



Arnold Schwarzenegger, Governor
State of California
Business, Transportation and Housing Agency

980 Ninth Street, Suite 500
Sacramento CA 95814
916-323-4209 voice
916-445-8399 fax
stang@dmhc.ca.gov e-mail

April 25, 2005

IN REPLY REFER
TO FILE NO: 933-0176

Mr. Curtis Terry, Chairman
Aetna Health of California
2409 Camino Ramon
San Ramon, CA 94583

RE: FINAL REPORT OF THE ROUTINE EXAMINATION OF AETNA HEALTH OF CALIFORNIA

Dear Mr. Terry:

Enclosed is the Final Report of a routine examination of the fiscal and administrative affairs of **Aetna Health of California** ("Plan") for the quarter ended September 30, 2004, conducted by the Department of Managed Health Care (the "Department" or "DMHC") pursuant to Section 1382 of the Knox-Keene Health Care Service Plan Act of 1975 ("Act").¹ **This Final Report covers the financial and statutory compliance portions of the examination only (excluding the Provider Dispute Resolution ("PDR") and Claims Review portions of the examination). The Department will be issuing a second, Preliminary Report, addressing the claims and PDR findings, pending the results of the claims testing.**

The Department will make the attached Final Report available to the public in ten (10) days from the Plan's receipt of this letter.

If there are any questions regarding this report, please call.

Sincerely,

Shelley Tang
Supervising Examiner
Division of Financial Oversight

Cc: Salli Thompson, Principal Financial Officer, Aetna Health of California
Mark E. Wright, Chief, Division of Financial Oversight
Kathleen McKnight, Counsel
Kristin Forsberg, Examiner

¹ References throughout this report to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, California Health and Safety Code Section 1340, et seq. References to "Rule" are to the regulations promulgated pursuant to the Knox-Keene Health Care Service Plan Act, found at Chapter 1 of Division 1 of Title 28, California Code of Regulations, beginning with Section 1300.43, and transferred to the Department of Managed Care pursuant to Health and Safety Code Section 1341.14.

**CALIFORNIA DEPARTMENT OF MANAGED
HEALTH CARE, DIVISION OF
FINANCIAL OVERSIGHT**

FILE NO. 933-0176

**ROUTINE EXAMINATION
FINAL REPORT**

AETNA HEALTH OF CALIFORNIA

APRIL 25, 2005

**Examiner-In-Charge: Rosemary Wilke/Kristin Forsberg
Oversight Examiner: Shelley Tang**



BACKGROUND INFORMATION

Date Plan Licensed:	August 5, 1981
Organizational Structure:	The Plan is a wholly-owned subsidiary of Aetna Health Holdings, LLC which is a wholly-owned subsidiary of Aetna, Inc.
Type of Plan:	Full Service Plan serving Commercial, Medicare and Point-of-Service enrollees.
Provider Network:	The Plan contracts with a network of providers for the provision of healthcare services.
Plan Enrollment:	The Plan reported 304,944 enrollees as of December 31, 2004.
Service Area:	Statewide
Date of Last Routine Financial Examination Final Report:	November 5, 2002
Date of Last Medical Survey Final Report:	August 23, 2003

FINAL REPORT OF ROUTINE EXAMINATION OF DELTA DENTAL OF CALIFORNIA

This is a Final Report of the routine examination of Aetna Health of California (“Plan”), conducted by the Department of Managed Health Care (“Department”) pursuant to Section 1382 of the Knox-Keene Health Care Plan Act of 1975. **This Final Report covers the financial and statutory compliance portions of the examination only (excluding the Provider Dispute Resolution (“PDR”) and Claims Review portions of the examination). The Department will be issuing a second, Preliminary Report, addressing the claims and PDR findings, pending the results of the claims testing.**

We examined the financial report filed with the Department for the quarter ended September 30, 2004, as well as other selected accounting records and controls related to the Plan’s various fiscal and administrative transactions. Our findings are presented as follows:

- Section I. Financial Report
- Section II. Calculation of Tangible Net Equity
- Section III. Compliance Issues

SECTION I. FINANCIAL REPORT

A. BALANCE SHEET

BALANCE SHEET
As of September 30, 2004

	Balance Per F/S @ 9/30/04	EXAMINATION Adjustments & Reclassifications Debit	Credit	Balance Per Exam @ 9/30/04
<u>CURRENT ASSETS</u>				
Cash	\$10,630,437			\$10,630,437
Short-Term Investments	232,865,181			232,865,181
Premiums Receivable	9,954,395			9,954,395
Interest Receivable	2,869,424			2,869,424
Other Health Care Receivables - Net	165,728			165,728
Prepaid Expenses	821,683			821,683
Unsecured Affiliate Receivables	8,548,644			8,548,644
Aggregate Write-Ins ~ Current Assets	<u>927,078</u>			<u>927,078</u>
Total Current Assets	<u>\$266,782,570</u>			<u>\$266,782,570</u>
<u>OTHER ASSETS</u>				
Restricted Funds	<u>\$17,422,872</u>			<u>\$17,422,872</u>
Total Other Assets	<u>\$17,422,872</u>			<u>\$17,422,872</u>
TOTAL ASSETS	<u>\$284,205,442</u>			<u>\$284,205,442</u>

BALANCE SHEET
As of September 30, 2004

	Balance Per F/S @ 9/30/04	EXAMINATION Adjustments & Reclassifications Debit Credit	Balance Per Exam @ 9/30/04
<u>CURRENT LIABILITIES</u>			
Capitation Payable	2,080,162		2,080,162
Claims Payable (Reported)	21,058,578		21,058,578
Incurred But Not Reported Claims	68,662,857		68,662,857
POS Claims Payable (Reported)	1,313,678		1,313,678
POS Incurred But Not Reported Claims	5,267,306		5,267,306
Other Medical Liability	15,880,343		15,880,343
Unearned Premiums	4,126,060		4,126,060
Amounts Due to Affiliates - Current	94,835,270		94,835,270
Agg. Write-Ins for Current Liab.	<u>14,442,333</u>		<u>14,442,333</u>
Total Current Liabilities	<u>\$227,666,587</u>		<u>\$227,666,587</u>
TOTAL LIABILITES	<u>\$227,666,587</u>		<u>\$227,666,587</u>
<u>NET WORTH</u>			
Common Stock	250		250
Contributed Capital	2,906		2,906
Retained Earnings	53,266,099		53,266,099
Aggregate Write-Ins for Other Net Worth Items	<u>3,269,600</u>		<u>3,269,600</u>
TOTAL NET WORTH	<u>\$56,538,855</u>		<u>\$56,538,855</u>
Rounding Error			
TOTAL LIABILITIES	<u>\$284,205,442</u>		<u>\$284,205,442</u>
& NET WORTH			

B. INCOME STATEMENT

STATEMENT OF INCOME AND EXPENSES
QUARTER ENDED SEPTEMBER 30, 2004

	Balance Per F/S QE 9/30/04	EXAMINATION Adjustments & Reclassifications Debit	Credit	Balance Per Exam QE 9/30/04
<u>REVENUES</u>				
Premium	\$158,202,728			\$158,202,728
Co-payments, COB, Subrogation	1,644,626			1,644,626
Title XVIII - Medicare	59,563,861			59,563,861
Point-of-Service (POS)	7,441,544			7,441,544
Interest	3,353,299			3,353,299
Aggregate Write-Ins ~ Revenues	<u>714,652</u>			<u>714,652</u>
TOTAL REVENUES	<u>\$230,920,710</u>			<u>\$230,920,710</u>
<u>MEDICAL AND HOSPITAL EXPENSES</u>				
Inpatient Services - Capitated	34,054,799			34,054,799
Inpatient Services – FFS/Case Rate	55,253,840			55,253,840
Primary Professional Services –Cap	65,297,887			65,297,887
Primary Professional Services – Non-Cap	6,184,212			6,184,212
Other Professional Svcs. – Cap	4,094,155			4,094,155
Other Professional Svcs. – Non-Cap	5,088,384			5,088,384
POS Out-of-Network Expense	831,748			831,748
Pharmacy Expense - FFS	21,604,076			21,604,076
Agg. Write-Ins for Other Med. And Hospital Expenses	1,650,170			1,650,170
Total Medical Expenses	<u>\$194,059,271</u>			<u>\$194,059,271</u>
<u>ADMINISTRATIVE EXPENSES</u>				
Compensation	\$5,409,255			\$5,409,255
Occupancy, Depr. & Amortization	675,378			675,378
Marketing	6,958,629			6,958,629
Affiliate Admin. Services	10,846,338			10,846,338
Agg. Write-Ins for Other Admin.	<u>(1,378,959)</u>			<u>(1,378,959)</u>
Total Administrative Expenses	<u>\$22,510,641</u>			<u>\$22,510,641</u>
TOTAL EXPENSES	<u>\$216,569,912</u>			<u>\$216,569,912</u>
Provision for Taxes	<u>\$2,785,644</u>			<u>\$2,785,644</u>
NET INCOME	<u>\$11,565,154</u>			<u>\$11,565,154</u>

Section II. CALCULATION OF TANGIBLE NET EQUITY (“TNE”)

Net Worth per Examination @ September 30, 2004 (from Section I)	\$56,538,855
Less: Receivables from Affiliates	<u>1,230,219</u>
Tangible Net Equity @ September 30, 2004	\$55,308,636
Required Tangible Net Equity @ September 30, 2004	<u>20,158,188</u>
Excess Tangible Net Equity @ September 30, 2004	<u>\$35,150,448</u>

At September 30, 2004, the Plan was in compliance with the TNE requirements of Rule 1374.64 as it relates to the adequacy of TNE.

No response is required to this section.

Section III. COMPLIANCE ISSUES

There are no compliance issues to report.