

REPORT ON EXAMINATION OF
CIGNA HEALTHCARE OF TENNESSEE, INC.

Statutory Home Office:
1000 Corporate Center Drive
Franklin, Tennessee 37068

Main Administrative Office:
900 Cottage Grove Road
Hartford, Connecticut 06152

AS OF

DECEMBER 31, 2008

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Dept. of Commerce & Insurance
Company Examinations

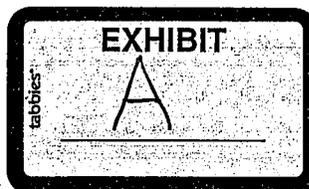


TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
INTRODUCTION.....	2
SCOPE OF EXAMINATION.....	2
COMPANY HISTORY.....	3
CHARTER AND BYLAWS.....	5
MANAGEMENT AND CONTROL.....	7
CORPORATE RECORDS.....	9
AFFILIATED COMPANIES.....	10
FIDELITY BOND AND OTHER INSURANCE.....	14
RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS.....	15
TERRITORY.....	16
PLAN OF OPERATION.....	16
REINSURANCE.....	17
LOSS EXPERIENCE.....	17
STATUTORY DEPOSITS.....	18
COMMITMENTS AND CONTINGENCIES.....	19
ACCOUNTS AND RECORDS.....	19
MARKET CONDUCT ACTIVITIES.....	20
SUBSEQUENT EVENTS.....	21
FINANCIAL STATEMENT.....	22

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION.....	26
COMMENTS AND RECOMMENDATIONS.....	27
CONCLUSION.....	28
AFFIDAVIT	29
ORGANIZATIONAL CHART	30

Hartford, Connecticut
March 1, 2010

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee
Virginia Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Honorable James J. Donelon
Secretary, Southeastern Zone, NAIC
Louisiana Department of Insurance
P.O. Box 94214
Baton Rouge, LA 70804

Honorable Leslie A. Newman
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of

CIGNA HEALTHCARE OF TENNESSEE, INC.
1000 CORPORATE CENTER DRIVE
FRANKLIN, TENNESSEE 37068

hereinafter generally referred to as the Company, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Department of Commerce and Insurance of the State of Tennessee (TDCI) to commence on August 3, 2009. The examination was performed under the association plan of the NAIC by examiners from the TDCI. The examination was conducted at the Company's administrative office at 900 Cottage Grove Road, Hartford, Connecticut where all books and records are located.

SCOPE OF EXAMINATION

The period covered by this examination is from January 1, 2005, to the close of business on December 31, 2008, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. Independent actuaries were used in the review of the Company's loss reserves.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2008. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus. Also, an examination of the following items was made:

Company History	Charter and Bylaws	Management and Control
Corporate Records	Affiliated Companies	Fidelity Bond/Insurance
Employee Benefits	Territory	Plan of Operation
Reinsurance	Loss Experience	Statutory Deposits
Commitments/Contingencies	Accounts and Records	Market Conduct Activities
Subsequent Events	Financial Statements	

The previous examination was made as of December 31, 2004, and resulted in no change to the Company's surplus. The Company was directed to comply with Tenn. Comp. R. & Regs., ch. 0780-1-46-.04 (2005) by maintaining a custodial agreement that complies with said rule. The Company executed a new custodial agreement that complies with said rule on August 15, 2005. This new agreement was subsequently filed with the TDCI.

COMPANY HISTORY

The Company was incorporated on September 10, 1984, under the provisions of the Tennessee General Corporation Act, with the name HCA Care, Inc. The Company was organized to provide or arrange to provide health care on a fixed fee or capitation basis to employers, groups of employers or trade associations for the benefit of their employees. At its incorporation, the Company was authorized to issue one thousand (1,000) shares of common stock with a par value of one dollar (\$1.00) per share. Effective September 13, 1984, the Company became a wholly owned subsidiary of Hospital Corporation of America, a Tennessee for-profit corporation.

The Company changed its name to HCA Care of Tennessee, Inc. on September 10, 1985, and commenced business on November 1, 1985. On October 1, 1987, the Company amended its charter to change its name to EQUICOR Health Plans, Inc.

The Company was acquired by CIGNA Corporation (CIGNA) pursuant to a stock purchase agreement dated January 12, 1990 with The Equitable Life Assurance Society of the United States and Hospital Corporation of America. This acquisition was approved by order of the TDCI Commissioner on March 21, 1990. On July 1, 1991, the name of the Company was changed to CIGNA Healthplan of Tennessee, Inc. The most recent name change took place on September 1, 1993, when the Company adopted its current name CIGNA HealthCare of Tennessee, Inc.

The Company is the survivor of a merger with Healthsource Tennessee, Inc. (formerly Tennessee 1st, Inc.) with an effective date of October 30, 1998. All outstanding shares of Healthsource Tennessee, Inc. were cancelled following the merger. At the time of the merger, both companies were wholly owned by Healthsource Management, Inc., a wholly owned subsidiary of CIGNA.

At December 31, 2008, all one thousand (1,000) shares of the Company's common capital stock was owned by Healthsource, Inc., which is a wholly owned subsidiary of CIGNA Health Corporation that in turn is a wholly owned subsidiary of Connecticut General Corporation, a subsidiary of CIGNA Holdings, Inc. CIGNA Holdings, Inc. is ultimately controlled by CIGNA.

The Company paid the following dividends to Healthsource, Inc., during the examination period:

<u>Type</u>	<u>Year</u>	<u>Amount</u>
Ordinary	2005	\$10,400,000
Extraordinary	2005	<u>9,000,000</u>
		<u>\$19,400,000</u>

In accordance with Tenn. Code Ann. § 56-11-106(b)(1), the extraordinary dividend was approved by the TDCI prior to payment.

The Company's development, since the previous examination, is depicted in the following table:

<u>Date</u>	<u>Total Revenues</u>	<u>Medical & Hospital Expenses</u>	<u>Net Income</u>	<u>Admitted Assets</u>	<u>Capital & Surplus</u>
12/31/05	\$213,684,263	\$182,203,902	\$ 8,646,410	\$46,905,387	\$23,954,238
12/31/06	256,596,804	233,849,473	(10,433,529)	44,558,961	19,233,901
12/31/07	246,628,084	214,220,950	5,141,184	44,915,257	22,981,840
12/31/08	105,389,283	84,933,052	4,252,638	39,040,579	27,961,026

CHARTER AND BYLAWS

Charter:

The Charter, dated September 10, 1984, establishes the Company as a perpetual, for-profit corporation. The purposes for which the corporation is organized are:

- (a) To provide or to arrange for providing health care on a fixed fee or capitation basis to self-insured employers for the benefit of their employees, and to trusts established by employers, groups of employers, or trade associations for the provision of health care benefits to their employees or members.

- (b) To provide consultation, training, advisory and management services to any business, whether corporation, trust, association, partnership, joint venture or proprietorship.
- (c) To purchase or otherwise acquire, to hold and to sell or otherwise dispose of the stocks, bonds, and securities of any corporation, foreign or domestic; exercising all powers and any or all rights and privileges of individual ownership or interest in respect to any and all such securities.
- (d) To engage in any lawful activity for which a corporation may be formed under the General Corporation Act of Tennessee.

In addition to the preceding, the Charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. The Charter was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period under examination.

Bylaws:

The Bylaws contain seven articles that establish the rules which regulate the business and affairs of the Company and govern the conduct and duties of its shareholders, directors and officers. The Bylaws of the Company are such as are generally found in corporations of this type and contain no unusual provisions. They may be amended by the Board of Directors or by an affirmative vote of the majority of the issued and outstanding common stock of the Company. There were no amendments to the Bylaws during the period under examination.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide for an annual meeting of the shareholders at which time a Board of Directors is elected. The Board of Directors shall have the responsibility and the authority to conduct, manage, and control the property, business and affairs of the Company including the provisions or arrangement of health care services. The number of directors shall be not less than three or more than twelve.

The Company's Board of Directors, as of December 31, 2008, was as follows:

<u>Name</u>	<u>Address</u>	<u>Employer</u>
David Goldberg	W. Hartford, CT	CIGNA Corporation
Scott T. Josephs, M.D.	Chapel Hill, NC	CIGNA Corporation
Robert McLaughlin, M.D.	Soddy Daisy, TN	CIGNA Corporation

The Board of Directors of the Company may, from time to time, establish committees and designate members thereof. At December 31, 2008, there were no established committees.

Officers are elected annually by the Board of Directors or the shareholders. The officers of the Company shall be a Chairman of the Board, who shall be the Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer and such officers as the Board of Directors or the Chief Executive Officer may from time to time determine. In addition, the President may appoint or the Board of Directors may elect one or more Assistant Secretaries and one or more Assistant Treasurers who shall have the same duties and authority, respectively, as the Secretary and Treasurer.

The officers of the Company, as of December 31, 2008, were as follows:

<u>Name</u>	<u>Position</u>
John W. Sorrow	President
Leslie N. Campbell	Vice President
John P. Frey	Vice President, Assistant Treasurer
Glenn M. Gerhard	Vice President
David Goldberg	Vice President
Kathleen M. Hockmuth	Vice President
Scott T. Josephs, M.D.	Vice President
Scott R. Lambert	Vice President, Treasurer
William A. McGean	Vice President
Barry R. McHale	Vice President, Assistant Treasurer
Anthony Perez	Vice President
Robert D. Picinich	Vice President
David M. Porcello	Vice President
Michael J. Raybeck, M.D.	Vice President, Medical Director
Vincent L. Shreckengast	Vice President
Edward V. Stacey, Jr.	Vice President
Joseph E. Turgeon	Vice President
Marguerite A. Boslaugh	Assistant Vice President
Percy W. Christian, Jr.	Assistant Vice President
Thomas P. Cichon	Assistant Vice President
Joseph M. Dougherty	Assistant Vice President
Bryan J. Lahman	Assistant Vice President
Michael C. Showalter	Assistant Vice President
Mark L. Vertefeuille	Assistant Vice President
David M. Wildfeuer	Assistant Vice President
Edward P. Potanka	Counsel, Assistant Secretary
Shermona Mapp	Secretary
Matthew M. Allyn	Assistant Secretary
Susan Celmer	Assistant Secretary
Gregory J. LaCasse	Assistant Secretary
Joseph L. Lessard	Assistant Secretary
Scott R. Neumann	Assistant Secretary
Anthony C. Padilla	Assistant Secretary
Lynn Perez	Assistant Secretary
Elizabeth E. Quattrochi	Assistant Secretary
Jennifer A. Shank	Assistant Secretary
Edmund J. Skowronek, Jr.	Assistant Secretary
Theresa Press	Assistant Treasurer
Maureen H. Ryan	Assistant Treasurer

The examination revealed that no Chairman of the Board had ever been elected during the period under examination. See the Comments and Recommendations section of this report (page 27) for additional information.

Conflict of Interests:

CIGNA's Code of Ethics (Code) contains four primary principles: (1) to comply with applicable laws, rules and regulations; (2) avoid potential conflicts of interest; (3) protect CIGNA's assets; and (4) behave ethically. All employees, officers and directors are required to sign an affirmation statement on an annual basis confirming their understanding of and compliance with the Code and disclose any known or suspected violations of the Code. No exceptions were noted.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

Control:

Direct control of the Company is based on the ownership of the Company's outstanding common capital stock, which is solely owned by Healthsource, Inc. The Company is ultimately controlled by CIGNA.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors and of the shareholder were reviewed for the period under examination. They were found to be complete as to

necessary detail and appear to adequately reflect the acts of the respective parties. The review of the minutes indicates that all investment transactions were approved by the Board of Directors. The previous examination report was reviewed by the Board of Directors on April 27, 2006.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(6), and as such, is subject to the "Insurance Holding Company System Act of 1986," set forth in Tenn. Code Ann. §§ 56-11-101, et seq. All required holding company filings during the examination period have been made by the Company's ultimate parent, CIGNA. CIGNA is a Delaware corporation and is a holding company for a group of companies, which are major providers of group, life and health insurance, managed care products and services, and retirement products and services. A complete organizational chart is included on page 30 of this report.

The following agreements with affiliated companies were in effect at December 31, 2008:

Management Services Agreement:

Effective January 1, 1994, the Company entered into a Management Services Agreement with CIGNA Health Corporation (CHC) and its subsidiaries or affiliates. Pursuant to the agreement, as last amended on July 1, 2004, CHC agrees to provide to its healthplans various management services including, sales support, underwriting, personnel, claims processing, membership, administrative, legal, marketing, payroll, reporting and other agreed upon services.

Each month, CHC bills each affiliate the amount due for services provided for the preceding month, including any interest due. The monthly charge is to be calculated using an approved allocation methodology which allocates expenses based upon various factors, including projected membership and/or projected usage of services by the affiliate.

Network Access Agreement:

Effective November 27, 2001, the Company and various other subsidiaries of CIGNA entered into a Network Access Agreement with Connecticut General Life Insurance Company (CGL). This agreement allows CGL and participating third-party administrators and health maintenance organizations (HMO) to utilize the provider networks of other participants in the agreement. A participating company acting as a "Healthplan" under this agreement also performs claim payment, provider credentialing and re-credentialing, utilization management, quality management and ongoing participant services associated with access to its provider network.

CGL or the related affiliate reimburses the Company for the actual capitation fee and other fees paid to providers in accordance with the terms of the agreement. The Company receives an administrative fee for the use of its provider network.

Agreement for Provision of Mental Health and/or Substance Abuse Services:

Effective January 1, 1990, the Company entered into an agreement with CIGNA Behavioral Health, Inc. (CBH). Under the terms of the agreement, CBH provides mental health and substance abuse services, through its nationwide network of mental health and substance abuse providers, to the members of the CIGNA HMOs. CBH also performs claim payment, provider credentialing and re-credentialing, utilization management, quality management, first-level member and provider

appeals, and member's rights and responsibilities services associated with access to its provider network.

The Company pays CBH a capitation fee to provide these services for its members. Additionally, the Company pays an operating expense to CBH in connection with CBH's Member Assistance Program.

Participating Mail Order Pharmacy Agreement:

Effective January 1, 2005, the Company and various other subsidiaries of CIGNA entered into an agreement with Tel-Drug, Inc. and Tel-Drug of Pennsylvania, LLC. Under the terms of the agreement, Tel Drug, Inc. and Tel-Drug of Pennsylvania, LLC provide mail order pharmaceutical services to the Company's members.

Intercompany Service Agreement:

Effective January 1, 2001, the Company entered into an agreement with International Rehabilitation Associates, Inc. (Intracorp), CGL, CHC, and other HMO affiliates, whereby Intracorp provides medical utilization review services, including pre-service certification, pre-admission certification, continued stay review, case management services, demand management, retrospective claims review and disease management.

Dental Consultation Agreement:

Effective October 1, 2000, CGL, Intracorp, the Company and other subsidiaries of CHC entered into an agreement with CIGNA Dental Health, Inc. (CDH). Pursuant to the agreement, CDH provides dental consultations at the request of CHC with respect to select dental cases. The cost is \$80 for each individual dental consultation.

CIGNA Health Access Premium Billing Authorization Agreement:

Effective June 1, 1996, the Company and various other subsidiaries of CHC entered into an agreement with CGL. Pursuant to this agreement, each HMO is authorized to collect premium due to CGL on the CIGNA Health Access product, which is duly underwritten by both companies. Customers receive a single premium bill for this product.

Investment Advisory Agreement:

Effective October 3, 1994, the Company and various other subsidiaries of CHC entered into an agreement with CIGNA Investments, Inc., (CI). Pursuant to the agreement, CI acts as investment advisor to the Company. The Company pays to CI the lesser of: (a) 9.76 basis points, billed quarterly in arrears on net average assets under management for that quarter; or (b) fees based upon the Company's proportionate share of the costs of CI incurred in providing advisory services to all parties to the agreement as of the last day in the immediately preceding quarter.

Consolidated Federal Income Tax Agreement:

Effective January 1, 1997, the Company entered into an agreement with CIGNA and other subsidiaries of CIGNA. The agreement facilitates the filing of a consolidated federal income tax return as an affiliated group. Pursuant to this agreement, the Company makes tax payments to CIGNA based on its taxable income. In the case of a taxable loss, CIGNA will pay the Company a refund based on its taxable loss, but only to the extent that CIGNA is able to utilize the loss in the consolidated tax return. Tax expenses or benefits are allocated as though each entity had filed a separate return. Settlements between the affiliates occur quarterly with the filing of estimated tax returns. A final annual adjustment occurs upon the filing of the consolidated tax return.

Line of Credit Agreement:

Effective October 1, 2005, the Company entered into an agreement with CHC. Under this agreement, CHC would loan funds to the Company, from time to time, to ensure that the Company would be able to meet its operational cash obligations while earning additional investment income. CHC agrees to provide to the Company a line of credit in the amount of six million dollars (\$6,000,000). Loans shall bear interest at an interest rate equivalent to the average daily 30-day commercial paper dealer rate plus a percentage override of .25 of one percent per annum. In accordance with Tenn. Code Ann. § 56-11-106(a)(2)(A), this agreement was filed with the TDCI on August 23, 2005 and approved on September 19, 2005.

Guarantee:

Effective October 1, 2007, the Company guarantees the performance of the contractual obligations of CBH related to payments to providers for mental health and substance abuse services rendered under group service agreements issued by the Company and covering Tennessee residents, to the extent such payments to providers exceed one hundred and twenty-five percent (125%) of the fixed fee paid by the Company to CBH on an annual basis with respect to Tennessee residents.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a Fidelity/Crime policy and an Errors and Omissions Professional Liability policy carried by CIGNA. Additionally, the following insurance coverages were maintained by the Company at December 31, 2008:

Commercial General Liability	Commercial Umbrella Liability
Automobile Liability	Workers' Compensation and Employers' Liability

The fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. The policies noted above were reviewed without exception. All of the above policies were issued by companies licensed to transact business in the State of Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees; therefore, it has no direct pension costs. However, the Company does participate in a qualified, non-contributory defined benefit pension plan sponsored by CIGNA. CIGNA allocates amounts to the Company based on salary ratios. The Company also participates in a capital accumulation 401(k) plan sponsored by CIGNA in which employee contributions on a before-tax basis are supplemented by the Company's matching contributions. The cost of the defined benefit plan and 401(k) plan are included within administrative expenses in the annual statement.

The Company provides certain other postretirement benefits to retired employees, spouses and other eligible dependents through a plan sponsored by CIGNA. The Company has no legal obligation for benefits under these plans. CIGNA allocates amounts to the Company based on a combination of salary ratios and member months. CIGNA and its participating subsidiaries make contributions to these plans as claims are incurred, and as of December 31, 2008, the Company's contributions were \$42,351. The Company's unfunded postretirement benefit obligation amounted to \$2,314,875 as of December 31, 2008.

TERRITORY

The Company is a HMO which provides health insurance services in Tennessee and Mississippi. Principal products and services include managed care products and services. The Certificate of Authority issued by the State of Tennessee was inspected and found to be in force both at the time of examination and inspection. Listed below is a tabulation of the Company's 2008 direct premiums written by state:

<u>State</u>	<u>Direct Premiums</u>
Mississippi	\$ 6,086,352
Tennessee	100,792,424
Totals	<u>\$ 106,878,776</u>

PLAN OF OPERATION

The Company arranges for a variety of health care services including basic physician and hospital services, outpatient services, emergency room treatment, preventive health and well-baby care, as well as mental health and substance abuse treatments through CBH.

The Company contracts with physicians, group practices, skilled care facilities, hospitals, health care practitioners and other ancillary providers to furnish health care services to its members. The following table shows the total number of members for the period under examination:

<u>Year</u>	<u>Members</u>
2008	30,254
2007	61,520
2006	84,715
2005	75,290

REINSURANCE

Assumed:

The Company did not assume any reinsurance during the period under examination.

Ceded:

Effective January 1, 1994, the Company entered into a Reinsurance Agreement with CGL. The Reinsurance Agreement is administered by CHC. Under the provisions of the Reinsurance Agreement, the Company pays a monthly premium based on an established rate per member. In return for premiums paid, the Company is reimbursed 80% of the costs in excess of a deductible for hospital and related services provided to individual members. At December 31, 2008, the deductible per individual member per calendar year was \$150,000.

Premiums paid by the Company for this agreement amounted to \$1,489,494 for the year ended December 31, 2008. Recoveries for covered charges amounted to \$0 in 2008. There is no commission equity.

The reinsurance agreement was reviewed and found to meet NAIC guidelines with respect to the standard clauses.

LOSS EXPERIENCE

The loss experience of the Company, since the previous examination, as reported in its annual statements, is as follows:

<u>Year</u>	<u>Total Revenues</u>	<u>Total Hospital & Medical Expenses</u>	<u>Medical Loss Ratio</u>	<u>Total Administrative Expenses</u>	<u>Combined Ratio</u>
2005	\$213,684,263	\$182,203,902	85.3%	\$ 21,314,541	95.2%
2006	256,596,804	233,849,473	91.1%	36,375,965	105.3%
2007	246,628,084	214,220,950	86.9%	31,452,194	99.6%
2008	105,389,283	84,933,052	80.6%	15,900,514	95.7%
Totals	<u>\$822,298,434</u>	<u>\$715,207,377</u>	<u>87.0%</u>	<u>\$105,043,214</u>	<u>99.8%</u>

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2008:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Mississippi			
USTN, 4.625%, Due 7/31/09	\$ 550,000	\$ 549,969	\$ 563,695
Tennessee			
Metro Gov, 5.25%, Due 6/1/13	150,000	157,827	165,656
Virginia Beach, 5.0%, Due 7/15/14	1,350,000	1,415,770	1,510,523
Mass St College, 7.0%, Due 5/1/16	795,000	946,341	966,919
Cincinnati, 5.0%, Due 12/1/13	1,100,000	1,148,621	1,218,078
Totals for Tennessee	<u>\$3,395,000</u>	<u>\$3,668,559</u>	<u>\$3,861,176</u>
Totals for all states	<u>\$3,945,000</u>	<u>\$4,218,528</u>	<u>\$4,424,871</u>

The deposits listed above are for the benefit of all policyholders, claimants and creditors of the Company. The deposits were verified by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2005, 2006, 2007 and 2008. Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by PricewaterhouseCoopers, LLP, Hartford, Connecticut. There is no violation of Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

Actuarial Review:

TDCI contracted with the independent actuarial firm of Lewis & Ellis, Inc., Richardson, Texas, to assist with this examination. Lewis & Ellis was retained to review the actuarial assumptions and methodologies of the actuarial liabilities established by the Company. They concluded that the methods used are appropriate and that the established actuarial liabilities, as of December 31, 2008, are adequate.

MARKET CONDUCT ACTIVITIES

Policy Forms and Rates:

With the exception of a complete and current evidence of coverage form, all required filings to the TDCI have been made and approved. See the Comments and Recommendations section of this report (page 27) for additional information on the evidence of coverage form.

Advertising:

The advertising file was reviewed and no exceptions were noted. In addition, CIGNA maintains a website where various information can be found.

Policyholder Complaints:

The Company has an established complaint system that meets the requirements of Tenn. Code Ann. § 56-32-110. Inquiries made to the TDCI Consumer Insurance Services section indicated no specific regulatory concerns with the Company during the period under examination.

Privacy:

The Company's privacy policies and practices were reviewed. No instances of non-compliance with Tenn. Comp. R. & Reg., ch. 0780-1-72 were noted.

Claims and Prompt Pay Review:

A review of open and closed claims was made. The review indicates that claims are being handled properly, timely and in accordance with policy provisions. A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made properly upon

receipt of proper evidence of the Company's liability. The results of the prompt pay review indicated that the Company was 99.05% compliant with the standards required by Tenn. Code Ann. § 56-7-109(b).

SUBSEQUENT EVENTS

During the 2nd quarter of 2009, the Company declared and paid an extraordinary dividend in the amount of \$13,000,000. In accordance with Tenn. Code Ann. § 56-11-106(b)(1), this dividend was approved by the TDCI prior to payment.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of revenue and expenses at December 31, 2008, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 33,067,905	\$ 549,969	\$ 32,517,936
Cash, cash equivalents and short term investments	<u>1,874,695</u>	<u>0</u>	<u>1,874,695</u>
Subtotals, cash and invested assets	<u>34,942,600</u>	<u>549,969</u>	<u>34,392,631</u>
Investment income due and accrued	458,124	0	458,124
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,574,315	159,354	3,414,961
Net deferred tax asset	964,016	796,984	167,032
Receivables from parent, subsidiaries and affiliates	607,520	0	607,520
Aggregate write-ins for other than invested assets:			
Broker commissions	1,548	1,548	0
Other assets	<u>311</u>	<u>0</u>	<u>311</u>
Total assets	<u>\$ 40,548,434</u>	<u>\$ 1,507,855</u>	<u>\$ 39,040,579</u>

LIABILITIES, CAPITAL AND SURPLUS

Liabilities

Claims unpaid	\$ 7,213,750
Unpaid claims adjustment expenses	179,094
Premiums received in advance	51,074
General expenses due or accrued	172,915
Current federal and foreign income tax payable	300,491
Amounts due to parent, subsidiaries and affiliates	2,314,876
Aggregate write-ins for other liabilities:	
Accrued taxes	537,257
Escheat liabilities	66,300
Other liabilities	<u>243,796</u>
Total liabilities	<u>11,079,553</u>

Capital and Surplus

Common capital stock	\$ 1,000
Gross paid in and contributed surplus	28,234,100
Unassigned funds	<u>(274,074)</u>
Total capital and surplus	<u>27,961,026</u>
Total liabilities, capital and surplus	<u>\$ 39,040,579</u>

STATEMENT OF REVENUE AND EXPENSES

Revenue		
Net premium income	<u>\$ 105,389,283</u>	
Total revenues		\$ 105,389,283
Expenses		
Hospital/medical benefits	60,403,898	
Other professional services	4,511,063	
Outside referrals	152,887	
Emergency room and out-of-area	5,253,301	
Prescription drugs	14,611,903	
Claims adjustment expenses	2,489,482	
General administrative expenses	<u>13,411,032</u>	
Total underwriting deductions		<u>100,833,566</u>
Net underwriting gain (loss)		4,555,717
Net investment income earned	1,491,605	
Net realized capital gains (losses)	<u>4,493</u>	
Net investment gains (losses)		<u>1,496,098</u>
Net income (loss) before federal income taxes		6,051,815
Federal income taxes incurred		<u>1,799,177</u>
Net income (loss)		<u>\$ 4,252,638</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Capital and surplus December 31, previous year	<u>\$33,701,901</u>	<u>\$ 23,954,238</u>	<u>\$19,233,901</u>	<u>\$22,981,840</u>
Net income (loss)	\$ 8,646,410	\$(10,433,529)	\$ 5,141,184	\$ 4,252,638
Change in net deferred income tax	(1,133,899)	1,297,760	(1,032,313)	(101,345)
Change in nonadmitted assets	2,139,824	(584,568)	(360,932)	827,893
Surplus paid in	2	5,000,000	0	0
Dividends to stockholders	<u>(19,400,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>\$(9,747,663)</u>	<u>\$ (4,720,337)</u>	<u>\$ 3,747,939</u>	<u>\$ 4,979,186</u>
Capital and surplus December 31, current year	<u>\$23,954,238</u>	<u>\$ 19,233,901</u>	<u>\$22,981,840</u>	<u>\$27,961,026</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS
RESULTING FROM EXAMINATION

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Comments:

1. Article III, Section 1 of the Company's Bylaws states that "The Officers of the Corporation shall be a Chairman of the Board, who shall be the Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer and such officers as the Board of Directors or the Chief Executive Officer may from time to time determine." After review of the examination documents, including corporate minutes, there is no indication that a Chairman of the Board had been elected during the period under examination. It was suggested that the Company comply with their Bylaws by electing a Chairman of the Board or amend their Bylaws to remove this required position.

Prior to completion of the examination, the Company amended its Bylaws to state the following:

"The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, also may choose a Chairman of the Board (who must be a director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers."

2. After communications with the TDCI Policy Analysis Section and review of documents during the examination, it was unclear if the evidence of coverage form, including all amendments, had been submitted to and approved by the TDCI as required by Tenn. Code Ann. § 56-32-107. Prior to completion of the examination, the Company submitted a complete and current evidence of coverage form to the TDCI; however, as of the date of this report the form has not yet been approved.

CONCLUSION

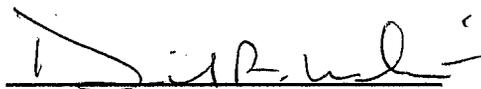
The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2008, the Company had net admitted assets of \$39,040,579 and liabilities of \$11,079,553. Thus, there existed for the additional protection of the policyholders, the amount of \$27,961,026 in capital and surplus.

The courteous cooperation of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Brian H. Sewell, CFE, Insurance Examiner, State of Tennessee, Michael A. Mayberry, FSA, MAAA and Sarah A. Hoover, FSA, MAAA of Lewis & Ellis, Inc., Actuaries & Consultants, participated in the work of this examination.

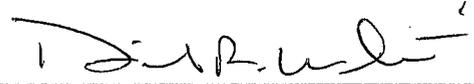
Respectfully submitted,



David R. White, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of CIGNA HealthCare of Tennessee, Inc. dated March 1, 2010, and made as of December 31, 2008, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



David R. White, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

2nd day of March, 2010

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010



ORGANIZATIONAL CHART

CIGNA CORPORATION

(A Delaware corporation and ultimate parent company)

<u>CIGNA Holdings, Inc.</u>	
	<u>CIGNA Investment Group, Inc.</u>
	<u>CIGNA International Finance Inc.</u>
	<u>CIGNA International Investment Advisors, Ltd.</u>
	<u>Former CIGNA Investments, Inc. (formerly CIGNA Investments, Inc.)</u>
	<u>CIGNA Investments, Inc. (formerly CIGNA Investment Advisors, Inc.)</u>
	<u>CIGNA Mezzanine Partners III, Inc.</u>
	<u>CIGNA Mezzanine Capital, Inc.</u>
	<u>Connecticut General Corporation</u>
	<u>*Arbor Reinsurance Company, Limited (Bermuda)</u>
	<u>Benefits Management Corporation</u> (EI # 81-0585518)
	<u>CIGNA Benefits Processing Ireland Ltd.</u>
	<u>CIGNA Behavioral Health, Inc.</u>
	<u>CIGNA Behavioral Health of California, Inc.</u> (EI# 94-3107309)
	<u>CIGNA Dental Health, Inc.</u>
	<u>CIGNA Dental Health of California, Inc.</u> (EI# 59-2600475, CA)
	<u>CIGNA Dental Health of Colorado, Inc.</u> (EI# 59-2675861, NAIC # 11175, CO)
	<u>CIGNA Dental Health of Delaware, Inc.</u> (EI# 59-2676987, NAIC # 95380, DE)
	<u>CIGNA Dental Health of Florida, Inc.</u> (EI# 59-1611217, NAIC # 52021, FL)
	<u>CIGNA Dental Health of Illinois, Inc.</u> (EI# 06-1351097, IL)
	<u>CIGNA Dental Health of Kansas, Inc.</u> (EI# 59-2625350, NAIC # 52024, KS)
	<u>CIGNA Dental Health of Kentucky, Inc.</u> (EI# 59-2619589, NAIC # 52108, KY)
	<u>CIGNA Dental Health of Missouri, Inc.</u> (EI#06-1582068, NAIC # 11160, MO)
	<u>CIGNA Dental Health of New Jersey, Inc.</u> (EI# 59-2308062, NAIC # 11167, NJ)
	<u>CIGNA Dental Health of North Carolina, Inc.</u> (EI# 56-1803464, NAIC # 95179, NC)

CIGNA Dental Health of Ohio, Inc.
(EI# 59-2579774, NAIC # 47805, OH)

CIGNA Dental Health of Pennsylvania, Inc.
(EI# 52-1220578, NAIC # 47041, PA)

CIGNA Dental Health of Texas, Inc.
(EI# 59-2676977, NAIC # 95037, TX)

CIGNA Dental Health of Virginia, Inc.
(EI# 52-2188914, NAIC # 52617, VA)

CIGNA Dental Health Plan of Arizona, Inc.
(EI# 86-0807222, NAIC # 47013, AZ)

CIGNA Dental Health of Maryland, Inc.
(EI#20-2844020, NAIC #48119, MD)

CIGNA Health Corporation

Healthsource, Inc.

CIGNA HealthCare of Arizona, Inc.
(EI# 86-0334392, NAIC#95125, AZ)

CIGNA HealthCare of California, Inc.
(EI# 95-3310115, CA)

CIGNA HealthCare of Colorado, Inc.
(EI# 84-1004500, NAIC # 95604, CO)

CIGNA HealthCare of Connecticut, Inc.
(EI# 06-1141174, NAIC # 95660, CT)

CIGNA HealthCare of Delaware, Inc.
(EI# 52-1347731, NAIC # 95544, DE)

CIGNA HealthCare of Florida, Inc.
(EI# 59-2089259, NAIC # 95136, FL)

CIGNA HealthCare of Illinois, Inc.
(EI# 36-3385638, NAIC # 95602, IL)

CIGNA HealthCare of Maine, Inc.
(EI# 01-0418220, NAIC # 95447, ME)

CIGNA HealthCare of Massachusetts, Inc.
(EI# 02-0402111, NAIC # 95220, MA)

CIGNA HealthCare Mid-Atlantic, Inc.
(EI# 52-1404350, NAIC # 95599, MD)

CIGNA HealthCare of New Hampshire, Inc.
(EI# 02-0387749, NAIC # 95493, NH)

CIGNA HealthCare of New Jersey, Inc.
(EI# 22-2720890, NAIC # 95500, NJ)

CIGNA HealthCare of Ohio, Inc.
(EI# 31-1146142, NAIC # 95209, OH)

CIGNA HealthCare of Pennsylvania, Inc.
(EI# 23-2301807, NAIC # 95121, PA)

CIGNA HealthCare of St. Louis, Inc.
(EI# 36-3359925, NAIC # 95635, MO)

CIGNA HealthCare of Utah, Inc.
(EI# 62-1230908, NAIC # 95518, UT)

CIGNA HealthCare of Georgia, Inc.
(EI# 58-1641057, NAIC # 96229, GA)

CIGNA HealthCare of Texas, Inc.
(EI# 74-2767437, NAIC # 95383, TX)

* CIGNA Insurance Group, Inc.
(EI# 02-0441070, NAIC # 87980, NH)

CIGNA HealthCare of Indiana, Inc.
(EI# 35-1679172, NAIC # 95525, IN)

CIGNA HealthCare of New York, Inc.
(EI# 11-2758941, NAIC # 95488, NY)

CIGNA HealthCare of Tennessee, Inc.
(EI# 62-1218053, NAIC # 95606, TN)

CIGNA HealthCare of North Carolina, Inc.
(EI# 56-1479515, NAIC# 95132, NC)

CIGNA HealthCare of North Carolina Administrators, Inc.

CIGNA HealthCare of South Carolina, Inc.
(EI# 06-1185590, NAIC # 95708, SC)

*CIGNA Insurance Services Company
(EI# 57-0937292, NAIC # 63405, SC)

*Temple Insurance Company Limited (Bermuda)

Managed Care Consultants, Inc.

CIGNA Healthcare Holdings, Inc.
(EI# 84-0985843)

*CIGNA Life Insurance Company of Canada (Canada)

*CIGNA Life Insurance Company of New York
(EI# 13-2556568, NAIC # 64548, NY)

*Connecticut General Life Insurance Company
(EI# 06-0303370, NAIC # 62308, CT)

CG Alhambra, LLC

CG Ballston, LLC

CG Gillette Ridge, LLC

CG Lincoln Square LLC

CG Merrick, LLC

CG Morrison LLC

CG Mystic Center LLC

CG Mystic Land LLC

CG Pinnacle, L.L.C.

CG Skyline, LLC

CG-LINA Alessandro LLC

CG-LINA Metropolis LLC

CIGNA Dulles Town, L L C

CIGNA Government Services, LLC

CORAC LLC

Alta Health & Life Insurance Company
(EI # 59-1031071, NAIC # 67369)

International Rehabilitation Associates, Inc. d/b/a INTRACORP

*Life Insurance Company of North America
(EI# 23-1503749, NAIC # 65498, PA)

*CIGNA & CMC Life Insurance Company Limited (China) (50%)
(remaining interest owned by an unaffiliated party)

*LINA Life Insurance Company of Korea (Korea)

Linatex, Inc.

Tel-Drug, Inc.

CIGNA Global Holdings, Inc.

*CIGNA Global Reinsurance Company, Ltd. (Bermuda)

CIGNA Holdings Overseas, Inc.

*CIGNA Life Insurance Company of Europe S.A.-N.V. (Belgium) (99.998%)
(remaining interest owned by CIGNA Global Holdings, Inc.)

*CIGNA Europe Insurance Company S.A.-N.V. (Belgium) (99.999%)
(remaining interest owned by CIGNA Global Holdings, Inc.)

*CIGNA Seguradora S.A. (Brazil) (99.92%)
(remaining interest owned by unaffiliated parties)

CIGNA Apac Holdings Limited (New Zealand)

*CIGNA Life Insurance New Zealand Limited (New Zealand)

*CIGNA Taiwan Life Insurance Company Limited (New Zealand)

CIGNA Hong Kong Holdings Company Limited

*CIGNA Worldwide General Insurance Company Limited

*CIGNA Worldwide Life Insurance Company Limited

RHP (Thailand) Limited

CIGNA Brokerage Services (Thailand) Limited (75%)
(remaining interest owned by CIGNA Holdings Overseas, Inc.)

*CIGNA Non-Life Insurance Brokerage (Thailand) Limited (74.975%)
(25% interest owned by CIGNA Holdings Overseas, Inc.
remaining interest owned by unaffiliated parties)

KDM (Thailand) Limited (Thailand) (99.999%)

*CIGNA Insurance Public Company Limited (75%)
(24.999% interest owned by CIGNA Holdings Overseas, Inc.)

*CIGNA Global Insurance Company Limited (Guernsey) (99.9999%)
(remaining interest owned by CIGNA Global Holdings, Inc.)

*CIGNA Worldwide Insurance Company
(EI# 23-2088429, NAIC # 90859, DE)

*PT. Asuransi CIGNA (Indonesia) (80%)
(remaining interest owned by unaffiliated parties)