, 2013.

As a result of the ESI merger, effective in the fourth quarter of 2018, Cigna's segments have changed to the following: 1) Integrated Medical, consisting of both a Commercial operating segment that includes its employer-sponsored medical coverage and a Government operating segment that includes Medicare offerings for seniors and individual insurance offerings to non-seniors both on and off the public health insurance exchanges; 2) Health Services, consisting primarily of Cigna's legacy home delivery pharmacy business and ESI's pharmacy benefit management business beginning December 21, 2018; and 3) International Markets, that offers global supplemental benefits and global medical solutions. 4) the remainder of its business is reported in Group Disability and Other, consisting of its group disability and life business together with its corporate owned life insurance business and run-off operations.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

### Distribution

The Company's group sales representatives distribute the indemnity and managed health care products and services through a diversified distribution network comprised of independent agents, national insurance brokers and benefit consultants employed by the Company.

The Company's international life, accident and supplemental health insurance products are distributed through direct marketing sources, while the health care products are distributed through independent brokers, consultants and employed sales personnel.

### REINSURANCE

A summary of the significant reinsurance agreements are as follows:

#### Reinsurance Assumed

The Company provides accident and health stop loss coverage with a number of affiliated single state health maintenance organization (HMO) companies. Expatriate business provides mainly comprehensive major medical and dental indemnity insurance. The products are sold to United States and non-United States multi-national companies, government agencies and not-for-profit groups which have employees working outside their home country. The Company assumes coverage from Saudi Arabian Cooperative Insurance Company, a non-affiliated Saudi Arabian company that provides coverage for its international individual and group accident and health products. This assumption agreement went in runoff effective May 31, 2017.

#### Reinsurance Ceded:

The expatriate block of business is 100% ceded to Cigna Global Reinsurance Company (Cigna Global), an unauthorized, non-U.S. affiliate, and White Mountain Insurance Company of America. The Company cedes global group benefits products business for employees of U.S. multinational companies (e.g., expatriate). The Cigna Global agreement requires reinsurance premiums to be held on a funds withheld account.

### 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.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

### 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 HEALTH and LIFE INSURANCE COMPANY

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

Account Description	Assets	Nonadmitted Assets	Net Admitted Assets
	\$5,223,633,140		\$5,223,633,140
Preferred stocks	77,464,349		77,464,349
Common stocks	326,937,119		326,937,119
Home loans on real estate: First liens	518,693,957		518,693,957
Cash equivalents and short-term investments	192,967,043		192,967,043
Auto loans	524,142		524,142
Receivables	8,135,120		8,135,120
Invested assets	1,065,238,632	\$845,630	1,064,393,002
Available for securities	30,288,817	67,211	30,221,606
Interest income due and accrued	58,069,497		58,069,497
Receivables and considerations:			
Collected premiums and agents' balances in course of collection	522,046,109	49,669,321	472,376,788
Unearned retrospective premiums	74,857,627		74,857,627
Reinsurance:			
Amounts recoverable from reinsurers	2,420,232		2,420,232
Assets held by or deposited with reinsured companies	807,779		807,779
Reinsurance amounts receivable under reinsurance contracts	57,771,193	29,047,735	28,723,458
Assets receivable relating to uninsured plans	944,546,293	55,698,669	888,847,624
Deferred federal and foreign income tax			
Payable and interest thereon	14,066,428		14,066,428
Deferred tax asset	247,556,917		247,556,917
Investment funds receivable or on deposit	42,405,557		42,405,557
Computer data processing equipment and software	803,764,447	701,090,919	102,673,528
Leasehold improvements and equipment, including health care equipment	34,861,100	34,861,100	0
Assets receivable from parent, subsidiaries and affiliates	371,346,974	1,263,223	370,083,751
Receivable for health care and other amounts receivable	410,182,228	18,540,329	391,641,899
Other amounts receivable	510,900,567	159,233,268	351,667,299
	<u>\$11,539,485,267</u>	<u>\$1,050,317,405</u>	<u>\$10,489,167,862</u>

CIGNA HEALTH and LIFE INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$5,717,380
Aggregate reserve for accident and health contracts	200,548,556
Liability for deposit-type contracts	39,510,652
Contract claims:	
Life	239,911
Accident and health	1,796,254,830
Unearned premiums and annuity considerations for life and accident and health contracts	136,328,878
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	221,917,081
Unearned amounts payable on reinsurance	20,739,876
Commissions to agents due or accrued	34,725,282
Commissions and expense allowances payable on reinsurance assumed	4,904,010
Unpaid general expenses due or accrued	972,001,045
Licenses, licenses and fees due or accrued	112,426,757
Assets withheld or retained by company as agent or trustee	39,750,746
Contingencies and items not allocated	308,537,295
Other miscellaneous liabilities:	
Net valuation reserve	223,321,870
Reinsurance in unauthorized companies	1,204,907
Assets held under reinsurance treaties with unauthorized and certified reinsurers	124,222,353
Assets payable to parent, subsidiaries and affiliates	352,077,239
Liability for amounts held under uninsured plans	1,058,642,133
Assets held under coinsurance	574,997
Contingencies	558,800
Liability for securities	12,339,296
Aggregate write-ins for liabilities	21,486,969
Other liabilities	5,688,030,863
Non capital stock	2,520,000
Retained and contributed surplus	1,415,920,348
Unassigned funds (surplus)	3,382,696,651
Assets	4,798,616,999
Retained surplus and other funds	4,801,136,999
Other liabilities and surplus	<u>\$10,489,167,862</u>

CIGNA HEALTH and LIFE INSURANCE COMPANY

SUMMARY OF OPERATIONS

premiums and annuity considerations for life and accident and health contracts	\$16,629,769,242
investment income	314,428,786
amortization of interest maintenance reserve (IMR)	(539,716)
commissions and expense allowances on reinsurance ceded	146,110,451
miscellaneous income:	
charges and fees for deposit-type contracts	1,780
aggregate write-ins for miscellaneous income	30,324,195
	<u>17,120,094,738</u>
claims benefits	438,186
disability benefits and benefits under accident and health contracts	13,386,428,344
death benefits and withdrawals for life contracts	2,503
provisions and adjustments on contracts or deposit-type contract funds	(2,029,817)
change in aggregate reserves for life and accident and health contracts	8,371,771
	<u>13,393,210,987</u>
commissions on premiums, annuity considerations and deposit-type contract funds	327,291,652
commissions and expense allowances on reinsurance assumed	3,835,565
operational insurance expenses	(96,066,613)
income taxes, licenses and fees, excluding federal income taxes	705,299,707
change in loading on deferred and uncollected premiums	46,981
	<u>14,333,618,279</u>
income from operations before dividends to policyholders and federal income taxes	<u>2,786,476,459</u>
income from operations after dividends to policyholders and before federal income taxes	2,786,476,459
domestic and foreign income taxes incurred	541,188,935
income from operations after dividends to policyholders and federal income taxes and	
net realized capital gains or (losses)	2,245,287,524
net realized capital gains or (losses) less capital gains tax	(48,006,488)
income	<u>\$2,197,281,036</u>

CIGNA HEALTH and LIFE INSURANCE COMPANY

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	\$3,680,642,093
Income	2,197,281,036
Change in net unrealized capital gains (losses)	(35,745,355)
Change in net unrealized foreign exchange capital gain (loss)	(3,752,471)
Change in net deferred income tax	(49,156,946)
Change in nonadmitted assets	36,317,891
Change in liability for reinsurance in unauthorized and certified companies	(1,054,320)
Change in asset valuation reserve	(34,747,795)
Plus adjustment:	
Paid in	41,352,867
Lends to stockholders	(1,030,000,000)
Change in capital and surplus for the year	1,120,494,906
Capital and surplus, December 31, current year	<u>\$4,801,136,999</u>

HEALTH CARE AND OTHER AMOUNTS RECEIVABLE

\$391,641,899

The Company did not properly allocate to certain of its affiliated entities a pro rata share of the prescription drug rebates it received from pharmaceutical manufacturers. SSAP No. 84 of the Manual states that “pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies.” SSAP No. 84 of the Manual further states that “income from pharmaceutical rebates of insured plans shall be reported as a reduction of claims expense on the summary of operations.”

In addition, SSAP No. 25 of the Manual states “transactions involving services provided between related parties shall be recorded at the amount charged. Regulatory scrutiny of related party transactions where amounts charged for services do not meet the fair and reasonable standard established by Appendix A-440 of the Manual, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action.” Section 38a-136 of the CGS also describes that transactions within an insurance holding company system are subject to requirements including that the “terms shall be fair and reasonable”.

It is noted that commencing in 2019, the Company reported pharmacy rebates related to the pharmacy claims which pertains to the applicable legal entity.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

<u>AGGREGATE RESERVE FOR LIFE CONTRACTS</u>	<u>\$5,717,380</u>
<u>AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS</u>	<u>\$200,548,556</u>
<u>LIABILITY FOR DEPOSIT-TYPE CONTRACTS</u>	<u>\$39,510,652</u>
<u>CONTRACT CLAIMS:</u>	
<u>LIFE</u>	<u>\$239,911</u>
<u>ACCIDENT AND HEALTH</u>	<u>\$1,796,254,830</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.

As part of their review, L&E assessed the adequacy of specified company liabilities, reserves and other actuarial items as well as identified pricing risks. Any amounts reviewed by L&E were on both a gross and net of reinsurance basis.

The scope of the review encompassed the following items:

- Actuarial Opinion (Opinion) and Actuarial Memorandum (Memorandum) compliance with the Instructions and/or statutory requirements;
- Claims Unpaid Liabilities, Claim Reserves and Unpaid Claims Adjustment Expenses (UCAE) liabilities;
- Aggregate Health Policy Reserves, including Premium Deficiency Reserve (PDR) computation and estimate;
- ACA and Medicare Risk Adjustment methodology and assumptions;
- Asset Adequacy Analysis, including Cash Flow Testing; and
- Medicare, Commercial Group and Individual, Dental and Supplemental Benefit pricing guidelines.

### Reserving Risk

- L&E reviewed SOX controls set up to ensure appropriate processes and procedures are followed. Where SOX controls were not available, applicable process and procedure controls were identified.
- L&E interviewed the corporate and product line actuaries to gain an understanding of the processes to develop and report the reserves and liabilities and appropriately price the products.
- L&E reviewed the Memorandums which support the Opinions. Each Memorandum documents the assumptions and methodology used in developing the reserves and liabilities as well as the reserve adequacy analysis.
- L&E reviewed the models and assumptions used to determine the need for PDR.

### Pricing and ACA Risks

- L&E interviewed the pricing actuaries for the Commercial Accident and Health, Dental and Medicare Advantage business.
- L&E reviewed the assumptions incorporated into the pricing and analysis performed.

## CIGNA HEALTH and LIFE INSURANCE COMPANY

- L&E also reviewed the assumptions and methodologies used in the development and valuation of the ACA and Medicare Risk Adjustment Receivable and Payable.

### Conclusion

Based upon the risk-based assessment and review, no material findings were noted with respect to the Company's reserving, pricing and underwriting risks. Although no material issues were noted during the review of these risks the following was noted:

- The Company reported the UCAE liability in its reserve accounts rather than in the liability entitled, "General Expenses Due or Accrued", as required by the Instructions. This overstated the reserve adequacy testing in Schedule H of the Annual Statement. It is recommended that the Company report UCAE in accordance with the Instructions. It is noted that the Company corrected this in 2019.

### GENERAL EXPENSES DUE OR ACCRUED

\$972,001,045

The Company reported items (ASO commissions and Cost containment expenses) as sundry general expenses in Exhibit 2 - General Expenses of the Annual Statement (Exhibit 2). The balance of these items each represented more than 25% of the total for sundry general expense and according to the instructions, should have been reported on Line 9.3 (aggregate write ins for expenses) of Exhibit 2. It is recommended that the Company report expense items in accordance with the Instructions.

### MEDICAL LOSS RATIO

Within the "provision for experience rating refunds" liability, the Company reported \$42,813,561 for its estimated statutory MLR rebate liability. The ACA requires insurers to spend a minimum percentage of premium dollars on medical services and activities designed to improve health care quality. RRC reviewed and tested the Group's processes and controls designed to mitigate specific risks associated with the determination of the Group's actual MLR rebate amount distributed. The following were noted during this review:

U.S. Code of Federal Regulations (CFR) Title 45 Section 158.240 requires an issuer to provide a rebate to an enrollee on a pro rata basis, based on premium, as defined in Section 158.130 of the CFR. The Company did not utilize the earned premium on Part 3 of the MLR filing in allocating rebates to each enrollee. The regulations do not explicitly require this and the Company's total rebates were correct. It is noted that the Company has commenced using earned premium reported on Part 3 of the MLR filing, with regards to premium allocation, prospectively.

It is recommended policies and procedures be established to ensure that pharmaceutical rebates related to the prescription drug claims are properly allocated and deducted from its affiliates incurred claims for MLR reporting as required by Title 45 Section 158.140(b)(1)(i) of the CFR, and as noted in the asset captioned "health care and other amounts receivable". This was corrected in 2019.

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- It is also recommended that, county, municipal, property and real estate taxes should be excluded from the MLR Form since they are not specifically business state taxes as outlined in the MLR Instructions.

CAPITAL AND SURPLUS

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

Surplus, as of December 31, 2013	\$1,713,681,595
Net income	7,397,191,435
Change in net unrealized capital gains (losses)	(211,050,857)
Change in net unrealized foreign exchange capital gain (loss)	(1,066,873)
Change in net deferred income tax	(160,826,883)
Change in non-admitted assets	(192,241,365)
Change in ability for reinsurance in unauthorized and certified companies	(1,204,907)
Change in asset valuation reserve	(178,475,532)
Surplus adjustment – paid in	135,130,386
Dividends to stockholders	(3,700,000,000)
Net change in capital and surplus	3,087,455,404
Surplus, December 31, 2018	<u>\$4,801,136,999</u>

The increase in surplus during the examination period was primarily attributable to net income for all years under examination due to various factors such as repapering health care policies from CGLIC to the Company, increased customer growth, and federal tax reform. This was partially offset with dividends to CGLIC.

RECOMMENDATIONS

Page

5 RESERVES

It is recommended that the Company report UCAE in accordance with the Instructions. It is noted that the Company corrected this in 2019.

6 GENERAL EXPENSES DUE OR ACCRUED

It is recommended that the Company report expense items in accordance with the Instructions.

16 MEDICAL LOSS RATIO

- It is recommended policies and procedures be established to ensure that pharmaceutical rebates related to the prescription drug claims are properly allocated and deducted from its affiliates incurred claims for MLR reporting as required by Title 45 Section 158.140(b)(1)(i) of the CFR, and as noted in the asset captioned “health care and other amounts receivable”. This was corrected in 2019.
- It is also recommended that, county, municipal, property and real estate taxes should be excluded from the MLR Form since they are not specifically business state taxes as outlined in the MLR Instructions.

SUBSEQUENT EVENTS

- On January 24, 2019, the Company paid an extraordinary dividend of \$700 million to CGC.
- 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.
- 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.
- 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 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

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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.

- 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 \$10,489,167,862, liabilities of \$5,688,030,863, and surplus of \$4,801,136,999. During the period under examination, admitted assets increased \$6,349,901,359, liabilities increased \$3,262,445,957, and surplus as regards policyholders increased \$3,087,455,404.

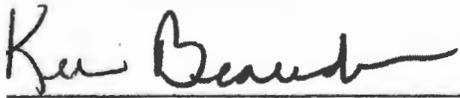
CIGNA HEALTH and LIFE INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following members of the State of Connecticut Insurance 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,

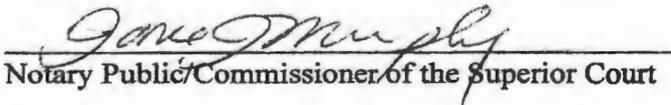


Kevin Beaudoin, CFE  
Insurance Certified Financial Examiner  
State of Connecticut  
Insurance Department

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**