REPORT ON EXAMINATION

OF

AETNA HEALTH INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2005

DATE OF REPORT **NOVEMBER 12, 2010**

EXAMINER **BRUCE BOROFSKY, CFE**

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

David A. Paterson
Governor

James J. Wrynn
Superintendent

November 12, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the provisions of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 22476, dated March 10, 2006, attached hereto, I have made an examination into the condition and affairs of Aetna Health Insurance Company of New York, an accident and health insurance company licensed pursuant to Article 42 of the New York Insurance Law, as of December 31, 2005, and submit the following report thereon.

The examination was conducted at the administrative office of Aetna Health Insurance Company of New York located at 980 Jolly Road, Blue Bell, Pennsylvania 19422.

Wherever the designations “AHIC” or the “Company” appear herein, without qualification, they should be understood to indicate Aetna Health Insurance Company of New York.

Wherever the designation the “Parent” appears herein, without qualification, it should be understood to indicate Aetna Inc., the ultimate parent of the Company.

Wherever the designations “AHI” or “the HMO” appear herein, without qualification, they should be understood to indicate Aetna Health Inc. (a New York Corporation), a health maintenance organization licensed pursuant to Article 44 of the New York Public Health Law and an affiliate of AHIC.

Wherever the designation, “the Department” appears herein, without qualification, it should be understood to indicate the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2002. This examination covers the three-year period January 1, 2003 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005, in accordance with statutory accounting principles (SAP), as adopted by the Department, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the *Examiners Handbook of the National Association of Insurance Commissioners* (NAIC):

History of the Company
Management and controls
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of the Company
Loss experience
Accounts and records
Financial statements

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulation or rules, or which are deemed to require explanation or description.

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

A concurrent examination regarding the financial condition of Aetna Health Inc. (a New York Corporation) was performed as of December 31, 2005 and a separate report on examination was issued thereon.

Additionally, a separate market conduct examination was conducted as of December 31, 2005, to review the manner in which Aetna Health, Inc. (a New York Corporation), Aetna Health Insurance Company of New York and Aetna Life Insurance Company conducted their business practices and fulfilled their contractual obligations to policyholders and claimants. A separate market conduct report on examination for these entities was issued thereon.

2. DESCRIPTION OF THE COMPANY

Aetna Health Insurance Company of New York is a subsidiary of Aetna Inc., a publicly traded company. AHIC's business is composed solely of the out-of-network component of the point-of-service (POS) product issued by its HMO affiliate, Aetna Health Inc. (a New York Corporation).

The Company was incorporated under the laws of the State of New York on April 19, 1985, as Adirondack Life Insurance Company (Adirondack) and was licensed to transact an insurance business in the State of New York on August 29, 1986.

On July 31, 1990, U.S. Healthcare Inc., a Pennsylvania corporation (U.S. Healthcare) and the Company's parent at that time, purchased 100% of the common stock of Adirondack from Pacific Western Holding Company. On October 26, 1990, the Company amended its charter to change its name to U.S. Health Insurance Company (a New York Corporation) and to remove its life and annuity writing authority. The Company was licensed, effective October 26, 1990, and authorized to write accident and health insurance, as defined in Section 1113(a)(3) of the New York Insurance Law.

On July 19, 1996, U.S. Healthcare merged with Aetna Life and Casualty Company, pursuant to an Agreement and Plan of Merger dated March 30, 1996. Aetna Inc., a Connecticut corporation, was incorporated on March 25, 1996, for the purpose of effectuating the merger and became the sole owner of the two companies, effective July 19, 1996. After the merger, U.S. Healthcare, Inc. became a subsidiary of Aetna Inc. and its name was changed to Aetna U.S. Healthcare, Inc. (Aetna U.S. Healthcare). Aetna U.S. Healthcare, the parent company of numerous HMOs, was one of the core businesses of Aetna Inc. The others were insurance and financial services, both domestic and international.

On December 13, 2000, Aetna Inc. sold its financial services and international businesses to ING Groep N.V. and at the same time spun off its health care business to shareholders. Concurrent with the spin-off, Aetna U.S. Healthcare, Inc. (a Pennsylvania corporation) became the ultimate parent company and was renamed Aetna Inc.

The Company's name was changed from U.S. Health Insurance Company to Aetna Health Insurance Company of New York, effective May 8, 2002. The Company’s name change, as reflected in its charter, was approved by its board of directors and by the Department.

The Company, at December 31, 2005, had issued 200,000 shares of common stock, $10 par value, outstanding and issued to Aetna Inc. There was no change to this capital structure during the period under examination.

A. Management and Controls

Pursuant to the Company’s charter and by-laws, management of the Company is to be vested in a board of directors consisting of thirteen members. As of December 31, 2005, the Company’s board of directors consisted of the following thirteen members:

Name and Residence	Principal Business Affiliation
David J. Corkum Waterford, CT	Regional Head of National Accounts, Aetna Inc.
Gordon W. Grundy MD New Britain, CT	Regional Medical Director, Aetna Inc.
William R. Jones Cromwell, CT	Actuary, Northeast Region, Aetna Inc.
Steven G. Logan Chappaqua, NY	Regional Head of Sales, Aetna Inc.
Gregory S. Martino Hummelstown, PA	Vice President and Secretary, Aetna Health Insurance Company of New York
Charles A. Peck MD Glastonbury, CT	Regional Head, Health Care Delivery, Aetna Health Inc.

Name and Residence	Principal Business Affiliation
James W. Reid New York, NY	General Manger, Small Group, Northeast Region, Aetna Inc.
Marjorie Schulman, MD New York, NY	Senior Medical Director, Aetna Inc.
Joseph A. Scibilia Norton, MA	Market Head, New Business Corporate Sector, Aetna Inc.
Russell P. Smith Cromwell, CT	Head of Treasury Services and Pensions, Director, Aetna Inc.
Charlene R. Snyder Ossining, NY	Network Market Head, Aetna Inc.
Sean B. Strohm Cromwell, CT	Actuary, Aetna Inc.
Deborah M. Wightman Marietta, GA	Principal Financial Officer, Aetna Inc.

Subsequent to the examination, directors Gordon W. Grundy MD, Gregory S. Martino, Charles A. Peck, Russell P. Smith, and Sean B. Strohm left the board and were replaced by Katherine N. Begley, Elaine R. Cofrancesco, Terry J. Golash, David B. Morse and Robert J. Nolan.

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. The review revealed that management reviewed reports that are essential to the operations of the Company and that the Company is in compliance with the certification requirements of Department Circular Letter No. 9 (1999).

The review of the minutes of the board of directors' meetings indicated that one director attended only two of the six meetings which he was eligible to attend during the examination period, while another director failed to attend any of the meetings which he was eligible to attend during the examination period.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Board members who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

It is recommended that those board members, who do not fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced by the Company.

It is noted that the above recommendation was also made in the previous report on examination and that the aforementioned two board members were among those who failed to attend at least 50% of the meetings for which they were eligible to attend during the previous examination period.

At December 31, 2005, the principal officers of the Company were as follows:

Name	Title
Charles A. Peck, M.D.	President
Deborah M. Wightman	Vice President and Principal Financial Officer
Russell P. Smith	Vice President and Treasurer
Gregory S. Martino	Vice President and Secretary

B. Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to write accident and health insurance as defined in Section 1113(a)(3) of the New York Insurance Law.

AHIC's business is comprised solely of premiums generated from the out-of-network component of the point-of-service (POS) product sold by its HMO affiliate, Aetna Health Inc., which covered the in-network component of the POS product.

Total enrollment declined significantly during the examination period. The following shows the number of members enrolled and corresponding premiums earned at the end of each year of the three-year examination period:

	2003	2004	2005
Enrollment	102,024	83,059	61,964
Premium Earned	$34,152,728	$28,975,442	$19,393,870

As of December 31, 2006, the total number of members reported by the Company was 48,069, a further decline of nearly 14,000 members.

The Company utilizes an internal sales force as well as independent agents and brokers.

C. Reinsurance

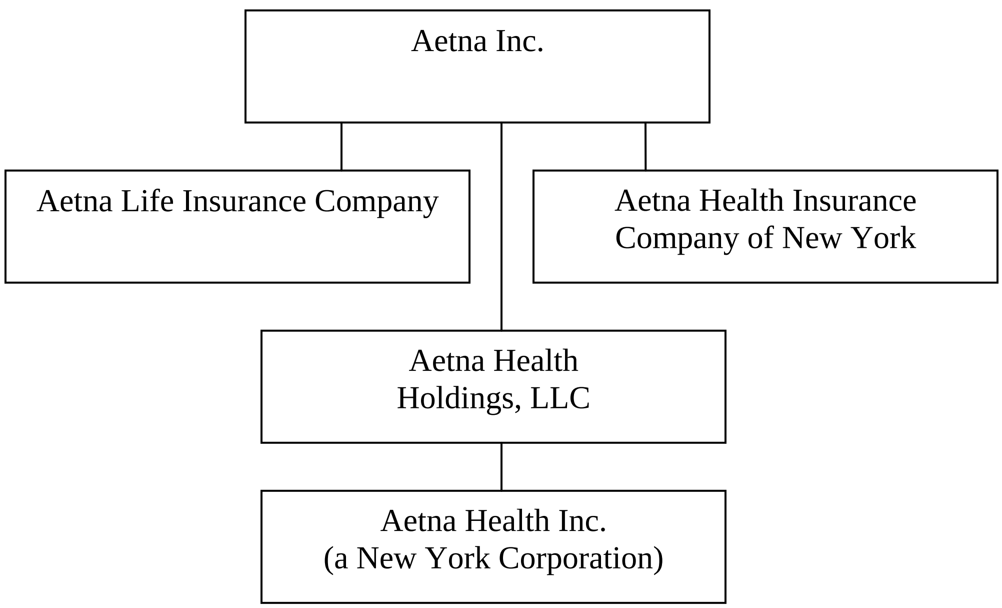
AHIC did not assume or cede any reinsurance during the examination period.

D. Holding Company System

At December 31, 2005, AHIC was a subsidiary of Aetna Inc., a publicly traded Pennsylvania domestic corporation.

The Aetna Inc. holding company system has many HMO and health insurer affiliates, as well as non-insurance affiliates. Including Aetna Health Inc., there are 25 HMO affiliates, which operate in thirty-four states.

The following condensed organizational chart reflects the relationship between AHIC and significant entities in its holding company system as of December 31, 2005:



Aetna Inc. is the ultimate parent of all Aetna subsidiaries. Aetna Life Insurance Company is an affiliate of AHIC that offers multiple life and health insurance products throughout the United States, including New York State. Aetna Health Holdings, LLC is the Aetna Inc. subsidiary that acts as a holding company for the Parent's various HMOs.

Aetna Health Inc. is an HMO licensed in New York State that offers coverage through which members have the option to purchase a point-of-service product offered jointly with AHIC.

At December 31, 2005, AHIC was a party to five service agreements. Two agreements were with its parent, Aetna Inc. and three agreements were with its affiliate, AHI. The following is a list of the agreements:

No.	Name of Agreement	Contracting Party*	Effective Date
1.	Expense allocation agreement	Aetna Inc.	1/1/2005
2.	Personnel services and expense reimbursement agreement	Aetna Life Insurance Company	1/1/2005
3.	Expense Allocation and Rebate Services Agreement	Aetna Inc.	1/1/2005
4.	Tax sharing agreement	Aetna Inc.	12/14/2000
5.	Inter-company transfer agreement	Aetna Health Inc.	1/1/2000

*Reflects the current corporate name.

The following is a description of each of the agreements that were in place at the examination date. All agreements have been approved by the Department, as required by Article 15 of the New York Insurance Law.

1. Expense Allocation Agreement

Prior to January 1, 2005, AHIC was party to a service agreement with its parent, Aetna Inc. The agreement called for the Parent to provide a wide variety of administrative services, including: accounting, data processing, legal advisory, investment advisory, underwriting and claims, personnel, and various other administrative services as requested. The agreement called for such services to be provided at cost or to be apportioned on a fair and equitable basis of allocation in conformity with generally accepted accounting principles and within the required parameters of Section 1505(a) of the New York Insurance Law and Department Regulation No. 33 (11 NYCRR 79). Effective January 1, 2005, this agreement was superseded by an Expense Allocation Agreement with Aetna Inc. The agreement obligates AHIC to pay Aetna Inc. the cost of providing services incurred by Aetna Inc. on behalf of AHIC, as well as interest on outstanding monthly intercompany balances.

2. Personnel Services and Expense Reimbursement Agreement

Additionally, effective January 1, 2005,, the Department approved a new Personnel Services and Expense Reimbursement Agreement with Aetna Life Insurance Company (ALIC), a wholly-owned subsidiary of Aetna Inc. Under this Personnel Services Agreement, ALIC provides the Company with the personnel necessary to perform administrative services, including: accounting, payment of claims, quality assessment and pharmacy benefit management services related to the Company's commercial, Medicaid, Medicare and self-insured members. The Personnel Services

Agreement obligates the Company to pay to ALIC the cost of providing such services, as well as interest on outstanding administrative service balances.

3. Expense Allocation and Rebate Services Agreement

Also, effective January 1, 2005, the Department approved an Expense Allocation and Rebate Services Agreement with Aetna Health Management, LLC (AHM), a wholly owned subsidiary of Aetna Inc. Under the terms of this agreement AHM provides certain administrative services. The agreement also enables the Company to receive manufacturers' pharmacy rebates from AHM. The agreement obligates the Company to pay to AHM the cost of providing such services, as well as interest on outstanding administrative service balances. This agreement, as well as the Expense Allocation Agreement and Personnel Services and Expense Reimbursement Agreement, were submitted to the Department, as required, under Article 15 of the New York Insurance Law. The Department approved all three agreements in accordance with the terms of this statute on April 5, 2005.

4. Tax Sharing Agreement

AHIC, together with several of its affiliates, file a consolidated Federal income tax return with the Company's parent, Aetna Inc. The consolidated return is permitted through this agreement between the Parent and other entities within the Aetna Inc. holding company system. The agreement stipulates that the taxes paid are determined as if each of the participating Aetna Inc. holding company entities filed their taxes separately.

5. Inter-company Transfer Agreement

The Company entered into an Inter-company Transfer Agreement, effective, January 1, 2000, with its affiliate, Aetna Health Inc. The agreement provides for point-of-service (POS) premiums to be allocated equitably between the Company and AHI, based on the combined medical cost ratio for the in-network and out-of-network components of the POS products, in order to achieve identical cost ratios. Funds representing premiums are transferred to or from the Company on a quarterly basis to effectuate the agreement. The agreement was submitted to the Department, as required, under Article 15 of the New York Insurance Law. The Department approved the agreement in accordance with the terms of this statute.

The Company paid $33,800,000 in dividends to Aetna Inc. during the examination period. All dividend payments were authorized by the Company's board of directors and approved by the Department. The following chart itemizes the dividends paid in each year:

Year	Dividend Payment Amount
2003	$17,000,000
2004	$ 9,000,000
2005	$ 7,800,000

E. Significant Operating Ratios

The following two ratios fell outside of the NAIC benchmarks:

Ratio	Result	NAIC Benchmark
One-year reserve development to prior year surplus	(55.0)%	"Negative"
Change in capital and surplus	(28.2)%	<20% to -20%

- One-year reserve development to prior year surplus: The Company's computed ratio was -55.0%, which fell out of the range of the NAIC's benchmark of "Negative". The Company's result was due to favorable development of claims and the Company's overall decrease in business.

- Change in capital and surplus: The Company's computed ratio was -28.2%, which fell out of the range of the NAIC's benchmark of <20% to -20%. The Company's result was largely due to decreases in enrollment.

The underwriting ratios presented below are on an earned-incurred basis and encompass the three-year period covered by this examination:

	Amount	Ratio
Medical expenses	$ 55,649,045	67.43%
Claims adjustment expenses	1,539,693	1.87%
Administrative expenses	8,863,584	10.74%
Net underwriting gain	16,469,718	19.96%
Premiums earned	$ 82,522,040	100.00%

F. Investment Activities

The Company's investment management has been delegated, via written approval of its board, to certain individuals within its Parent's Enterprise Risk Management Department. Investment holdings are maintained by State Street Bank and are subject to a custodial agreement.

The Company’s Investment Guidelines call for diversification of risk, and limit equity investments to ten percent (10%) of invested assets. Credit exposure for bonds is to average no lower than BBB. The Company also engages in some short-term securities lending, in order to maximize investment income.

The Company’s portfolio as of December 31, 2005, was comprised of government bonds, corporate debt obligations, cash equivalents and short-term investments.

All investment activity was approved by the Company’s board during its regular meetings.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, capital and surplus as determined by this examination as of December 31, 2005, and as reported by the Company. This statement is the same as the balance sheet filed by the Company:

Assets	Examination	Company
Bonds	$6,692,380	$6,692,380
Cash and cash equivalents	3,571,560	3,571,560
Short-term investments	17,713	17,713
Investment income due and accrued	108,065	108,065
Uncollected premiums	938,511	938,511
Current federal income tax receivable	41,367	41,367
Net deferred tax asset	32,124	32,124
Receivables from parent and affiliates	2,248,655	2,248,655
Total assets	$ 13,650,375	$ 13,650,375
Liabilities		
Claims unpaid	$3,005,600	$ 3,005,600
Unpaid claim adjustment expenses	72,248	72,248
Aggregate health claim reserves	150,281	150,281
General expenses due or accrued	2,834,352	2,834,352
Total liabilities	$6,062,481	$ 6,062,481
Common capital stock	$2,000,000	$ 2,000,000
Gross paid in and contributed surplus	4,459,702	4,459,702
Unassigned funds (surplus)	1,128,192	1,128,192
Total capital and surplus	$7,587,894	$ 7,587,894
Total liabilities, capital and surplus	$13,650,375	$ 13,650,375

Note: The Internal Revenue Service has completed its audits of the consolidated tax returns filed on behalf of the Company through tax year 2003. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Except for any impact which might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

The Company's capital and surplus decreased by $20,357,696 during the three-year examination period, January 1, 2003 through December 31, 2005, detailed as follows:

Revenue		
Net premium income		$ 82,522,040
Hospital and medical expenses		
Hospital/medical benefits	$ 54,186,394	
Market stabilization pool expense	1,731,862	
Total hospital and medical expenses	$ 55,918,256	
Administrative expenses		
Claims adjustment expenses	1,539,693	
General administrative expenses	8,863,584	
Increase in reserves for accident and health contracts	(269,211)	
Total underwriting expenses		66,052,322
Net underwriting gain		$ 16,469,718
Net investment income earned	$ 4,037,782	
Net realized capital gains/(losses)	703,107	
Net investment gain		4,740,889
Net income before federal income taxes		$ 21,210,607
Federal income taxes incurred		7,997,181
Net income		$ 13,213,426

Change in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination, as of December 31, 2002			$ 27,945,590
Net income	$ 13,213,426	$	
Change in net unrealized capital gains	96,694		
Change in net deferred income tax	657,735		
Change in non-admitted assets		822,336	
Cumulative effect of changes in accounting principles		7,277	
Dividends to stockholders		33,800,000	
Aggregate write-ins for gains in surplus	304,062	0	
Net decrease in capital and surplus			(20,357,696)
Capital and surplus, per report on examination, as of December 31, 2005			$ 7,587,894

4. **CLAIMS UNPAID**

The examination liability of $3,005,600 is the same as the amount reported by the Company as of the examination date.

The examination analysis of the claims unpaid reserves was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements as verified during the examination. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 2002, contained thirteen (13) comments and recommendations. The current status of these matters is as follows (page numbers refer to the prior report):

ITEM NO.		PAGE NO.
	Management and Controls	
1.	It is recommended that the Board hold, at least, the minimum number of meetings required in its by-laws.	4
	The Company has complied with this recommendation.	
2.	It is recommended that those Board members, who do not fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced by the Company.	6
	The Company has not complied with this recommendation. A similar recommendation is contained within this report.	
3.	It is recommended that the Company adhere to Article III, Section 1 of its by-laws by maintaining, at least, the minimum required number of Board members.	6
	The Company has complied with this recommendation.	
4.	It is recommended that the Company's board meeting minutes reflect those directors who are not in attendance.	7
	The Company has complied with this recommendation.	
	Holding Company System	
5.	It is recommended that AHIC reimburse the provider of administrative services in accordance with a filed and approved agreement.	10
	The Company has complied with this recommendation.	
6.	It is recommended that the Company obtain approval for its cash management agreement prior to implementation.	11
	The Company has complied with this recommendation.	

ITEM NO.		PAGE NO.
7.	It is recommended that AHIC record billed premiums that have not yet been collected by the HMO on its behalf as uncollected premiums rather than as an inter-company receivable. *The Company has complied with this recommendation.*	11
8.	It is recommended that the Company comply with Section 1505(b) of the New York Insurance Law by clearly identifying cash collected for its account and by maintaining sufficient records to support its premium receivable asset. *The Company has complied with this recommendation.*	12
9.	It is recommended that AHIC refrain from changing the provider of cash management services until after formal notification to and approval from the Department. *The Company has complied with this recommendation.*	12
10.	It is recommended that AHIC notify the Department in advance of the non-cash dividends transfers. *The Company has complied with this recommendation*.	13
	<u>Accounts and Records</u>	
11.	It is recommended that the custodian agreement be revised to reflect the Company's current legal name. *The Company has complied with this recommendation.*	14
12.	It is recommended that AHIC assure that the custodian agreement comply with the Department’s suggested protective covenants and provisions. *The Company has complied with this recommendation.*	14
13.	It is recommended that the Company report all transactions with affiliates in Schedule Y, including the allocation of expenses from Aetna Inc. *The Company has complied with this recommendation.*	15

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
	Management and Controls	
A.	It is recommended that those board members, who do not fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced by the Company.	8

Appointment No. 22476

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, *Howard Mills* , Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Bruce Borofsky

as a proper person to examine into the affairs of the

Aetna Health Insurance Company of New York.

and to make a report to me in writing of the said

Company

with such information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York.

this 10th day of March 2006

Howard Mills
Superintendent of Insurance