REPORT ON EXAMINATION

OF

AETNA HEALTH INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2010

DATE OF REPORT	**JULY 11, 2014**
EXAMINER	**PEARSON GRIFFITH**

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July 11, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 30713, dated April 29, 2011, 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 the provisions of Article 42 of the New York Insurance Law, as of December 31, 2010, and respectfully submit the following report thereon.

The examination was conducted at the home office of Aetna Health Insurance Company of New York, located at 151 Farmington Avenue, Hartford, Connecticut.

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 designations "Aetna" or the "Parent" appear herein, without qualification, they should be understood to indicate Aetna Inc., the ultimate parent of the Company.

Wherever the designation “AHI” appears herein, without qualification, it should be understood to indicate Aetna Health Inc., 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 Department of Financial Services.

1. SCOPE OF THE EXAMINATON

The previous examination was conducted as of December 31, 2005. This examination was a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* (the "Handbook"), and it covers the five-year period from January 1, 2006 through December 31, 2010. The examination was conducted observing the guidelines and procedures in the Handbook, and where deemed appropriate by the examiners, transactions occurring subsequent to December 31, 2010 were also reviewed.

The examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner's assessment of risk in the Company's operations and utilizes that evaluation in formulating the nature and extent of the examination. The risk-focused examination approach was included in the Handbook for the first time in 2007; thus, this was the first such type of examination of the Company. The examiner planned and performed the examination to evaluate the Company's current financial condition, as well as to identify prospective risks that may threaten the future solvency of Aetna Health Insurance Company of New York.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined management's compliance with the Department's statutes and guidelines, Statutory Accounting Principles, as adopted by the Department, and annual statement instructions.

Information concerning the Company's organizational structure, business approach and control environment was utilized to develop the examination approach. The examination evaluated the Company's risks and management activities in accordance with the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2006 through 2010, by the accounting firm of KPMG, LLP. The Company received an unqualified opinion in each of those years. Certain audit work papers of KPMG were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department which has been given the task of assessing AHIC's internal control structure. A review was also made of the Company's Enterprise Risk Management program.

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

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

Members of AHIC also have contracts with Aetna Health Inc. under the "in-network" benefits of their contracts.

A concurrent examination regarding the financial condition of Aetna Health Inc. was performed as of December 31, 2010, and a separate financial report on examination was issued thereon.

Additionally, a separate market conduct examination was conducted as of December 31, 2011 to review the manner in which Aetna Health Inc., 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 for these entities will be 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 group health insurance business primarily related to the sale of Aetna's non-referred Quality Point-of-Service (QPOS) product. QPOS is a dual contract point-of-service product where the in-network benefits are covered by Aetna Health Inc. (a New York HMO) and the out-of-network benefits are covered by AHIC.

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, 2010, 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. Corporate Governance

Pursuant to the Company's charter and by-laws that were in effect during the period under examination, management of the Company is to be vested in a board of directors consisting of not less than thirteen or more than twenty-one members. Article III, Section 1 of the Company's by-laws states, in part:

> "The affairs and business of the Corporation shall be conducted and managed by a Board of Directors consisting of not less than thirteen or more than twenty-one directors, who shall hold office for the term of one year and until their successors are elected and qualify…"

A review of the minutes of meetings held during the examination period indicated that the board of directors consisted of thirteen members until November 1, 2010, when one member was removed from the board but was not replaced. In addition, a review of the Company's filed December, 31, 2010 annual statement and the minutes of subsequent board meetings indicated that the board consisted of only twelve members.

It is recommended that the Company comply with Article III, Section 1 of its by-laws by ensuring that the board is composed of the requisite number of directors.

On May 9, 2011, AHIC as authorized by the unanimous written consent of the board of directors, in lieu of a meeting, and by the written consent of the sole shareholder of all the shares of the corporation issued and outstanding and entitled to vote, amended Article IV of its Declaration and Certificate of Incorporation and Charter, to read as follows:

> "The Board of Directors shall consist of not less than seven nor more than twelve members. Each director shall be at least eighteen years of age and at all times a majority shall be citizens and residents of the United States and not less than three shall be residents of this State…"

As of December 31, 2010, the Company's board of directors consisted of the following members:

Name and Residence	Principal Business Affiliation
Elaine Rose Confrancesco Tolland, Connecticut	Head of Treasury Services, Aetna Inc.
Dale Frances Cook Hackensack, New Jersey	Finance Director, ASM, Aetna Life Insurance Company
Michael Sebastian Costa New York, New York	Network Market Head, Aetna Inc.
Terry Joseph Golash New York, New York	Medical Director, Aetna Inc.
Richard Borden Harris South Windsor, Connecticut	Head of Medical Economics, Northeast Region Aetna Inc.
William Robert Jones Cromwell, Connecticut	Actuary, Aetna Inc.
David Francis Kobus Port Washington, New York	Region Head of Network, Aetna Inc.
David Michael Lasaracino Summit, New Jersey	Vice President – Sales and Service, Aetna Inc.
John Andrew Lawrence Flanders, New Jersey	Northeast Region Head of Sales, Aetna Inc.
Steve George Logan Chappaqua, New York	Regional Vice President, Aetna Health Inc.
David Bradley Morse West Hartford, Connecticut	Vice President, Aetna Inc.
Joseph Anthony Scibilia Norton, Massachusetts	Regional Vice President, Aetna Inc.

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 were essential to the operations of the Company and that the Company was 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. In addition, the examiner noted that the Company failed to record in the minutes the legal names of certain members of the board of directors. Some names did not match the names of the board of directors listed in the jurat page of the company's annual statement. This condition could lead to an incorrect conclusion regarding the actual number of elected board members, as well as their attendance at board meetings.

It is recommended that the Company record the legal names of its board members in the board of directors' minutes.

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 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 was 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.

It was noted that in 2008 the board convened only one meeting instead of at least two, as required by its by-laws. Article III, Section 3 of the Company's by-laws states, in part:

> "…The Board of Directors shall hold an annual meeting, without notice, immediately after the annual meeting of shareholders or within ten calendar days thereafter upon one day's notice in the manner provided herein. Meetings of the Board of Directors shall take place, in addition to the annual meeting, on at least a semi-annual basis and additional meetings may be established by a resolution adopted by the Board..."

It is recommended that the Company comply with Article III, Section 3 of its by-laws, by ensuring that it convenes the requisite number of board of directors' meetings.

At December 31, 2010, the principal officers of the Company were as follows:

Name	Title
Steven George Logan	President and Chief Executive Officer
Gregory Stephen Martino	Secretary
Jennifer Anne Palma	Principal Financial Officer and Controller
Elaine Rose Confrancesco	Treasurer
Michael William Fedyna	Actuary
Dawn Marie Schoen	Assistant Controller

B. Territory and Plan of Operation

As of December 31, 2010, 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 five-year examination period:

	2006	2007	2008	2009	2010
Enrollment	48,069	38,860	33,171	37,192	17,983
Line of Business					
Large Group	12,412,990	11,172,224	11,259,787	8,759,697	8,023,786
Small Group	2,884,144	2,615,073	1,486,932	1,063,258	791,462
Total Premiums	$ 15,297,134	$ 13,787,297	$ 12,746,719	$ 9,822,955	$ 8,815,248

As of December 31, 2010, the total number of members reported by the Company was 17,983, which represented a decline of approximately 30,000 members over the examination period. Such decline in membership reflected the trend for conversion of POS business to administrative service only (ASO) business during the examination period.

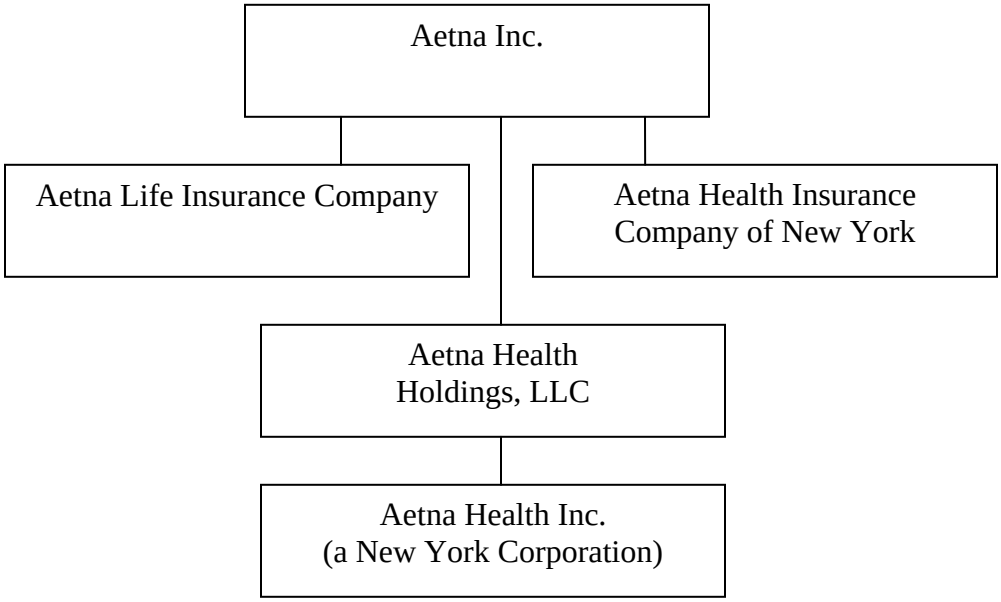
The Company utilizes an internal sales force as well as independent agents and brokers.

C. Reinsurance

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

D. Holding Company System

The following condensed organizational chart reflects the relationship between AHIC and significant entities in the Aetna Inc. holding company system as of December 31, 2010:



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 acts as a holding company for the Parent's various HMOs. Aetna Health Inc. is an HMO certified in New York State which offers coverage whereby members have the option to purchase a point-of-service product offered jointly with AHIC.

At December 31, 2010, AHIC was a party to six service agreements with members of its holding company system, as noted in the chart below.

	Description 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	AHM, LLC	1/1/2005
4.	Inter-company transfer agreement	Aetna Health Inc.	1/1/2000
5.	Tax sharing agreement	Aetna Inc.	1/1/2006
6.	Supplemental Tax Sharing and Tax Escrow Agreement	Aetna Inc.	1/1/2006

*Reflects the current corporate name.

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

1. Expense Allocation Agreement

Effective January 1, 2005, an Expense Allocation Agreement was entered into by the Company with Aetna Inc. The agreement, which was non-disapproved by the Department on April 5, 2005, obligated AHIC to pay Aetna Inc. the cost of providing services incurred by Aetna Inc. on behalf of AHIC.

2. Personnel Services and Expense Reimbursement Agreement

Also, effective January 1, 2005, and non-disapproved by the Department on April 5, 2005, the Company entered into a 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.

3. Expense Allocation and Rebate Services Agreement

Also, effective January 1, 2005, and non-disapproved by the Department on April 5, 2005, the Company entered into 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 to the Company. The agreement also permits 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 outlined within the agreement.

4. 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 non-disapproved the agreement on January 1, 2000.

5. Tax Sharing Agreement

AHIC, together with several of its affiliates, filed 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, which was non-disapproved by the Department on January 1, 2006, stipulates that the taxes paid are determined as if each of the participating Aetna Inc. holding company entities filed their taxes separately.

6. Supplemental Tax Sharing and Tax Escrow Agreement

This agreement, which was non-disapproved by the Department on January 1, 2006, served to amend certain portions of the above described tax sharing agreement. It established certain limits to the Company's tax liability and asserts the Parent's right to escrow tax payments under certain circumstances to assure the Parent's right to recoup federal income taxes in the event of future net losses.

The Company paid $2,048,734 in dividends to Aetna Inc. during 2006.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010 based upon the results of this examination:

Ratio	2010
Net change in capital and surplus	6.6%
Current liabilities to liquid assets & receivables	24.4%
Disenrollment ratio	-51.6%
Premium and risk revenue to capital and surplus	0.99 to 1
Medical loss ratio	80.9%
Combined loss ratio	91.0%
Administrative expense ratio	10.2%

The above ratios fall within the benchmark ranges set forth in the Financial Analysis Solvency Tools (FAST) scoring ratios of the NAIC, except Disenrollment.

> Disenrollment: The Company's computed ratio was -51.6%, which fell out of the range of the NAIC's benchmark of -10%. This trend resulted from the high unemployment levels during the examination period, and the conversion by employer groups to lower cost products.

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

	Amount	Ratio
Medical/Hospital expenses	$ 50,663,940	83.8%
Claims adjustment expenses	630,620	1.0%
Cost containment expenses	411,529	0.7%
Administrative expenses	7,519,290	12.4%
Net underwriting gain	1,243,974	2.1%
Premiums earned	$ 60,469,353	100.00%

F. Investment Activities

The Company's investment management has been delegated, via the written approval of its board, to the Treasurer of the Company, the Head of Fixed Income (Investment Management), the Senior Investment Officer of the Company, and the Chief Investment Officer (Investment Management) within its Parent's Finance 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. AHIC also engages in short-term securities lending in order to maximize investment income.

The Company's portfolio as of December 31, 2010, was comprised of government bonds, corporate debt obligations, cash equivalents, and short-term investments. Eighty-five percent of those investments were in NAIC Class 1 obligations, which included U.S. Government obligations. The insurer has modest participation in the private placement market.

G. Enterprise Risk Management ("ERM")

Aetna relies on its enterprise risk management ("ERM") process to aggregate, monitor, measure and manage risk. The ERM process is ongoing and is designed to identify the most important risks facing Aetna, as well as to prioritize those risks in the context of the company's overall strategy. ERM is performed at the Aetna holding company level and applied to its subsidiaries, including AHIC. Aetna's ERM team is led by its Chief Enterprise Risk Officer, who is also the Chief Financial Officer.

Aetna's ERM function was reviewed as part of the examiner's assessment of the overall Corporate Governance environment. The ERM team consists of the Audit Committee, Executive Committee and Risk Champions. Aetna's Audit Committee is directly responsible for risk management as it relates to the oversight of ERM. ERM, itself, does not have a Charter as the Aetna Inc.'s Audit Committee is responsible for oversight at the enterprise level and is embedded in the Audit Committee charter. In collaboration with the Audit Committee and the Aetna Board of Directors, the ERM team annually conducts a risk assessment of the Company's businesses. All of the key business leaders are involved in the risk assessment process. The risk assessment is presented to, and reviewed by, the Audit Committee and, after reflecting the Audit Committee's views, the list of enterprise risks is then reviewed and approved by the Board. As part of their reviews, the Audit Committee and the Board consider the internal governance structure for managing risks, and the Board assigns responsibility for ongoing oversight of each identified risk to a specific Committee of the Board or to the Board.

Discussions of assigned risks are then incorporated into the agenda for each Committee (or the Board) throughout the year. Consequently, the Chief Enterprise Risk Officer, in consultation with the Chairman, Chief Executive Officer and President, monitors risk management and mitigation activities across the organization throughout the year and reports periodically to the Audit Committee and the Board concerning the Company's risk management profile and activities. The Audit Committee also meets regularly in private sessions with the Company's Chief Enterprise Risk Officer.

Risk management is ongoing, and the importance assigned to identify risks can change and new risks can emerge during the year as the company develops and implements its strategy.

Dashboards are prepared by the Risk Champions to provide the current status of the risk lists and are made available to the Board of Directors and Executive Committee. The dashboards are updated as needed, at least annually. However, historic versions of dashboards are not maintained since these are "used in a forward looking context."

It is recommended that historic records of ERM dashboards be maintained to facilitate monitoring of risk management performance.

H. Information Technology

The Information Technology review of the Company was conducted to help identify risks related to the Company. The objective of the IT review was to determine whether Information Systems resources are properly aligned with the Company's objectives to ensure that significant risks (strategic, operational, reporting and compliance) arising from the IT environment are appropriately mitigated by strategies or IT general controls. In order to accomplish this objective, the examiner reviewed the general controls regarding the Company's processing environment and reviewed certain controls over the applications that were determined to be financially significant.

The IT review was performed in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (the "Handbook"). The framework for the scope of the IT review was as follows:

1. Gather necessary IT information
2. Review information gathered
3. Request control information and complete IT review planning
4. Conduct IT review fieldwork
5. Document results of IT review
6. Assist the financial examination

Aetna has a highly centralized computing environment and its IT initiatives are set forth by Aetna's officers and senior management team. IT is performed at the Aetna holding company level and applied to its subsidiaries, including AHIC. The Chief Information Officer (CIO) leads the Aetna Information Services (AIS) group and reports to the Executive Vice President of Innovation, Technology, and Service Operations.

AIS is the provider of information technology services to the Company. AIS has nearly 3,000 IT professionals and over 2,000 contractors working collaboratively in every facet of IT. AIS is responsible for IT infrastructure support at the Computer Network Command Centers (CNCC) and extensive enterprise wide network facilities. In addition, AIS is responsible for the delivery of voice/data communications, application development, maintenance of applications, corporate reporting, IT resource management, IT architecture and design, business continuity and disaster recovery. AIS also performs quality assurance, testing of applications and support internal audits.

The AIS group is organized into seven functional departments. These are: Integrated Infrastructure Services (IIS); Enterprise Architecture (EA); Program Delivery (PD); Application Delivery (AD), AIS Delivery Operations (ADO); Enterprise Testing & Quality Assurance (ETQA) and; International IT.

Each department is accountable for a key element of strategic IT solutions delivery as follows:

Integrated Infrastructure Services	Responsible for deploying and managing IT infrastructure resources to ensure cost effectiveness and optimization. This includes maintaining high levels of systems availability for network

	infrastructure and applications. IIS maintains technical standards, release management, asset inventories and financial controls. In addition, IIS' security engineering unit is responsible for Enterprise security administration.
Enterprise Architecture	Responsible for aligning IT services with business requirements. It maintains a formal and continuous approach regarding IT investments, software development management, as well as scalability of infrastructure and Mergers and Acquisitions.
Program Delivery	Responsible for planning and managing projects, business requirements and specifications for line of business. PD is organized into 5 sub-units: • Core domains, SSP, Medial Products, Benefit-focus, Consumer Funds, Scalability; • Claims, Contract Center, Health & Productivity Program; • PD Planning & Programs, Project Assessments • Medical Management, Network & Provider, Informatics, ICD-10, Information Privacy; and • Pharmacy.
Application Development	Responsible for the development of enterprise applications systems to support Program Delivery. This unit aligned Program Delivery requirements and work closely with their respective line of business to ensure supports and enhancement of applications.
AIS Delivery Operations	Provides project management office services to AIS for: • Enterprise IT Planning • Project Methodology • Training • Governance • Metrics and Reporting • Project Staffing and Sourcing Strategy • Project delivery tools
Enterprise Testing & Quality Assurance	Responsible for the comprehensive testing services defined by AIS. This provides a standard, formal and continuous approach regarding quality management and ensures cost-effective production deliveries.
International IT	Responsible for supporting all aspects of information technology for Aetna Global Business International.

This ranges from the IT user interfaces, applications and end-to-end infrastructure. International IT is organized into 4 sub-units:

- International Strategy & Architecture
- International Development
- International Program Delivery
- International Testing

The framework used for IT governance is collaborated and shared among the company's senior management, Audit Committee, Internal Audit Department, AIS and Human Resources. Senior management monitors adherence to policies and procedures. The philosophy of senior management is to manage and control risk through a hierarchy of control policies, procedures and management processes, which further reinforce internal controls.

The components used to enforce IT governance are: segregation of duties, change management, logical access, managing computer operations, physical security and data transmission controls. The company has established various control programs for IT to continuously monitor, benchmark and improve the IT control environment and control framework to meet organizational objectives.

The examiner obtained and reviewed the Company's Exhibit C responses and evaluated its ability to assess and manage risk, primarily by considering management's risk and control assessment initiatives and related documents. The examiner reviewed the Company's annual and quarterly processes to understand its IT strategy, plans and objectives. Additionally, the examiner leveraged the company's Sarbanes-Oxley (SOX) compliance initiatives. Because SOX compliance includes management's controls, IT controls over financial reporting, related compliance activities and controls testing, the testing results provide relevant documentation that evaluate and evidence the company's internal controls over financial reporting.

Based on the examination review, the review of the independent CPA's workpapers, and the Connecticut Insurance Department's testing of IT general controls from its examination of Aetna Inc. as of December 31, 2010, the assessment of the overall strength of risk mitigation strategies/controls related to information systems at Aetna is strong for those policies and procedures that had been in place during the period January 1, 2010 to December 31, 2010.

I. Provider/IPA Arrangements and Risk Sharing

AHIC's business is based on the group health insurance business related to the sale of AHI's non-referred Quality Point-of Service ("QPOS") product. The QPOS product is a dual contract point-of-service product wherein the in-network benefits are covered by AHI and the out-of-network (non-referred) benefits are covered by AHIC.

J. Accounts and Records

1. New York Health Care Reform Act ("HCRA") Assessment and Surcharge

The State of New York requires an assessment surcharge that applies to most commercial hospital, diagnostic treatment center and ambulatory surgical center claims incurred in the State of New York. In addition, a covered lives assessment applies to third-party payers who have elected to pay their HCRA surcharge obligations directly to the State of New York's HCRA Pool Administrator. During a review of the Company's balance sheet, statement of revenue and expenses, and notes to its filed 2010 annual statement, the examiner noted that AHIC failed to report expenses and liabilities relating to HCRA assessments and surcharges in such financial statements.

During a meeting with the Company's management, the examiner was informed that AHIC's HCRA assessments and surcharges were settled through the Inter-Company Transfer Agreement between the AHI and AHIC. Management at the time of examination, was unable to provide the amount by which the audit assessment or surcharge was overstated. However, subsequent to the examination, management provided an estimate of AHIC's HCRA audit assessment settlement which was determined to be a relatively immaterial amount.

In January 2011, Aetna submitted a corrective action plan as regards New York HCRA surcharge to the New York State Department of Health for approval. In addition, Aetna established an additional HCRA reserve of $4,850,000 for all HCRA payers as of December 31, 2010, for the recalculation of claims that should have had the HCRA surcharge applied. As described above, AHIC failed to report or disclose the additional liability attributable to the

Company in its filed Annual Statement. In October 2011, Aetna paid $4,391,542 for the 2010 HCRA surcharge settlement, of which, $457,583 related to AHI.

It is recommended that the Company receive an appropriate portion of any HCRA audit settlement expense and related liability from the HMO and report on its financial statements all assessments and surcharges in accordance with the Annual Statement instructions of the National Association of Insurance Commissioners ("NAIC").

It is recommended that the Company accurately disclose the HCRA assessment expense and related liability in the notes to its filed annual statements, in accordance with the Annual Statement Instructions of the National Association of Insurance Commissioners.

During a review of controls relative to AHIC's HCRA assessment and surcharge activity, the examiner noted that certain providers who were determined during a subsequent internal audit to be subject to New York's HCRA surcharge, may not have been accurately identified. The Company's policy that was in effect during the examination period changed certain providers' status to HCRA "non-surchargeable" if those providers did not respond to a verification letter that was sent requesting confirmation of their surcharge status. However, that process did not identify all providers who should have been flagged, including those categories of providers (discretely billed, privately practicing physicians) that the Plan may have considered non-surchargeable. As a result, some providers were incorrectly flagged for HCRA surcharge purposes, thereby resulting in the inaccurate calculation of the HCRA surcharge assessment due to the State of New York.

It is recommended that the Company modify the provider identification process to accurately reflect all providers subject to the New York HCRA surcharge.

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3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, capital and surplus as determined by this examination and as reported by the Company in its filed Annual Statement as of December 31, 2010. This statement is the same as the balance sheet filed by the Company:

Assets	Examination	Company
Bonds	$ 6,362,313	$ 6,362,313
Cash and cash equivalents	4,910,627	4,910,627
Short-term investments	1,723	1,723
Investment income due and accrued	30,082	30,082
Uncollected premiums	321,830	321,830
Net deferred tax asset	34,360	34,360
Receivables from parent and affiliates	45,855	45,855
§332 Assessment receivable	26,754	26,754
Prepaid premium taxes	9,849	9,849
Total assets	$ 11,743,393	$ 11,743,393
Liabilities		
Claims unpaid	$ 1,081,534	$ 1,081,534
Unpaid claim adjustment expenses	20,280	20,280
Aggregate health policy reserves	48,789	48,789
Aggregate health claim reserves	16,221	16,221
General expenses due or accrued	1,394	1,394
Current federal income tax payable and interest thereon	151,749	151,749
Amounts due to parent, subsidiaries and affiliates	1,504,840	1,504,840
Total liabilities	$ 2,824,807	$ 2,824,807
Additional deferred tax asset	$ 10,946	$ 10,946
Common capital stock	2,000,000	2,000,000
Gross paid in and contributed surplus	4,459,702	4,459,702
Unassigned funds (surplus)	2,447,938	2,447,938
Total capital and surplus	$ 8,918,586	$ 8,918,586
Total liabilities, capital and surplus	$ 11,743,393	$ 11,743,393

Note: The Internal Revenue Service has not conducted any audits of the income tax returns filed on behalf of the Company through tax year 2010. The examiner is unaware of any potential exposure of the Company to any tax assessments 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 increased by $1,330,692 during the five-year examination period, January 1, 2006 through December 31, 2010, detailed as follows:

Revenue		
Net premium income		$ 60,469,353
Hospital and medical expenses		
Total hospital and medical expenses	$ 50,663,940	
Administrative expenses		
Claims adjustment expenses	630,620	
Cost containment expenses	411,529	
General administrative expenses	7,519,290	
Total underwriting expenses		59,225,379
Net underwriting gain		$ 1,243,974
Net investment income earned	$ 2,299,170	
Net realized capital gains	185,216	
Net investment gain		2,484,386
Net income before federal income taxes		$ 3,728,360
Federal income taxes incurred		217,093
Net income		$ 3,511,267

Change in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination, as of December 31, 2005			$ 7,587,894
Net income	$ 3,511,267		
Change in net unrealized capital gains	2,470		
Change in net deferred income tax		$ 831,346	
Change in non-admitted assets	823,966		
Dividends to stockholders		2,048,734	
Aggregate write-ins for gains in surplus	0	126,931	
Net increase in capital and surplus			1,330,692
Capital and surplus, per report on examination, as of December 31, 2010			$ 8,918,586

4. CLAIMS UNPAID

The examination liability of $1,081,534 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. Such estimate was calculated based on actuarial principles, which utilized the Company's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2010.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 2005, contained one (1) comment and recommendation. The current status of this matter is as follows (page number refers to the prior report):

ITEM NO.		PAGE NO.
	Management and Controls	
1.	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
	The Company has not complied with this recommendation	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Respectfully submitted,

_____/S/_____

Pearson A. Griffith
Associate Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

Pearson A. Griffith being duly sworn deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Pearson A. Griffith

Subscribed and sworn to before me
this _____ day of _____ 2013

Appointment No. **30713**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Pearson Griffith

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 condition of the said

Company

with such other information as he shall deem requisite.

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

This 29th day of April, 2011

James J. Wrynn
Superintendent of Insurance

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★ EXCELSIOR