STATE OF UTAH INSURANCE DEPARTMENT

FINANCIAL EXAMINATION REPORT

OF

CIGNA HEALTHCARE OF UTAH, INC.

OF

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2001

OCT 2003
Filed
Utah State
Insurance Dept.

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July 29, 2003

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2001, of the financial condition and business affairs of

CIGNA HEALTHCARE OF UTAH, INC.
of
Salt Lake City, Utah

a health maintenance organization (HMO), hereinafter referred to as the Organization.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1998. The current examination covers the period from January 1, 1999, through December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and statements of statutory accounting principles (SSAPs) prescribed by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2001. Assets were verified and valued, and liabilities were determined or estimated.

The Organization retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access and provided copies of requested working papers prepared in connection with its audits. The use of the firm's working papers did not significantly affect the nature and extent of examination procedures performed.

A letter of representation certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

Important points and recommendations noted in the prior examination report have been addressed by the Organization.

HISTORY

General

The Organization was issued a certificate of incorporation under the name of HCA Care of Utah, Inc., by the Office of the Lieutenant Governor of the state of Utah. The certificate was dated January 30, 1985, and authorized the issuance of 1,000 shares of stock at a par value of $1.00. The Organization commenced business on January 1, 1986.

Effective October 1, 1986, ownership of the Organization was acquired by Equicor-Equitable HCA Corporation, a joint venture of Equitable Life Assurance Society of the United States, a New York Mutual Life Insurance Company and Hospital Corporation of America, a Tennessee corporation. On March 29, 1990, CIGNA Corporation, the ultimate parent, purchased the Organization. At December 31, 1994, 100% of the Organization's issued and outstanding shares of stock were owned by CIGNA HealthCare Inc. On July 3, 1995, CIGNA HealthCare, Inc. merged with Cigna Health Corporation. Effective April 1, 1998, CIGNA Healthcare Corporation contributed 100% of the shares of the Organization to its wholly owned subsidiary, Healthsource, Inc., a New Hampshire corporation.

The Organization's articles of incorporation were amended on June 23, 1987, April 1, 1991, and September 1, 1993, to change the Organization's name to EQUICOR Health Plan of Utah, Inc., CIGNA Healthplan of Utah, Inc. and CIGNA Healthcare of Utah, Inc., respectively. On June 28, 1996, the articles were amended to increase the aggregate number of common stock issued to 100,000 with a par value of $1.00.

No amendments to the articles of incorporation or bylaws were noted during the period covered by this examination.

As of December 31, 2001, the Organization was licensed as an HMO in the state of Utah.

Capital Stock

As of December 31, 2001, the Organization had 100,000 shares of common stock, which were authorized, issued and outstanding at a par value of $1.00. Healthsource, Inc., owns 100% of the issued and outstanding common stock of the Organization. The Organization is ultimately controlled by CIGNA Corporation.

Dividends to Stockholders

The Organization neither declared nor paid any dividends during the examination period.

Management

Management of the Organization is vested in its board of directors. As of December 31, 2001, there were only two directors leaving one vacant seat on the board which was subsequently filled by Razia S. Hashmi, M.D. on January 25, 2002. The directors as currently constituted are as follows:

Name and Residence	Principal Occupation
Razia S. Hashmi, M.D. Simsbury, CT.	Director, Vice President CIGNA Healthcare Statewide Medical Director, Senior Medical Director
Karen S. Rohan Ware, MA.	Director, Vice President CIGNA Healthcare Integrated Financial Services, Senior Vice President
William A. Schaffer, M.D. West Hartford, CT.	Director CIGNA Healthcare Medical Strategy and Health Policy, Senior Vice President

Senior Officers of the Organization serving as of December 31, 2001, were as follows:

Name	Title
Robert A. Immitt	President, General Manager
Paul Bergsteinsson	Vice President, Assistant Treasurer
Roy V. Erickson, M.D.	Vice President
John P. Frey	Vice President, Assistant Treasurer
James T. Kohan	Vice President
David C. Kopp	Vice President
David H. Lemire	Vice President
Carla C. Mangiafico	Vice President
Barry R. Mc Hale	Vice President, Assistant Treasurer
David M. Porcello	Vice President, Treasurer
Donald W. Porter	Vice President
Edward P. Potanka	Secretary, Counsel
Karen S. Rohan	Vice President
Stephen C. Stachelek	Vice President
Bach Mai Thi Thai	Vice President
Robert C. Williams	Vice President

On March 8, 2002, subsequent to the examination date, the board of directors acknowledged Robert A. Immitt's resignation and the appointment of Daryl W. Edmonds as President and General Manager. On January 6, 2003, the Organization notified the Commissioner of the appointment. U.C.A. § 31A-5-410(1)(a) requires the Organization to notify the Commissioner immediately after the appointment of a director or principal officer.

In addition as of December 31, 2001, biographical affidavits for Paul Bergsteinsson, Roy V. Erickson, M.D., and Robert C. Williams were not provided to the examiners. This was not consistent with the requirements of U.C.A. §31A-5-410(1)(a)(ii).

According to the board of director minutes, there were no committees during the examination period.

Conflict of Interest Procedure

During the period covered by the examination, conflict of interest statements were completed annually by directors or officers of the Organization. No exceptions were noted.

Corporate Records

Corporate records generated for and during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors and of the sole shareholder. The minutes contained detail information about the Organization including current events, officer and director elections, investment transactions and

regulatory issues. The prior examination report as of December 31, 1998, was distributed to the board in July 2000.

Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance noted that involved the organization during the examination period.

Surplus Debentures

The Organization entered into a surplus contribution agreement with its affiliate, Cigna Heath Corporation (CHC) on August 15, 1993. During 1997, the Organization's surplus contribution agreements were replaced with two surplus notes in the aggregate amount of $10,000,000. The surplus notes were issued through an agreement with Cigna Holdings, Inc. and CHC. The terms of the surplus notes provided for payment of principal and interest, subordinated to the Organization's total adjusted capital and exceeds the sum of minimum capital and the payment has prior written approval by the Utah Insurance Commissioner.

On August 1, 2000, the Organization amended the surplus notes discontinuing the accrual of future interest. In addition, any repayment on the principal was allowed as a reduction to the accrued interest. The amendment was approved by the Department.

On September 30, 2001, the Organization paid the full principal amount of $2,248,680 on the surplus note due to CHC. CHC forgave $1,116,542 of accrued interest.

As of December 31, 2001, the Organization's outstanding balance on the surplus contribution note due to Cigna Holdings, Inc. was $6,770,000. The repayment terms of the note remained the same.

AFFILIATED COMPANIES

As of December 31, 2001, the Organization was a member of an insurance holding company system as defined under U.C.A. §31A-1-301(66). The direct control relationship that existed between the Organization and its ultimate controlling party as of December 31, 2001, follows:

CIGNA CORPORATION

CIGNA Holdings, Inc.

Connecticut General Corporation

CIGNA Health Corporation

Healthsource, Inc.

CIGNA Healthcare of Utah, Inc.

As of December 31, 2001, the Organization maintained management and administrative agreements which defined and controlled various aspects of the Organization's transactions and operations. Agreements with affiliates include:

- Management Services with CIGNA Health Corporation to provide management services and premium billing and collection.

- Investment Advisory with TimesSquare Capital Management, Inc. (formerly CIGNA Investments, Inc.), to act as an investment advisor.

- Dental Consultation with CIGNA Dental Health, Inc. to provide dental consultations with respect to select dental cases.

- CHA Premium Billing with Connecticut General Life Insurance Company, to facilitate the use of single premium billing for customers using the CIGNA Health access product.

- IntraCorp Agreement between International Rehabilitation Associates, Inc., and Connecticut General Life Insurance Company to provide the Organization and affiliates with services regarding the Health Information Line and Centralized Transplant Case Management.

- Consolidated Federal Income Tax with CIGNA Corporation to facilitate the filing of consolidated federal income taxes as an affiliated group.

In addition, the Organization maintained the following affiliate provider agreements:

- Network Access with CIGNA Corporation and affiliates, allowing participating HMO's to utilize networks of participating providers of other participating HMO's.

- Mental Health and substance abuse with CIGNA Behavioral Health, Inc., providing services to participating affiliated health plans.

- Participating Pharmacy with Tel-Drug Inc., and affiliates, providing services to participating affiliated health plans.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an organization of the Organization's size and premium volume is not less than $200,000. As of the examination date, the Organization participated in fidelity bond coverage of $5,000,000 with its parent and affiliated companies.

The Organization also had additional insurance protection against loss from business personal property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization's employees participated in a 401(k) profit sharing plan. Employees could contribute up to a maximum of 16% of their earnings. The plan provided for a matching contribution by the Organization of 50% on the first 6% of earnings that the employee contributed to the plan. Profit sharing contributions were made at the discretion of the Organization. Additional defined benefit pension plans were also offered, namely a pension plan and a supplemental pension plan.

No provision for any of these plans was necessary in the financial statement of the Organization. These plans were self-administered or administered through a trustee in which benefits were paid as the obligation was incurred.

The Organization's insurance programs provided to its qualified employees and their dependents consisted of medical, dental, life and disability benefits.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-8-211(1), the Organization's statutory deposit requirement was $550,000. As of December 31, 2001, the examination confirmed that the Organization maintained a statutory deposit consisting of a U.S. Treasury Note with a fair value of $560,165, and a par value of $560,000.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2001, the Organization provided health care services including basic physician and hospital services, emergency room treatment, mental health and substance abuse treatment, and preventive health and well-baby care. The policy forms issued during the examination period were consistent with Department approved forms.

Underwriting consisted of criteria requirements and eligibility guidelines within the Organization's covered services. The Organization's risk retention limit was $150,000.

The Organization was reimbursed 80% by its affiliate, Connecticut General Life Insurance Company for risks exceeding the retention limit.

Territory and Plan of Operation

The Organization is licensed to operate as an HMO in the state of Utah. The Organization serves the counties of Box Elder, Davis, Emery, Juab, Millard, Morgan, Salt Lake, San Pete, Sevier, Summit, Toole, Utah, Wasatch, and Weber.

The Organization's functions and operations in Salt Lake City, Utah, consists of sales and service of new and existing accounts, clinical case management, provider contracting and service, limited provider data management functions, medical expense analysis and limited accounts payable and payroll functions. Accounting operations are conducted at the corporate offices in Bloomfield, Connecticut. Claims administrative functions are performed in Visalia, California. The Organization markets its products through in-house agents and outside independent brokers.

As of December 31, 2001, the Organization contracted with approximately 2,492 providers to provide medical care services to its members. The Organization's provider contracts allowed for payments through capitation and on a Fee-For-Service (FFS) basis. The contracts referenced fee schedules to control provider costs. In addition to provider contracts, the Organization contracted with ancillary providers, group practices, heath practicioners, hospitals, managed care and skilled care facilities.

Advertising and Sales Material

The Organization had no local advertising policy or budget. As of December 31, 2001, CIGNA Health Corporation, which allocated advertising amounts nationally, had not allocated any amounts to the Organization.

Treatment of Members

The Organization had a written complaint and grievance procedure in place to maintain control over member complaints. During the examination period, seven complaints were filed with the Department. Seven were noted as valid complaints per the Organization's complaint register. All seven complaints were resolved and closed by the Department.

REINSURANCE

During the period covered by the examination, the Organization did not assume any reinsurance. As of December 31, 2001, the Organization maintained a ceding agreement with its affiliate Connecticut General Life Insurance Company. This affiliate was authorized to conduct business in the state of Utah. Under provisions contained in the agreement, the Organization was reimbursed 80% of the excess retention limit of $150,000, for hospital services per member per calendar year.

ACCOUNTS AND RECORDS

As of December 31, 2001, the Organization's accounts and records consisted of its general ledger, journals, registers and statistical records. Most of the Organization's accounting functions and procedures were maintained on electronic data processing systems, owned and operated by its parent and affiliate companies located at the Organization's office in Bloomfield, Connecticut.

As of December 31, 2001, an examination trial balance was prepared from the Organization's computerized general ledger. Account balances were reconciled to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

Accounts and records deficiencies included the following:

- Short-term investments of $1,189,803 and $8,619, were reported as cash. The examination recommends that these investments be reported on Schedule DA – Part 1, instead of Schedule E – Part 1, to be consistent with the NAIC Annual Statement Instructions and the Purposes and Procedures Manual of the Securities Valuation Office (SVO).

- Note 1 C(12) in the 2001 Notes to Financial Statements stated that the Organization entered into incentive sharing agreements with certain providers. The Organization did not provide evidence that agreements or written guidelines for incentive payments existed.

- The examination noted delays in receiving aging of premiums due and unpaid data. Also, thirty-seven aged premiums due and unpaid items were sampled of which nine premium aged amounts could not be reconciled to the Organization's supporting documentation. The Organization did not provide supporting documentation to reconcile the nine sampled aged premiums due and unpaid amounts.

- The examination noted delays in receiving claims paid data. Forty-one claims paid items were sampled of which three claim payment amounts could not be linked to the actual claims or other information evidencing the claim.

U.C.A. §31A-4-113, requires each authorized insurer to file a true statement of its financial condition and affairs as of December 31 of the preceding year in accordance with the annual statement instructions and the accounting practices and procedures published by the NAIC. According to the NAIC annual statement instructions, a statement is not considered filed unless the information therein is complete and accurate.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2001

Statement of Revenue and Expenses for the Year Ended December 31, 2001

Capital and Surplus for the Years 1999 through 2001

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

CIGNA HEALTHCARE OF UTAH, INC.
Balance Sheet as of
December 31, 2001

ASSETS

	Amount	Notes
Bonds	$ 4,174,391	
Cash and short-term investments	835,946	
Accident and health premiums due and unpaid	868,207	(1)
Investment income due and accrued	67,533	
Amounts due from parents, subsidiaries and affiliates	1,000,000	
Amounts receivable relating to uninsured accident and health plans	405,068	
Federal and foreign income tax recoverable	254,978	
Total assets	$ 7,606,123	

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	$1,348,461	(2)
Accrued medical incentive pool and bonus payments	25,994	
Unpaid claims adjustment expenses	43,960	(3)
Aggregate policy reserves	130,000	
Premiums received in advance	6,010	
General expenses due or accrued	2,085	
Federal and foreign income tax payable	501,712	
Amounts due to parent, subsidiaries and affiliates	3,853,698	(4)
Aggregate write-ins for other liabilities:		
Escheat liabilities	7,552	
Total liabilities	5,919,472	
Common capital stock	100,000	
Gross paid in and contributed surplus	5,225,614	
Surplus notes	6,770,000	
Unassigned funds (surplus)	(10,408,963)	
Total capital and surplus	1,686,651	
Total liabilities, capital and surplus	$ 7,606,123	

CIGNA HEALTHCARE OF UTAH, INC.
Statement of Revenue and Expenses
for the Year Ended December 31, 2001

Net premium income	$ 12,247,320
Total revenue	12,247,320
Hospital/medical benefits	5,299,412
Other professional services	3,809,446
Aggregate write-ins for other medical and hospital:	
Pharmacy expense	1,466,879
Incentive pool and withhold adjustments	25,823
Total medical and hospital	10,601,560
Claims adjustment expenses	673,753
General administrative expenses	2,497,614
Increase in reserves for accident and health contracts	130,000
Total underwriting deductions	13,902,927
Net underwriting gain or (loss)	(1,655,607)
Net investment gains	229,729
Aggregate write-ins for other income or expenses:	
Other income	10,453
Net income or (loss) before federal income taxes	(1,415,425)
Federal and foreign income taxes incurred	74,474
Net income (loss)	$ (1,489,899)

CIGNA HEALTHCARE OF UTAH, INC.
Capital and Surplus
for the Years 1999 through 2001

	1999	2000	2001
Capital and surplus, December 31, previous year	$ 2,128,706	$ 3,283,866	$ 4,647,625
Net Income or (loss)	271,262	774,930	(1,489,899)
Change in net deferred income tax			699,048
Change in nonadmitted assets	33,545	32,696	(70,361)
Change in surplus notes		556,133	(6,853,593)
Cumulative effect of changes in accounting principles			2,237,290
Surplus paid in			2,516,541
Interest on surplus notes	850,353		
Net change in capital and surplus for the year	1,155,160	1,363,759	(2,960,974)
Capital and surplus, December 31, current year	$ 3,283,866	$ 4,647,625	$ 1,686,651

COMMENTS ON FINANCIAL STATEMENT

(1) Accident and heath premiums due and unpaid $868,207

The Organization reported $950,997 as of December 31, 2001. The examination determined that $82,790 of accident and health premiums due and unpaid were over ninety days collectible. The amount reported was non admitted pursuant to SSAP No. 6.

(2) Claims Unpaid $1,348,461

The Organization reported a claims unpaid liability of $1,649,952. The liability disclosed on the Balance Sheet contained in this examination report was $1,348,461 based on paid claims information provided by the Organization.

(3) Unpaid claims adjustment expenses $43,960

The Organization reported $53,334 as the liability for unpaid claims adjustment expenses. The liability was reduced by $9,374 based on the claims unpaid adjustment (above) and pursuant to SSAP No. 55(13).

(4) Amounts due to parent, subsidiaries and affiliates $3,853,698

As of December 31, 2001, the Organization reported $3,801,992. The liability was increased $51,706 representing a liability to Cigna Health Corporation for employee post retirement benefits pursuant to SSAP No. 9(6). Subsequently on March 28, 2003, a resolution adopted by the board of directors of Cigna Health Corporation forgave the liability of $51,706.

CAPITAL AND SURPLUS

The Organization's capital and surplus was determined to be $176,369 more than reported in the Organization's annual statement as of December 31, 2001. The following schedule identifies the examination changes:

Description	Annual Statement	Per Examination	Surplus Increase (Decrease)	Notes
Accident and health premiums due and unpaid	$ 950,997	$ 868,207	$ (82,790)	(1)
Claims Unpaid	(1,649,952)	(1,348,461)	301,491	(2)
Unpaid claims adjustment expenses	(53,334)	(43,960)	9,374	(3)
Amounts due to parent, subsidiaries and affiliates	(3,801,992)	(3,853,698)	(51,706)	(4)
Total changes			176,369	
Capital and surplus per Organization			1,510,282	
Capital and surplus per Examination			$ 1,686,651	

U.C.A. §31A-8-209(1), requires the Organization to maintain minimum capital in the amount of $100,000. In accordance with U.C.A. 31A-17 Part 6, the Organization reported total adjusted capital of $1,510,282, and an authorized control level risk-based capital (RBC) requirement of $722,013, as of December 31, 2001.

The examination determined total adjusted capital to be $1,686,651. The examination accepted the Organization's reported authorized control level RBC because adjustments made for examination purposes would not have a significant effect on the RBC requirement.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. The Commissioner was not immediately notified regarding the appointment of Daryl W. Edmonds as President and General Manager as required by U.C.A. § 31A-5-410(1)(a). (History - Management)

2. Biographical affidavits on three key officers were not provided to the examination as required by U.C.A. § 31A-5-410(1)(a). (HISTORY – Management)

3. Accounts and records deficiencies were noted. (ACCOUNTS AND RECORDS)

4. The Organization reported a liability for unpaid claims of $1,649,952 as of December 31, 2001. The liability disclosed on the Balance Sheet contained in this examination report was $1,348,461 based on paid claims information provided by the Organization. (COMMENTS ON FINANCIAL STATEMENT - Note 2)

5. The Organization's capital and surplus was determined to be $1,686,651 for examination purposes. The Organization's minimum capital requirement was determined to be $100,000. The Organization's total adjusted capital was $1,686,651 and its authorized control level risk-based capital requirement was determined to be $722,013. (CAPITAL AND SURPLUS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Organization are acknowledged.

Respectfully submitted,

David A. Martinez, CFE
Examiner in Charge, representing the
Utah Insurance Department