

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to Aetna Better Health of North Carolina Inc. as of December 31, 2020 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 21<sup>st</sup> day of June, 2022.



Mike Causey  
Commissioner of Insurance



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Ke Xu, CPA, CFE  
Chief Financial Examiner  
Financial Examination Division

**Aetna Better Health of North Carolina Inc.**

Morrisville, North Carolina

**Report on Examination**

As of December 31, 2020

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April 28, 2022

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**Aetna Better Health of North Carolina Inc.**

(hereinafter referred to as the “Company”), at its main administrative office located at 151 Farmington Avenue, Hartford, Connecticut 06156. The Company’s statutory home office is located at 2801 Slater Road, Morrisville, North Carolina 27560. The following report on examination is respectfully submitted.

**SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from April 9, 2019, to December 31, 2020, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. This is the Department’s first examination of the Company.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of fifty-nine (59) insurance company subsidiaries of CVS Health Corporation, collectively known as the CVS Group. Connecticut served as the Facilitating or Lead State, and the Participating States included Arizona, Florida, Georgia, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Missouri, Nebraska, North Carolina, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Vermont, Virginia, Washington, and West Virginia.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial

condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Financial Reporting  
Reinsurance Ceded and Assumed  
Related Parties  
Investments  
Health Related Items  
Capital and Surplus  
Underwriting  
Reserves and Claims Handling

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with statutory accounting principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements and work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The Company was granted an exemption from the requirements to have an annual audit performed by independent certified public accountants in accordance with GS §58-10-185(b) for the years 2019 and 2020, respectively.

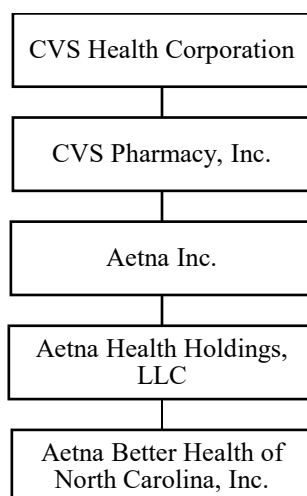
## ORGANIZATIONAL STRUCTURE

### HOLDING COMPANY

The Company is part of an insurance holding company system as defined in GS §58-19 and is a wholly owned subsidiary of Aetna Health Holdings, LLC (“Aetna Health”), which is wholly owned by Aetna Inc. (“Aetna”). Effective November 28, 2018, the Company became part of the CVS Health Corporation (“CVS Health”) holding company system due to a merger between Aetna and a subsidiary of CVS Pharmacy, Inc., which is a subsidiary of CVS Health.

### ORGANIZATIONAL CHART

The Company’s 2020 Annual Statement Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the holding company group as of December 31, 2020:



## COMPANY HISTORY

The Company was incorporated on November 3, 2017, under the laws of the state of North Carolina as a general business corporation, and it received licensure as a Prepaid Health Plan on April 9, 2019. In September of 2015, prior to the Company’s incorporation, the North Carolina General Assembly enacted Session Law 2015-245, directing the transition of Medicaid from a fee-for service structure to a managed care model. Subsequently, on November 4, 2019, the North Carolina Department of Health and Human Services (“NCDHHS”) released a Request for Proposal for Prepaid Health Plans. The Company submitted a Request for Proposal for consideration with the NCDHHS; however, a contract was not awarded to the Company.

### CAPITAL STOCK

As of December 31, 2020, the Company maintains 10,000 shares of common capital stock authorized, issued, and outstanding with a par value of \$0.

## DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts in excess of this are considered extraordinary. The Company paid no dividends in 2020 and 2019.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Stockholders

The bylaws of the Company provide that an annual meeting of the stockholders be held at the principal office of the corporation, or at such other location as determined by the Board, on such day and such time as the Board may determine. Special meetings of the shareholders may be called at any time by the president, Board, or the holders of at least 10% of all votes entitled to be cast as the proposed special meeting.

#### Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall not be less than three nor more than fifteen. Directors are elected annually, at the annual meeting of stockholders and until their respective successors have been duly elected and qualified.

The following individuals served as directors as of December 31, 2020:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Glenn MacFarlane	Princeton, New Jersey	Chief Executive Officer and President
Kelli Smith	Phoenix, Arizona	Chief Financial Officer
Tracy Smith	Cumberland, Rhode Island	Vice President and Treasurer

The Company does not have committees of the Board. However, Aetna Health’s Audit Committee serves as the Audit Committee of the Company.

The following individuals served on Aetna Health’s Audit Committee as of December 31, 2020:

John Maroney, Chair  
Robert Healy

#### Officers

The bylaws provide that the Board will elect the officers of the Company which consist of a Chief Executive Officer, a President, a number of Executive Vice Presidents, Senior Vice Presidents and Vice Presidents, a

Controller, a Treasurer, a Secretary, and any other officers deemed necessary by the Board. All officers shall hold office for one year and until their successors have been chosen and qualified, subject to removal at any time by the affirmative vote of the majority of the Board. Any two offices, except President and Vice President, may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2020:

<b>Name</b>	<b>Title</b>
Glenn MacFarlane	President and Chief Executive Officer
Kelli Smith	Chief Financial Officer
Robert Kessler	Vice President and Secretary
Kevin Casey	Senior Investment Officer
Peter Keller	Assistant Controller
Bryan Lane	Assistant Controller
Whitney Lavoie	Assistant Controller
Robert Parslow	Principal Financial Officer and Controller
Tracy Smith	Vice President and Treasurer

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. On April 26, 2019, the Company amended the first paragraph of the articles of incorporation to state the Company's purpose of forming a Prepaid Health Plan pursuant to GS §58, Article 93. The amended articles of incorporation were approved by the Department on July 10, 2019.

## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2020 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company only maintains a North Carolina statutory deposit.



## **ACCOUNTS AND RECORDS**

The Company's books and records are maintained at the main administrative office at 151 Farmington Avenue, Hartford, Connecticut 06156.

## **INFORMATION TECHNOLOGY CONTROLS**

A risk-based assessment and review was performed to determine the effectiveness of the Information Technology General Controls ("ITGCs") for the CVS Group in accordance with the NAIC requirements as outlined in the Handbook.

The objectives were to determine whether information technology ("IT") resources align with the CVS Group's objectives and to ensure that significant risks (strategic, operational, reporting, and compliance) arising out of its IT environment were appropriately mitigated by strategies and controls as outlined in the Handbook's Exhibit C Part Two – Evaluation of Controls in IT.

The objectives above were achieved through a combination of reviewing the CVS Group's policies and procedures, testing in key areas related to Exhibit C, interviewing the CVS Group's senior IT management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by Ernst & Young, LLC and the CVS Group Corporate Audit Department.

Based upon the risk-based assessment and review, the CVS Group's ITGCs were determined to be effective.

## **FIDELITY BONDS AND OTHER INSURANCE**

CVS Health has a fidelity bond which covers Aetna and its subsidiaries totaling \$10,000,000 in aggregate. The coverage exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company is a named insured on various corporate property and liability policies issued to CVS Health, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company did not have a retirement plan, deferred compensation plan, or other postretirement benefit plan as of December 31, 2020, or 2019.

## **RELATED PARTY AGREEMENTS**

### **Administrative Services Agreement**

The Company entered into an Administrative Services Agreement with Aetna Medicaid Administrators LLC ("Aetna Medicaid"), effective March 19, 2020, whereby Aetna Medicaid provides administrative services and resources to the Company including, but not limited to, finance, investment, legal, claim and member management, facilities, risk management, data processing, and other resources to develop, operate,

and market the North Carolina Medicaid managed care program health plan. Under this agreement, the Company did not incur expenses in 2020 and 2019.

### **Tax Sharing Agreement**

The Company is included in a consolidated income tax return in accordance with a tax allocation agreement between CVS Health and certain subsidiaries, effective January 1, 2019. The provisions for federal income tax are computed as if the Company were filing a separate income tax return. Intercompany tax balances are to be settled within 90 days of filing the consolidated income tax return.

## **TERRITORY AND PLAN OF OPERATION**

The Company was licensed on April 9, 2019, as a Prepaid Health Plan to write Medicaid managed care business statewide in North Carolina. The Company has not been awarded a Medicaid managed care contract, and therefore, its license is restricted to No New Business.

### **TRENDS OF THE COMPANY**

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company since its inception:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Net Income</b>
2020	\$4,519,371	\$4,518,137	\$9,620
2019	\$1,510,781	\$1,508,517	\$8,517

### **ACTUARIAL OPINION**

Every health insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually have an Actuarial Opinion made available to the Board in accordance with the Annual Statement Instructions and GS §58-2-165(c). The Company was exempt from having an Actuarial Opinion made available to the Board for the years ended 2020 and 2019.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. The financial statements as of December 31, 2019, are unexamined and are presented for comparative purposes only.

**Aetna Better Health of North Carolina Inc.**  
**Statutory Statement of Admitted Assets**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
Bonds	\$2,650,656	\$651,694
Cash and cash equivalents	1,868,014	854,534
<b>Total cash and invested assets</b>	<b>4,518,670</b>	<b>1,506,228</b>
Investment income due and accrued	701	4,553
<b>Total Admitted Assets</b>	<b>\$4,519,371</b>	<b>\$1,510,781</b>

**Aetna Better Health of North Carolina Inc.**  
**Statutory Statement of Liabilities, Capital and Surplus**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
General expenses due or accrued	\$344	\$-
Federal income tax liability	890	2,264
<b>Total liabilities</b>	<b>1,234</b>	<b>2,264</b>
Gross paid in and contributed surplus	4,500,000	1,500,000
Unassigned funds	18,137	8,517
<b>Total capital and surplus</b>	<b>4,518,137</b>	<b>1,508,517</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$4,519,371</b>	<b>\$1,510,781</b>

**Aetna Better Health of North Carolina Inc.**  
**Statutory Statement of Operations**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
<b>Deductions</b>		
General administrative expenses	\$344	\$-
Total underwriting deductions	344	-
Net underwriting loss	(344)	-
<b>Investment Income</b>		
Net investment income earned	12,438	10,781
Net realized capital gains	66	-
Net investment gain	12,504	10,781
Net income before federal income taxes	12,160	10,781
Federal income taxes incurred	2,540	2,264
<b>Net Income</b>	<b>\$9,620</b>	<b>\$8,517</b>

**Aetna Better Health of North Carolina Inc.**  
**Statutory Statement of Capital and Surplus**  
**December 31, 2020**

	<b>2020</b>	<b>2020</b> <i>(unexamined)</i>
Capital and surplus, beginning of year	\$1,508,517	\$1,500,000
Capital and surplus increases:		
Net income	9,620	8,517
Paid in surplus	3,000,000	-
Change in capital and surplus as regards policyholders for the year	3,009,620	8,517
<b>Capital and surplus, end of year</b>	<b>\$4,518,137</b>	<b>\$1,508,517</b>

**Aetna Better Health of North Carolina Inc.**  
**Statutory Statement of Cash Flow**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
<b>Cash From Operations</b>		
Net investment income	\$18,039	\$7,784
Total	18,039	7,784
Federal income taxes paid	3,931	-
<b>Net cash from operations</b>	<b>14,108</b>	<b>7,784</b>
<b>Cash From Investments</b>		
Proceeds from investments sold, matured, or repaid	650,000	-
Net gains on cash, cash equivalents and short-term investments	83	-
Total investment proceeds	650,083	-
Cost of investments acquired	2,650,711	653,250
<b>Net cash used by investments</b>	<b>(2,000,628)</b>	<b>(653,250)</b>
<b>Cash From Financing and Miscellaneous Sources</b>		
Paid in surplus	3,000,000	-
<b>Net cash from financing and miscellaneous sources</b>	<b>3,000,000</b>	<b>-</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	1,013,480	(645,466)
Cash and short-term investments, beginning of year	854,534	1,500,000
Cash and short-term investments, end of year	<b>\$1,868,014</b>	<b>\$854,534</b>

## COMMENTS ON FINANCIAL STATEMENTS

### **Basis of Presentation and Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

### **Analysis of Assets:**

There were no non-admitted assets reported by the Company as of December 31, 2020.

## SUBSEQUENT EVENTS

Effective January 1, 2021, the Administrative Services Agreement between the Company and Aetna Medicaid was amended to update the Affiliates Services and Fees Exhibit of the agreement in order to reflect the services provided by other Aetna affiliated entities, including CVS Health entities, and the fees charged for the services, after CVS Health acquired Aetna and its subsidiaries. The amendment was approved by the Department on October 13, 2020.



**AETNA BETTER HEALTH OF NORTH CAROLINA INC.**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**DECEMBER 31, 2020**

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## CONCLUSION

The examination procedures, described herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS §58-93-70(b) for the kinds of insurance that the Company has been authorized to write, which is \$1,000,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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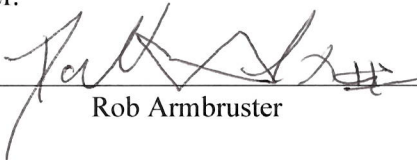
Ke Xu, CPA, CFE  
Chief Financial Examiner  
Financial Examination Division  
North Carolina Department of Insurance

April 28, 2022

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Rob Armbruster, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:  Date: 4/28/2022  
Rob Armbruster

Sworn and subscribed before me this 28<sup>th</sup> day of April, 2022.

Notary Public Signature:  Notary Public Seal:

